Kentucky Retirement Systems

Investigation Report

Calcaterra Pollack LLP
5-12-2021

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Executive Summary

On November 23, 2020, KRS retained the law firm Calcaterra Pollack LLP via a Request for Proposal ("Investigation RFP"). The Investigation RFP sought bidders that had experience with qualified governmental retirement plans, conducting investigations and complex investment matters. The Investigation RFP also sought bidders who had the requisite staff, access to technical resources and the ability to provide legal advice to the Kentucky Retirement System ("KRS").

The agreement entered into by KRS and Calcaterra Pollack LLP (the "Firm) stated that:

1. Calcaterra Pollack LLP [should] investigate specific investment activities conducted by KRS to determine if there are any improper or illegal activities on the part of the parties involved and produce a detailed report documenting their investigation and findings (the "Investigation").
2. If sought by KRS, a summary report that would be suitable to publish to the public without waiving attorney/client privilege (the "Report").
3. The report shall document how the Contractor arrived at its conclusion; and
4. If improper or illegal activity is uncovered, a complete analysis of potential legal remedies available to the KRS, including pros and cons of undertaking legal action, a cost/ benefit analysis of such action, any possible legal impediments to the legal action, and legal recommendations regarding best practices for investment activities.

The Investigation, documentation of conclusions and how they were arrived at are set forth in this Report. Provided separately, in order to maintain attorney-client privilege, are the Legal Recommendations.

Please also note that this Report contains certain spaces which are left intentionally blank for the purposes of accommodating pictorial content.

Investigation 2008-2011 & Consultants: In accordance with the agreement entered into with KRS, the Firm conducted the Investigation into specific investment activities by KRS to determine if there were any improper or illegal activities on the part of the parties involved. The specific investment activities included examining the activities of the KRS investment staff and trustees beginning late 2008 related to absolute return investments, including the circumstances leading up to the retention of three fund of funds relationships entered into by KRS with Blackstone Alternative Asset Management (interchangeably referred to as "BAAM" and "Blackstone"), Pacific Alternative Asset Management Co. ("PAAMCO") and Prisma Capital Partners (later KKR Prisma and most recently, PAAMCO Prisma) in August 2011. This aspect of the investigation, from late 2008-2011, focused on 1) why and how KRS investment staff and trustees pursued investing in fund of funds; and 2) the fund of funds manager due diligence process leading up to the August 2011 selection of BAAM, PAAMCO and Prisma. During this time period, the Investigation also examined the related conduct of the investment staff, trustees and consultants, specifically R.V. Kuhns (now, RVK) (former general investment consultant to KRS), IceMiller LLP (tax and fiduciary counsel to KRS) and Cavanaugh Macdonald, former actuarial consultant (collectively the "Consultants"). We reviewed the actuarial assumptions issued by Cavanaugh Macdonald which were approved and then relied upon by the relevant Board of Trustees for the investments made between 2008-2016. However, a determination of the appropriateness of the assumptions KRS relied upon would require the analysis of an actuarial expert.

Investigation Findings 2008-2011 & Consultant Findings: Based upon the Firm's expertise as described in the response to the Investigation RFP, the Documents Reviewed, Interviews held and the Limitations of the Investigation (all described below), the Firm did not find any violations of fiduciary duty or illegal activity by BAAM, PAAMCO, Prisma, or the investment staff and trustees related to the fund of funds due diligence processes and retention; and the investing of KRS pension funds' investments in absolute return strategies. The Firm reached the same conclusions related to the Consultants during the 2008-2011 period and thereafter.

Investigation 2012-2016: With a focus on the same parties mentioned above the Investigation continued examining processes and conduct around the absolute return investments and related matters such as the direct hedge fund investments. Due to certain conduct around late 2014 to mid-2016 by then KRS CIO David Peden and present and former Prisma leadership, the Investigation then focused on circumstances surrounding KRS entering into an informal and formal strategic partnership with Prisma. The strategic partnership relationships were approved by KRS around May 2015 and February 2016.

Investigation Findings 2012-2016 & Consultant Findings: Based upon the Firm's expertise as described in the response to the Investigation RFP, the Documents Reviewed, Interviews held and the Limitations of the Investigation, the Firm identified alleged fiduciary duty violations, conflict of interest and ethics code breaches by then KRS CIO David Peden, Girish Reddy and Prisma. The Investigation also examined the genuineness of Mr. Cook's recusal from voting or discussing Prisma related matters as a trustee and the lack of a disciplined recusal protocol for all trustees. Besides Mr. Cook's Earn Out payment from KKR Prisma, he also had investments described as closed end, fixed term, limited partnership funds that did not involve an ownership interest in KKR Prisma itself. Due to the Limitations of the Investigation, we were not able to determine if in fact, Mr. Cook's KKR Prisma investments did not benefit from his trusteeship. Beyond what is identified above, the Firm did not find any violations of fiduciary duty or illegal activity by BAAM, then PAAMCO (as PAAMCO merged with Prisma in 2017), the Consultants, or investment staff and trustees related to the continued investing of KRS pension funds' in absolute return strategies and the transition to direct hedge fund investments.

Legal Recommendations: Provided separately, the Legal Recommendations set forth a complete analysis of potential legal remedies available to KRS against Mr. Peden, Mr. Reddy and Prisma, including pros and cons of undertaking legal action, a cost/benefit analysis of such action, and any possible legal impediments to the legal action. As required, the Legal Recommendations also provide recommendations regarding best practices for investment activities.

Investigation Duration: The Investigation primarily concluded very early in 2017, except for factors related to Mr. Cook's recusal, since 1) by late 2016 a new board of trustees began to restructure the absolute return investments which were the investment strategy of concern; and 2) in mid-January 2017, former CIO, David Peden was terminated. As required, this Report provides documentation of how the conclusions were arrived at, mostly in chronological order from late

2008 to late 2016. The Investigation of the Ice Miller and Cavanaugh Macdonald consultants appear at the end of this Report.

Documents Sought: Calcaterra Pollack LLP requested documents from KRS that included:

1. Board of Trustees meeting minutes and related documents from 2009 up to and including 2016;
2. Available recordings of the Board of Trustees meetings around 2011 and between 2015 to 2016;
3. Investment Committee meeting minutes and related documents from late 2008 to late 2016;
4. Available Investment Committee meeting recordings from late 2008 up to and including early January 2017;
5. Documents pertaining to the fund of funds and direct hedge fund investments from late 2008 to late 2016;
6. Documents related to consultancy provided by IceMiller LLP; Cavanaugh Macdonald; R.V. Kuhns and Albourne (direct hedge fund investment consultant); and
7. Emails from late 2009 to present from designated KRS custodians.

The documents and recordings sought and described above will be referred to collectively as the "Documents." The Documents were provided to the Firm by KRS on a rolling basis throughout the course of the Investigation.

Documents Reviewed: Calcaterra Pollack LLP reviewed, among other things, the audio recordings of the investment committee meetings beginning late 2008 to early 2017; relevant absolute return documents including staff memoranda, consultant presentations, tens of thousands of identified custodian emails and calendar notices, investment statement policies, investment transaction policies, relevant internal audits, relevant fiduciary and conflict of interest statutes during that period. The Firm reviewed the Board of Trustees audio recordings and written minutes around 2011 and surrounding the strategic partnership agreement between KKR/Prisma and KRS from February, April and May 2015 and February, April and May 2016.

Upon receiving the Documents, files were uploaded to a Relativity software platform to facilitate the efficient review of documents that were received. To complete the Investigation within the timeline required by the RFP, Calcaterra Pollack LLP also retained a team of eight contract attorneys who assisted with the review of Documents. A comprehensive list of search terms was created to narrow Documents to those hitting on terms of interest to the Investigation. In an effort to retain the most sensitive documents for review "in-house," Documents hitting on a series of especially relevant search terms were retained solely for internal review by Calcaterra Pollack LLP attorneys. The review of documents was conducted in accordance with a strict document review protocol that captured wide ranging issues related to investments made by KRS. Over the course of the Investigation, over 192,000 documents were reviewed, consisting of over two million pages of data.

Interviews: The Firm also contacted parties or counsel to parties named in *Mayberry* to discuss what the Firm identified as relevant to the Investigation and sought their responses. Calcaterra

Pollack LLP advised the parties that the correspondence would be kept in confidence, in order to allow a free flow of information. Many parties corresponded with the Firm, but some did not. Aspects of their responses received have been included in this report if the parties consented to their inclusion.

Documents Relied Upon: The results of the Investigation were primarily based upon Documents that were either publicly available or provided to us by KRS upon our request. During the Investigation, the Firm obtained documents that were not publicly available from Mr. Cook's counsel. The Firm received Mr. Cook's recusal letter and a related email from Mr. Cook to KRS Executive Director David Eager and Board of Trustee member John Farris, that was then forwarded to the Governor's executive staff, all of which were transmitted on their respective personal emails. The Firm also received annual audited financial statements from parties when these could not be located within KRS.

Limitations: By way of this Investigation, the Firm did not have subpoena power, so we understand that the information provided to us by relevant parties we corresponded with was what they chose to provide us, not what they had to provide us. We did not have access to personal emails, text messages, financial accounts, the fund of funds and consultants' internal emails or any correspondence between the parties that was not on the KRS server. The conclusions set forth in this Report and in the Legal Recommendations are based upon the Documents described in the previous paragraphs and relevant Interviews conducted.

Investigation Integrity: KRS provided the Firm with all the available Documents that were requested. Since its inception, the Investigation was directed by the Firm.

KRS' General Circumstances: This Report also acknowledges aspects of the overall health of KRS and its associated pension plans with regard to an array of related issues, such as chronic underfunding of KRS by the Commonwealth of Kentucky; the investment losses sustained by KRS as part of the 2007-08 recession; pervasive unfunded mandates hoisted upon KRS up until at least 2013; and, intense scrutiny by internal and external actors that ultimately had an effect on the ability of KRS to retain its best personnel and to position itself in a place to pursue the best investment opportunities available for active members and beneficiaries. By way of these circumstances and the litigation surrounding it, KRS has been damaged in multiple ways by actions or inactions described herein.

Currently, the identifiable monetary costs incurred include over $3.1 million paid out on pending claims filed by trustees and employees to defend suits against them and this investigation that is capped at $1.2 million. And there is more. In 2019, PAAMCO Prisma placed the balance of KRS' pension and insurance fund investments in the Daniel Boone fund in a segregated account as a contingency claim against litigation expenses related to *Mayberry, et al. v. KKR & CO., L.P., et al., No. 17-CI-1348*, Franklin Circuit Court (*"Mayberry"*): over $96.8 million from KRS' pension fund and over $40.2 from KRS' insurance fund. The inability to benefit from the returns and interest from over $136 million, and the possibility that PAAMCO Prisma will use those finds to cover legal costs incurred, will further add to the monetary costs incurred by KRS.

For informational purposes, provided below is an outline of the parties named in *Mayberry* and related litigation. On December 18, 2017, Mayberry, was filed in the Franklin Circuit Court against over 40 individual and institutional defendants related to alleged actions arising from and around fund of funds investments made by KRS. On behalf of around 370,000 employees, retirees and beneficiaries, KRS administers the Kentucky Employees Retirement Systems ("KERS")[1] the County Employees Retirement System ("CERS") and the State Police Retirement Systems (SPRS") (the "Plans").[2] On July 9, 2020, *Mayberry* was dismissed by the Kentucky Supreme Court based on lack of standing, on the grounds that plaintiffs who are, or were, participants in Tiers I and II of the Plans (*e.g.*, holders of inviolable rights to pension payments) were not injured in fact.

On July 21, 2020, the Attorney General of the Commonwealth of Kentucky ("AG") sought to intervene in *Commonwealth of Kentucky v. KKR & CO Inc.*, *et al*., No. 20-CI-00590 ("AG Lawsuit"). The AG Lawsuit included the same defendants as did the *Mayberry* suit.

On July 29, 2020, in an effort to revive the dismissed litigation, some of the attorneys that filed the *Mayberry* suit sought to file a Second Amended Complaint ("*Mayberry* Proposed SAC") with new plaintiffs who are members of KRS' Tier 3[3] pension scheme. The attorneys filed a motion for lead plaintiff and motion for leave to file Second Amended Complaint, attaching a 205-page proposed complaint as an exhibit to the motion. The *Mayberry* Proposed SAC did not include the trustee and officer defendants who were named in the original *Mayberry* case (hereinafter references to the aforementioned cases will be collectively referred to as "*Mayberry*" unless referred to as the "original" Mayberry case).

Although the defendants have changed between the original *Mayberry* case and the *Mayberry* Proposed SAC, the AG included the same defendants as named in the original *Mayberry* case,

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[1] The 2020 and 2021 Regular Sessions of the Kentucky General Assembly enacted laws that resulted in "significant changes to the governance and administrative structure of the Kentucky Retirement Systems. Most notably, the governance of the County Employees Retirement System (CERS) has been transferred to a separate 9-member board of trustees. Another 9-member board of trustees called the Kentucky Retirement Systems (KRS) will oversee the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS). The administrative entity comprising the office of counselors and professional staff that has traditionally been known as KRS has changed its name to the Kentucky Public Pensions Authority (KPPA)." (*available at* https://kyret.ky.gov/About/Pages/default.aspx) (last viewed April 15, 2021). Since the investigation scope analyzes circumstances that occurred around KRS, we will only refer to KRS in this Report.

[2] CERS and KERS each have two plans: Hazardous and Non-Hazardous. KRS also administers the Insurance Fund which provides health benefits to employees and retirees of all the Plans. When referring to KRS' investments, for the purpose of brevity, we include the assets of the Plans and the Insurance Fund.

[3] KRS currently administers three different pension benefit tiers. Tier 3 refers to the Cash Balance Plan, as opposed to defined benefit plans, for members enrolled on or after January 1, 2014.

except for the Government Finance Officers Association. Our investigation therefore considered specific investment activities that the below parties were involved in:

- All defendants named in the original *Mayberry* case;
- Prisma's Michael Rudzik who was not named in the original *Mayberry* case, but later in the *Mayberry* Proposed SAC; and
- William Cook, as a KRS Trustee (as he was named in the original *Mayberry* case), and also as "an agent of Prisma" (as he is referred to in the *Mayberry* Proposed SAC).

The Defendants named in the various *Mayberry* cases are as follows:

Investment Managers and Affiliated Personnel:

1. KKR & Co., L.P.
   a. Henry Kravis, Co-Chairman and Co-CEO, KKR
   b. George Roberts, Co-Chairman and Co-CEO, KKR
2. Prisma Capital Partners, L.P.
3. KKR/Prisma
   a. Girish Reddy, Co-CEO, PAAMCO Prisma
   b. Michael Rudzik
   c. William Cook (as an agent of Prisma)
4. Blackstone Group, L.P.
   a. Steven Schwarzman, Chairman, CEO and Co-Founder of Blackstone Group, L.P.
   b. J. Tomilson Hill, Vice Chairman of Blackstone Group, L.P.
5. Pacific Alternative Asset Management Company, LLC (PAAMCO)
   a. Jane Buchan, CEO, PAAMCO

KRS Investment Advisor on Fund of Funds, Asset Allocation & Asset Liabilities
- R.V. Kuhns & Associates, Inc.
  - Jim Voytko
  - Rebecca Gratsinger, CEO

Actuarial Advisor Firm
- Cavanaugh Macdonald Consulting

Tax & Fiduciary Advisor Law Firm
- Ice Miller, LLP

KRS Trustees
- William Cook (September 2016 to June 2019)
- Randy Overstreet (1995 to 2015)
- Timothy Longmeyer (April 2010 to 2015)
- Bobbie D. Henson (1998 to 2014)
- Thomas Elliott (April 2011 to July 2016)

- Jennifer Elliott (2009 to 2012)
- Vincent Lang (April 2005 – 2013; 2014 – 2016)

KRS Officers

- David Peden - CIO, Interim CIO, Director of Fixed Income (2009-2017)
- T.J. Carlson – CIO (2011-2013)
- Brent Aldridge – Interim CIO (1991-2014) (retired September 2016)
- William Thielen – ED-COO (2006-2016)

The primary allegations set forth in *Mayberry* are that KRS invested in funds of funds that were allegedly the product of a large conspiracy by Prisma Capital Partners (KKR Prisma beginning in 2012), PAAMCO and Blackstone (collectively the "FoHFs")[4] to target underfunded and vulnerable public pension systems. The FoHFs were described as, among other things, exotic, risky and illiquid. *Mayberry* also alleged that the FoHF documents provided to KRS were misleading and false to cover up the fees being charged to KRS and that they "understood the vulnerability of Kentucky Retirement and its Officers and trustees and targeted them by offering exotic and risky investment vehicles that were marketed as 'absolute return strategies.'" *Id.* at 14.

The allegations set forth against R.V. Kuhns, Ice Miller and Cavanaugh Macdonald (the "Consultants") include that they were a part of the scheme to deceive and defraud KRS alongside FoHFs and part of the "cover up and catch up" scheme. *Mayberry* further alleged that all named defendants, FoHFs, Consultants and the named Trustees and Officers colluded in acts culminating in aiding and abetting breaches of fiduciary duties and civil conspiracy to breach various fiduciary duties. *Mayberry* does not include all members of the Board of Trustees as defendants, just a select few.

[4]Chronologically, after August 2011, the acronym FoHF, for Fund of Hedge Funds, will be used when referring to PAAMCO, Blackstone and Prisma the three fund of fund managers that were selected in August 2011. Otherwise, the terms "fund of funds" or "fund of fund managers" will be used. When referencing the written words of those cited in this Report in emails or minutes, the term used will remain unchanged.

Prior to reading the report, a general understanding of defined benefit pension funds is beneficial.

Defined Benefit Pension Funds

In the timeframe preceding and up to the specific investment activities, KRS administered defined benefit public pension funds which are pensions for eligible employees. Traditionally, defined benefit public pension funds such as those administered by KRS have three primary sources of revenue: 1) mandatory contributions from the employees; (2) mandatory contributions from the employers (government agency employers); and (3) investment returns. For KERS, the government employer was the Commonwealth of Kentucky and other affiliated entities; for CERS it was the County employers; and, for the State Police, it was the State Police. Thereby, KERS' and SPRS' employer contributions were dependent upon the budgetary constraints of the Legislature and Governor of the Commonwealth of Kentucky. This specific contribution is called the Actuarially Required Contribution (the "ARC"). *See* Ex. 1 (*Kentucky Retirement Systems Overview* to the Kentucky Public Pensions Task Force, July 2, 2012, Chief Investment Officer T.J Carlson and Executive Director William Thielen).

Hindsight

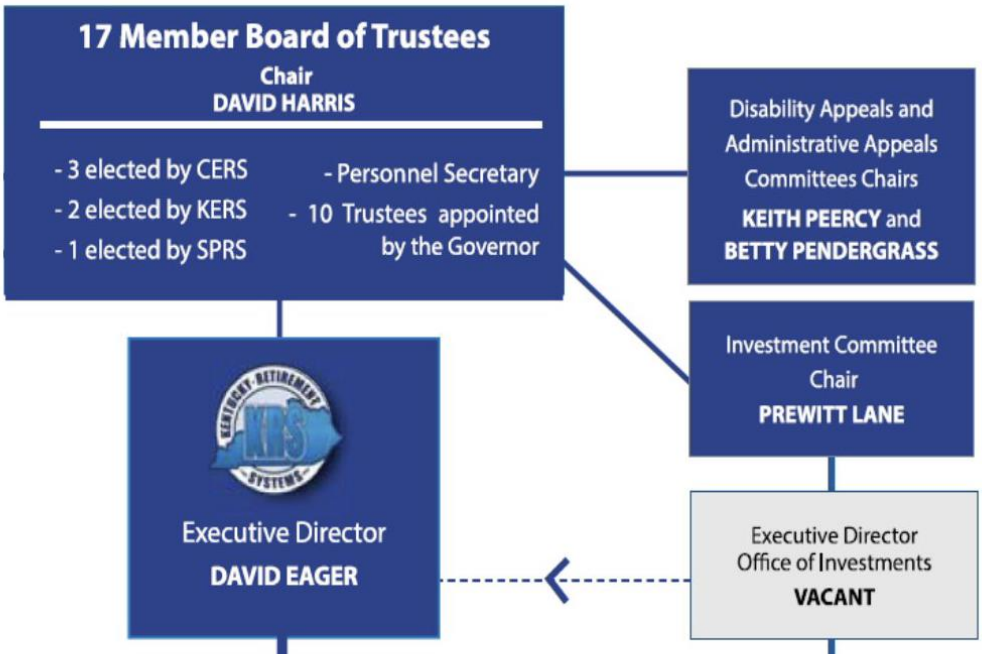
Readers of this Report should bear in mind that we reviewed materials that were up to thirteen years old in order to determine what occurred at a public agency that was, in our view, in constant crisis mode. KRS was not properly funded or sufficiently staffed and lacked the ability to pay competitive salaries. Had those circumstances not existed, KRS would have been able to administer pension and related benefits more simply and seamlessly invest the Plans' assets in the full range of vehicles that complied with its Investment Policy Statements. Instead, some of KRS' Plans were significantly underfunded since 1993, struggled to hire and retain qualified investment staff and, post-recession, were constrained in what investments they could consider due to concerns about meeting pension benefit payments (e.g., liquidity issues). These issues were caused by the significant investment losses suffered in the recession combined with legislative and executive branch underfunding of their share of the employer contributions.

KRS also faced decreases in employee contributions to the Plans due to a diminished public workforce that continued to shrink over the period of our review, as well as furloughs and generally stagnant salaries over the past decade. Those responsible for the underfunding included complacent executive leadership and trustees and the sitting General Assembly and Governor. In addition to the underfunding of the ARC, the General Assembly and Governor also continued the practice of mandating unfunded cost-of-living adjustments (commonly referred to as "COLAs") for plan participants until reforms took hold in 2013.

Compounding KRS' challenges, it was under a constant barrage of criticism from print media, bloggers and social media commentary and attacks from both internal and external sources. All of these factors contributed to a workplace in crisis management mode that nevertheless was bound by legal, ethical, and fiduciary duties.

Investigation Chronology Process

Prior to assessing what transpired concerning the FoHFs, we first needed to identify those primarily accountable and/or with oversight responsibilities including the Governor and Legislature of the Commonwealth of Kentucky, the Board of Trustees/Directors (*See* Appendix A), the Investment Committee, Investment Staff[5], and, on administrative matters, the Executive Director. Critical to our findings is that the Chief Investment Officer/Executive Director of the Office of Investments ("CIO")[6] reports to the Investment Committee (bolded line) and only to KRS' Executive Director on administrative matters (dotted line).[7]



KRS: KRS and CERS New Trustee Orientation – March 16, 2021

**As of the publishing of this Report, the position of Executive Director Office of Investments has been filled.*

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5 When the term "Investment Committee" is referred to it means the sitting KRS trustees who at that time were members of KRS' Investment Committee at the time. Further, when the term Investment Staff is referred to it means the senior and management level staff working for the then appointed CIO and the CIO at the time. If there was a CIO vacancy, nevertheless the term Investment Staff means the senior and management level investment staff at the time.

6 Titles for this position changed from 2009 to 2016, so for consistency purposes going forward in this Report the acronym CIO will be used.

7 As inferred in the Report, this lack of day-to day Executive Director oversight of the investment staff is problematic for two reasons: 1) there is no disciplined oversight of the Investment Staff and investment processes if the trustees, that make up the Investment Committee, are not engaged; and 2) more recently the Investment Staff is not located at KRS's main Frankfort, KY headquarters where the Executive Director is seated. They operate out of a satellite office in Louisville, KY.

Overview of Applicable Law and Policy

The responsibilities of KRS trustees and employees are defined by a legal framework developed through statute and caselaw. This framework includes KRS § 61.650, which provides the manner in which KRS trustees and employees are required to discharge their fiduciary duties to KRS. At the same time, Kentucky courts have taken a more expansive view of what is required to uphold one's fiduciary duties than is set forth in KRS § 61.650, with the scope of the duty "variously defined as one requiring utter good faith or honesty, loyalty or obedience, as well as *candor*, due care, and fair dealing.'" *See Lach v. Man O'War, LLC*, 256 S.W.3d 563, 569 (Ky. 2008) (quoting *Anthony v. Padmar, Inc.*, 320 S.C. 436, 465 S.E.2d 745, 752 (S.C. Ct. App. 1995)) (emphasis added). Relevant to this investigation, in March 2017, KRS § 61.650 was amended to incorporate the CFA Code of Ethics and Standards of Professional Conduct (hereinafter, the "Code"), otherwise applicable to Chartered Financial Analysts, to all KRS investment staff, trustees and contracted investment advisors. The Code mandates a more stringent fiduciary duty standard than provided for in KRS § 61.650.

Another important statute, KRS § 61.645, requires that KRS trustees perform their duties in good faith, on an informed basis, and in a manner the trustee honestly believes to be in the best interests of KRS. At the same time, KRS § 61.645 sets a high bar for suits against trustees for monetary damages stemming from a breach of, or failure to perform, their duties, requiring a showing that such act "constitutes willful misconduct or wanton or reckless disregard for human rights, safety, or property." *Id.* This mirrors Kentucky's "Business Judgment Rule," requiring litigants to demonstrate that a challenged business decision was the product of willful misconduct or wanton or reckless disregard. *See generally Baptist Physicians Lexington, Inc. v. New Lexington Clinic, P.S.C.*, 436 S.W.3d 189, 195-96 (Ky. 2013).

KRS employees are also subject to the requirements of KRS § 61.655, which addresses conflicts of interest. While initially only applying to trustees, KRS § 61.655 was expanded in April 2012 to extend its conflict-of-interest provisions to KRS employees, including the prohibition on using confidential information acquired at KRS to further one's economic interests or the interests of another person. *See* KRS § 61.655(6).

KRS' trustees, officers and employees are also required to follow a number of internal policies, including the Statement of Investment Policy ("Investment Policy"), Investment Transaction Procedures Policy ("Transaction Policy"), and policies relating to internal and external conflicts of interest and confidentiality (the "Conflicts Policies"). We were provided with, and reviewed, multiple versions of the Investment Policy in place between November 2007 through present. The Investment Policy details various aspects of the KRS investment process including, among other things, the structure and appointment of the Board of Trustees and the Investment Committee, the investment philosophy and objectives of KRS, and asset allocation guidelines. Notably, in May 2010, the Investment Policy was amended to permit a number of alternative investments, including absolute return investments ("Absolute Return").[8]

[8] In a February 3, 2009 memorandum to the Investment Committee CIO-Tosh characterized the concept of an absolute return strategy, as follows: "[t]he objective of the absolute return strategy

We were provided several different versions of the Transaction Policy in place from between April 2006 and the present. The Transaction Policy is "intended to identify the communications and procedures that are necessary to properly execute investment transactions for the Kentucky Retirement Systems." The Transaction Policy has focused on a number of issues including, most relevant for this Report, procedures relating to alternative investments. The alternative investment procedures include the criteria for selecting investments, the manner in which such selection should be implemented, and investment strategy and guidelines. Importantly here, the Transaction Policy made clear that, when negotiating and entering into alternative investment agreements, KRS staff is required to retain external or internal legal counsel as needed.

We were also provided with and reviewed multiple versions of the Conflicts Policies from between August 2006 through present (the "Conflicts Policies"). These policy statements generally set out standards of conduct relating to conflicts of interest and confidentiality and provide mechanisms for raising and adjudicating violations of the policies. The Conflicts Policies reviewed from August 2006 appear to have been substantively modified in August 2011 and May 2016, with each new version expanding the list of which individuals are required to file a written conflict of interest statement.

Pathway to Fund of Funds

In August 2011, KRS' Investment Committee followed by the Board of Trustees approved entering into agreements Prisma, Blackstone and PAAMCO for fund of fund investment management services (collectively the "Fund of Hedge Funds" or "FoHFs"). The FoHFs were categorized as Absolute Return strategies. Prior to August 2011, the Investment Committee and Board of Trustees had approved a 10% investment allocation to Absolute Return strategies. Thereby, each FoHF had a 3.3% allocation.

Prior to 2009, it does not appear that KRS had an Absolute Return allocation. In an effort to understand when KRS created an Absolute Return allocation, and why all 10% of it was then allocated to the three FoHFs, we had to consider what occurred in 2008.

KRS' Plans lost significant investments due to the dot-com bubble burst and the 2008 recession.[9] In June 2008, the Kentucky Public Pension Group Subcommittee on Investments ("Subcommittee") was led by State Treasurer Hollenbach, staffed by members of the Governor's Office of Financial Management, and included members such as the Secretary of State, Commissioner of Agriculture, a State Senator, representatives from the Kentucky Retirement

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is to preserve capital and deliver positive (absolute) returns under most market conditions. It is anticipated that the returns from this program should largely be uncorrelated to market movements (systematic risk) and primarily based on manager skill. It is intended that this program. be structured so that risk should be specific to each manager, not to the systemic risk of the markets. *See* Ex. 2.

[9] By 2002, the NASDAQ-100, home to many tech startups at the time, had dropped 78% from its peak value following the "dot-com bubble." In 2008, the stock market crashed due in part to risky home mortgage, leading to the "Great Recession."

System (Chief Investment Officer Adam Tosh), representatives from the Kentucky Teachers Retirement System ("KTRS") (Gary Harbin and Paul Yancy) and representatives from the University of Louisville, Urban Development, the Kentucky Education Association, the Ohio Valley Educational Co-op and Parthenon LLC (an investment manager). The Subcommittee hired a consultant to assess the performance of KRS and KTRS and analyze and provide recommendations on issues of governance, operations and investments. The Hammond Associates were hired and paid for by the Commonwealth of Kentucky. The report (the "Hammond Report," *see* Ex. 3) recommended that KRS and KTRS invest in Absolute Return strategies.

The KRS landscape preceding the Hammond Report included multiple obstacles for the Plans and specifically KERS, including but not limited to, meeting the then-existing Actuarially Assumed Rate of Investment Returns ("AARIR") due to devastating investment losses mentioned above; consistent underfunding of the ARC since 1993; a graduated phase-in of ARC funding for the KERS-Non Hazardous, KERS Hazardous and State Police plans as prescribed by House Bill 1 ("HB 1") in 2008; reductions of work force growth; and mandatory unfunded COLA's.

H.B. 1 Pension Legislation of 2008

In June 2008, the Kentucky General Assembly was called to the Commonwealth's capital by then-Governor Steve Beshear for a special session for the purpose of passing a host of legislative changes to the KRS benefit structure, as well as implementing employer contribution funding streams for plans sponsored by the Commonwealth (namely the KERS-Non-Hazardous, KERS-Hazardous and SPRS Plans).

Most significantly, H.B. 1 codified a graduated phase-in of full ARC contributions by the Commonwealth that would slowly increase year by year beginning in 2010, until reaching 100% of ARC funding by the Commonwealth. However, the phase-in set forth by H.B. 1 was protracted in nature: for the KERS-Hazardous Plan, full ARC contributions would be paid starting in 2018; for the SPRS Plan, full ARC contributions would be paid starting in 2019; and, for the most underfunded of the Plans – the KERS-Non-Hazardous Plan – full ARC contributions would be paid starting in 2024. *See* KRS § 61.565, *as effective June 25, 2009* (repealed as of July 1, 2013). Although it was thought that the graduated phase-in of the full ARC contributions would ultimately lead the Plans to a place of better financial health, the reality is that by failing to pay the full ARC annually, the Commonwealth further contributed to the unfunded liabilities of its Plans.

According to the 2008 submission by KRS to the National Association of State Retirement Administrators' "Roll Call of the States" listings, H.B. 1 also enacted the following reforms:

- Raising the retirement ages for future hires;
- Lowering the cost of living adjustment to 1.5 percent;
- Requiring new employees to contribute 1 percent of their salary to the health insurance fund; and
- Reforming the practice of "double dipping."

See Ex. 4. Though this legislation lowered COLAs to 1.5 percent, they remained unfunded by the Commonwealth and, as a result, further contributed to the unfunded status of the Plans.

The Hammond Report

In response to the Plans' status, Hammond Associates was commissioned to "conduct an operational and governance review and recommend new investment policies, strategies and benchmarks to improve the investment performance of the KRS and KTRS." Hammond Report at 6. "The critical issues were summarized as: [i]nvestment performance of both retirement systems has been unacceptable, significantly underperforming the actuarial assumed rate of return and their peer retirement systems across the country; the governance structure responsible for investment oversight is inadequate; *the investment portfolio has insufficient diversification of asset classes; and the investment manager structure has concentrated positions, increasing risk*." *Id.* (emphasis added). Although the Hammond Report addressed challenges and set forth recommendations for both KRS and KTRS, only the findings and recommendations for KRS are referenced herein.

The Hammond Report stated that there were two possible explanations for the funds' underperformance: 1) similar funds performed as poorly and no reasonable changes could have altered the situation; and/or 2) the investment world had changed its approach and KERS had not kept up. *See* Ex. 3 at 64. The Hammond Report determined that the latter explanation was correct. The Hammond Report therefore recommended that KERS review and develop a new investment policy to broadly diversify KERS among traditional and alternative asset classes. *See id.* at 7. The Hammond Report further stated that a policy review should be conducted by the new investment committee, the CIO, and the investment consultant. *See id.* at 23. Further, the Report emphasized KRS' below median performance, which was attributed to KRS' concentration in US equities during the 10-year period ended June 30, 2008, resulted in massive losses and a $1.5 billion "opportunity cost" lost by KRS. In short, because KRS was not diversified, it not only suffered significant losses but also lost the opportunity to gain $1.5 billion more had it diversified. *See id.* at 13, 63.

The Hammond Report also stated that:

- "...significant concentrations in a single asset class (equities) poses extraordinary risk to portfolio assets. Fortunately, diversification provides investors with a strong risk management tool and …outsized exposure of more than one half of the portfolio invested in the U.S. equity market violates sensible diversification principles... By establishing an investment policy with a variety of asset classes that move at different times and in different directions, investors diminish the risk that a concentrated exposure to a single market will cause material damage..." *Id.* at 12, and
- "[t]he underperformance of KRS ... can be attributed to the asset allocation …" *Id.* at 44.

The report then stated ...we believe alternative asset classes should play a significant role in a diversified portfolio." …. "hedge funds manage well over $1 trillion in capital (and much more when leverage is considered).... While aggregate returns from hedge funds are likely to be below most investors' expectations, *we are confident in the small group of managers that we work with*…" *Id*. at 70. (Emphasis is added because this sentence seems to advocate for the investment managers the authors worked with. Because the report should be deemed objective such a statement stands out). The Hammond Report also noted that KRS had a lower allocation to alternative investments (10%) than the peer median as reflected by the Russell Mellon universe allocation. *See id.* at 64

Hammond Report Response

At the November 19, 2008 KRS Board of Trustee's meeting, the Finance & Administration Cabinet Secretary, Jonathan Miller, sent a letter to the trustees titled Governor Steve Beshear's Public Pension Working Group Recommended Investment Actions, with an attachment, which supported diversification and investing in hedge fund investments. *See* Ex. 5, Minutes of KRS Board of Trustees Meeting, November 20, 2008, at 11-12.

While assessing the recommendations, Investment Staff made clear to the Investment Committee and others that they were not experienced in hedge fund investments. The Investment Committee and Investment Staff then embarked on a series of efforts to educate themselves over the next few years and consistently stated that they would begin hiring fund of funds' managers to gain experience on the due diligence required. They also stated that once they felt KRS had the appropriate in-house expertise, they would begin transitioning out of the Absolute Return portfolio to direct hedge fund investments. *See* Ex. 6 at 2 (August 2, 2011 Memorandum from Investment Staff to Investment Committee stating that "the hiring of these FoHFs will also serve a role in helping develop KRS Staff's ability to invest directly in hedge funds, thus, ultimately saving KRS money by enabling investment in lower fee structure vehicles").

The efforts made by KRS to better understand hedge fund investments included training provided to the Investment Committee by Blackstone, in November 2008 called "What is Absolute Return." In addition, in compliance with the Hammond Report's recommendations, KRS hired a new investment consultant, R.V. Kuhns. Then, in January 2009, R.V. Kuhns provided an Absolute Return Education Training to the Investment Committee and Investment Staff that gained support as reflected by remarks made by an Investment Committee trustee at a public Global Alternative Investment Management conference in late January. *See* Ex. 7. Thereafter, R.V. Kuhns followed up in February 2009 with an Absolute Return Strategy Allocation Memo, recommending a 5% allocation to absolute return. This was later approved by the Investment Committee. *See* Ex. 2, s*upra*. At the February 2009 Investment Committee meeting, a trustee went as far as to say that looking back at the Hammond Report, an implementation of hedge funds is the "one thing that [KRS] could've, would've, should've done," ostensibly to avoid sustaining the large losses that KRS did at the time.[10]

Due to the lack of ARC funding and the previous recession's investment losses resulting from an oversized concentration in equities, the Investment Staff realized that they needed to ensure that their investments were liquid. At the time, KRS' investments in private equity were doing well, however these investments were primarily illiquid. This meant that Investment Staff could not redeem investments in time to meet KRS' payment obligations to retirees. To better understand how they could best manage their asset allocations, including in relation to liquidity and risk, in

[10] This comment reflects our review of audio recordings of the February 3, 2009 KRS Investment Committee meeting.

August 2009 the Investment Committee and Investment Staff commissioned an Asset Liability Study, to be produced by R.V. Kuhns.

The Arrowhawk Multi-Strategy Investment: 2009-2010

At the September 29, 2009, meeting of the KRS Investment Committee, then-CIO Adam Tosh made a recommendation to fund the first foray of KRS into absolute return strategies. This effort came in the form of a planned allocation of $200M to a Multi-Strategy Fund ("MSF"), Arrowhawk Capital Partners ("Arrowhawk"). As outlined in a memorandum to the Investment Committee, a MSF differs from a Fund of Funds Manager in that a MSF provides exposure to a series of underlying *strategies* that are managed by MSF employees rather than the conglomeration of external underlying *managers* that are overseen in a fund of funds format. *See* Ex. 8. Ostensibly, a prime benefit of MSFs is that they eliminate duplicative layers of fees that typically accompany a fund of funds management design.

In the case of Arrowhawk – and in stark contrast to the eventual HFOF investments made by KRS – the available evidence does raise serious concerns as to the implementation of proper due diligence efforts by Investment Staff and a different investment consultant retained by KRS at the time, Strategic Investment Solutions, Inc. ("SIS"). *See id*. While KRS Investment Staff did evaluate five potential MSF managers prior to settling upon its investment in Arrowhawk, it is of concern that Arrowhawk was a brand-new MSF at the time, and from a practical perspective, an allocation by KRS essentially served as 'seed money' for the new endeavor. Though R.V. Kuhns met with Arrowhawk during the review process, they played "second chair" to SIS and in a memorandum to KRS, R.V. Kuhns listed the following as challenges facing Arrowhawk: (1) newly established firm; (2) limited track record information; and (3) partial investment team structure. SIS also raised Arrowhawk's status as a new firm. However, it is important to note that by the time KRS invested in Arrowhawk, it had already received a $175M seed commitment from Canadian National Railway (*i.e.*, KRS was not a lone investor in the venture). Though concerns surrounding the Arrowhawk venture were raised by former Trustee Christopher Tobe (who was not in attendance at the September 29, 2009, Investment Committee meeting), KRS proceeded with a $50M initial investment in Arrowhawk in January 2010 and an additional $50M allocation in or around March 2010. When Mr. Tobe asked KRS staff to request a recommendation from R.V. Kuhns as to an allocation to Arrowhawk, R.V. Kuhns pushed back stating that:

> "SIS conducted a much more thorough analysis of Arrowhawk, and they took the lead on this due diligence. Adam [Tosh] asked us to take a general look at Arrowhawk, which we did. I believe he called it a "belts and suspenders" approach by asking RVK to conduct[ing] due diligence on Arrowhawk. However, we sit as a second chair consultant to SIS on this analysis.
>
> We stand by our memo, and our general comments about a possible structure for the KRS hedge fund portfolio. Unfortunately, we did not spend enough time with each Arrowhawk strategy team nor with their back-office operations team in order to provide a clear recommendation. We simply provided some of the merits and challenges we identified with the Arrowhawk organization and proposed strategy." *See* Ex. 9.

As Arrowhawk continued to develop, the venture became embroiled in controversy as it came to light that a placement agent was involved in securing allocations to Arrowhawk. This was at a time when the issue of placement agents began to envelop the landscape of public pensions nationwide. In the case of KRS, the placement agent involved was to be allegedly awarded a fee of $2 million, which is later disputed herein. The trustees were not advised of this arrangement by Investment Staff prior to approving an investment in Arrowhawk. Based on this development, KRS found itself facing a barrage of negative press, internal and external audits related to placement agents and associated fees, as well as an eventual Securities and Exchange Commission investigation that resulted in no action by the enforcement agency. KRS was able to recoup $101 million on its original allocations of $100 million to the fund. *See* Ex. 10 at 8.

Nonetheless, the spectacle created by the Arrowhawk investment took a short- and long-term toll. Former CIO Tosh left KRS in 2010 and former-Executive Director Burnside was eventually terminated thereafter. As referenced later in this Report, the sting of Arrowhawk remained with KRS' Investment Staff years later, including over those who played no significant role. This was an ongoing, morale-siphoning event that is still unnecessarily raised in the context of KRS' FoHF investments, which are distinct. (See *Tilting at Hedge Funds*, page 51).

It is unquestionable that the rollout of Arrowhawk was marked by impropriety, as to the Investment Staff's failure to properly advise the Investment Committee of all aspects of the investment, as well as the Committee's failure to seek further information on aspects of the investment that could be riskier than warranted (*e.g.*, the young age of the fund).

However, the available evidence also suggests that the pursuit of the investment in Arrowhawk is distinct from the rollout of the FoHF investments that were initially funded in 2011. As will be discussed, the level of due diligence and manager research performed prior to the FoHF investments (BAAM, PAAMCO and Prisma) far surpassed that which appears to have occurred in relation to Arrowhawk. The extended period of time utilized to conduct the FoHF due diligence was over two years from the Investment Committee's first educational training (November 2008) on absolute return strategies and the initial investments in the FHoFs (August 2011). Additionally, Investment Staff and R.V. Kuhns spent considerable time weighing how the fund of fund managers would not only work in operation with one another (correlation and volatility), but also how they would best fit within the overall KRS portfolio. The available evidence also suggests that R.V. Kuhns advised KRS to wait until after its asset liability study was completed to make new investments, in order to provide a clearer roadmap for KRS. *See* Ex. 11 (email from Tony Johnson of R.V. Kuhns to former Executive Director Burnside and former CIO Tosh stating that "[o]ur recommendation is to halt new investments until we can complete this study").

Fund of Funds Due Diligence and Retention – 2009-2011

The KRS Investment Staff, alongside R.V. Kuhns, embarked on their fund of funds due diligence effort in 2009, under the leadership of CIO Tosh. Rather than issuing an RFP, they relied upon R.V. Kuhns to put forth fund of funds manager recommendations in addition to staff recommendations. *See* Ex. 12. R.V. Kuhns had previously issued a Request for Information ("RFI") to gather fund of fund candidates and they had a slate of fund of funds managers they worked with in the past for their other public pension fund clients. Pitches also came from marketers for fund of funds managers, including Blackstone and Prisma, who learned that KRS was conducting a search. *See* Ex. 13 (email to KRS from Blackstone seeking to discuss a number of investment strategies, including “the progress of [KRS] hedge fund initiatives.”).

The KRS Investment Staff conducted due diligence that included examining the fund of funds managers’ sector specialists; the internal risk, legal, operational and investment committee structure of each fund of fund manager; and which of the internal fund of fund committees had veto power on investing in certain hedge funds. The due diligence also included whether the candidates’ back-office operations supplemented KRS’ Investment Staff operations; what other public pension funds they had as clients; the depth of their databases of underlying managers they had already been vetted; if background checks were conducted on key principals of the underlying managers; and, if the key principals had ownership in the funds results. They also worked to determine the correlation between the funds of funds (to prevent redundancy) and if the fund of funds managers’ reputations, proposed portfolio constructions, and returns were based on high, median, and low volatility. Both Investment Staff and R.V. Kuhns were involved in the due diligence calls and meetings on-site at KRS and on-site at the offices of the fund of funds. *See* Ex. 14, Executive Summary Hedge Fund of Funds Search Memorandum and Attachments, August 15, 2011, at 5-7 (“FoHF Due Diligence”).

R.V. Kuhns played an active role in scheduling meetings with a wide variety of potential fund of fund candidates, as well as providing appropriate due diligence for Investment Staff to review prior to the fund of funds candidates’ meetings. *See* Ex. 15. From 2009 to March 2011, many fund of funds managers were included in the due diligence process and, in June 2010 and March 2011, were narrowed to seven, and then back to eight fund of funds managers, respectively. During this process, R.V. Kuhns consistently supplied KRS with research on prospective fund of fund managers, which included research related to existing, commingled fund of funds products offered by the candidates and particular key personnel who were part of investment decisions at each manager. *See* Ex. 16 (example of periodic absolute return manager search reports compiled by R.V. Kuhns for KRS during the ongoing fund of funds search). In connection with meetings with the fund of funds candidates, available evidence indicates that KRS and R.V. Kuhns received information and conducted due diligence on fund of fund candidates beyond the three FoHF managers ultimately selected. *See* Ex. 17; and Ex.’s 14, 15 and 16, *supra*. Further, the graph created by the Firm below provides a list the thirteen candidates that was eventually narrowed to the final three managers, BAAM, PAAMCO and Prisma.

Thirteen Fund of Fund Managers Considered

Fund of Funds Pool				
	Full	June 2010	December 2010	March 2011
Aurora	x	x	x	x
Blackstone	X			x
Crestline	x	x	x	x
GAM	x	x	x	
Grosvenor	x	x	x	x
Mesirow	x	x	x	x
PAAMCO	x	x	x	x
Arden	x			
Prisma	x	x	x	x
Rock Creek	x			x
Aetos	x			
K2	x			
Private Advisors	x			

During this time, as set forth herein, even the trustee that raised concerns about the Arrowhawk investment appeared supportive of KRS' absolute return diversification efforts. "[Mr.] Tobe is supportive of KRS' continuing move to diversify into alternatives including hedge funds and private equity." April 2, 2010. *See* Ex. 18. This was a statement made by Tobe's employer, and one that we found no evidence of Mr. Tobe disputing at the time.

During this time, KRS considered how many fund of funds managers would be selected and why. An example of the factors considered included the different volatility buckets of higher, medium and lower exposures. PAAMCO was placed in the higher volatility bucket because they concentrated on emerging managers. Prisma was placed in the medium volatility bucket because although they invest in emerging managers hoping to capture over performance, they do not do so to the extent PAAMCO traditionally does. Blackstone was placed in the low volatility bucket because they concentrated on funds that have a more reliable track record of success. In an email to CIO Carlson on July 8, 2011 (over a month prior to approvals of the FoHFs by the Investment Committee), Tom Masthay outlines his own considerations regarding the proper weighting to the fund of funds:

> "TJ, At a high level, our manager investing into the largest pools of capital is also the manager that took us the longest to get comfortable with… I don't think there is any reasonable notion to overweight BAAM as a result of any perceived liquidity advantages; this is also offset by PAAMCO, who is theoretically investing in the smallest, least liquid pools of capital, but has a bias toward liquid strategies. As discussed previously, as a puzzle of managers, they all fit together pretty well, attacking different parts of the cap spectrum, types of strategies, and employing different investment processes. As such, I feel any underweight to a particular

> manager due to their strategy (I would focus on PAAMCO and their skew to somewhat earlier stage managers in particular here) would only be a means to diversify away the advantages we perceive them to have.
>
> In a sense naïve diversification[11] is creating an equal weighted portfolio (3 FOF, 40 mgrs apiece, $400 million per FOF equals $10 million a manager investing across the spectrum of life cycles of managers) versus an overweight to the manager that is most capable of handling a lot of capital (for simplicity I will assume this is BAAM) creates a cap-weighted portfolio where larger opportunity set / macro themes are playing a larger role in the portfolio. To overweight Prisma, who I see as falling somewhere in the middle of the spectrum of BAAM and PAAMCO, in a sense we are still creating the equal weighted portfolio with but more manager specific risk.
>
> Long story short, I think $400 million per manager is roughly appropriate. I think this is where we may have been as a group before, but there are at least some numbers to back it up." *See* Ex. 19.

In response to the Arrowhawk investment, CIO Tosh announced to the Investment Committee that he would be leaving KRS in August 2010. The CIO position was then filled by TJ Carlson in late 2010. When CIO Carlson joined KRS he did not discard the prior due diligence on the fund of fund managers. It is worth noting that during the time when KRS did not have a CIO, it was KRS' Investment Staff including David Peden who joined KRS in March 2009, alongside R.V. Kuhns, that kept the process moving forward. Between March and May 2011, the Investment Staff selected a final slate, broken down by volatility: PAAMCO (higher volatility), Prisma (medium volatility) and Blackstone (lower volatility). Thereafter, Investment Staff, with the assistance of outside counsel, negotiated final agreements with the FoHF candidates. These agreements included provisions sought by KRS, such as the incorporation of the terms of the new Investment Policy Statement into the operating agreements (e.g., the LLC agreements), most-favored nation clauses, more competitive management and/or incentive fees, expense caps and liquidity restrictions on underlying hedge funds. As an example of the effect of these negotiations, PAAMCO indicated to KRS that as a result of their negotiations, they would be going back to an existing client larger than KRS to offer them a new fee schedule that was consistent with the pricing achieved by KRS. *See* Ex. 20.

Through use of a "fund of one" format, where KRS was the only investor within a particular fund of funds, KRS was able to have a greater voice in customizing the FoHF investments to align with the investment and risk objectives of KRS, as well as to negotiate the above provisions with regard to restrictions upon underlying managers. For example, in July 2011, Prisma stated that its "model portfolio" for KRS had an estimated average management fee for underlying managers of 1.8%,

[11] Naive diversification is defined by the Nasdaq Glossary as "a strategy whereby an investor simply invests in a number of different assets in the hope that the variance of the expected return on the portfolio is lowered." *See* "Naive diversification," Nasdaq.com (*available at* https://www.nasdaq.com/glossary/n/naive-diversification) (last visited April 15, 2021).

as well as a weighted average incentive fee of 19%. In this communication, Prisma also conveyed that "for your account, as it will be a customized portfolio, we have the flexibility to amend for any number of objectives and drivers, including cost, if you wish to emphasize that factor more heavily." *See* Ex. 21.

While facing the continued challenge of an extremely underfunded public pension fund, KRS Investment Staff needed to ensure their ability to redeem investments in order to ensure that retirees and beneficiaries were paid on time. Each agreement therefore included initial lock up restrictions that ensured that 30% of the LLC's Net Asset Value ("NAV") could be redeemed within the first year of the investment; 80% within the first 25 months; and 100% within the first three years. Further, they achieved changes in the proposed fee structure as illustrated in the table below, which resulted in Blackstone reducing their management fee by .10%; PAAMCO agreeing to a LIBOR hurdle prior to receiving an incentive fee; and Prisma agreeing to a fee-related most-favored nation clause.

Offers	Incentive	Management	Changes
BAAM	10% 3 mo LIBOR Hurdle	.60%	.5% management
PAAMCO	5%	.75%	5% over LIBOR hurdle
Prisma	5% over 13wk T-Bill Hurdle	.70 %	MFN*

In anticipation of gaining Investment Committee approval at the August 2, 2011, KRS Investment Committee meeting, Investment Staff advised the Investment Committee in writing how and why each of the Fund of Funds Managers were selected:

> **PORTFOLIO CONSTRUCTION CONSIDERATIONS**
>
> Throughout the FoHF [fund of hedge funds] search process, portfolio construction and how individual managers would be pieced together was an active thought process for KRS Investment Staff. Major factors considered by Staff in the context of portfolio aggregation included process complementarities, strategy allocations, the sizes of underlying hedge fund managers being pursued, and the total number of underlying hedge fund managers. A brief assessment of each of the four factors mentioned is presented is as follows:
>
> *Process Complementarities* – Fund of hedge funds attempt to add value through strategy allocation and manager selection. While all hedge fund of fund managers employ tactics to add value through both of these mechanisms, Staff was most impressed by BAAM's formulaic implementation of top down views into its strategy selection parameters, PAAMCO's detailed implementation of its risk management process through position level transparency into its top-down and bottom-up decision making processes, and Prisma's experienced and specialist approach to making alpha-generating bottom-up manager selection decisions.

Strategy Allocations – BAAM, PAAMCO, and Prisma take complementary approaches in their strategy allocation biases. BAAM tends to be heavily weighted, compared to its peers, in commodities and its willingness to overweight trading strategies in certain market environments. PAAMCO heavily emphasizes directionally based strategies; directionally based in this context does not mean long-biased necessarily, but given PAAMCO's organizational structure tends to lead to large positions in long/short credit and long-short equity strategies. Prisma looks at a wide universe of managers, seeking highly specialized managers such as those that may have sector or geographic orientations.

Sizes of Underlying Hedge Fund Managers being Pursued – Evident through the due diligence process was the need to diversify across stages of underlying hedge fund manager development. PAAMCO seeks the smallest managers and are day one investors with many funds, thus capturing the potential for early outperformance and negotiating significant fee discounts. Prisma also focuses on early-stage managers seeking to benefit from early outperformance, but not to the extreme PAAMCO does. BAAM tends to focus on a wide range of manager sizes, neither neglecting the small end nor large end. All three FoHF managers invest in a wide range of hedge fund sizes, but the proposed portfolio is, in Staff's opinion, balanced in such a way that the potential for manager overlap is minimized and diversification optimized. In fact, in the current composite proposed portfolio, there is no underlying manager overlap.

Total Number of Underlying Hedge Fund Managers – The total number of underlying hedge fund managers was a factor to consider in how many funds of hedge funds to hire. The proposed FoHF managers all tend to maintain portfolios of approximately 30-40 managers. Thus, at the KRS portfolio level, by hiring three managers, KRS is ultimately investing in approximately 90-120 underlying managers. When contextualized with other diversification considerations such as potential for manager overlap and risk-return optimization, Staff and Consultant determined the hiring of three FoHFs was the appropriate course of action.

With these portfolio construction considerations taken into account, in addition to individual manager assessments as presented in the materials that follow,[12] Staff has concluded that a combination of investments in BAAM, PAAMCO and Prisma is the optimal portfolio of absolute return investments to pursue at this time. *See* Executive Summary, Hedge Funds of Funds, August 2, 2011, Ex. 6 at 2 &3, *supra*.

[12] Individual assessments of each one of the HFoFs were included in the August 2, 2011 Executive Summary that included Firm Overview, Evaluation, Performance of Summary of Key Personnel, Summary of Terms, Interactions with Investment Staff and "Other Items" that included potential Conflicts of Interest, Regulatory Proceedings and status of use of Placement Agents related to this retention.

The Investment Staff and R.V. Kuhns did not share the FoHF Due Diligence with the Investment Committee prior to August 2, 2011. Further, it does not appear that the Investment Committee was advised of the semi-final candidates prior to their evaluation of a final slate of FoHF candidates. Additionally, not only did the Investment Staff not advise the Investment Committee (to whom they reported) of the semi-finalists early on or who the finalists were when they were determined in late March 2011, the Investment Staff also began negotiating the agreements with the final three FoHFs[13] creating the legal framework around the Limited Liability Corporations that would include the underlying managers for each FoHF, all before advising the Investment Committee and obtaining their approval.

The August 2, 2011, Investment Committee Trustees and Investment Staff included Chair Thomas Elliott, Jennifer Elliott, Vince Lang, Timothy Longmeyer, and Christopher Tobe; Susan Smith (non-Investment Committee Trustee); TJ Carlson, CIO; Brent Aldridge, Interim CIO/ Director of Alternative Investments; Bo Cracraft, Investment Compliance Officer; David Peden, Director of Fixed Income; Joe Gilbert, Compliance Officer, and Tom Masthay, Director of Real Return/Real Estate. Other staff were in attendance, including Executive Director William Thielen. *See* Ex. 22, Minutes of August 2, 2011, Investment Committee Meeting.

Investment Staff and Tony Johnson of R.V. Kuhns presented the Absolute Returns Fund of Hedge Fund Search on August 2, 2011 (*see* Ex. 23) (which explained the history of the FoHF search and related due diligence). Representatives from Blackstone (Brian Gavin and Iliana Sobczak), representatives from PAAMCO (Dorothy Walsh, Kevin Williams, and Sam Diedrich), and representatives from Prisma (Girish Reddy and Helenmarie Rodgers) presented on each of their respective FoHF capabilities. Since the August 2, 2011, meeting seemed to be the first time the Investment Committee became aware of the Investment Staff/R.V. Kuhns approved slate, the Investment Committee did not approve the slate. Although the written minutes do not reflect the discord, the Investment Committee recording clearly reflects their concerns, which includes a desire to understand: 1) the management fees; 2) why three firms were selected; 3) why these three firms were selected over others; 4) the backgrounds of each firm; and 5) what percentage of total assets under management ("AUM") would KRS have with each FoHF manager. Thereafter, a special meeting was scheduled, at which the Investment Staff was directed to provide a more comprehensive explanation of the FoHF selection process.

August 15, 2011, Special Investment Committee Meeting

The Trustees in attendance included Chair Thomas Elliott; Vince Lang, Timothy Longmeyer, and Christopher Tobe as well as non-Investment Committee Trustee Bobby Henson. Investment Staff included TJ Carlson, Brent Aldridge, Bo Cracraft, David Peden, Joe Gilbert, Tom Masthay and Bill Murnighan; R.V. Kuhns' Tony Johnson; other staff were also in attendance, including William Thielen. *See* Ex. 24.

[13] Hereinafter referred to as the Daniel Boone Fund LLC (Prisma); Henry Clay Fund LLC (Blackstone); and Newport Colonels LLC (PAAMCO).

Tom Masthay shared with the Investment Committee the updates from the previous memorandum on the FoHF search as reflected in the August 15, 2011, Hedge Fund of Funds Executive Summary. *See* Ex. 14, *supra*. Both the updated memo and Masthay's presentation addressed the Investment Committee's outstanding questions, as referenced herein. As evidenced in email communications, KRS staff responded to questions by the trustees on August 2, 2011, by going back to the selected FoHF candidates to ascertain additional information. *See* Ex. 25 (Mr. Masthay inquiring as to further information on the background checks performed by Prisma in relation to underlying managers within its fund of funds formats). Following this presentation, the FoHF slate was approved by the Investment Committee, with Mr. Tobe abstaining, but it was not clear why he abstained. Although Mr. Tobe abstained at this meeting, he did vote to support the slate at the next Board of Trustees meeting. *See* Appendix A, *Trustee Voting Roste*r. KRS made initial investments into the FoHFs of $415 million to each of the three FoHFs ($335 million from KRS Pensions and $80 million from KRS Insurance), with varied funding streams for the investments that included sales of Treasury Inflation Protected Securities, as well as reallocations from fixed income and equity assets. The weighting and classes of assets redeployed to the FoHF differed between each of the pension plans. The insurance plans funded their investments through excess cash.

Following the purchase of the FoHF investment vehicles by KRS, each of the FoHF managers provided KRS with information as to their selected underlying hedge fund managers (*See* Ex. 26 (a compilation of underlying fund manager summaries for the Prisma Daniel Boone Fund); *see also* Ex. 27 (a list of initial underlying managers to be included as part of the PAAMCO Newport Colonels Fund); and Ex. 28 (a spreadsheet compilation of initial underlying managers to comprise the BAAM Henry Clay Fund). Each of the FoHF managers also scheduled routine monthly or quarterly meetings to review aspects of the underlying FoHF portfolios with KRS. *See* Ex. 29, communication from BAAM seeking to schedule recurring calls with KRS regarding contents of the Henry Clay Fund); *see also* Ex. 30 (a calendar invitation from Prisma to KRS regarding monthly Daniel Boone Fund performance reviews); and Ex. 31 (email from PAAMCO to schedule a meeting with KRS to review underlying managers within the Newport Colonels Fund portfolio).

Request For Proposals

RFPs: For two years leading up to August 2011, countless fund of funds managers and investment managers reached out to KRS staff and trustees to be considered as an investment manager to the Plans, seeking to invest the Plans' money. Such marketing and liaising with trustees and staff were not uncommon for public pension funds generally, then and now. This type of contact is usually permissible and could be beneficial to Investment Staff and trustees by allowing them to gather knowledge on various investment vehicles and emerging strategies. This type of correspondence should not occur if there is a statutory or regulatory scheme or internal protocol prohibiting it. However, there was no such prohibition at KRS. This type of correspondence with fund of funds managers and investment managers is usually impermissible once a Request for Proposal ("RFP") is published. Most often, the language of the RFP prevents any direct contact with decision makers and all questions must be channeled through an identified procurement officer. Any contact beyond that can be deemed a violation of the relevant procurement scheme which could result in the bidder's disqualification. There was no RFP issued for the fund of funds search. This decision was made early on in consultation with R.V. Kuhns and Investment Staff.

The expressed concern about publishing an RFP was that it would prolong the evaluation and due diligence process and would also invite so many bidders that reviewing the responses would be overly time consuming. In an effort to defend their due diligence process, Investment Staff touted the amount of prospective candidates they considered by providing a list of all correspondence and meetings with fund of funds candidates, attached as Attachment C of the August 15, 2011, HFOF Executive Summary and provided below. Through this process, Investment Staff assessed 25 different fund of funds candidates with around 69 reported calls and meetings combined beginning March 4, 2009 - 2 years and 5 months prior to the slate's August 15, 2011, approval.

Appointment with Fund of Hedge funds

Aetos	KRS on-site	March 23, 2009	Investment Team
Aetos	KRS on-site	December 9, 2009	Investment Team
Aetos	phone call	January 13, 2010	David
Aetos	Phone Call	February 5, 2010	David
Aetos	Fund on-site	March 1, 2010	David
Arden	Fund on-site	March 1, 2010	David
Arrowhawk	Fund on-site	August 27, 2009	Adam
Aurora	Fund on-site	April 21, 2010	David
Aurora	phone call	August 24, 2010	Investment Team
Aurora	KRS on-site	September 28, 2010	Investment Team
Aurora	phone call	May 12, 2011	Investment Team
Benchmark	Phone Call	April 15, 2010	David
Blackstone	Fund on-site	March 1, 2010	David
Blackstone	KRS on-site	June 9, 2010	Investment Team
Blackstone	KRS on-site	April 6, 2011	Investment Team
Blackstone	phone call	May 12, 2011	Investment Team
Blackstone	Fund on-site	June 15, 2011	Tom, TJ, David, and RVK
Common Sense	KRS on-site	March 31, 2009	Investment Team
Crestline	Fund on-site	April 9, 2010	David
Crestline	KRS on-site	June 17, 2010	David
Crestline	phone call	August 25, 2010	Investment Team
Crestline	KRS on-site	September 29, 2010	Investment Team
Crestline	Fund on-site	November 10, 2010	Bo, David, and RVK
Crestline	KRS on-site	January 12, 2011	David
Crestline	phone call	May 12, 2011	Investment Team
CSFB	KRS on-site	March 25, 2009	Investment Team
Cube Capital	KRS on-site	April 8, 2011	Investment Team
Dorchester	KRS on-site	February 17, 2010	Adam
Dorchester	KRS on-site	April 16, 2010	David
Entrust Capital	KRS on-site	June 1, 2010	Investment Team
Entrust Capital	KRS on-site	November 5, 2010	Bo and Brent
Front point	KRS on-site	June 18, 2009	Investment Team
Front Point	Phone call	July 15, 2009	David
GAM	Fund on-site	May 10, 2010	Adam
GAM	KRS on-site	July 13, 2010	Brent and Adam
GAM	phone call	August 26, 2010	Investment Team
Goldman Sachs	KRS on-site	January 26, 2011	Investment Team
Grosvenor	unknown	October 27, 2009	Adam
Grosvenor	Phone call	March 31, 2010	David
Grosvenor	Fund on-site	April 21, 2010	David
Grosvenor	phone call	August 24, 2010	Investment Team
Grosvenor	KRS on-site	September 29, 2010	Investment Team
Grosvenor	phone call	May 18, 2011	Investment Team
K2	Fund on-site	March 4, 2010	David and Brent
Mesirow	phone call	August 25, 2010	Investment Team
Morgan Creek	KRS on-site	March 31, 2009	Investment Team
Morgan Creek	Phone Call	June 19, 2009	David
Morgan Creek	KRS on-site	September 12, 2009	David and Adam
Morgan Creek	KRS on-site	November 12, 2009	David and Adam
Neuberger Berman FOF	phone call	March 18, 2009	David
Neuberger Berman FOF	KRS on-site	April 13, 2009	David and Joe
PAAMCO	Fund on-site	January 26, 2010	Adam
PAAMCO	Fund on-site	March 22, 2010	David
PAAMCO	Phone call	July 23, 2010	David
PAAMCO	phone call	August 24, 2010	Investment Team
PAAMCO	KRS on-site	September 28, 2010	Investment Team
PAAMCO	phone call	May 18, 2011	Investment Team
PAAMCO	Fund on-site	June 29, 2011	Tom, TJ, David, and RVK
Permal	KRS on-site	March 27, 2009	Investment Team
Prisma	KRS on-site	April 9, 2009	Investment Team
Prisma	phone call	April 14, 2009	David
Prisma	Fund on-site	June 17, 2010	Investment Team
Prisma	phone call	August 25, 2010	Investment Team
Prisma	phone call	May 19, 2011	Investment Team
Prisma	Fund on-site	June 16, 2011	Tom, TJ, David, and RVK
Rock Creek	phone call	March 15, 2011	David
Rock Creek	KRS on-site	April 20, 2011	Investment Team
Rock Creek	phone call	May 19, 2011	Investment Team
SCS	KRS on-site	March 4, 2009	Investment Team
Tower Capital	KRS on-site	March 9, 2009	Investment Team

If RFPs were issued in early March 2009, when Investment Staff felt confident enough about the due diligence process to meet and converse with fund of fund managers, bidder responses would have been received later that year. Then the same Investment Staff that was calling and meeting with the fund of funds managers could have easily used their time to create a rating sheet, review and rate each response to narrow down the pool of potential candidates (which would have been less than 25 fund of funds managers), and then engage in calls and meetings over the next two years with this narrower pool of potential candidates. If this process had been followed, Investment Staff would still have been able to obtain approval of the Investment Committee by no later than August 2011. Also, since R.V. Kuhns stated that they obtained their pool of fund of funds managers by issuing an RFI, Investment Staff and R.V. Kuhns could have either used that as a starting point in drafting an RFP for KRS, or they could have done what many public pension fund employees do: ask peers from other public pension funds for a sample of their relevant RFPs. This should have been seriously considered by CIO Tosh at the time, and by the Investment Committee. Since KRS trustees, specifically those with investment experience, were traveling to investment or public pension fund related conferences, they could have asked their counterparts to provide samples as well. We found no evidence of any significant advocacy by the Investment Committee or the Investment Staff for an RFP to be issued, even though Absolute Return strategies was a critical and new investment strategy. Years later, there was commentary in favor of RFPs from, but we saw no evidence of a demand for an RFP at the relevant time.[14] In addition, Investment Staff at the time readily admitted that they were seeking experience in funds of funds. Such experience can be obtained by reading RFP responses and weighing the strategies and internal protocol of each bidder prior to on-site meetings. An RFP and the corresponding rating documents could also have helped explain why a particular FoHF was selected to the trustees, and later, to the media. It also would have limited any perceived or actual favoritism by Investment Staff, as illustrated below.

Investment Managers Marketing

Investment managers involved in various investment strategies (i.e. private equity, absolute return etc.) reached out to Investment Staff for consideration, sometimes it would be the equivalent of a cold-call and other times it would be triggered by a KRS connection. *See* Ex. 32. Although this may not appear proper, it is permissible unless governing statutes or protocols prohibit such interactions. For the FoHF search, there was extensive correspondence to and from Investment Staff from Blackstone (*see* Exs. 33 & 34) and Prisma, as well as other FoHF candidates. With no protocol or RFP limitations preventing such communications, this contact was permissible. However, correspondence between David Peden and Prisma beginning in 2009, although permissible, showed favoritism and – potentially - an appearance of impropriety when his relationship with Prisma in its entirety is examined.

David Peden and Prisma

Provided below are examples of correspondence that Mr. Peden had with Prisma leading up to Prisma's selection as an FoHF for KRS in August 2011. It must be acknowledged that if Prisma was not qualified, the FoHF due diligence process undertaken by Investment Staff and R.V. Kuhns would have removed Prisma from consideration early on. Although Prisma's qualifications, experience, strategies and track record shepherded them to the final slate of candidates, Mr.

[14] *See* RFP's Needed to Prevent Corruption, Pensions & Investments, December 10, 2012 Letter to the Editor, Chris Tobe (*available at* https://www.pionline.com/article/20121210/PRINT/312109982/rfps-needed-to-prevent-corruption) (last viewed April 15, 2021).

Peden's bias towards them appeared to serve beneficial to Prisma. Nevertheless, the FoHF due diligence process, although flawed, effectively led to a defensible selection of FoHF managers. S*ee* Ex. 35 (R.V. Kuhns Investment Manager Search, Absolute Return Strategies, Performance Data as of June 2010) (detailed collection of investment manager search summaries compiled by R.V. Kuhns wherein investment managers are added to and are removed from consideration over the course of the FoHF manager search).

Although the emails below are not all related to the FoHF Due Diligence process, they do show Mr. Peden's consistent relationship with his previous colleagues from Aegon, his former employer that was affiliated with Prisma. The emails also show him maintaining contact with two of the three former Aegon/Prisma colleagues that were his references when he applied to work at KRS: William "Bill" Cook and Michael Rudzik. Mark Faulkenberg also is the third former Aegon/Prisma reference. Although Mark Faulkenberg is not a participant in these emails, Mr. Peden does approach him about applying for a Executive Director position in February 2012. *See* Ex. 36.

From:	Peden, David (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=DAVID.PEDEN]
Attendees:	Tosh, Adam (KRS); Cracraft, Bo (KRS); Gilbert, Joe (KRS)
Location:	TBD
Importance:	Normal
Subject:	Prisma Capital Partners (tentative)
Start Time:	Thur 4/9/2009 9:00:00 AM (UTC-04:00)
End Time:	Thur 4/9/2009 11:00:00 AM (UTC-04:00)
Required Attendees:	Tosh, Adam (KRS); Cracraft, Bo (KRS); Gilbert, Joe (KRS)

When: Thursday, April 09, 2009 9:00 AM-11:00 AM (GMT-05:00) Eastern Time (US & Canada).
Where: TBD

~~*~*~*~*~*~*~*~*

Girish Ready CEO
Bill Cook CIO
Helen Marie Rodgers Head of Marketing
Michael Rudzik Long Short Equity Portfolio Manager

To: Peden, David (KRS)[david.peden@kyret.com]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Thur 10/22/2009 5:30:44 PM (UTC-04:00)
Subject: FW: Kentucky Uni funds GAM, Grosvenor and Berens

Hi David,

How are you? Hope things are well at your end. I saw the attached which was of course disappointing news for Prisma. When you get some time, can we catch up? Thanks David. Take care.. HM

Helenmarie Rodgers
Managing Director
Prisma Capital Partners LP
One Penn Plaza
Suite 3515
New York, New York 10119
W: 212-590-0808| Cell: 914-672-4994
hmrodgers@prismapartners.com

21/10/2009
Kentucky Uni funds GAM, Grosvenor and Berens

The University of Kentucky endowment fund has hired a number of hedge fund managers as part of a new investment strategy that seeks to diversify the fund's portfolio.

The $750m pension issued a request for proposal for fund of hedge funds (FoHF) managers last year, after deciding on a 10% allocation to absolute return strategies in June 2008. The process has taken almost a year to choose the right managers, Susan Krauss, director of investment and endowment services, told *HFMWeek*.

London-based GAM, Chicago-based Grosvenor and New York- based Berens Capital will all be funded incrementally. GAM and Grosvenor won mandates of 4% each of the total portfolio, with Berens allocated 2%.

"The move is phase two of our investment strategy plans, with the absolute return segment due to be completed in March next year," said Krauss. The hedge funds have received half of their respective allocations with the rest being funded in two installments in December and March 2010.

The first phase of the strategy is complete and primarily involved the implementation of the new non-US strategies and an investment in Wellington's real return strategy.

Phase two was primarily the funding of the absolute return strategies and an investment with Pimco's real return strategy. The US equity, non-US equity, global equity and the fixed income portfolios are being reduced to fund the absolute return and real return allocations.

Phase three, which will be implemented over the next few years, will include funding private equity and real estate allocations.

To: Peden, David (KRS)[david.peden@kyret.com]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Thur 10/22/2009 5:30:44 PM (UTC-04:00)
Subject: FW: Kentucky Uni funds GAM, Grosvenor and Berens

Hi David,

How are you? Hope things are well at your end. I saw the attached which was of course disappointing news for Prisma. When you get some time, can we catch up? Thanks David. Take care.. HM

Helenmarie Rodgers

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Tuesday, December 22, 2009 3:23 PM
To: Rudzik, Michael; Cook, Bill; Rodgers, Helenmarie
Subject: USM Adam Tosh Update

Here is the latest.

The interviewing process at NYC is not complete. It is down to Adam Tosh and another candidate from Amalgamated Bank. Adam is the front runner according to my source who spoke to an employee of NYC.

David Peden

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Wed 12/23/2009 2:39:53 PM (UTC-05:00)
Subject: RE: USM Adam Tosh Update

Thanks David. Does KYRET board know he is interviewing?

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Rudzik, Michael[mrudzik@prismapartners.com]
Sent: Fri 4/30/2010 4:28:33 PM (UTC-04:00)
Subject: RE: Congratulations on the nomination by Institutional Investor USM

Thanks, DP.

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Friday, April 30, 2010 4:16 PM
To: Cook, Bill; Rudzik, Michael
Subject: Congratulations on the nomination by Institutional Investor USM

Arrowhawk sent me this link pointing out their nomination for emerging hedge fund manager of the year, but I noticed Prisma's nomination for Large fund of hedge fund of the year. So congratulations!

http://www.iimagazine.com/hedgefundindustryawards/default.asp?LS=EMS389526

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Tuesday, July 27, 2010 10:05 AM
To: Rudzik, Michael
Subject: I passed level II USM

Got my results yesterday and I passed level II. 39% of the people taking level II passed.

I gave Prewitt a heads up that Bill may be calling him to ask whether Prisma should reach out to Chris Tobe. Prewitt thought it was a good idea and he can give Bill some advice on how to do so without overstepping any bounds.

David Peden

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Rudzik, Michael[mrudzik@prismapartners.com]
Sent: Tue 7/27/2010 10:28:28 AM (UTC-04:00)
Subject: RE: I passed level II USM

Congratulations, that's awesome!

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Wed 9/22/2010 5:32:29 PM (UTC-04:00)
Subject: FW: Invest Hedge Article on KY
Invest Hedge Sept. 2010.pdf

Hi David,

Hope you are well. Just wondered if you saw this article. It was a bit puzzling to me, and of course could be inaccurate, but was not sure if it meant RV Kuhns was already meeting with HFoF shortlist [not good for us], or just evaluating it. Any thoughts? Thanks. HM

Kentucky looks at FOHFs in wake of placement agent fallout

The $14 billion Kentucky Retirement System is meeting with a list of potential fund of hedge fund managers compiled by consulting firm RV Kuhns.

This is despite the political heat being placed on the pension fund following an internal audit that revealed an alleged $12 million in placement agent fees, of which $2 million was allegedly paid by Arrowhawk Capital Partners, according to a report in *Forbes*.

Earlier this year, Arrowhawk was hired to manage up to $200 million in its new multi-strategy hedge fund. So far, the hedge fund has received half of that amount in $50 million installments, according to Brent Aldridge, acting chief investment officer of the retirement system. He declined to comment on the placement agent fee issue.

Trustees recently doubled the hedge fund target allocation to 10%, but the size of the multi-strategy fund of funds mandate and the number of managers to be hired has yet to be determined.

At the same time, officials are searching for a new CIO to replace Adam Tosh, who left in mid-July to join Rogerscasey as managing director, investment solutions. Before joining KRS in 2007, Tosh was at MDL Capital Management. Aldridge, meanwhile is acting CIO after being director of alternative investments at Kentucky Retirement, where he has worked for the past 19 years.

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Friday, March 11, 2011 10:24 AM
To: Rodgers, Helenmarie
Subject: USM when you contact TJ

HM, when you contact TJ, make sure you mention the roles that Girish, Tom, Gavyn, and Emanuel played at Goldman. I think TJ is a big fan of Goldman so it may carry some weight.

David Peden

To: Carlson, TJ (KRS)[tj.carlson@kyret.ky.gov]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Fri 3/11/2011 12:38:57 PM (UTC-05:00)
Subject: Call
Prisma Capital Partners Summary - March 2011.pdf

Hello T.J.

Sorry I missed you today. As mentioned in my voicemail, we know your plan quite well from prior visits, interactions and discussions with Adam, Bo, David, etc. so wanted to reach out to you and say 'welcome' and hope things are going well for you in your new role so far.

I thought we might be helpful as you think through your alternative allocations. Prisma, founded by 3 former Goldman Sachs partners, manages over $6 billion in HFoFs for institutional plans. We do a lot of customization, 'completion funds' and specialist strategies for large public and corporate plans like New Mexico, Alaska, CT, Ohio PERS, etc. As such, perhaps we can have a call to discuss when you have some time. Meanwhile, I am attaching a brief summary of the firm and will be happy to address more specific questions.

Thanks T.J. I look forward to speaking soon.

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Fri 3/11/2011 10:52:05 AM (UTC-05:00)
Subject: RE: USM when you contact TJ

Thanks David. I just left him a message and sent an e-mail.

Helenmarie Rodgers

To: Carlson, TJ (KRS)[tj.carlson@kyret.ky.gov]
Cc: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]; Do, Kim - Prisma[KDO@prismapartners.com]
From: Peate, Jeffrey[jpeate@Prismapartners.com]
Sent: Wed 3/23/2011 3:21:22 PM (UTC-04:00)
Subject: Prisma Presentation for Friday's Call
Kentucky Retirement System 3.25.11.pdf

Hi TJ,

It was nice speaking with you today. To follow up on our conversation I have attached the presentation to be discussed on Friday's call. In addition, we will follow up with further information that addresses the inquiries you mentioned on the phone. Please let us know if you have any questions. Thanks TJ.

Best,

Jeff

To: Carlson, TJ (KRS)[tj.carlson@kyret.ky.gov]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Wed 3/23/2011 5:57:21 PM (UTC-04:00)
Subject: FW: Kentucky Retirement System: Information for the call on Friday

Hello TJ,

My Marketing Associate Jeff Peate mentioned your conversation and some questions, so thought it would be helpful to respond here.

Regarding any Board of Trustee relationships, Prisma does not, nor has ever had a relationship with any KYRET Board members. Prisma is 57 percent owned by AEGON USA Investment Management and 43 percent by Prisma employees. One of the law firms Prisma uses is Louisville-based Stites & Harbison, and I believe one of your trustees Jennifer Landrum Elliott is an attorney there, although we have never met her and she does not work on our account. Also, another trustee Chris Tobe worked at an Aegon subsidiary many years ago, but we have no relationship with him either.

In addition, we operate as an independent firm, structured to avoid any conflicts of interest arising from the distribution and sale of our products. Hence, we do not employ external placement agents to market to the Plans/consultants we cover, choosing instead to employ our own internal staff.

As for RV Kuhns, they indeed know Prisma and we believe them to be favorably inclined. They have put us in state plan searches in the past and have us currently in a search with another, a large Midwestern public plan. They have recently visited our offices this year for an onsite due diligence visit and monitor us regularly regarding our performance and organizational developments. Todd Schupp is our research contact there, so can provide additional insight.

I look forward to our call Friday T.J. Meanwhile, if we can be of further assistance, do not hesitate to call.

Kind regards,
HM

Helenmarie Rodgers

From: Carlson, TJ (KRS) [mailto:TJ.Carlson@kyret.ky.gov]
Sent: Thursday, March 24, 2011 8:25 AM
To: Rodgers, Helenmarie
Subject: RE: Kentucky Retirement System: Information for the call on Friday

Thanks for this info. How about your history with David Peden?

TJ

To: Carlson, TJ (KRS)[TJ.Carlson@kyret.ky.gov]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Fri 3/25/2011 9:29:01 AM (UTC-04:00)
Subject: RE: Kentucky Retirement System: Information for the call on Friday

Dear TJ,

Sorry I thought you knew, so apologies for not covering it. David worked at Aegon from 2001, then for a short time at Prisma after our firm started, but left to pursue other interests. From there, I am not sure where he went, but we saw him again when we met with Kentucky last year about their potential allocation. We have no relationship with David, but professional respect and regard for him.

Thanks TJ. We look forward to our call at 10am. HM

Helenmarie Rodgers

The concern raised by the above email exchanges is that David Peden is providing helpful information to Prisma that other fund of fund managers would not have been privy to, such as the KRS CIO's positive view of Goldman Sachs and the suggestion to highlight that Prisma executives were previously affiliated with Goldman Sachs. The Goldman Sachs affiliations also appeared on the first page of a Prisma PowerPoint presentation to KRS. Another concern is the statements by Prisma's Helenmarie Rodgers, which were not responsive to CIO Carlson's questions regarding any "history" with Mr. Peden, and which are contradictory on their face. We understand that there was a follow-up call likely related to Mr. Peden between Mr. Carlson and Ms. Rogers. However, the contents of the call ten years later may never be learned.

FoHF Firm Comments

FoHF Selection Process: The manner in which the Investment Staff proceeded in the FoHF process without advising the Investment Committee was improper. The Investment Staff reports to the Investment Committee, not the other way around. Also, since the CIO reports to the Investment Committee and has only a dotted reporting line[15] on administrative matters to the Executive Director, there was no FoHF Due Diligence and final selection oversight. Rather than treating their due diligence and narrowing of the FoHF slate as something that should have been reported to the Investment Committee throughout, the Investment Staff withheld their processes until the end. As discussed, the Investment Committee posed intensive questions to the Investment Staff at the meeting of August 2, 2011 - questions that indicate a lack of awareness on the Investment Committee's part as to the level of due diligence that went into the FoHF manager selection process prior to its delivery to the Investment Committee on that date. Alternatively, had the Investment

[15] *See* KRS New Trustee Orientation, March 16, 2021, at 7.

Committee been apprised of the FoHF search process, since there was no RFP, the trustees could have also put forth recommendations for consideration, thereby placing inappropriate pressure on the Investment Staff. It was the Trustees' duty to provide oversight of the FoHF selection, not simply accept whatever recommendation was made. Despite this, the Trustees held another meeting two weeks later and approved and abstained and not one Trustee voted against the slate. The trustee's acquiescence planted seeds that, years later, became ripe for manipulation from the future CIO, as illustrated by the strategic partnership selection beginning on pg. 56 herein. Nevertheless, the due diligence process conducted by the CIO, his staff and R.V.Kuhns appeared quite thorough. The selected FoHFs were qualified and experienced and the negotiated liquidity parameters permitted KRS to redeem and wind down the FoHFs, if they no longer benefitted KRS, within a reasonable time for the type of investments made.

Conflicts of Interest: As reflected in the March 23, 2011, correspondence between CIO Carlson and Ms. Rodgers of Prisma, there were three potential conflicts: Jennifer Elliot, Chris Tobe & David Peden. These conflicts were also disclosed to the board on August 2, 2011, and described as follows:

> *Conflicts of Interest* – There are three known relationships between KRS Trustees/employees and Prisma Capital Partners: 1) KRS Board of Trustees Chair Jennifer Elliott's employer, Stites & Harbison, PLLC (but not Ms. Elliott herself), has provided legal work for Prisma co-owner Aegon Group; 2) KRS Board of Trustees member Chris Tobe was previously employed by Prisma co-owner Aegon Group; and 3) KRS Fixed Income Director David Peden was previously employed by both Aegon Group and Prisma Capital Partners.
>
> *See* August 2, 2011, Executive Summary HFOF, Ex. 6.at 7, *supra*.

We saw no evidence that Jennifer Elliot recused herself from Prisma discussions. She attended the August 2, 2011, Investment Committee meeting when all the FoHFs were presented, however she did not attend the August 15, 2011, Special Investment Committee meeting where the FoHF slate was approved. But she did attend the follow-up Board of Trustees meeting where she voted in support of the FoHF slate, including Prisma. A recusal should have occurred. Alternatively, she could have sought to be "walled-off" on any related Aegon/Prisma matters at her law firm. We have not been advised of any such actions. Nevertheless, if she did recuse herself on matters related to Aegon/Prisma it would not have changed the outcome of the vote. We find troubling the lack of a disciplined recusal process in the case of Ms. Elliot and later with Mr. Cook. KRS has IceMiller as an outside counsel who can provide fiduciary counsel, and it seems that neither recusal was brought to IceMiller's attention for their consideration, nor resulted in any disciplined recusal protocol.

Consultants

Throughout the time period covered by the Investigation, R.V. Kuhns served as an investment consultant, IceMiller as tax and fiduciary counsel, and Cavanaugh Macdonald as actuarial consultant, to KRS. Provided below for R.V. Kuhns, and at the end of the Report for IceMiller and Cavanaugh Macdonald, is documentation of their respective scopes of work for KRS and how, and if, they carried out this work. After the following section on R.V. Kuhns, the Report continues the analysis of KRS' "specific investment activities" around late 2011 to 2016.

R.V. Kuhns as Investment Consultant

The contract entered into between KRS and R.V. Kuhns in 2008 stated that R.V. Kuhns must, among other things, confer with KRS staff as deemed necessary on investment policies and procedures; provide a semi-annual investment performance report; upon request, review objectives & performance (e.g., asset allocation studies); at staff's suggestion, provide educational materials; conduct due diligence and identify leading investment advisors; testify and comment on relevant legislative proposals and concerns; and, as requested by KRS, conduct asset liability modeling.

In the first two years of their engagement alone, during the critical period of diversification towards Absolute Return, R.V. Kuhns provided the Investment Committee and the Board of Trustees education, FoHF due diligence, asset liability modeling, asset allocation modeling and annual capital market assumptions. They also testified and commented on legislation and provided an annual Comprehensive Annual Financial Report ("CAFR") Letter. Board of Trustee and Investment Committee meetings were public, as were the legislative hearings R.V. Kuhns testified as to where they issued warnings concerning underfunding issues at KRS.

In preparation for the May 2010 Investment Committee meeting, R.V. Kuhns provided a presentation on the outcome of the asset liability study for KERS' non-hazardous and hazardous pension and insurance plans ("May 2010 Asset Liability Study"). *See* Ex. 37.

At the June 2010 Investment Committee meeting, the trustees received a memorandum titled Summary of Asset Liability, KERS Plans (*see* Ex. 38), which stated in pertinent part that:

> The four studies showed various asset allocation scenarios ranging from conservative risk/more liquid to aggressive risk/less liquid. Each allocation has merit and choosing among them depends on the Board's intermediate and long-term preferences for taking risk in pursuit of eventual full funding of each plan's liabilities. As the Board considers which target allocation to implement for each plan, three key points revealed by the studies should be kept in mind: ***This is a contribution problem, not just an investment problem. House Bill 1 outlines currently legislated contribution schedules that fall below the actuarially required contribution level for each plan for the next 8+ years*** (depending on the plan) (emphasis added). As such, the Board is driven toward even greater dependence on outsized investment returns to make up for the contribution shortfall. Moreover, the actuary's forecast of rising benefit payments for an aging participant base that will exceed contributions further increases the burden on the investment portfolio. This means that the plan returns would have to consistently

> exceed the actuarial target return for the next 20 years in order to improve funded ratios, or even remain solvent (i.e., avoid depletion of plan assets) under certain scenarios, which could be difficult to achieve in volatile markets. The Board may not be able to invest its way out of the deficits.
>
> RVK's expected returns for asset classes/strategies show that KRS would have to accept a fair amount of risk and illiquidity in order to achieve the desired high returns to offset lower-than-needed contributions and rising benefit payments... adopting a more liquid strategy to pay current obligations and preserve capital could negatively impact the Board's ability to meet the actuarial return of 7.75%, which will further jeopardize its ability to meet future obligations. The Board faces some very difficult yet very important decisions that plague many fiduciaries across the country.

The memorandum was supplemented by R.V. Kuhns' presentation that included the following warnings and guidance as gleaned from recordings (here and thereafter, paraphrased portions of audio recordings are indicated by the use of brackets):

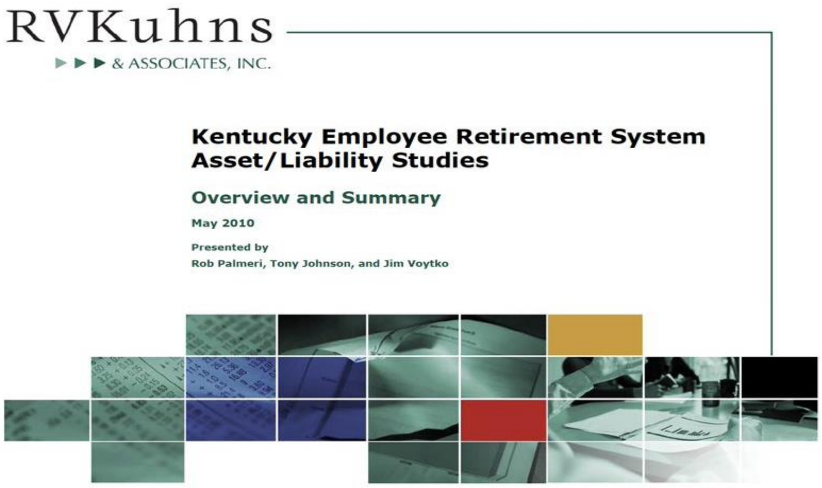
1. Changes to projected payroll growth [would be an] additional challenge to cash flow; contributions are coming in and a substantial portion of them are going right back out; exceedingly high...payout ratio; Voytko states that he has seen a payout ratio in a closed defined benefit plan winding down, but not personally in an active, open plan quite this high; turn of assets is...substantial;
2. The fund is actually growing smaller [under implementation of H.B. 1]…because contributions are falling short of benefit payments...
3. None of these [proposed] investment approaches fixes the funding problem...it simply can't do the job because the savings/contributions program dominates the analysis...[only] a 1 in 20 chance that aggressive portfolio performs at best case scenario...worst case is that...could deplete assets of the fund, but no greater chance than the best case [scenario];
4. [We] can't see any practical way the plan could invest in illiquid asset classes because everything... would have to be available to pay benefits in cash...
5. It's in the short run when have [negative market] circumstances where you get differences between being conservative and being aggressive...but if you have to go conservative in order to protect yourself in this period of vulnerability created because of low savings rates [low contribution rates], you have to give up the opportunity of getting significant improvements in your funding ratio twenty years out...it's a "devil's bargain..."

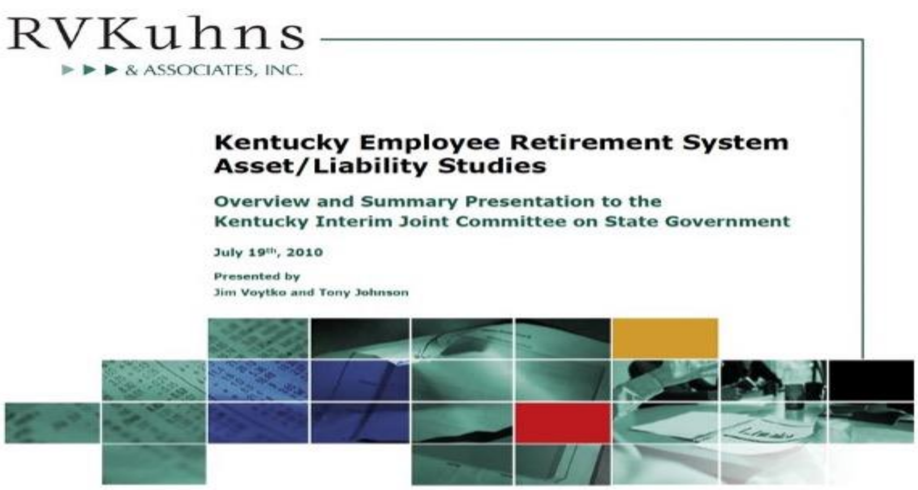
At this meeting, CIO Tosh also discussed how the more underfunded funds would have to move out of private equity investments although they generate good returns, because private equity locks up investments for years and due to severe illiquidity, they can no longer pursue new investments in the asset class.

At the June 22, 2010, Investment Committee meeting, CIO Tosh and the trustees clearly understood the warnings and options put forth by R.V. Kuhns. Provided below are staff and trustee comments after R.V. Kuhns left the committee room, as gleaned from the meeting's recordings:

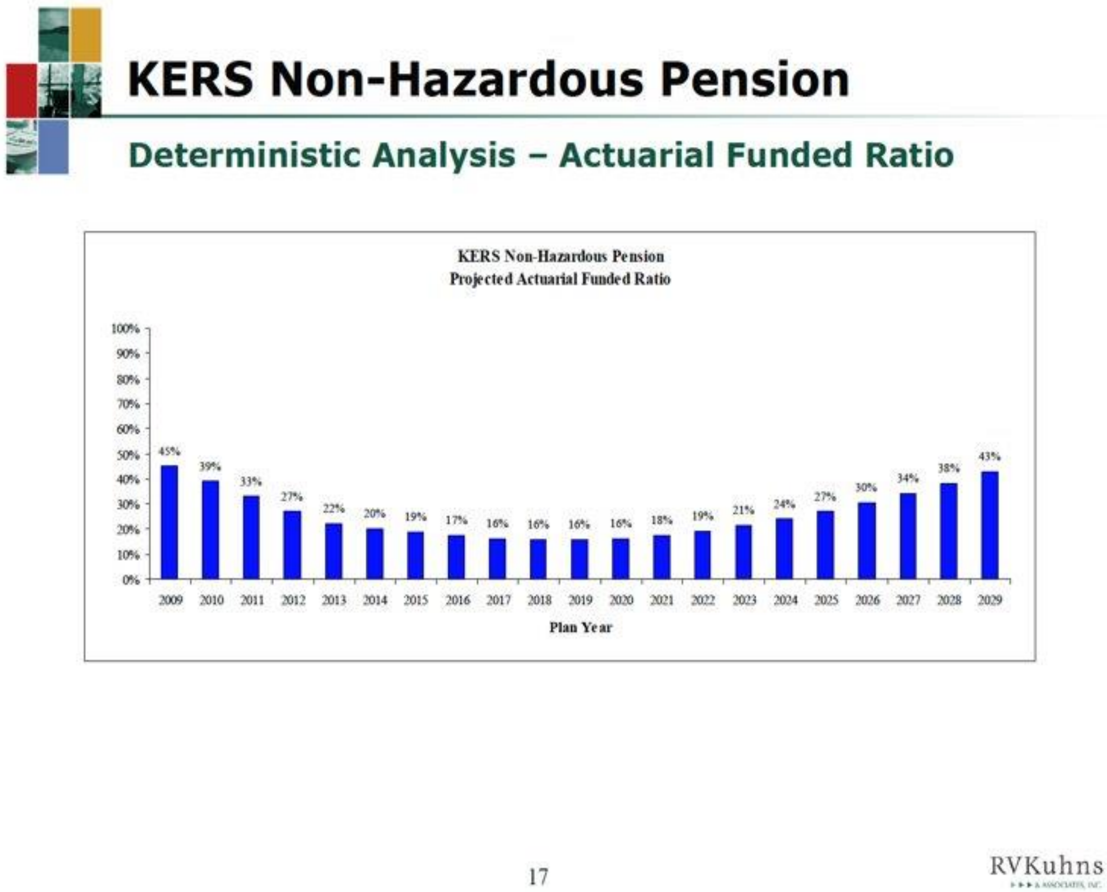
1. Rebalancing [the portfolio needs to occur] because [it is] overweight in foreign equities.
2. The modest move doesn't get us home, it's a "lesser of two evils"; and it depends on contributions, not investments, to get us home.
3. This is a fool's errand, because no matter...what choice you make you can't invest [your] way out of it;
4. Not looking at extremes in either very risky rea or very conservative;
5. [obtaining a] 7.75% [AARIR] is almost an impossibility;
6. [it is a] political risk ... to lower the number; and
7. 6.75% is more reasonable.

Further efforts on behalf of R.V. Kuhns to educate the trustees and the legislature about KRS' underfunding are referenced below. We included the cover pages of the presentations provided to the Investment Committee and Investment Staff in May 2010 and to the Kentucky Legislature at a publicly televised and publicly attended July 19, 2010, hearing, to emphasize how public the results of the KRS Asset Liability Studies were at the time. The deterministic and stochastic analysis charts below were included in both presentations.





The chart below shows that the underfunding by the Legislature via HB1 would cause KERS Non-Hazardous to almost bottom out in 2018, if the underfunding formula remained the same and if the Legislature failed to make up for prior underfunding.



The chart below shows the portfolio options KRS must consider.

KERS Non-Hazardous Pension

Stochastic Analysis – Pursuing Uncertain Returns

Asset Class	Current Allocation	Target Allocation	Conservative Portfolio	Potential Portfolio 1	Potential Portfolio 2	Aggressive Portfolio
Broad US Equity	27.2%	30.0%	10.0%	14.0%	18.0%	17.0%
Broad Int'l Equity	26.4%	22.0%	5.0%	12.0%	18.0%	30.0%
Emerging Markets	0.0%	5.0%	3.0%	3.0%	4.0%	10.0%
Core Fixed Income	21.5%	10.0%	43.0%	15.0%	10.0%	5.0%
Non-US Fixed Income UH	0.0%	5.0%	9.0%	10.0%	5.0%	1.0%
High Yield	0.0%	5.0%	5.0%	8.0%	5.0%	2.0%
TIPS	10.4%	5.0%	0.0%	0.0%	0.0%	0.0%
Real Estate - Core	0.5%	5.0%	5.0%	5.0%	7.0%	5.0%
Absolute Return	0.0%	0.0%	5.0%	10.0%	10.0%	10.0%
Private Equity	12.0%	7.0%	7.0%	10.0%	12.0%	15.0%
Commodities - Broad	0.0%	5.0%	0.0%	0.0%	0.0%	0.0%
Real Return	0.0%	0.0%	8.0%	12.0%	10.0%	5.0%
Cash Equivalents	2.0%	1.0%	0.0%	1.0%	1.0%	0.0%
Expected Return	**7.62%**	**7.82%**	**6.64%**	**7.49%**	**7.97%**	**8.76%**
Expected Risk	**12.14%**	**12.59%**	**7.05%**	**9.90%**	**11.72%**	**14.98%**

19 RVKuhns & ASSOCIATES, INC.

R.V. Kuhns 2010 Presentation Dates Publicly Warning about the Challenging Funding and Investment Landscape

Investment Committee	Board of Trustees	Legislature
May 4 June 22 August 12	May 20	July 8 Program Review & Investigations Committee July 21 Interim Joint Committee on State Government

R.V. Kuhns Firm Comments

R.V. Kuhns met their contractual and fiduciary duties to KRS by honestly disclosing the investment challenges KRS faced, and consistently and thoroughly identifying the aggressive to conservative investment options for KRS to consider. That is reflected in the responses from legislators and staff at the respective meetings and hearings detailed above. Further, R.V. Kuhns also served as a valuable consultant to the Investment Staff leading up to the FoHF selection. No evidence available to us reveals any indicia of collusion, cover up, or fiduciary duty failure, etc. The mere fact that the daunting presentation R.V. Kuhns gave to the Investment Committee and Investment Staff in May 2010 was later provided at a packed legislative hearing that was publicly televised in July 2010 shows full disclosure of what KRS was facing and the genesis of the challenges: gross underfunding since 1993 and continued underfunding despite the HB1 funding formulas; devastating investment losses coming out of 2008; and the reduced workforce contributions.

Further, the effect of underfunding at KRS was felt well into the relevant period of our investigation, as noted by a *State Journal* article that was published in February 2012. *See* Ex. 39. Describing the cash flow problems created at KRS as a result of underfunding and the investment losses sustained by KRS during the recession of the previous decade, CIO Carlson stated that "KRS will sell $70 million in assets to help pay retirement benefits for [KERS] non-hazardous retirees in February. That's on top of some $25 million sold from January 2010 to December to cover benefits for a growing number of retirees...if we have these dips, you don't get to recover from the dips...once you've spent it, it's gone. You don't get to earn 7.75 (percent) on that dollar." *Id*. Then-Interim Executive Director Thielen also commented that "other factors, such as financing the unfunded liability, account for $1.35 billion, or 24.7 percent, of the $5.45 billion growth in the plan's unfunded liability since 2006." *Id*. These early 2012 comments stem from a period that is just months into the lifespan of the FoHF investments, and when the FoHFs begin to demonstrate performance that outpaced that of the expectations set by R.V. Kuhns.

Pathway to Direct Hedge Fund Investments

The KRS Investment Staff, which is led by the CIO, has senior employees that specialize in certain asset allocations. For example, David Peden was the Director of Fixed Income; Tom Masthay was the Director of Real Return & Real Estate; Brent Aldridge was the Director of Alternative Assets; and Bill Murnighan was the Senior Investment Analyst for Alterative Investments.

As the FoHF search was wrapping up, CIO Carlson conducted a candidate search for the newly created position of Director of Absolute Returns. That position was filled by Chris Schelling in the Fall of 2011, shortly after the Investment Committee approved the FoHF slate.

Goal towards Direct Investments: Once the Hammond Report's alternative investment recommendations were issued in late 2008, the Investment Staff made clear that they were not experienced in absolute return strategies, which is why they alongside R.V. Kuhns chose to first retain fund of funds managers. Evidence we reviewed shows that the Investment Staff and the Trustees understood that KRS would be incurring two layers of fees from the FoHFs and the underlying managers. *See* Ex. 14 at 12-14, *supra* (discussion of management fees in the August 15, 2011, FoHF Due Diligence Memo). They understood that they would have limited control over the underlying managers in the FoHF vehicles, but also knew that a fund of one format would be beneficial in exerting more control over the composition of underlying managers versus the control they would have in joining a commingled fund of funds. *See id*. at 13. However, they viewed the FoHF strategy as a means to an end. *See id.* at 16. Investment Staff would retain the three FoHFs for three to five years and learn from them, while building an internal due diligence manager database. Then, Investment Staff planned to simultaneously launch a direct hedge fund investment program ("Direct Investments") *See id.* Direct Investments only have one level of investment and management fees and are hedge fund investments that KRS would have more control over than the FoHF underlying managers. Once the Direct Investment allocation was established, the goal was to then at least partially wind down the three FoHF relationships and transition FoHF redemptions into the Direct Investments. *See* Ex. 10 at 11, *supra*.

The FoHFs got off to a challenging start in late 2011, but increasingly improved their performance, as reflected on page 41 herein. Mr. Schelling, as Director of Absolute Return, was responsible for managing FoHF investments, in addition to developing and transitioning the hedge fund allocation to a Direct Investments program. In March 2012, an internal document outlined short-term goals as follows:

<u>Strategic Plan for 2012:</u>

- Monitor the unwind of Arrowhawk Durable Alpha and ensure KRS' interests are protected.
- Build internal database of direct hedge funds and create procedures around due diligencing.
- Vetting, selecting and monitoring direct hedge fund investments.
- Build strategic framework for diversifying and complimenting current Fo[H]Fs with direct investments in order to provide more control over our risks and exposures, potential for better diversification against the rest of portfolio, and lower our fee structure.
- Continue to perform due diligence on the underlying managers in the Fo[H]Fs portfolio and vet capabilities of Fo[H]F managers.
- Survey the market for hedge fund consultants and/or negotiate strategic partnership capabilities of current Fo[H]F providers. Further, plan for internal resources necessary to implement direct agenda.
- Perform annual due diligence assessment for each existing manager.
- Pursue continuing education and certification: Bill Murnighan is sitting for CFA level II, Tom Masthay and Chris Schelling are sitting for the FRM levels I and II. *See* Ex. 40.

Despite the underfunding by the Legislature and the liquidity and optical challenges of it, the Investment Staff remained focused on moving forward towards Direct Investments as a partial replacement for FoHFs, as planned at the conception of KRS' absolute return allocation.

KKR Prisma: In August of 2012, KKR announced it was acquiring Prisma. CIO Carlson was displeased, and made his displeasure known to KKR, Prisma, the Investment Staff and the Investment Committee. CIO Carlson expressed concerns about the potential erosion of Prisma. Prisma was selected as one of three FoHFs just a year prior, not KKR. CIO Carlson engaged in a series of conversations where he learned that the key principals entered into an agreement (the "KKR Prisma Earn Out") whereby the top 15 principals would continue with the new KKR/Prisma until 2017 unless they had senior status, then they could leave around 2014. The KKR Prisma Earn Out included 2012, 2014 and 2017 payments to the principals based upon performance. Mr. Reddy, Mr. Rudzik and Mr. Cook were three of the top 15 principals and Mr. Cook's had senior status.

Albourne: In September 2012, through an RFI process, KRS retained Albourne, an investment consultant that specializes in alternative investments, such as hedge funds and real return assets. As stated by Albourne in the September 19, 2012 Investment Committee meeting, they deemed their retention as an extension of staff with research.

In early 2013, Chris Schelling recommended investing in twenty Direct Investments over time, in order to fill out the Direct Investment allocation. The goal was that each of the 20 funds would receive $20 million each, $15 million would be invested from the pension funds and $5 million from the insurance funds.

A memorandum submitted to the trustees titled Executive Summary, Absolute Return Annual Review, February 5, 2013, stated the following regarding the FoHFs and the plan to further migrate to Direct Investments:

> "The pension fund [KRS Plans combined] outperformed its benchmark by 374 basis points (KRS portfolio earned 7.06% versus the benchmark return of 3.32%) in calendar year 2012; the insurance fund performed even better, generating excess returns of 384 basis points (KRS portfolio earned 7.16% versus the benchmark return of 3.32%). Staff notes that both funds are solidly outperforming the secondary benchmark of 3 Month Libor + 500 basis points which yielded approximately 5.35% for the 2012 period."
>
> "Further, staff proactively sourced absolute return strategies and managers, hosting 46 unique calls and 68 separate meetings with new absolute return managers over the course of the year, giving KRS an internal database of approximately 424 absolute return managers. Despite this extensive sourcing effort, no investments were proposed during the year. However, Staff managed the wind-down of the Arrowhawk investment, recovering 100.1% of invested capital and reinvested this redemption into the fund of funds portfolio. Staff also conducted an [RFI] process for an Absolute Return specialist consultant, eventually hiring Albourne Partners during the year as well." *See* Ex. 41.

The memorandum further expressed that KRS plans to work with Albourne to develop a strategic vision for the Absolute Return portfolio and the hope of the Investment Staff that a move to Direct Investments would further reduce idiosyncratic and systematic risks inherent within the current FoHF portfolio – namely, that KRS might actually be overdiversified with relation to its underlying manager process in the FoHFs and that KRS may be overweighted in its overexposure to particular types of underlying managers within the FoHF portfolio. *See id*.

The Direct Investment objectives were further outlined in the August 6, 2013, presentation by Investment Staff and Albourne to the Investment Committee, as captured below, which explained the purpose of the Direct Investment program as:

1. Reducing total fees paid by removing some of the Fund of Fund layer of fees;
2. Increasing alpha opportunity by reducing over-diversification; and
3. Modifying strategy mix to reduce reliance on equity and credit risk (*see* Ex. 42).

Direct Investment Recommendations: At that same August 2013 Investment Committee Meeting, Investment Staff and Albourne first recommended investing $100 million of total plan assets in an equal weighted portfolio of five hedge fund managers. The selected managers were Soroban Fund; Senator Global Opportunity Fund; Knighthead Domestic Fund; HBK Fund II; and MKP Opportunity Fund. Prior to selecting these five managers, beginning November 2012, the team sourced and vetted hundreds of potential managers. Ultimately, KRS did not directly invest in the Soroban Fund and the Senator Global Opportunity Fund, primarily because the two funds could not agree to KRS' contractual requirements either in a timely manner (Soroban Fund before it closed to new investors) or at all (Senator Global Opportunity Fund). To the extent that it was available, KRS also sought due diligence information and other research on its Direct Investment candidates from its existing FoHF managers. (Discussion of Direct Investments will continue after the next page which includes a chart of the FoHF Fees and KRS' Net After Fees between 2011 to 2013).

Below is a snapshot of FoHFs Net Gains or Losses After Fees and Fee Totals, from calendar year 2011 to calendar year 2013. KRS' FoHF investments suffered losses in 2011 but significantly improved in 2012 and 2013, as reflected in the below chart.

<u>PRISMA Daniel Boone:</u>

Year	Fee Totals	Net After Fees
2011	$ 1,099,995.00	$ (13,089,570.00)
2012	$ 5,012,349.00	$ 39,975,902.00
2013	$ 6,328,518.00	$ 45,598,638.00

<u>BAAM Henry Clay:</u>

Year	Fee Totals	Net After Fees
2011	$ 802,999.00	$ 445,443.00
2012	$ 7,096,160.00	$ 40,707,239.00
2013	$ 8,813,633.00	$ 53,295,789.00

<u>PAAMCO Newport Colonels:</u>

Year	Totals	Net After Fees
2011	$ 1,074,616.00	$ (3,364,590.00)
2012	$ 4,885,483.00	$ 31,145,200.00
2013	$ 7,759,323.00	$ 73,084,159.00

Source: Annual Independent Audited Financial Statements for Prisma Daniel Boone Fund (Combined at Ex. 43); BAAM Henry Clay Fund (Combined at Ex. 44); and PAAMCO Newport Colonels (Combined at Ex. 45).

Over the course of 2013, the KRS Direct Investment program continued to progress as planned by members of the Investment Staff. As demonstrated by the above chart, the FoHF portfolio also continued to perform at a rate that outpaced expectations. These observations were encapsulated within the annual absolute return review that was written in February 2014. *See*, Ex. 46. Highlights from this annual review included the following:

> "The Pension fund Absolute Return portfolio gained 12.1% in calendar year 2013, while the Insurance fund added 12.0%, both significantly outpacing the HFRI Index which yielded 8.5% (lagged one month). *More impressive has been the performance on a risk adjusted basis, as the KRS Absolute Return portfolio has generated strong returns on extremely low levels of total risk. In 2013, the volatility was only 2.7% - Sharpe ratio of 4.4 for the year!*"

> "...reducing allocations to Funds of Funds can lower the total fees an institutional investor pays on the underlying portfolio and subsequently, and most importantly, increase the net return on investment by removing this added layer of fee drag..."

Id. (emphasis added). This annual review again restated the ability of Direct Investments to reduce idiosyncratic and systematic risks and noted that this is a chief objective of the effort – in addition to the reduction of fee layers on overall hedge fund investments.

As the FoHF and Direct Investment programs were underway at KRS, many public pension plans nationwide were engaged in similar asset allocation strategies. In a joint white paper prepared using data from the 2013 National Conference of Public Employee Retirement Systems (NCPERS) Public Retirement System Study of 241 state, local and provincial government pension funds, J.P. Morgan Asset Management found that a "typical" plan at the time had about an 8% asset allocation to classes described as "hedge fund – diversified." *See* "Alternative investments: striking the balance between growth tomorrow and liquidity today," NCPERS and J.P. Morgan Asset Management (2014) at 6 (*available at* https://www.ncpers.org/files/NCPERS_JPMorgan%20White%20paper_Striking%20the%20balance_final.pdf) (last visited April 15, 2021).

In drafting an April 2014 potential response to a media inquiry regarding aspects of the Absolute Return investments held by KRS, Mr. Schelling expressed a series of critical considerations regarding the investment class:

> "The S&P 500 is not an appropriate benchmark for hedge funds. Equity markets will demonstrate wildly greater dispersion of returns over time. Hence, in years where stocks make 32%, it is unlikely a diversified portfolio of hedge funds will keep pace. Even in such years, hedge funds may outperform on risk adjusted terms. For instance, in 2013 the S&P 500 generated returns of 32.4% with a volatility of 8.5%, as you point out – a very attractive Sharpe ratio of 3.81 (a measure of return per unit of risk). Blackstone's result of 11.54% came with a volatility of 2.3%, *an even better Sharpe ratio of 4.97*."

> "...periods of one year are not appropriate time frame[s] over which to base allocation decisions for a long term investment portfolio, such as a public pension plan..."
>
> "In fact, picking 2013 as the comparison period is easy to do in hindsight. However, one might ask why not select April and May of 2012, where stocks plunged 7% in two months but Blackstone was only down 0.9% in the same period, doing an admirable job of protecting capital for our pensioners and taxpayers? It is impossible for equities to average 32% per year over 30 years. In fact, over any period greater than 20 years, stocks almost invariably generate returns between 7% and 10%. This path comes with great risk, however, as the volatility of 15% to 18% can attest as well as significant recent draw-downs such as in 2008. Since inception in September of 2011, Blackstone's fund of fund portfolio for KRS has generated annualized returns of 8.72 % with volatility of 3.32%, returns that match the long term expected rate of returns on equities with far lower risk This [performance] also exceeds the system's required rate of return on investments of 7.75%, and does so with far fewer negative months than any liquid market comparable, something that is important especially for a plan which needs to sell assets on a monthly basis to meet actual current benefit obligations."

See Ex. 47 (emphasis added). The document continues by discussing the exposure that KRS continues to have to traditional equity asset classes and notes that while it is true that some hedge funds closed their doors over the years, the rate at which they have done so "is not terribly different" from the rate at which publicly traded companies have filed for bankruptcy protection. *Id.*

2012-2014 Investment Staff and KRS Trustees Subject to Onslaught of Print, Blogs and Social Media Precipitated by Former Trustee That Adversely Impacted Investment Staff

The evidence reviewed indicates how the media coverage (including the examples set out above and below) demoralized Investment Staff that:

1. were working with limited resources, including a drastically underfunded pension plan;
2. were desperately trying to redeem investments to cover retiree and beneficiary payments and pay for unfunded COLAs that KRS was required to pay, without any financial assistance from the Governor or Legislature who foisted this unfunded mandate on KRS;
3. reported to trustees that were unable to effectively advocate for proper ARC funding or properly respond to media queries to protect Investment Staff, and a legislative and executive branch that failed to pay KRS the appropriate employer contributions they were owed (ARC); and
4. faced insurmountable expectations due to the 7.75% AARIR.

Kentucky Government Retirees shared a link.
19 hours ago

Page One compares KRS to J.P. Morgan.

http://pageonekentucky.com/

Page One – an informed, savvy take on media & politics in Kentucky
pageonekentucky.com

An Informed, Savvy Take on Media & Politics in Kentucky

Like · Comment · Share

Kentucky Government Retirees The reference to a $100 million loss by KRS seems suspect. It is true that a currency fund called Record Currency Management is going to be dissolved, but I don't believe that this will result in a $100 million loss for KRS. Perhap they will discuss this investment tomorrow and we'll get a better picture of the situation. Jim Carroll
19 hours ago

Chris Tobe The $100 million was the amount it hurt performance for FY 2011. I think it helped performance some in FY 2010. Then net loss of the manager over a 2 and a half year period was I think around $56 million. They were also paid fees of $7 million over this period.
17 hours ago

Kentucky Government Retirees Is it an on-going investment? Is it like Arrowhawk, where KRS' stake is being gradually dissolved?
16 hours ago

Chris Tobe My understanding is that when we officially fired them in November, TJ locked in an accounting loss of around $56 million, but there are a few forward positions left that will dissolve by the end of the fiscal year in June.
15 hours ago

RollingStone

HOME › POLITICS › POLITICS NEWS SEPTEMBER 26, 2013 11:00AM ET

Looting the Pension Funds

All across America, Wall Street is grabbing money meant for public workers

By MATT TAIBBI

RFPs needed to prevent corruption

BY PENSIONS & INVESTMENTS | DECEMBER 10, 2012

The Nov. 26 *Pensions & Investments* page 15 article, "A shift toward streamlining: Firms providing more manager information as public plans move away from traditional RFPs." forgets that public pensions need to be run for the benefit of taxpayers and beneficiaries, not for the convenience and/or profit of consultants, money managers and pension staff. The Government Finance Officers Association officially recommends an RFP process for public pension managers to hire investment managers (www.gfoa.org).

Kentucky Government Retirees
21 hours ago

We have sent the following letter to Governor Beshear. We will report here if we get a response:
Dear Governor Beshear:
I am writing to express my deep disappointment in the secretive search process for an executive director for the Kentucky Retirement Systems. Last fall, the KRS board decided that the search would be led by a committee consisting of selected staff and board members. No stak...See More

Like · Comment · Share

Pam Kyler, Brian Kiser and 2 others like this.

Dianne Carson I REALLY wish a newspaper would do an exposé of KRS!!!!!
20 hours ago

Kentucky Government Retirees We've tried out best to make them aware of what is going on. I've contacted a couple of reporters over the past year to call attention to different things, but have gotten nowhere. Jim Carroll
19 hours ago

Chris Tobe CJ has no interest, HL a little but not much lately, however Forbes has written on placement agents at http://www.forbes.com/forbes/2011/0523/features-pensions-glen-sergeon-auditors-secret-agent.html

Secret Agent - Forbes.com
www.forbes.com
Public pensions are $660 billion in the hole. Investment middleman Glen Sergeon illustrates how millions more are being lost to dubious dealings.

19 hours ago

Chris Tobe ExSEC attorney and Forbes Columnist did a 30 page expose on KRS, but the HL and CJ refused to even acknowledge its existence
19 hours ago

Chris Tobe http://www.forbes.com/sites/edwardsiedle/2012/03/14/kentucky-state-pension-contacts-sec-regarding-millions-paid-to-secret-agents/

Kentucky State Pension Contacts SEC Regarding Millions Paid to "Secret Agents" - Forbes
www.forbes.com
Two days ago I submitted to the SEC a report that I had written entitled, Report...See More

19 hours ago

As a result in September 2012, just one year after relocating his family from Chicago to Lexington, Kentucky, Mr. Schelling began to consider leaving and shared in an email:

> ...it's stressful here.....constant Tobe allegations (now an article in the CFA magazine coming out), a board that refuses to respond correctly and refuses to let us manage the response process, ridiculously slow investment process that prevents me from investing appropriately (my funds of funds made 3% since I have been here versus what my recommended list would have made at approx. 10%)….the county plans threatening to withdraw from KRS, the state plan running out of money faster than any other pension in the country..... I think chances of a big lawsuit (either some county plan suing us,) a manager lawsuit, defamation lawsuit, etc.) are definitely realistic and I'm not sure what... [it] would do to our careers....

In an effort to stem the negative barrage of media coverage, CIO Carlson had to set aside time, resources and emotional energy from his CIO position, at a critical time for KRS Investment Staff, to file a professional conduct complaint against the former Trustee who was at the forefront of the sensationalist headlines and disparaging statements against Carlson's own efforts and those of his staff.

July 17, 2012

CFA Institute Professional Conduct Program

As a follow-up to my previous complaint regarding Chris Tobe and his false statements to the media, I would like to add the following for your consideration.

As pension professionals in the modern system, our jobs are hard enough due to high actuarial discount rates, low market returns, lack of proper funding, under-compensated staff, etc. We do not need our very own board members pursuing some agenda by constantly spreading false and damaging information about our programs. As members of the CFA Institute we work very hard at upholding both the letter and the spirit of the Code of Ethics and want to make sure you are fully aware when the designation is blatantly and purposely misused.

I am re-attaching the original and extremely inflammatory Pension Pulse article with notation of at least 8 knowingly false statements made by Mr. Tobe. I am also attaching the very soft peddled "retraction" and admission by Mr. Tobe that he knew of the program well before he indicated in the previous article and therefore that all his statements were false. His false statements led directly to the very inflammatory article from Pension Pulse.

This story is extremely damaging to pension funds in general, KRS specifically, to the professional relationships of the 5 current CFA Institute members on staff, and to an additional person covered under the code via the CAIA program.

I have also included his false statement regarding the reason "KRS Staff and some Board members" wanted to hire a specific candidate for an open position. He states it was because of "his success in retaliation and getting rid of a CFA charter holder". This could not be further from the truth and is again extremely damaging to our professional investment staff's, and our Boards reputation.

Thanks you for your consideration and I am happy to answer any of your questions with regard to this matter.

Sincerely

TJ Carlson MBA, CAIA, CTP

103 Prestwick Drive

Georgetown KY 40324

502-542-1767

A personal essay by Chris Schelling, titled *Tilting at Hedge Funds*, was among the Documents Reviewed from KRS. His personal essay below illustrates the impact that KRS' chaos and crisis had upon Investment Staff which lead to a staff exodus.

Tilting at Hedge Funds

On September 1, 2011, I became the first Director of Absolute and Real Return at the Kentucky Retirement Systems.... I firmly believed that my experience in research and operations across asset management, brokerage and consulting touching such diverse topics as options trade settlement, 144 private placements, shareholder activism, capital markets and convertible arbitrage, in addition to knowledge acquired from a pair of masters degrees earned at night and my participation as a member of the Exam Council and the Due Diligence Curriculum Committee of the Chartered Alternative Investment Analyst Association provided me with fairly unique qualifications to implement sophisticated and diversified investment programs designed to meet specific return thresholds in a very muted risk-asset expected return environment, one fraught with serious exogenous and political risk. Personally, I also had a great deal of respect for the then new CIO, TJ Carlson, having known quite a few people that had worked directly with him in the past, and we shared similar ideas on not only how to best construct institutional portfolios but how to manage investment people and processes.

I inherited a portfolio of one direct multi-strategy hedge fund and three funds of funds in Absolute Return, and a fairly concentrated portfolio of inflation linked strategies in Real Return. Across the two portfolios, KRS has nearly $3 billion invested in 9 direct managers, with full look through of 116 underlying managers, as of the writing of this piece. All of my time since joining has been spent in performing strategy research, portfolio modeling, manager due diligence and monitoring. We have built an internal database and analysis tool to monitor these managers on a monthly and quarterly basis, aggregate and analyze their performance and exposures to ensure they are performing according to KRS investment guidelines, along with hosting 90 distinct manager meetings and 75 introductory phone calls. Our internal database of Absolute and Real Return now contains 443 separate managers, up from roughly a dozen a year ago. In this time, I have recommended hiring just two managers.

At the same time, there have been a number of articles and blogs written about KRS and the investment staff that have included numerous falsehoods and misrepresentations. Not only are many of these articles misleading and incorrect, but many of them have bordered on libelous and slanderous. Phrases such as "shady investment practices", "conceived in corruption", "wildly irrational", and my personal favorite "monkey pension managers making monkey salaries" are not only sensationalistic clap-trap without any support, but actually run counter to the purpose of investing the assets of KRS in the most responsible way possible. These gratuitous, ad-hominem attacks may make for good copy, but they create a hostile, unhappy work environment for those professionals tasked with managing the assets responsibly in the face of a constant stream of insults. They also carry explicit costs, as they take focus away from investment operations and often require direct internal research and media response efforts that cost staff time and money. Additionally, added *fees for more external experts and lawyers, who often have their own agenda, only increases the administrative costs to and complexity of the system. And to the extent that some of these accusations are directed against external managers of and vendors to the system, there is the potential for KRS itself to be the subject of a civil suit* (emphasis added).

I can also attest on the record that KRS has been denied access to some of the best performing private partnerships because the managers simply do not want the headline liability of KRS as an investor, given the potential for accusations, misrepresentations and damage to their business. The opportunity cost to just one of these is in the hundreds of thousands for 2012 year-to-date alone.

Further, factual assertions such as "KRS loses $100 million in failed hedge fun are news items that it is appropriate for KRS staff to address and correct. It is not a hysterical effort to cover up mistakes; it is rational to correct a mathematical error. KRS did not lose $100 million. The system invested $100 million in an investment that is winding down, has returned 98% of the capital and is on a path to return all $100 million. Maybe the difference between losing $100 million and losing $0 is not that big a deal to some people, but I feel it is probably a critical distinction and one which relates directly to my role as a fiduciary of that $100 million....

KRS is expected to receive all $100 million of our investment (net of fees). This is not a desirable outcome but a) it could have been much, much worse, b) it wasn't my decision, and c) the outcome is never known in advance. You make investment decisions that are rational, well-thought out, and well analyzed but based on imperfect information – that is how it works. You win some, you lose some, and you deal with the results like grown-ups, especially when they aren't your mistakes. The outcome was not the greatest but it could have been much worse.... I have repeatedly stated internally where I believe the decision to invest in Arrowhawk was incorrect, and why I would never recommend it. His personal, ad hominem attacks on my competence and integrity need to stop....The decision was not mine. I probably would not have made it. I have been managing the risk in the most prudent way possible.

Now I understand so clearly why talented people leave the public sector so quickly and return to the private sector. It is not so much the salary in isolation, nor the difficulty in navigating large bureaucracies to make incremental changes, but it is the combination of these factors along with the constant assault of unfounded, ignorant, and inaccurate personal and professional attacks on your competence and integrity by people with a political axe to grind under the façade of "concerned citizen" that make the pay not worth it, especially when you are in fact sacrificing much higher pay in the private sector precisely because you are trying to help society. THAT is why Kentucky can't have nice things…

Investment Staff Exodus – Late 2013 to 2014

In late 2013, TJ Carlson resigned from KRS after accepting the position of CIO of the Texas Municipal Retirement System ("TMRS"). "I'm looking forward to getting to TMRS and being able to focus more on investments again, rather than funding and politics." *See* Ex. 48.

As a result of TJ Carlson's resignation, David Peden was appointed Interim CIO (*see* Ex. 49), and then CIO shortly thereafter, and Chris Schelling was elevated to Deputy CIO, while also remaining as the Director of Absolute Return. In September 2014, Tom Masthay, Director of Real Estate/Real Return, resigned from KRS for a position in Florida, but eventually joined TJ Carlson at TMRS.

Mr. Schelling's inevitable departure is known by Prisma's Girish Reddy: In October 2014, still looking to leave KRS, Mr. Schelling stated to KKR Prisma's Girish Reddy, "I don't mean to put you in a compromised position, but given your extensive network, experience, and familiarity with my work, I was hoping you may be able to at least pass along some attractive opportunities." (*see* Ex. 50). Mr. Schelling then learned that Mr. Reddy was trying to line him up with a CIO opportunity at Cornell University.

Then in late 2014, Chris Schelling announced his resignation, as he too was joining TJ Carlson at TMRS. The practical effect of these departures is clear when they are considered in the context of the qualifications of the exiting staff - in an April 2012 presentation, the educational and career experience of the then-Investment Staff were outlined. *See* Ex. 51.

In December 2014, CIO Peden also expressed his own misgivings about the ongoing work environment at KRS in an email to former CIO Carlson, stating "Not a good day. Chamber trying to get the APA to audit investments. KRS being talked about in so many places and by so many people this week it scares me what's coming. I'm guessing Bill T. is close to the end. This week has been one that you throw your hands up and walk away if you can." *See* Ex. 52.

David Peden & Prisma - Continued

On December 23, 2014, members of CIO Peden's Investment Staff shared an email: *So is there any concern that Adam .... David is having breakfast with Prisma this morning?* The recipient's response: *nothing to see here.*

A May 2015 memorandum to the Investment Committee, and the emails set out below, establish that CIO Peden was, in fact, meeting with Prisma's Girish Reddy in late November 2014 and continued a dialogue with Mr. Reddy in December 2014, prior to Mr. Schelling's departure.
It appears that the dialogue which took place between CIO Peden and Mr. Reddy over a series of weeks included: 1) how to transition out PAAMCO and Blackstone from the FoHF asset allocation and transition their collective 6.66% absolute return allocation to Prisma in the context of a strategic partnership; 2) having Prisma also manage all the direct hedge fund investments in addition to the FoHF portfolio; and, 3) having a Prisma employee seconded to KRS to fill the vacancy of Director of Absolute Return to assist CIO Peden with the Absolute Return portfolio. This discussion took place during a time when KRS was being publicly criticized for the FoHF investments generally and specifically for the layers of fees being paid to three separate FoHFs.

The emails below are provided to show the correspondence between CIO Peden, Bill Cook and Girish Reddy, as they planned for KRS and Prisma to enter into a strategic partnership. The emails below also show Mr. Peden's correspondence with Mr. Cook around the same time.

From: Girish Reddy [mailto:Girish.Reddy@kkr.com]
Sent: Friday, November 07, 2014 4:42 PM
To: Peden, David (KRS)
Subject: Dinner

David,

Following up on our earlier conversation, would you be available to have dinner on Thurs., Nov. 20? I will come to Louisville.

Alternatively, I could make Fri., Nov. 21 work but Thursday would be best.

Let me know.

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Monday, November 10, 2014 8:05 AM
To: Girish Reddy
Subject: RE: Dinner USM

Thursday the 20th works. thanks

David Peden, CFA

To: Peden, David (KRS)[david.peden@kyret.ky.gov]; Girish Reddy[Girish.Reddy@kkr.com]
From: Priscilla Gordon[Priscilla.Gordon@kkr.com]
Sent: Wed 11/19/2014 11:57:27 AM (UTC-05:00)
Subject: RE: Dinner USM

I've made a 5:30pm reservation at Village Anchor in Girish's name. He'll see you tomorrow.

Thank you David.

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Girish Reddy[Girish.Reddy@kkr.com]
Sent: Tue 12/2/2014 2:11:41 PM (UTC-05:00)

David
I Hope things are well. Enjoyed our dinner and thank you for giving me the time. Would you have sometime tomorrow to chat at 10.30 am , 12pm or 2 pm. just wanted to get your thoughts and feedback. thanks

Girish Reddy

On Thursday, January 22, 2015 4:34 PM, "Peden, David (KRS)" <david.peden@kyret.ky.gov> wrote:

Hi Bill, let's just plan on getting together again at IHOP some morning if that's still convenient for you. I can't do anything next week, but we could meet Monday February 2, Wednesday February 4, or Friday February 6. Let me know if any of those work. There are three items I want to discuss with one being continuing the conversation about an advisory group and possibly looping in Eric and Rudy and anyone else you think could be helpful. Second is a bit pie in the sky, but as I deal with public pressure in investing in alternatives and the expense associated with that, I want to explore possibly having KRS invest in a start up organization in Louisville run by and staffed with former AEGON people to invest in private debt and private equity. It can take a lot of shapes and forms and all my thoughts are too much to put in this email, but I want to discuss it with you first before I mention it to anyone else. And third, I just want to run a couple of fund names by you that I know you are very familiar with: Basso (formerly AIG Soundshore) and Pharo EM Macro. Let me know what day works best for you.

thanks

David Peden, CFA
Kentucky Retirement Systems | Chief Investment Officer
☎ 502.696.8485 | **Fax** 502.696.8805 | ✉david.peden@kyret.ky.gov

Prisma KRS Informal Strategic Partnership

In early February, Mr. Murnighan advised Blackstone that Mr. Peden "will be heading up the Absolute Return strategies effort until we are able to replace Chris Schelling." (Ex. 53). This staffing change removed any other Investment Staff from managing absolute return strategies, as Mr. Peden put forward Prisma for a coveted strategic partnership with KRS.

February 2015 Investment Committee Meeting Recording Notes

Mr. Peden discussed the concept of a strategic partnership at the February 2015 Investment Committee meeting. Provided here is a paraphrased version of his comments, as gleaned from the meeting's recordings:

> He begins by stating that all three FoHF managers have responded well to Chris Schelling's departure, noting that he states that the FoHF managers have been good about stepping up and offering their services, especially since Chris has been gone. Mr. Peden continues by explaining that it is not generosity on their part, they all want to ingratiate themselves with us, as they all are moving to strategic partnership models and had to modify their business models to remain relevant to public pension plans around the country. A strategic partnership model is where they provide public pension funds more service for the same level of fees. It is not something we will look at immediately but is something to look at in 2016 and how to incorporate that philosophy into some type of model. *See* Ex. 54 (rough transcript of relevant portion of February 3, 2015, Investment Committee meeting).

Mr. Peden then mentions that KRS has a long history with the existing three FoHFs, but, unfortunately, one of the FoHFs is trailing behind the others and their correlation is not bearing out. He then implies that if KRS is to terminate one of the three FoHFs it would be obvious which one it would be. (Mr. Peden is implying, but not stating that it would be PAAMCO because at this time they have not been performing well). He then advised the trustees and those present th*at he would make the FoHFs compete against one another* (for the strategic partnership with KRS) in an effort to reduce fees and see what services they would provide, "*so we'll pit them up against each other." Id.* (emphasis added).

Mr. Peden shared with the Investment Committee basically what he and Mr. Reddy had been discussing since late November 2014 concerning Prisma and KRS entering a strategic partnership. In this conversation to the committee, Mr. Peden informs the committee of two objectives that do not occur: 1) that Mr. Peden will have BAAM, PAAMCO and Prisma compete against each other for the opportunity of a strategic partnership with KRS "in an effort to reduce fees and see what services they would provide" and 2) that it [a strategic partnership] "is not something we will look at immediately, but it is something to look at in 2016." As discussed below, KRS entered into a strategic partnership with Prisma just three months later and there was no competitive bidding between BAAM, PAAMCO and Prisma because, as Mr. Reddy had discussed, Prisma was to be KRS' strategic partner for all of the Absolute Return portfolio. Mr. Peden explains why he pushed up the strategic partnership to May 2015, after he had a discussion with Mr. Reddy in March that convinced him to proceed sooner than anticipated. (May 2015 titled *Strategic Partnership for Absolute Return*, Investment Committee memorandum). *See* Ex. 55. Between the February and May 2015 meetings, Mr. Cook, who is now retired from Aegon/Prisma, then expresses to Mr.

Peden his interest in being an Investment Committee trustee, to whom Mr. Peden, as CIO, would essentially report:

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Bill Cook[billcook113054@yahoo.com]
Sent: Sat 4/18/2015 11:04:44 PM (UTC-04:00)
Subject: Let me know what I do to help

David,
Derby mania is upon us, I hope you get to enjoy.
I am interested in further learning about becoming a member of your IC. I have shared your message with Rudy, Kris R., and Bill Jenkins. Let me know what I do to help.

William Cook

April 2015 Board of Trustee Meeting Recording Notes

Between the February and May 2015 Investment Committee meetings, the Board of Trustees met at its Annual Meeting, where Mr. Peden advised the Board of Trustees of a potential strategic partnership. One of the first agenda items that day addressed the loss of six employees in the Investment department. As heard on audio recordings of this meeting, CIO Peden then advised the trustees that:

> "We're going to continue to build out the direct hedge fund portfolio. Part of that may be exploring a strategic partnership with one of our fund of fund managers to have a more active role in helping us with that hedge fund portfolio build out. We're going to talk more about that in the [May or main] meeting."

Strategic Partnership May 3, 2015, Investment Committee Meeting

As referenced above, in May 2015, CIO Peden submitted a memorandum to the Investment Committee titled *Strategic Partnership for Absolute Return* (Ex. 55, *supra*) recommending that KRS consider forming a strategic partnership with Prisma, and that he had begun having conversations with Prisma about this in December 2014, which was around the time that Chris Schelling resigned. Despite what was stated at the February 2015 Investment Committee meeting (discussed above), we saw no evidence that CIO Peden actually "pitted" the three FoHF managers against each other to negotiate lower fees and obtain additional services for KRS. Instead, he presented Prisma to the Investment Committee without providing any alternative recommendations. Now that we've also learned that Mr. Reddy knew of Mr. Schelling's (Director of Absolute Return) departure well before it was announced, as mentioned earlier, it could be inferred that they were discussing the strategic partnership in November.

Prisma's Girish Reddy presented his vision of the strategic partnership to the KRS Investment Committee. Provided below are three slides from the KKR/Prisma strategic partnership presentation and our notes from the meeting recordings. *See* Ex. 56. The first slide indicates KRS funding in all direct and FoHF Absolute Return investments. The second slide includes a photo of General David Petraeus. This is included because trustees expressed quite a bit of concern that

KKR/Prisma hired General David Petraeus, rather than CIO Peden's dishonesty about his intentions related to a strategic partnership. The third slide shows how Prisma would go from its current 3.33% allocation of the 10% allocated to Absolute Returns to the full 10% with both direct investments and FoHF management.

Our Understanding of Your Current Hedge Fund Program

Investment Type	Investment Size	Detail
Absolute Return Program	$1.5 BN	3 Fund of Funds Providers
Direct Hedge Fund Program	$140MM	Suite of Investments Managed with Albourne Support
Total	**$1.6BN**	**Large, Complex Hedge Fund Program**

Our Current Relationship

- **Fund name:** Daniel Boone Fund LLC
- **Strategy description:** Customized, multi-manager fund of hedge funds portfolio with a low volatility and low beta target managed by KKR Prisma
- **Initial investment date:** September 1, 2011
- **Investment amount at inception:** $415MM
- **Investment amount today:** $493MM (as of 4/1/2015)

6 *Document contains confidential proprietary or trade secret information.*

KKR PRISMA

KYRET Would Have Dedicated Resources From Across KKR's Businesses

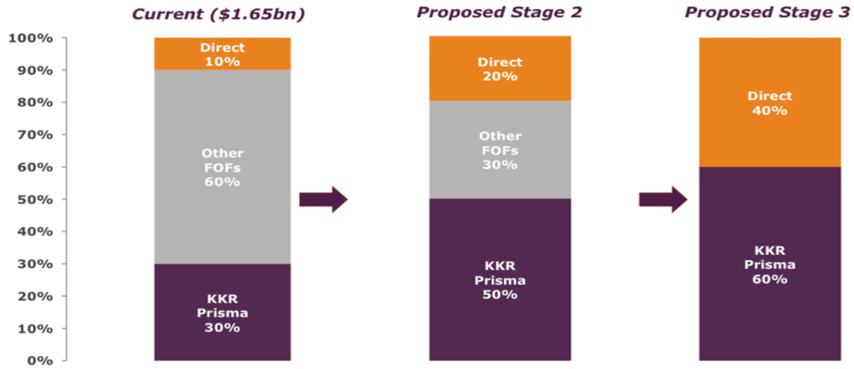
TEAM	KKR EXECUTIVES SUPPORTING KYRET'S HEDGE FUND PROGRAM
Macro Insight	 Gavyn Davies  Henry McVey  David Petraeus
Direct Senior Relationship	 Girish Reddy
Portfolio & Risk Management	 Michael Rudzik  Donna Heitzman  Guy Saintfiet  Shankar Nagarajan
Client Management	 Helenmarie Rodgers

- Access to KKR's macroeconomic thought leaders, including Gavyn Davies, Henry McVey, and General David Petraeus, and benefits of their ongoing research
- A dedicated team of senior hedge fund investment professionals led by Girish Reddy, Chairman of the Investment Committee, Michael Rudzik, Portfolio Manager, Guy Saintfiet, Head of Advisory Services, and Shankar Nagarajan, Head of Risk Management
- Servicing and relationship oversight by Helenmarie Rodgers, Managing Director, Client Partner Group
- Access to risk systems and proprietary diligence on the KKR hedge fund platform
- Participation in portfolio management, risk, and operational on-site manager due diligence meetings
- Access to KKR's Global infrastructure that supports the efforts of the KKR's hedge fund platform from both investment and operational perspectives

Note: Please see Important Information at the beginning of this presentation for additional disclosure regarding KKR's internal information barrier policies and procedures, which may limit the involvement of certain personnel in some investment decisions. For illustrative purposes only. Unless otherwise indicated, data is as of April 9, 2015.

13 ***Document contains confidential proprietary or trade secret information.*** KKR PRISMA

Sample Partnership Proposal Implementation for KYRET



	Current ($1.65bn)	Proposed Stage 2	Proposed Stage 3
KKR Prisma Mgmt Fee	0.70%	0.50%	0.45%
KKR Prisma Incentive Fee	5% over 13-week US T-Bills	5% over 13-week US T-Bills	5% over 13-week US T-Bills
KKR Prisma Mgmt Fee in Dollars	$3.5 million	$4.1 million	$4.4 million
Total FOF Mgt Fees in Dollars*	$10.6 million	$7.6 million	$4.4 million
Total Cumulative FoF Mgmt Fee Savings	-	*$3.0 million*	*$6.1 million*

Note: The current and proposed stages assumes a total allocation to hedge funds and FoFs of $1.65 billion. *KKR Prisma assumes the other FoF providers pay 0.70% management fee currently and in Stage 1-3. Note: For illustrative purposes only.

15 ***Document contains confidential proprietary or trade secret information.*** KKR PRISMA

The May 2015 Investment Committee audio recording reflects what transpired at the meeting before and after Girish Reddy presented his vision of the strategic partnership. CIO Peden consistently said that this was “just a trial,” and that he still planned on interviewing candidates to fill the Absolute Return Director position. But CIO Peden never addressed bringing in Blackstone or PAAMCO so he could “pit” them against Prisma to seek lower fees and better services for KRS. The trustees failed to raise that as a concern. The discussion that did follow is summarized below from the recording notes:

- “[We are] considering entering into a strategic partnership with Prisma....today we are only talking about an informal basis. [We are] not committed to anything with a timetable perspective.”
- Mr. Peden explained a strategic partnership as something that was becoming more and more common in the private equity space. “It is when a larger investment firm,….[provides] services that allow them to become an extension of staff. They will manage the discretionary funds [we’ve been invested in] since 2011. Help with due diligence on Direct Investments & work with staff to find investment ideas to bring to the Investment Committee for recommendations.” Mr. Peden also mentioned that part of the partnership was that Michael Rudzik of Prisma will work at KRS with Mr. Peden to cover the position of Absolute Return Director left vacant by Chris Schelling. He then explained that he did not have success finding a qualified candidate to fill that position.
- Mr. Peden further stated that he would bring this [informal strategic partnership] back to the Investment Committee, likely in February 2016, for a vote to formalize the relationship. He then advised that Prisma might not charge KRS fees for managing the Direct Investments. “*When [Prisma] presents, keep in mind it is like a free call option. We’ll have a test basis and if we like it will enter into a formal relationship down the road*.” He then advised that Prisma would not replace Albourne, who was hired to consult on alternative investments.
- A Trustee then asked “What is the downside?”
- Mr. Peden responded: “There is no downside. [It is] in the informal stage.”
- Mr. Peden then reminded the attendees that he used to work for Prisma, which he stated he needed to raise, just in case someone had a concern about a conflict of interest.

Prisma then presented to the Investment Committee, then left the room and the following discussion transpired:

1. Peden: “we are not engaging them in the full scope, we can just ‘take it for a test drive’ ‘Girish wants to push up the timeline, but I am not in favor. We are in the driver’s seat as you think about it and get ready to discuss it and vote on it, test phase, no cost to us, and it’s a means to get additional resources that we cannot currently find.’”

2. Two noteworthy questions that arose from the trustees were as follows: first, a Trustee asked Mr. Peden directly if he would be looking for a Chris Schelling replacement during the informal relationship and Mr. Peden responded “yes”; then other Trustees expressed concern that General David Petraeus appeared in the PowerPoint that Girish Reddy presented, and that Girish Reddy did not expand upon why General Petraeus was affiliated

> with KKR/Prisma. The Trustees felt that Girish Reddy purposely glossed over that fact. Extensive discussion followed on this particular issue. Mr. Peden then stated that "if you don't like Prisma there are other firms, but one of the benefits of Prisma is an opportunity to work with Michael Rudzik again and having him on site it's a huge plus…" A motion was then made to approve the informal strategic partnership and two trustees abstained, likely due to General Petraeus rather than how the strategic partnership was narrowed to just Prisma. Although the reasoning for the abstention was not explicitly clarified we reached the latter conclusion that the two trustees' abstention was based on 1) General Petraeus' position at KKR/Prisma and 2) on how they stated that Mr. Reddy glossed over him by listening to the recorded dialogue that ensued.

On May 11, 2015, shortly after the strategic partnership was approved by the Investment Committee, Mr. Peden emails Mr. Rudzik, Mr. Reddy and a few others at Prisma to advise them on his thoughts related to the Prisma's presentation at the Investment Committee:

> There aren't any immediate takeaways regarding the [strategic partnership] presentation in terms of preparing for when we bring it back for *formal approval.* Any snags were KRS *getting caught up in silly stuff* and we'll deal with those later. (Emphasis added).

As referenced above, Mr. Peden was already thinking about Prisma's formal strategic partnership when it has not even been approved by the Board of Trustees, who met on May 21, 2015 to approve the informal strategic partnership, and seemed to be referring to the trustees' concern about General Petraeus as "getting caught up in silly stuff."

In May 2015, RVK (formerly R.V. Kuhns) completed an additional asset liability study for the Plans that reiterated many of the same concerns that were raised in its 2010 asset liability analysis. Key takeaways from this study (with regard to the KERS Non-Hazardous) included the following:

1. "investing out [of] the current situation is not possible,"

2. "there is very little probability of full funding in 20 years under any investment approach – there is a significant change [sic] of being worse of[f] in 20 years than today—there is at least a modest probability of depleting assets during the projection period...; and,

3. "investing to significantly improved financial health is not possible." *See* Ex. 57, at 56-64.

At the time this asset liability study was completed, the CERS Plans continued to be funded at their full ARC in years prior and full payment of the ARC by the Commonwealth (for KERS and SPRS plans) was only beginning to take effect. The study further stated that "continued diversification of plan assets is desirable and should be the focus," to the extent possible within each of the Plans. *Id.*

Strategic Partnership May 21, 2015, Board of Trustees Quarterly Meeting

Less than three weeks after the above Investment Committee meeting, CIO Peden came before the trustees and presented more detail about the strategic partnership. Despite his previous mentions to the Investment Committee that he would "pit" the competing managers against each other, there was no mention of a comparison made between Prisma and Blackstone, PAAMCO, or any other entity. Instead, the May 2015 Board of Trustee Quarterly Meeting audio recording shows that CIO Peden described the strategic partnership trial period with Prisma as a settled matter, uniformly endorsed by both the Investment Staff and Investment Committee:

> "*Staff* recommended [at a prior IC Meeting] hiring Prisma Capital Partners on a trial basis for a strategic partnership to help continue to build out the direct hedge fund portfolio. The *Investment committee* did approve that recommendation. There are no expenses or obligations on the part of KRS associated with this arrangement and it'll be a trial period that goes to the end of the year. And if the Committee enjoys how that is working, then we will bring back a formal recommendation so that there will be another opportunity to discuss and vet that relationship to decide whether we like that on a permanent go forward basis."

It was only after one of the trustees asked CIO Peden how the strategic partnership was working so far that he spoke about further details. CIO Peden first stated that he "really enjoyed" the arrangement, and then disclosed "for the full board's knowledge" that "Prisma is one of our fund of fund providers but they're also the entity that I used to work for ten years ago. And they have a couple of people that live in Kentucky." CIO Peden made no mention of any attempts to engage the other FoHFs in a competitive process, despite one board member explicitly noting that there were two other FoHFs that had been receiving fees from KRS alongside Prisma. Instead, CIO Peden joked that the strategic partnership was "not generosity on their [Prisma's] part," and agreed when a trustee commented that if Prisma does a good job, "they might get good will."

We have verified that at least one of Mr. Peden's senior Investment Staff, of which not many were left, did not support Mr. Peden's desire to have Prisma as a strategic partner. The concern was that it may be problematic because Mr. Peden used to work for Aegon/Prisma. This senior Investment Staff member was concerned about the appearance of the relationship. Also, due to the timing of Mr. Schelling's departure and Mr. Reddy's approach, it is unlikely that any worthwhile recruitment effort to fill the Director of Absolute Return position actually occurred before Mr. Peden unsurprisingly advised KRS' trustee and executive leadership that a continued recruitment effort was unnecessary.

Bill Murnighan, Director of Senior Investment Analyst of Alternative Investments, resigned from KRS, effective September 11, 2015.

CEM Study August 2015

A prime criticism of KRS' FoHF strategy was the cost involved with the FoHF fees and those of the underlying managers. In 2015, CEM Benchmarking was hired to conduct an analysis of KRS investments and fees, which showed that KRS was in fact paying more fees than its peers, as reflected below.

The below slide demonstrates that KRS' allocations to both hedge funds and inflation indexed bonds had a negative impact on returns, since both were among the poorer performing asset classes during the period of review:

Your 5-year policy return was below the U.S. Public median primarily because of:

- Your lower policy allocation to Stock, one of the better performing asset classes, had a negative impact. Your 5-year average weight of 45% compares to a U.S. Public average of 52%.
- Your higher policy allocation to Inflation Indexed Bonds, among the poorer performing asset classes, had a negative impact. Your 5-year average weight of 7% compares to a U.S. Public average of 2%.
- Your higher policy allocation to Hedge Funds, among the poorer performing asset classes, had a negative impact as well. Your 5-year average weight of 8% compares to a U.S. Public average of 4%.

Partially offsetting these negatives is the positive impact of your higher allocation to Private Equity.

5-Year average policy mix

	Your Fund	Peer Avg.	U.S. Public Avg.
U.S. Stock	22%	25%	25%
EAFE Stock	0%	4%	7%
Emerging Market Stock	3%	1%	2%
ACWIxUS Stock	20%	13%	9%
Other Stock	0%	9%	9%
Total Stock	45%	52%	52%
U.S. Bonds	14%	21%	19%
Inflation Indexed Bonds	7%	4%	2%
High Yield Bonds	2%	3%	2%
Fixed Income - Emerging	1%	1%	1%
Global Bonds	4%	1%	2%
Cash	2%	-1%	0%
Other Fixed Income	0%	1%	1%
Total Fixed Income	30%	29%	27%
Hedge Funds	8%	2%	4%
Real Assets[1]	7%	9%	9%
Private Equity	10%	7%	8%
Total	100%	100%	100%

1. Real assets includes commodities, natural resources, infrastructure, REITS and real estate.

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The CEM Benchmarking Study also found that KRS investments came with a higher implementation cost, namely because investments were handled externally rather than internally and because of the use of a more expensive fund of funds format:

Your fund was high cost because you had a higher cost implementation style and you paid more than peers for some services.

Explanation of your cost status

	Excess Cost/ (Savings) $000s	bps
1. Higher cost implementation style		
• Use of external active management (vs. lower cost passive and internal)	(1,391)	(0.9)
• More fund of funds	10,061	6.5
• Less overlays	(652)	(0.4)
• Other style differences	(150)	(0.1)
	7,868	5.1
2. Paying more than peers for some services		
• External investment management costs	1,036	0.7
• Internal investment management costs	54	0.0
• Oversight, custodial & other costs	1,646	1.1
	2,736	1.8
Total excess cost	10,604	6.9

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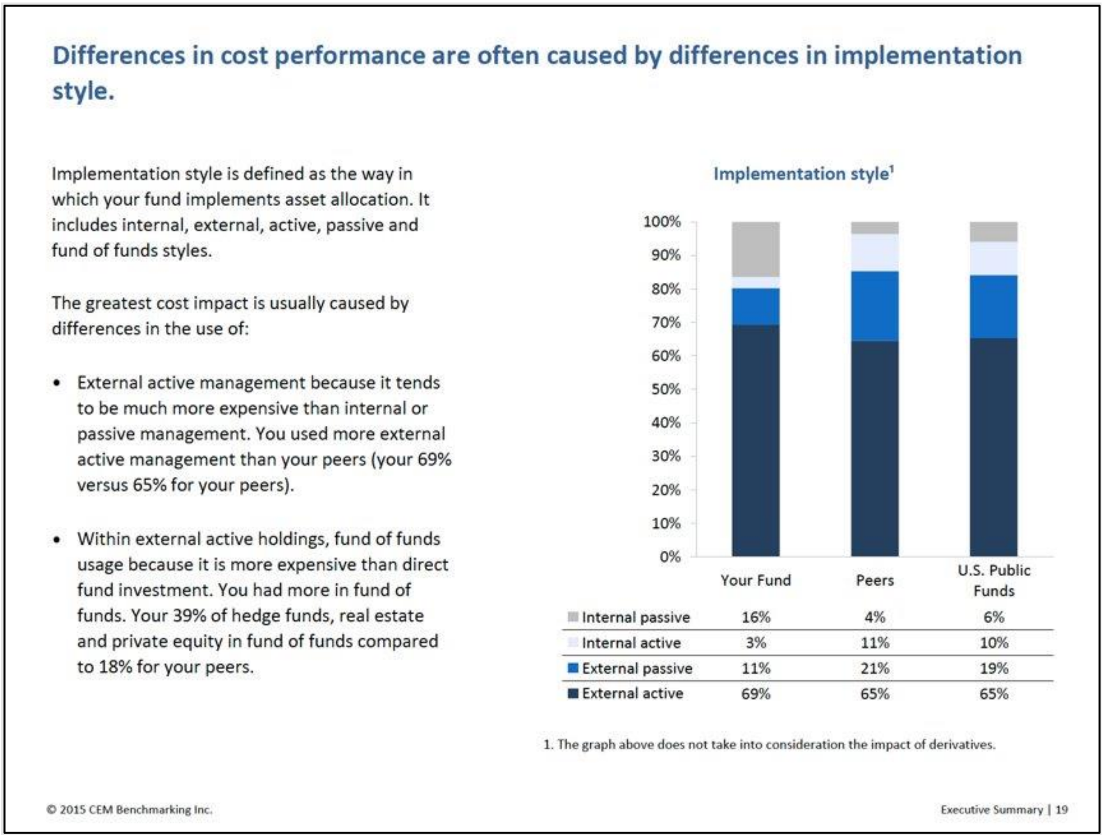
The CEM Benchmarking Study also concluded that KRS had more assets in fund of funds than its peers, with 39% of hedge funds, real estate and private equity in fund of funds formats versus a level of 18% for peers. The CEM Benchmarking Study supported the strategy of winding down the FoHFs due to external manager fee costs and the multiple fee levels. KRS understood this as a factor when it began implementing the strategy at the then- Governor's recommendation and only planned on maintaining the FoHFs at their initial funding levels for 3-5 years to gain enough experience to begin internally managing Direct (hedge fund) Investments, which was a goal of Investment Staff, the Investment Committee and R.V. Kuhns at the outset of the fund of funds strategies in 2009, and once the FoHFs were retained in August 2011.



Provided below are the 2014-2016 gains, losses and fee totals of the FoHF absolute return strategies:

FoFs 2014-2016

- PRISMA Daniel Boone

Year	Fee Totals	Net Gain After Fees
2014	$ 4,657,706.00	$ 12,594,887.00
2015	$ 4,416,662.00	$ 8,979,169.00
2016	$ 4,225,178.00	$ 1,883,959.00

- BAAM Henry Clay

Year	Fee Totals	Net After Fees
2014	$ 7,165,455.00	$ 37,301,446.00
2015	$ 5,981,576.00	$ 31,389,611.00
Jan 1-Mar 31 2016	$ 657,568.00	$ (15,772,482.00)
Apr 1-Dec 31 2016	$ 1,529,743.00	$ 13,146,263.00

- PAAMCO Newport Colonels

Year	Totals	Net After Fees
2014	$ 4,612,025.00	$ 12,599,652.00
2015	$ 3,725,929.00	$ (9,430,998.00)
2016	$ 1,417,138.00	$ (8,762,062.00)

Source: Audited Financial Statements, *See* Ex.'s 43.44 and 45, *supra*.

PAAMCO and Blackstone Redemptions

As reflected in the FoHF performance results, in 2014 and 2015, Blackstone outperformed both Prisma and PAAMCO combined and Prisma outperformed PAAMCO. To meet the strategic partnership objectives, the Investment Committee approved terminating PAAMCO, so KRS could begin redeeming the related investments. At the February 2016 meeting, the Investment Committee agreed to terminate the relationship with Blackstone, prompting a full redemption of the remaining FoHFs, except KKR Prisma. The redeemed assets from PAAMCO and Blackstone would then go toward direct hedge fund investments and the KKR Prisma-managed FoHF underlying manager investments, up to the approved 10% absolute return allocation. Also at the February 2016 Investment Committee meeting, CIO Peden submitted a memo titled "Strategic Partnership for Absolute Return" seeking approval of a formal strategic partnership with Prisma which he received. *See* Ex. 58. Approval was provided at the May 2016 Investment Committee meeting to increase Prisma's FoHF Absolute Return allocation from 3.33% to 5%.

During this time period, Mr. Peden emailed his now former colleague, Mr. Schelling, and characterized his plans regarding the formation of the strategic partnership and the associated redemptions: "It doesn't have anything to do with them or their performance [winding down PAAMCO Newport Colonels]. I made the mistake of doing a CEM study and the double layer of fees was a big issue publicly. And since I don't have someone on staff the three fund of funds we[re] operational[ly] difficult to rebalance and keep track of the money that needed to come back (that sounds lame, but it really was a mess). And I've just decided to go all in on the strategic partnership with Prisma so we're going to wind down the BAAM portfolio also...That just got approved today so I haven't told BAAM yet we're terminating them. It sucks because BAAM [h]as killed it, but it's the best course in the long run for KRS." *See* Ex. 59.

This is the first of two emails where Mr. Peden implies that Blackstone was outperforming Prisma when he terminated Blackstone in lieu of the Prisma strategic partnership. *See* Kirk Beuse email on page 76.

In 2011, when the three FoHFs were selected, KRS allocated 10% to their absolute return strategies. So, at that time, each of the three FoHFs split the 10% allocation amongst them at 3.33% of the portfolio each. Now that both BAAM and PAAMCO were winding down, the 10% allocation went to Prisma in the context of the strategic partnership. Prisma was allocated 5% for direct hedge fund investments and the other 5% for the FoHF allocation.

The Prisma Relationship

From the first time that David Peden raised the concept of a strategic partnership with the Investment Committee, the Committee seemed to acquiesce to Mr. Peden, similar to how the Trustees responded at the August 15, 2011, meeting on the initial FoHF slate approval.

David Peden lied to the Investment Committee trustees at the February 2015 meeting when he advised the committee that he would pit the FoHFs against each other to seek better fees and services. He again lied to the Investment Committee trustees at the May 2015 meeting when he told them that he would still interview for Schelling's replacement even though Prisma's Michael Rudzik would serve in that role. Granted, based upon the chaos at KRS, it was not a desirable workplace to serve as a Director of Absolute Return but regardless, Mr. Peden made few efforts to replace Chris Schelling, and never intended to have Prisma compete with PAAMCO as Mr. Peden already planned on terminating PAAMCO due to their poor performance. Although Blackstone outperformed Prisma and PAAMCO combined in 2014-15, we could not identify any evidence that Mr. Peden approached Blackstone for such a partnership, or even minimally had them compete against Mr. Reddy's offer.

As of February 15, 2015, David Peden had been speaking to Girish Reddy about the strategic partnership concept since November 2014, before Chris Schelling resigned. Chris Schelling's resignation served as a catalyst to move Prisma into that position, because as Director of Absolute Return, such a partnership likely could not have been shepherded through without Mr. Schelling's approval. It was a convenient coincidence.

It also appears that Mr. Peden kept Mr. Rudzik apprised of his plans to redeem the BAAM FoHF holdings in February 2016 and, of greater concern, may have shared confidential information with Mr. Rudzik regarding the reevaluation of the KRS absolute return portfolio by new trustees in late 2016.

Value and Cost of Mr. Rudzik's Services: While working at KRS' offices, concern was expressed as to whether Mr. Rudzik had access to KRS' server and other secure processes. Documents indicated that Mr. Rudzik brought his own laptop and used KRS' Wi-Fi. However, while at KRS he likely divided his time between advising on KRS' absolute return portfolio while maintaining his other KKR/Prisma client relationships and/or addressing KRS/Prisma administrative matters. KRS did not pay for Mr. Rudzik's services and saved money on not filling the Director of Absolute Return position. Meanwhile, Mr. Rudzik was building good will with KRS and benefitting from exposure and gaining familiarity with KRS' Direct Investments, and related due diligence. Such hedge fund due diligence has an intangible value that likely supplemented KKR Prisma's hedge fund database, but at no monetary cost to KRS. At the conclusion of 2016, KRS also terminated its alternative investments consulting contract with Albourne who had been retained to assist KRS on their Direct Investment portfolio (the other 5% of Prisma's 10% absolute return allocation) which Prisma was now managing for free. Terminating Albourne resulted in a cost savings of approximately $480,000 per year. As KRS considered redeploying some Absolute Return allocations to Prisma's Apex Tactical Strategy (a Prisma-managed fund of fund concentrated on strategies classified as niche/tactical in nature) in 2016, Mr. Reddy opined on the fee savings that could be realized by KRS in the context of such an initiative. In July 2016, Mr. Reddy stated that:

> The fee savings of the proposed fee model are quite substantive and exceeds the reduction we had indicated to your board.
>
> 1) At 55 basis points and 5 percent incentive fee, our estimate is that you would save over 53 percent in fees, based on the same performance assumptions we showed you earlier. This is higher than the fee saving we indicated to the board of over 40 percent.
> 2) In addition, the APEX tactical fund pays a significantly lower fees [sic] to the underlying managers. The expected fee to underlying manager is about 1 percent fee and 10 percent. This compares to core managers of 1.5 and 17. This benefit is passed on to KRS. IF KRS invested directly into Tactical fund, PRISMA would be the beneficiary of that fee reduction. Our interests are aligned to negotiate lower fees with the underlying managers. This by the way is our highest alpha product that is being given to KRS at our core fees.
> 3) Management fees on the TOTAL HF portfolio for which KKR PRISMA acts a fiduciary will be 27.5 basis points. This is quite competitive with any FOF provider and in addition we will provide total access to Michael Rudzik. As I said we truly appreciate your confidence in KKR Prisma and Michael Rudzik as your portfolio manager on the account and access to him. We look forward to a long and fruitful partnership.

See Ex. 60 (emphasis in original). This email illustrates the benefits Prisma was providing to KRS as strategic partner, but as Mr. Peden stated earlier, it was "not generosity on their [Prisma's] part," as they are also benefitting, a benefit that was bestowed upon Prisma by virtue of the Peden/Prisma relationship.

Bill Cook as Investment Committee Trustee

While the KRS/KKR Prisma strategic partnership was moving forward, Prisma expressed concerns regarding William "Bill" Cook seeking a KRS trustee appointment. When Mr. Cook continued pursuing the appointment despite Prisma's concerns, Prisma sought the advice of a government ethics attorney and advised Mr. Cook to seek his own counsel. Mr. Cook was one of the top 15 principals at the time KKR acquired Prisma in 2012, a year after KRS retained Prisma, and he was still eligible for, at least, a potential Earn Out payment in 2017 if particular revenue hurdles were met.[16]

Although Mr. Cook began expressing interest in becoming a KRS Investment Committee member in early 2015, as per his January 2015 correspondence with Mr. Peden herein, it seems Mr. Cook's appointment was not considered until after Mr. Peden and Mr. Rudzik began corresponding with Governor Elect Bevin's transition team in late December 2015-early 2016, as reflected in emails below.

To: nhaney[redacted] Peden, David (KRS)[david.peden@kyret.ky.gov]
Cc: Michael.Rudzik@kkr.com[Michael.Rudzik@kkr.com]
From: mark.kul[redacted]
Sent: Fri 12/18/2015 6:17:29 AM (UTC-05:00)
Subject: RE: voicemail

Nate,

This are the guys I left the voicemail about. David is the chief investment officer for the Kentucky Retirement System. Michael is a partner at KKR who is helping the retirement system in its hedge fund asset class.

They are looking to make quick connections with people on the transition team to help them understand where they are at and headed. I think you will enjoy them a lot.

From: Nate Haney[redacted]
Sent: Thursday, December 17, 2015 10:25 PM
To: KULL, MARK /[redacted] david.peden@kyret.ky.gov
Cc: Michael.Rudzik@kkr.com
Subject: RE: voicemail

Thank you. Perhaps if I knew more about what we were going to be discussing, I could point you in the right direction. Fill me in again. Sorry, but I am working 16-18 hour days right now and I can't remember.

Sincerely,
Nate Haney

[16] By the close of 2016, KKR & Co. zeroed out any anticipated expenses related to a possible earn-out payment to Mr. Cook (and Mr. Reddy and Mr. Rudzik) in disclosures filed with the U.S. Securities & Exchange Commission. *See* Ex. 61.

To: david.peden@kyret.ky.gov
Cc: [redacted] Michael.Rudzik@kkr.com
Subject: voicemail

NMH,

On this email is the gentlemen I spoke about in my long winded voicemail. I would like for you to meet with them over the phone briefly. As your best friend I certainly didn't commit you to anything. I do like, respect, and trust these two men and what they are doing for the commonwealth.

David,

Feel free to find time to meet with Nathan on the phone. He is a gem of a human and my best friend.

On Thursday, December 31, 2015 3:33 PM, "Peden, David (KRS)" <david.peden@kyret.ky.gov> wrote:

Bill Happy New Year!

Send me a copy of your resume or BIO. I know Neil was/is going to help, but Michael and I both have made contact with people close to Governor Bevin and we want to put your name forth from more than one front. John Farris (Governor's Transition team head dealing with KRS) has agreed to meet with me and I want to put your resume in front of him. Also Michael has another person close to the Governor who has agreed to hand your resume to the Governor.

Also, there is a website the Governor has set up for boards and appointments that hopefully you have already gone to and filled out the information they need. If not, let me know and I can find the link and send to you.

Do you know if Neil has already spoken to the Governor?

I'm going to try to get a meeting with the Governor later in January, but that might be more difficult than I realize.

Keep February 2nd available. That is my next Investment Committee meeting. I'm going to suggest to John Farris that any candidates being considered for a board seat should come to the IC meeting and have to report back what they heard in the meeting.

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
Cc: Neil Ramsey[nramsey@rqsi.com]
From: bill cook[billcook113054@yahoo.com]
Sent: Thur 12/31/2015 6:27:03 PM (UTC-05:00)
Subject: Re: KRS Board USM
cook_bill_photo.jpg
WSC bio.pdf

David and Neil,
I wish you a happy, healthy, and prosperous 2016.
Per you email, I will save 2/2/16. I have not filled out the forms on the Governor's web site, plese send the link.
My bio and photo are attached.

William S. Cook

On Jan 21, 2016, at 4:12 PM, bill cook <[redacted] wrote:

no contact as yet

William S. Cook
1400 Willow Ave.
Louisville, KY 40204-2522

On Thursday, January 21, 2016 8:21 AM, "Peden, David (KRS)" <david.peden@kyret.ky.gov> wrote:

Just curious if anyone from the Governor's office ever made contact? Michael gave your bio to Nathan Haney who was just named Deputy Secretary of the Executive Cabinet and I gave your bio to John Farris who was heading up the Transition team dealing with KRS.

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Friday, January 22, 2016 8:04 AM
To: bill cook
Cc: Michael Rudzik
Subject: Re: KRS board USM

Well they still have two months to decide and I know they are still trying to build a cabinet. That just means they aren't going to listen to my recommendation and send candidates to my IC on Feb 2. If they end up never talking to you then I'll know how serious they are about dealing with this issue and where their motivations lie. If that's how it plays out there are other opportunities for you to have a voice in this conversation and we'll discuss those after that point.

thanks

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Michael Rudzik[Michael.Rudzik@kkr.com]
Sent: Fri 1/22/2016 12:45:07 PM (UTC-05:00)
Subject: RE: KRS board USM

I sure do hope they come around to Bill. I actually think it will happen. It makes too much sense.

The Investment Committee and Board of Trustees votes, for the trial and informal KKR Prisma strategic partnership, occurred between May 2015 and May 2016. Mr. Cook was not yet appointed as a trustee when the KKR Prisma strategic partnership was voted upon.

Governor Bevin began instituting changes to the KRS Board of Trustees and its general governance in the Spring of 2016, which led to the appointment of new board members including current Executive Director, and then-Investment Committee trustee David Eager. Following additional changes thereafter, in June 2016, Mr. Cook was appointed as trustee[17].

The Governor's effort to restructure the KRS board was immediately litigated, thereby making it unclear if those who were appointed to the board would remain on the board[18]. Scenarios for Mr. Cook's ability to remain on the board and how it could benefit Mr. Peden and KKR Prisma, according to Mr. Peden, are examined below in the June 26, 2016 email titled "Bill on the Board."

[17] *See Bevin Abolishes Pension Board, Creates New One*, Courier-Journal, Morgan Watkins, Tom Loftus, June 17, 2016.

[18] *See Kentucky Governor Ousts Chairman, Attorney General Sues*, Pensions & Investments, Meghan Kilroy, June 22, 2016.

To: michael.rudzik@kkr.com[michael.rudzik@kkr.com]
From: Peden, David (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=DAVID.PEDEN]
Sent: Sun 6/26/2016 9:52:23 PM (UTC-04:00)
Subject: Bill and the Board. USM

So after the Judge decided to not do an injunction and made it pretty clear he was in no hurry, I've been thinking that the new board is the board through the August and November meetings. That includes Bill; however, there are only five IC spots so who knows whether Bill is a voting member. But here are the following scenarios and why I don't think this is a problem for Prisma and probably a good thing.

1. The judge could do an injunction or rule at some point before year end that Bevin can't do what he did and the old board is back in place. This means Bill is not a board member.

2. The judge either rules in favor of Bevin or takes so long that the Legislative session goes into session. Bevin's newly created board is only good until the end of the legislative session (end of February). The Legislature has to pass a bill that matches or is similar to Bevin's creation or the Board will revert back to the old board structure and members. The House (currently controlled by Democrats) is not going to give Bevin a win on this. This also means Bill is not on the Board after February.

3. The judge doesn't do anything and we go into the legislative session. The best scenario for Bill being an on going member is if the Republican's convince the Democrats of an entirely different Pension structure that might evolved separating the asset management from the liability function. This might also involve separating the County/Municipal plan from the State workers plan. In this situation Bill might find a permanent home on one of the surviving Boards. This is a very low probability.

The reason Bill being on the Board temporarily is a good thing is because it protects me and protects the Prisma relationship in the meantime until I can establish relationships with the new board members and they can buy into Hedge funds being part of the asset allocation. Bill can help keep me in the CIO spot if they come after me, which its not entirely clear where this whole thing is going. And I would hate for all the hedge fund work to be undone by these new members before they get up to speed on the portfolio. Remember, these are all Investment people who think they're the smartest guys in the room and you have no idea what thinking regarding hedge funds or alternative investments they are bringing to the Board.

While Mr. Cook's trusteeship was in flux, the media began examining the Peden–Rudzik-Cook-Prisma connection. This resulted in an August 29, 2016 email from the *Herald-Leader*'s John Cheves about a potential story (*see* Ex. 62) and a September 7, 2016 open records requests from Reuters (*see* Ex. 63). Internal correspondence between Mr. Cook and Mr. Peden about the logistics around his recusal ensued (*see* Ex. 64). Although Mr. Cook's initial trustee appointment occurred in June 2016, we found that he did not begin to seriously address his recusal until after the media inquiries. Mr. Cook drafted a recusal letter and forwarded it on September 10, 2016 to the personal emails of Mr. Eager and the newly appointed Board Chair, Mr. Farris. Mr. Farris then forwarded that email, with Mr. Cook and Mr. Ramsey included, on to the personal email of the Governor's Chief of Staff Blake Brickman who then forwarded it onto the personal email of Governor Bevin's General Counsel Steven Pitt, as illustrated below. Thereafter, Mr. Cook submitted his recusal letter to Mr. Farris, which was dated September 15, 2016. What we are not aware of is what guidance he was provided after this email, as inferred by Mr. Pitt.

----- Forwarded Message -----
From: John Farris <jfarris@landfundpartners.com>
To: [redacted] <[redacted]>; [redacted] <[redacted]>
Sent: Saturday, September 10, 2016, 06:19:11 PM EDT
Subject: Fwd: Please review and provide comments

FYI

Get Outlook for iOS

---------- Forwarded message ----------
From: **"Steve Pitt"** <[redacted]>
Date: Sat, Sep 10, 2016 at 2:05 PM -0400
Subject: Re: Please review and provide comments
To: "Blake Brickman" <[redacted]>
Cc: "John Farris" <jfarris@landfundpartners.com>

This is fine but we need to look at one related issue so he will be fully advised as to the ethical requirements. It's my understanding, subject to look at the Executive Branch Ethics Code, that he would not be REQUIRED under EBEC to recuse as to KKR unless he has a 5% or greater interest in the firm. I doubt he does. Even if I am correct, however, it may still be something he will want to do for appearances purposes. Further, the underlying statute for KRS and its bylaws may come into play. All I'm saying is that we need to take a closer look just to make sure he knows what is required as opposed to discretionary.

Sent from my iPhone

On Sep 10, 2016, at 1:46 PM, Blake Brickman <[redacted]> wrote:

Copying Steve Pitt

Sent from my iPhone

On Sep 10, 2016, at 1:27 PM, John Farris <jfarris@landfundpartners.com> wrote:

?

---------- Forwarded message ----------
From: **"bill cook"** <[redacted]>
Date: Sat, Sep 10, 2016 at 1:13 PM -0400
Subject: Please review and provide comments
To: "David L. Eager" <[redacted]"John Farris"
<jfarris@landfundpartners.com>

John and Dave,
please review the letter below; if meets with you approval I will bring to the meeting on Th. Your critique is welcome/

Draft

September 15, 2016

John Farris
Chairman of the Board
Kentucky Retirement Systems

John,
Upon becoming a member of the Board of the Kentucky Retirement Systems (KRS), I will serve diligently to help move KRS to a successful future. There is one area in which I will recuse myself from all discussion and votes. For any discussion that may involve the firm of Kohlberg, Kravis, Roberts & Co. L.P. (KKR), I will be recused. This includes any direct discussion of KKR and any larger discussion of alternative investments that may impact KRS' relationship to the firm. Please notify all appropriate parties preparing meeting agenda.
My prior employment with KKR has left financial connections with the firm. thus the need for the recusal.
Sincerely,
William Cook

In addition to addressing Mr. Cook's need for a recusal (*see* Ex. 64 as referenced above), Mr. Peden also worked to defend Mr. Cook and himself to the media. He claimed that as Chartered Financial Analysts ("CFA"), they must comply with the CFA Code of Ethics and Standards of Professional Conduct ("CFA's Ethics Code"), thereby using the CFA's Ethics Code as a shield as to why they can do no wrong. *See* email below.

From: Peden, David (KRS)
Sent: Thursday, September 01, 2016 8:08 AM
To: Brown, Richard (KRS) <Richard.Brown@kyret.ky.gov>
Subject: RE: Questions - Reuters

One additional comment I thought about in the middle of the night is.... David Peden the KRS Chief Investment Officer is a Chartered Financial Analyst and as such he must abide by the CFA Code of Ethics and Standards of Professional Conduct and his staf must abide by the CFA Code of Ethics and Standards of Professional Conduct. In addition, one of the newly appointed Board members and Investment Committee members, Bill Cook, also has his CFA designation and must abide by the CFA Coade of Ethics and Standards of Professional Conduct.

Kentucky's Pension Deal Offers Lessons on Risks, Cost Cuts, *Reuters*, Koh Gui Qing, Michael Erman, April 28, 2017

Mr. Peden also defended to the media how he selected Prisma versus competitively bidding the strategic partnership. His defense was that he used to work at Prisma, thereby no competitive solicitation was needed. That is one of the many reasons why the strategic partnership should have been competitively bid. Ethically, what was in KRS' best interest should have been foremost to Mr. Peden.

> Peden, who worked at Prisma a decade ago and before it was taken over by KKR, said that relationship essentially "made it unnecessary to do a competitive process." He said he used the discretion given by the fund's guidelines to recommend the deal without... soliciting other bids.

Also, during this time, while the Governor was instituting significant changes at KRS including transitioning in new executive and board leadership, Mr. Peden was working to protect Prisma's strategic partnership with Mr. Reddy's assistance. On September 1, 2016, Mr. Reddy reached out to Mr. Peden which resulted in Mr. Reddy speaking with Kirk Beuse, CIO of Aegon. The email correspondence below represents how Mr. Peden ended up asking Mr. Beuse to call the Governor because "Now it looks like I won't have the opportunity to pay them [Prisma] back" and because Mr. Peden "feel[s] like [he] owes it to Girish.

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
Cc: Michael Rudzik[Michael.Rudzik@kkr.com]
From: Girish Reddy[Girish.Reddy@kkr.com]
Sent: Thur 9/1/2016 7:26:58 AM (UTC-04:00)
Subject: Call

David
With all the press in Kentucky, I wanted to touch base with you to get your guidance on how Prisma should respond or be helpful. Is there a good time for us to call you today?

On Sep 9, 2016, at 3:53 PM, Girish Reddy <Girish.Reddy@kkr.com> wrote:

David
Spoke to kirk Buese. He asked a lot of questions(not surprising). He wants to be helpful but wants to chat with you. If it is ok will pass your number to him.

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Friday, September 09, 2016 04:26 PM
To: Girish Reddy
Cc: Michael Rudzik
Subject: Re: Kirk buese. USM

Happy to talk with him. Give him my mobile, which is [redacted]. Tell everyone the conference was great and I think was even better than last year.

Thanks

From: Buese, Kirk [mailto:KBuese@AEGONUSA.com]
Sent: Tuesday, September 13, 2016 12:59 PM
To: Peden, David (KRS) <david.peden@kyret.ky.gov>
Subject: Hedge fund allocations

Hi David,

I have not talked with you for years but I am currently CIO of Aegon USA Investment Management, LLC and worked with Bill Cook while he was Prisma and continue to work with Prisma today as a sub-advisor to AUIM on the hedge fund allocations by various AEGON affiliates.

I have followed some of the press about the hedge fund allocation by Kentucky Retirement Systems and offer that if you wanted a reference as to institutional investor strategies in lower volatility allocations as part of a more optimal portfolio construction I would be happy to support you as someone that understands the strategy and advisor – KKR Prisma. It may not be worth much but I casually knew Governor Bevin as he had a daughter that swam at Lakeside at the same time my family was involved and I understood him to be sophisticated having worked at Putnam, National Asset Management and launching his own firm.

Kirk Buese

To: Buese, Kirk[KBuese@AEGONUSA.com]
From: Peden, David (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=DAVID.PEDEN]
Sent: Tue 9/13/2016 3:10:26 PM (UTC-04:00)
Subject: RE: Hedge fund allocations USM

Hi Kirk. Good to hear from you. Congratulations on becoming CIO at Aegon! The situation here is that I'm in the middle of a political storm. The Kentucky Employer Retirement Systems is the worst funded pension in the country at 17% funded. The Kentucky House of Representatives is the last political body in the south controlled by the Democrats and it is a major November 8th prize. Post financial crisis there is literally no tolerance on either side of the political spectrum for hedge fund managers or private equity managers ("fat cats"). So because I have 10% allocated to hedge funds, 10% allocated to private equity and because my trailing 12 month number as of June 30 was -0.52% for my total portfolio, how I manage the portfolio is an easy target of both political parties.

I also recently got a newly appointed investment committee by Governor Bevin, included on the IC is Neil Ramsey and Bill Cook. While not official yet, it is becoming clear that the IC as a whole would prefer a "simpler and cheaper" portfolio. That generally means no hedge funds, but that has not been stated publicly just yet. The reason Girish thought it made sense for you to call the Governor is because it appears this new direction is coming from the Governor's office. I don't know if that's the case or not; therefore, I think it might be premature to call the Governor. I feel terrible for KKR Prisma and Girish because they did me a huge favor by lending me Michael Rudzik as an employee for the past year, which was huge help to me. Now it looks like I won't have the opportunity to pay them back. In addition, Chris Tobe has called around to reporters and convinced them I was doing something corrupt by working with Prisma instead of BAAM. BAAM has outperformed Prisma over a certain time period, including last year, so it's hard for the press and for the average person to understand why I choose to retain Prisma instead of BAAM. So Prisma is taking a double hit potentially.

The other thing to add is that despite the Governor being a former investor, it's all about politics. All decisions are filtered through politics and he does not wear an investor hat anymore. For the benefit of Prisma, I would like you to call the Governor because I feel like I owe it to Girish, but just wait until I say it's appropriate. I'm waiting for the Chairman of my board to make a statement that makes it public that we are likely exiting hedge funds and then I'll tell you it's OK to call. But you're not making the phone call for my benefit, you're making it for Girish and Prisma. I'll keep you in the loop as things unfold and you can help however you feel comfortable.

Thanks

To: Buese, Kirk[KBuese@AEGONUSA.com]
From: Peden, David (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=DAVID.PEDEN]
Sent: Mon 9/19/2016 8:42:25 AM (UTC-04:00)
Subject: RE: Hedge fund allocations USM

Good Morning Kirk.

So the KRS board did make an announcement on Thursday that they are going to re-look at hedge funds and study a new asset allocation that does not include them, seeking a simpler and cheaper portfolio. It's pretty clear this is coming from the Governor's office. So if you are so inclined it is now okay to reach out to the Governor and share your opinion with him and you would be doing so for the benefit of Girish and not me. I have to be neutral and just take direction from my IC after giving them an opinion, but I know Girish would appreciate any positive words you could pass on to the Governor regarding hedge funds in general and Prisma specifically. And I can't remember if I put the following in the prior email, but Bill Cook while still favorable on hedge funds and Prisma, has to recuse himself from the conversations regarding hedge funds and Prisma so there aren't any advocates internally.

Thanks!

The aforementioned documents certainly raise, at a minimum, an appearance of impropriety and ethical violations. In particular:

1. Mr. Reddy raised the strategic partnership idea with Mr. Peden;
2. Mr. Peden shepherded it through which included lying to the trustees by implying he would act in KRS' best interest to ensure that the FoHFs competed against each other so KRS would benefit from reduced fees and enhanced services;
3. Mr. Peden was also supportive of Mr. Cook's interest in becoming a trustee, which Mr. Peden stated could protect Prisma; and
4. Mr. Peden then asks Aegon's CIO to call the Governor since he owes Girish Reddy and won't be able to pay him back.

Throughout the Investigation, we found a lack of awareness by Mr. Peden that his role in Prisma's advancement may be perceived as a potential conflict of interest, or a violation of his fiduciary duties or the CFA Code. As we heard on the meeting recordings, Mr. Peden consistently raised his prior employment at Prisma to the trustees, not to protect KRS, but to protect him. Rather than delve into the details of the enlarged relationship between Mr. Peden and Prisma, he told the trustees only what he needed to tell them to get their approval. This is arguably a form of manipulation, as opposed to respecting their authority over him, and a likely violation of his fiduciary duty to protect KRS, including the trustees who relied upon his judgment. The Investment Committee that Mr. Peden reported to may also be responsible, as Mr. Peden reported to them, not the other way around. However, fiduciary statutes do allow trustees to rely upon the guidance of professionals and consultants when making determinations, which can be argued here. Mr. Peden's apparent loyalty to Prisma above KRS is further reflected in the correspondence between Mr. Peden and Michael Rudzik, Mr. Peden and Girish Reddy and Mr. Peden and Kirk Beuse, as prompted by Girish Reddy.

:

Bill Cook Recusal Related Correspondence:

The recusal below dated September 15, 2016, followed the September 10, 2016, email correspondence between Mr. Eager, Mr. Farris, Mr. Brickman and Mr. Pitt provided earlier. Below the recusal and attached as exhibits, we have provided examples of correspondence that Mr. Cook received despite his recusal, related to the Daniel Boone fund, KKR/Prisma and hedge fund reallocation and his involvement in amending the Investment Policy Statement with Rich Robben, Interim CIO. *See* Ex. 65.

William S. Cook
1400 Willow Ave.
Louisville, KY 40204-2522

September 15, 2016

John Farris

Chairman of the Board

Kentucky Retirement Systems

John,

Upon becoming a member of the Board of the Kentucky Retirement Systems (KRS) and the Investment Committee of KRS, I will serve diligently to help move KRS to a successful future.

There is one area in which I will recuse myself from all discussion and votes. For any discussion directly pertaining to the firm of Kohlberg, Kravis, Roberts & Co. L.P. (KKR), I will be recused. Please notify all appropriate parties preparing meeting agendas.

My prior employment with KKR has left financial connections with the firm, thus the need for the recusal. My KKR financial interests are in:

1. PRISMA SELECT FUND II LP
2. KKR ASIAN FUND II ESC L.P.
3. KKR ENERGY INCOME & GROWTH FUND I ESC L.P.
4. KKR SPECIAL SITUATIONS (DOMESTIC) FEEDER II LP
5. KKR REAL ESTATE PARTNERS AMERICAS ESC L.P.
6. KKR LENDING PARTNERS II FEEDER, L.P.
7. KKR Partners II (International), LP- Afriflora
8. KKR & Co. L.P.- listed units
9. Contingent payment potentially due in 2017

Sincerely,

William Cook

William Cook

To: Robben Rich (KRS)[rich.robben@kyret.ky.gov]
From: bill cook[billcook113054@yahoo.com]
Sent: Sun 4/23/2017 11:38:01 AM (UTC-04:00)
Subject: Inv Policy Statement

Rich,
may we meet in Louisville to go over the IPS of KY and one of the sample you provided. I estimate 60-90 min. Best times for me are :

- Tu afternoon post 3 pm till 6
- W, Th, or F early (done by 10 am)

I have marked up one of the samples and can drop it of at your home for you to review pre meeting. IT may expedite things.

To: bill cook[billcook113054@yahoo.com]; John R. Farris[jfarris@landfundpartners.com]
Cc: Robben, Rich (KRS)[Rich.Robben@kyret.ky.gov]; Neil Ramsey[nramsey@rqsi.com]; Bowman, Joseph (KRS)[joseph.bowman@kyret.ky.gov]
From: Eager, David (KRS)[David.Eager@kyret.ky.gov]
Sent: Wed 6/21/2017 2:14:20 PM (UTC-04:00)
Subject: RE: Prisma conflict of interest no longerusm

Bill,

I will pass this email along to our legal department. They feel that is all that is necessary unless John feels otherwise.

Dave

DAVID L. EAGER

From: bill cook [mailto:billcook113054@yahoo.com]
Sent: Wednesday, June 21, 2017 2:03 PM
To: John R. Farris <jfarris@landfundpartners.com>
Cc: Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov>; Neil Ramsey <nramsey@rqsi.com>; Eager, David (KRS) <David.Eager@kyret.ky.gov>
Subject: Prisma conflict of interest no longer

John,

as of June 30, 2017, I will no longer have any connection to Prisma. The conflict of interest will no longer exist. Do I need to do anything to have this noted?

William S. Cook
1400 Willow Ave.
Louisville, KY 40204-2522

Legal and Ethical Considerations related to the KKR Prisma Strategic Partnership

Did David Peden receive gifts or another form of value from Prisma during his time at KRS or thereafter?

An entity that has subpoena power to audit his finances should be able to affirm that.

Did Michael Rudzik give David Peden anything of value for his deference to Prisma?

We have been advised that he did not, however, an entity that has subpoena power to audit his finances and those of Prisma's, in addition to Prisma's ethical protocol should be able to affirm that.

Did Michael Rudzik, Bill Cook or Girish Reddy benefit from the Strategic Partnership?

When KKR acquired Prisma in 2012, the fifteen senior principals at Prisma were to receive three Earn Out payments, one in 2012, one in 2014 and one in 2017. Mr. Cook, Mr. Rudzik and Mr. Reddy were three of the fifteen senior principals included in the Earn Out. The Earn Out paid was to be based upon revenue generated. The informal strategic partnership began in May 2015 and was approved as formal by the Investment Committee in May 2016. Any value acquired from the commencement of the 2015 strategic partnership could have been included toward the 2017 Earn Out. However, there was no payment made for the 2017 Earn Out, according to KKR & Co. Inc's 10-K, Securities and Exchange Commission February 24, 2017, filing, for the year ending December 31, 2016. *Supra*, Ex. 61. However, fees obtained through the strategic partnership beyond those established in the FoHF agreement may have benefitted Mr. Rudzik or Mr. Reddy via bonuses or other compensation that is based upon performance (Mr. Cook was retired). Due to the Limitations of the Investigation are not aware of alternative revenue or bonuses that Mr. Cook, Mr. Rudzik or Mr. Reddy would have received from KKR/Prisma from the strategic partnership.

If the strategic partnership was not restructured by the late 2016 Investment Committee, Prisma, Mr. Reddy and Mr. Rudzik as employees, could have benefitted. However, we understand that KKR/Prisma may not have financially benefitted from the strategic partnership as structured. Prisma provided Michael Rudzik to KRS at no cost to KRS, although as referenced above good will and access to KRS' Direct Investments due diligence can have an intangible value. Prisma also did not incur any fees for the Direct Investment part of the strategic partnership. This is memorialized in the first Advisory Services Agreement, signed in June 2015. KRS benefitted from the strategic partnership with a free experienced absolute return investment advisor stationed at KRS two weeks a month, and free management of their Direct Investments portfolio and saved around $480,000 with the termination of Albourne who provided similar services. Therefore, any fees incurred by Prisma would have been for Prisma's FoHF role.

Prisma was allocated 3.33% of the 10% absolute returns allocation, as were PAAMCO and Blackstone in 2011. As the PAAMCO and Blackstone FoHF relationships were being unwound, the strategic partnership increased Prisma's allocation of the FoHF share up to 5% from 3.3% in May 2016. The other 5% absolute return allocation for Prisma was for the Direct Investments (for which they did not charge any fees). Further, in exchange for the bump up to the 5% FoHF absolute return allocation, Prisma reduced their FoHF management fee from .70% to .55%.

Continuing in May 2016, there was an increase in Direct Investments made by KRS. When the new trustee board took hold in September 2016, they immediately started to restructure the FoHF and Direct Investment program. Indicative of the Investment Committee's plans to reevaluate all of the current hedge fund holdings of KRS, Trustee Neil Ramsey emailed Peden to request that he provide Mr. Ramsey with information on all of the existing investments that fall into "3 buckets": "1. All the managers in the Daniel Boone portfolio; 2. All the direct investments that are labeled in the Absolute Return bucket; and 3. All other direct investments advised by either Prisma or Albourne." *See* Ex. 66. In this email, Mr. Ramsey further stated that regarding hedge fund investments, "You say "'more time is needed to make a prudent decision.'" The committee will decide this, not you or me." *Id*. As the existing investments were evaluated to determine which could provide KRS with a continued benefit, either through exposures not captured through existing equity investments or a potential return on investments that would likely not be outweighed by risk or fees, a presentation was prepared for the Investment Committee meeting on November 2, 2016 that placed existing investments into those that would be kept by KRS, potentially kept or eliminated for one or more of the foregoing reasons. *See* Ex. 67. Following these deliberations, coverage in both the *Wall Street Journal* and *Pensions & Investments* indicated that KRS would be moving away from Absolute Returns and more generally, hedge funds, as an asset class. *See* Ex. 68 and Ex. 69, respectively. Echoing the plans discussed by the Investment Committee at their meeting of November 2, 2016, Mr. Peden appeared in a Bloomberg TV segment where he emphasized that managers who would be redeemed would be those in asset classes that contain higher levels of beta and correlations to the equity and credit markets that KRS already had exposure to within its existing, traditional asset allocations. *See* "Kentucky Pension CIO, Hedge Fund Costs Spurring Pullout," November 18, 2016 (*available at* https://www.bloomberg.com/news/videos/2016-11-18/kentucky-retirement-cio-hedge-fund-costs-spurring-pullout) (last visited April 14, 2021).

After the portfolio restructuring, for Prisma to have generally benefitted there would have to have been more FoHF investments made to underlying mangers (or Prisma's own Apex Tactical product) and enough fees incurred at the new management fee rate that would have flowed to Prisma or to Mr. Reddy and Mr. Rudzik and to Mr. Cook, if his Prisma investments benefitted from Apex Tactical. As KRS proceeded with its plans to redeploy $300M of additional capital to the Apex Tactical strategy in February 2017 (bringing the total allocation to $400M), management fees assessed by Prisma rose $631,329 between calendar years 2017 and 2018. While this indicates that Prisma may have benefited if the arrangement had continued for a longer period of time, the Daniel Boone Fund (and resultingly, the KRS investment in Apex Tactical) started to be wound down in 2018.

Did Bill Cook's Prisma investments, as referenced in his September 2016 Recusal Letter, benefit from any investment decisions made regarding Prisma while he was a KRS trustee from 2016-2019?

Outside of the potential earn out payment from KKR Prisma relating to Mr. Cook's former employment with the firm, Mr. Cook's attorney has stated that the other holdings involve closed end, fixed term, limited partnership funds that did not involve an ownership interest in KKR Prisma itself. As such, these holdings may not hinge on the performance of KKR Prisma, but rather the performance of their underlying investments. Due to the Limitations of the Investigation, we were not able to determine if, in fact, Mr. Cook's KKR Prisma investments did not benefit from his trusteeship.

If our assessment is correct that Prisma did not financially benefit from the strategic partnership, and if Mr. Cook's investments did not benefit from his trusteeship, then the reading of the *Bill on the Board* and *Kirk Beuse* emails can be viewed as reflecting KRS benefitting from the Prisma relationship, and Mr. Peden may have felt that he owed Prisma for the benefits to KRS and sought to "pay them back." This pay back might have included keeping Prisma around KRS long enough to generate enough returns that it was worthwhile for Prisma to send Michael Rudzik to KRS to provide management, mentoring and vetting services for KRS' Direct Investments at no costs and to take a cut in their FoHF management fees.

If the above holds true, then two other questions could be explored:

1. Did the newly structured post-2016 Strategic Partnership benefit Mr. Cook, Mr. Rudzik or Mr. Reddy?

An entity that has subpoena power to audit their finances should be able to affirm that.

2. Did KRS lose out on investment returns between what Blackstone was generating when terminated versus what Prisma was generating for KRS? Would KRS have benefited in other ways, had Blackstone been selected as the Strategic Partner rather than Prisma?

BAAM was outperforming Prisma for several years leading up to the Prisma strategic partnership. David Peden terminated Blackstone's 3.3% absolute returns allocation, and then increased Prisma's allocation to 5%. If Blackstone was the beneficiary of the Absolute Return increase, it may have resulted in higher returns for KRS than Prisma provided. Based on available evidence, we believe that such a determination would be largely speculative. As the BAAM investment format was in a fund of one, there is not a surviving performance record to track versus the performance of Prisma's FoHF – or the Direct Investments it played a part in recommending.

Provided below is our calculation of the net returns received by KRS after fees, and the HFOF fees, up to the dates listed in the first column.

KRS Net of Fees & FoF Fees

- PRISMA Daniel Boone

Year	Fee Totals	Net After Fees
Through Dec 31, 2019	$ 35,192,489.00	$ 141,808,966.00

- BAAM Henry Clay

Year	Fee Totals	Net After Fees
Through Dec 31, 2017	$ 32,025,882.00	$ 161,588,805.00

- PAAMCO Newport Colonels

Year	Totals	Net After Fees
Through Dec 31, 2018	$ 23,520,352.00	$ 95,044,704.00

Source: Audited Financial Statements, *See* Ex.'s 43.44 and 45, *supra*.

Below is the rough draft of a chart compiled by KRS Staff, which seeks to analyze the total contributions, distributions, profit and IRR for the three FoHFs, as of July 31, 2020. As expressed, by staff, in relation to this chart "a couple of the KKR numbers may not have transferred over correctly" and staff "wouldn't consider this final, but it's probably fairly close." Please note that this chart runs through mid-2020 and not the periods in the charts above, when audited financial reports for the FoHFs are no longer available.

($ millions)	PAAMCO		BAAM		KKR	
	Pension	Insurance	Pension	Insurance	Pension	Insurance
Contributions	$358.5	$106.6	$348.4	$108.2	$559.1	$204.8
Distributions	$428.8	$127.3	$475.7	$147.6	$670.2	$235.4
$ Profit	$70.3	$20.7	$127.3	$39.3	$111.1	$30.6
IRR	4.4%	4.2%	7.4%	7.0%	4.2%	3.2%
6/30/20 Balance	nil	nil	$0	$0	$96.8	$40.2

IceMiller KRS Tax & Fiduciary Counsel

IceMiller is a law firm that was and still is retained by KRS through an RFP process. The contractual relationship between IceMiller and KRS incorporates the agreement (i.e. contract), IceMiller's response to the RFP, and the RFP. IceMiller and KRS' agreement states that IceMiller is to provide counsel and advice related to: Internal Revenue Code and other tax related matters; pension plan compliance and design issues; trustee training and education session upon request; compliance with local, state and federal laws and identifying of and assisting with resolving inconsistencies to enable the KRS funds to pursue its business-related objectives; determining problems in business processes or operations and identifying corrections; acquisition or sale of real estate held for investment purposes by the Systems; and health benefit plan compliance. *See* Ex. 70 (2012 RFP and Contract). The late 2016 RFP that IceMiller responded to also includes fiduciary liability insurance counsel. *See* Ex. 71. So although fiduciary liability counsel is not listed in the agreement, it is incorporated into the contractual relationship by way of the RFP. However, when a law firm is retained by a municipality to be available to provide counsel, it often is on an as needed basis, upon request of the municipal entity. Therefore, the fact that the scope of services in the Tax and Fiduciary Counsel RFPs included fiduciary liability insurance counsel does not mean that IceMiller was asked to provide counsel on fiduciary liability insurance matters that arose at KRS. And, in this case, we could not find evidence that KRS contacted IceMiller on fiduciary liability insurance matters.

IceMiller primarily provided counsel to KRS on tax matters and litigation as follows: tax counsel regarding 2015 IRS Determination Letters for three funds; counsel on H.B. 62, cessation of participation and H.B. 281 retiree rehire; litigation counsel on the matters of Seven Counties and Holly Hill; and fiduciary training to the Board of Trustees, and later the Board of Directors, as reflected in PowerPoints and white papers in 2008, 2009, 2011, 2012, 2013, 2014, 2016, 2018, which included providing such training as "How to Conduct a Board Meeting" to the new 2016 Trustees.[19]

Fiduciary Liability Insurance Counsel

When issues arose related to fiduciary liability insurance renewal, it was discussed internally or by KRS' operations staff in consultation with the Kentucky Finance and Administration Cabinet, State Risk and Insurance Division. *See* Exs. 72 and 73, respectively. Operations staff would then advise the Board of Trustees, if and when a policy was renewed.

April 2009: During our review, we identified correspondence discussing how the underwriters were increasing the premium or reducing the coverage due to KRS' underfunding. The underfunding was a theme throughout most of the related correspondence. Then, the underwriters

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[19] Examples of interactions by IceMiller LLP with KRS during the period of our Investigation and, more specifically, with the Board of Trustees included counsel on various topics, including full fiduciary training presentations to the Board of Trustees on Fiduciary Responsibilities on Sept. 15-16, 2011, October 4, 2012, July 25, 2013, and October 23-24, 2014; a discussion of legal advice provided by IceMiller regarding the compliance of KRS with particular IRS regulations; and participation in closed meetings of the Board of Trustees related to pending litigation on February 13, 2014 and June 11, 2014.

would later refer to the negative investment coverage on top of underfunding as justification for changing quotes or not renewing the policies. For example, at the April 2009 Board of Trustees meeting, then Executive Director Burnside reviewed the "Fiduciary Liability Insurance Renewal" memorandum that stated the existing fiduciary liability insurance policy would expire April 25, 2009 and outlined the renewal terms for the current policy. Mr. Burnside advised that the large increase in the amount of the annual premium was due to the underwriter's concern regarding KRS' funding ratios. He advised that there was a second option with a lower liability limit which would result in a lower annual premium. At this meeting, the Board of Trustees authorized staff to renew its fiduciary liability insurance coverage with a $5,000,000 liability limit at a price of $74,602.50.

April 2016: At the April 21, 2016, Board of Trustees meeting, KRS' Karen Roggenkamp advised the trustees that the fiduciary insurance policy was not renewed. The recording reflects Ms. Roggenkamp stating the underwriters cited the funds' unfunded liability, as well as negative press coverage on certain investments, as why the underwriters were reticent to provide coverage. In fact, Ms. Roggenkamp advised the trustees that there were several carriers, including KRS' current provider, that declined to offer liability insurance coverage. She provided the trustees with a list of those carriers who denied coverage and then provided examples of discussions had with these carriers. Ms. Roggenkamp stated that the latest fiduciary policy that was not renewed provided for $5 million in coverage, with a $250,000 deductible and an $80,000 premium. From underwriter Ironshore, she received a quote for $3 million with exclusions applicable to ongoing litigation ***<u>and</u>*** any litigation regarding unfunded status; then, AIG provided her a quote with litigation exclusions on investments in Real Return, Real Estate, Private Equity and Hedge Funds. She also shared that Lloyds of London quoted a $2.5 million policy with $500K deductible. It was at this meeting that the trustees and KRS staff discussed proceeding as self-insured.

Fiduciary training was provided by IceMiller and other entities to the trustees, and by extension to staff in attendance at the same board and investment committee meetings. Despite this training, we identified lapses related to ethical boundaries, KRS' protocols and conflict of interests.

As reflected below, the advice and guidance of outside fiduciary counsel was very much needed at KRS for certain instances between 2011 and 2016 but was not sought.

Examples of such lapses included:

1. Ms. Elliot's failure to recuse herself from voting on Prisma after being advised that her law firm represents Aegon/Prisma.
2. As discussed above, Mr. Cook submitted a draft recusal letter to then Executive Director Mr. Eager and Board Chair Mr. Farris on their personal emails. That email was then forwarded to Mr. Blickman (Chief of Staff to Governor Bevin) who then forwarded it to Mr. Pitt (Counsel to Governor Bevin). This communication all occurred on personal emails, as opposed to government emails. The guidance provided to Mr. Cook by the Governor's office was too narrow, where it prohibited him from voting on matters related to Prisma, yet he attended Investment Committee meetings and remained on email chains that included what the Investment Committee was considering related to the Prisma strategic partnership. A proper recusal would have walled off Mr. Cook from any

discussions related to Prisma, especially since he was still eligible for a KKR/Prisma Earn Out in 2017. Further, the recusal just focused on Mr. Cook's Earn Out rather than his Earn-Out and the Prisma investments he disclosed. These were two distinct considerations, and the only the former was addressed.

3. After Chris Schelling, a senior investment staff member who was responsible for managing the absolute return portfolio advised Prisma's Girish Reddy that he was leaving KRS, the staff member then asked Mr. Reddy to serve as a reference; inquired about job opportunities that Mr. Reddy may be aware of; sent Mr. Reddy his resume; and, continued consulting with Mr. Reddy during his search process while he remained at the KRS.
4. Mr. Peden's alleged ethical failures in relation to Prisma's strategic partnership relationship with KRS, as discussed herein.

IceMiller Firm Comments

Training: As reflected above, IceMiller provided fiduciary training, upon request to the Board of Trustees, but was not asked to do so for new trustees specifically, except for a "How to Conduct a Board Meeting" training held in 2016. However, since KRS staff, including the Executive Director and staff from Legal, Audit and Investments, were present at both Board of Trustee meetings and Investment Committee meetings when such training occurred, they also benefitted from the training provided.

According to the evidence we reviewed, IceMiller was not asked to address conflicts of interests relating to specific trustees. However, IceMiller's counsel should have been sought regarding Bill Cook's recusal -- although IceMiller was not asked for such counsel in the past, that should not have prevented Investment Staff from raising the Cook recusal issue with them.

Fiduciary Insurance: Further, in our review of the evidence provided to us we did not identify any instances of IceMiller being asked to provide counsel regarding KRS' fiduciary liability insurance. Issues related to fiduciary liability insurance were addressed by the KRS internal operations team and the Commonwealth of Kentucky's Finance and Administration Cabinet, State Risk and Insurance Division. Additionally, since insurance companies repeatedly dropped KRS, increased their premiums or decreased their coverage with carve outs due to KRS' extreme underfunding and investments, IceMiller's counsel could not have changed the circumstances of coverage.

Cavanaugh Macdonald as Actuarial Consultant

Cavanaugh Macdonald ("CavMac") is an actuarial firm that represents a series of state and local public pension plans nationwide. CavMac was retained by KRS as the Plans' actuary from 2006 until 2017. CavMac's responsibilities included, among other things: (1) provision of annual actuarial variations and the conducting of related investigations; (2) production of an experience study once every ten years (and more often, if requested by KRS); (3) conducting actuarial simulation models to determine the effect of proposed or planned structural changes to the Plans; (4) as requested, the provision of actuarial operating tables, asset liability studies, consultation and advisory services on legislative proposals, and trustee education; and (5) provision of an annual letter to accompany the KRS Comprehensive Annual Financial Report.

Annual valuations provide a pension plan with an overview of the actuarial condition of the plan and are used to develop annual employer contribution rates for the plan (in the case of KRS, the ARC). Experience studies are conducted periodically by pension plans to determine appropriate economic and demographic assumptions to be applied to actuarial evaluations moving forward. By law, valuations are required to be completed on an annual basis, and during the relevant period, experience studies were required to be conducted every five years. *See* KRS § 61.670, as effective July 15, 1994 (modified since to require experience studies to be conducted at least once every five years). Importantly, experience studies are required by statute to evaluate the impact of any changes in assumptions on employer contribution rates *over a thirty-year period. See id.* The AARIR is used as a "discount rate," or essentially as a coupon, on the annual employer contributions rates that are determined from a variety of actuarial considerations. At all times during the relevant period, the KRS Board of Trustees set employer contribution rates for the Plans (also referred to as the ARC). The role of a public pension fund actuary is to estimate possible future economic and demographic outcomes for pension plans, taking into account both past experience and probable future expectations. *See* Ex. 74, 2013 CavMac Experience Study at 4. Price inflation, anticipated investment returns (e.g., the AARIR) and wage inflation are some of the key economic considerations that are relied upon by pension plans to estimate their future economic landscapes. *See id*. at 4-17. As stated by CavMac in their 2013 Experience Study compiled for KRS, "because no one knows what the future holds, the best an actuary can do is to use professional judgment to estimate possible future outcomes..." *Id*. at 4.

Actuarial standards are guided by standards of practice set forth by the Actuarial Standards Board, with the primary guidance related to pension plan assumptions provided by Actuarial Standard of Practice ("ASOP") No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations." *See* Ex. 75. ASOP No. 27 describing the uncertainty inherent in the selection of economic assumptions in Section 3.6.2, "Range of Reasonable Assumptions," stating that "the actuary should recognize the *uncertain nature* of the items for which assumptions are selected and, as a result, *may consider several different assumptions reasonable for a given measurement*. The actuary should also recognize that *different actuaries will apply different professional judgment and may choose different reasonable assumptions*. *As a result, a range of reasonable assumptions may develop both for an individual actuary and across actuarial practice*." *Id*. at 6 (emphasis added). ASOP No. 27 further provides that "an assumption is reasonable if it has the following characteristics:

> a. It is appropriate for the purpose of the measurement;
>
> b. It reflects the actuary's professional judgment;
>
> c. It takes into account historical and current economic data that is relevant as of the **measurement date**;
>
> d. It reflects the actuary's estimate of future experience, the actuary's observation of the estimates inherent in market data, or a combination thereof; and
>
> e. It has no significant bias (i.e., it is not significantly optimistic or pessimistic), except when provisions for adverse deviation or plan provisions that are difficult to measure are included and disclosed under section 3.5.1, or when alternative assumptions are used for the assessment of risk.

Id. at 5 (Section 3.6 "Selecting a Reasonable Assumption") (emphasis in original).

Also recognizing the variability within expected future outcomes, CavMac affirmatively stated in its 2013 Experience Study that estimates are "best stated as a range utilizing the actuary's professional judgment," and set forth potential assumptions for the KRS Plans within reasonable ranges rather than by using a finite number. *See* Ex. 74, *supra*, CavMac 2013 Experience Study.

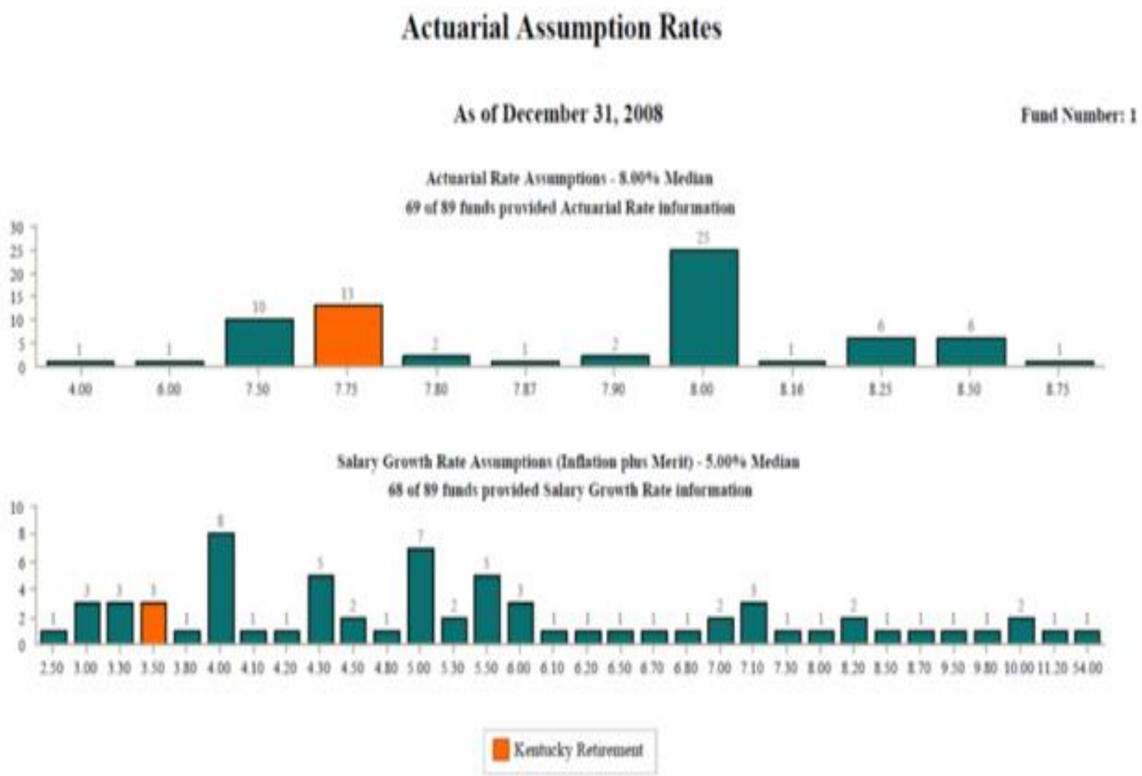
The history of changes to the overall KRS AARIR from 2006 to 2018 is as follows:

- 2007, the rate for all plans was lowered from 8.25% to 7.75%;
- 2014, decreased to 7.50%;
- December 2015, the rate was decreased to 6.75% for KERS-NH and SPRS plans; and
- 2017, the rate was reduced again to 5.25% for the more severely underfunded KERS-NH and SPRS plans and to 6.25% for the CERS-NH, CERS-H and KERS-H plans.

Actuarial considerations for the AARIR consist of two components: (1) the real rate of return and (2) the assumed rate of inflation. For example, during the time period that the KRS AARIR was set at 7.75%, the AARIR consisted of a 4.25% real rate of return assumption and a 3.50% assumed rate of inflation (also termed as "price inflation"). While an assumed rate of inflation may reasonably differ between actuaries, the rate of inflation that is applied to one aspect of a Plan's experience study should match those applied to other aspects of the same study.

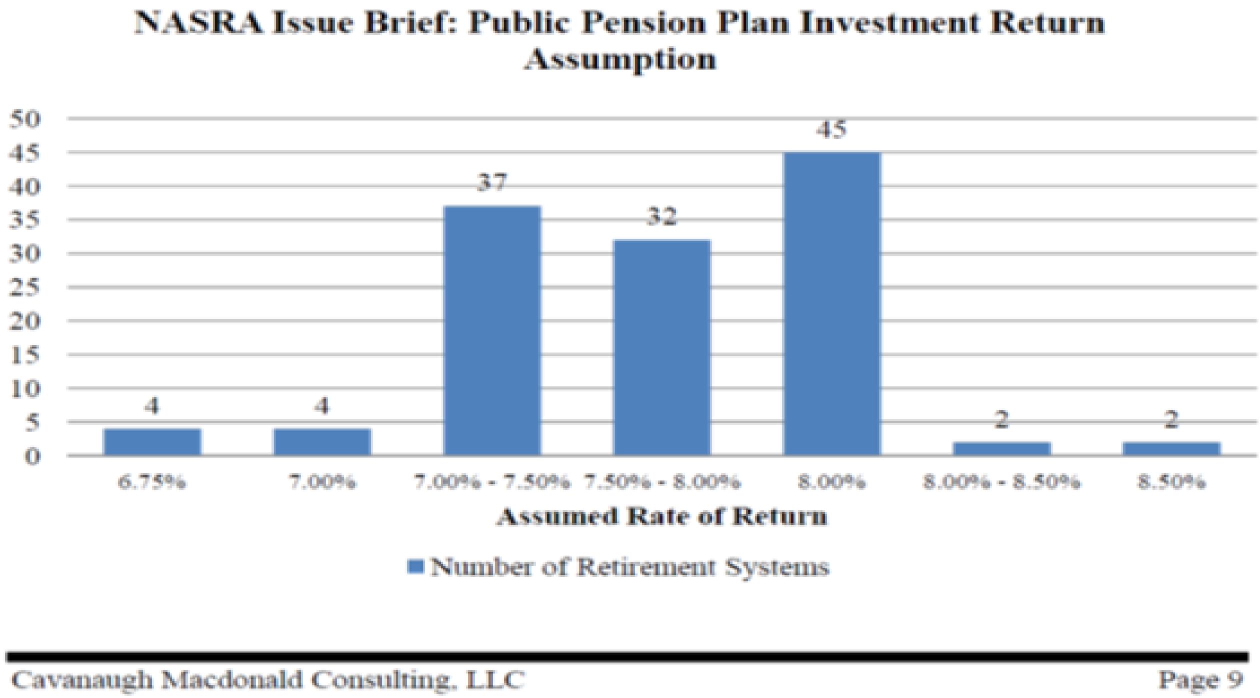
As illustrated in the below charts, the AARIR used by KRS during the beginning of the relevant period (7.75%) was not unique to nationwide public pension plans at the time. In fact, a R.V. Kuhns public funds analysis in 2009 indicated that the KRS AARIR of 7.75% was somewhat conservative compared to other pension plans, with the majority of plans reviewed utilizing a AARIR of 8.00% or higher. A similar analysis conducted by the National Association of State Retirement Administrators ("NASRA") in 2013 found 8.00% to be the predominant AARIR across reviewed plans at that time – and NASRA recently found that, even today, the median AARIR among plans across the country remains at 7.23%.

2009 Nationwide Investment Return Assumptions



Source: RvK Public Fund Universe Analysis AAR December 2008

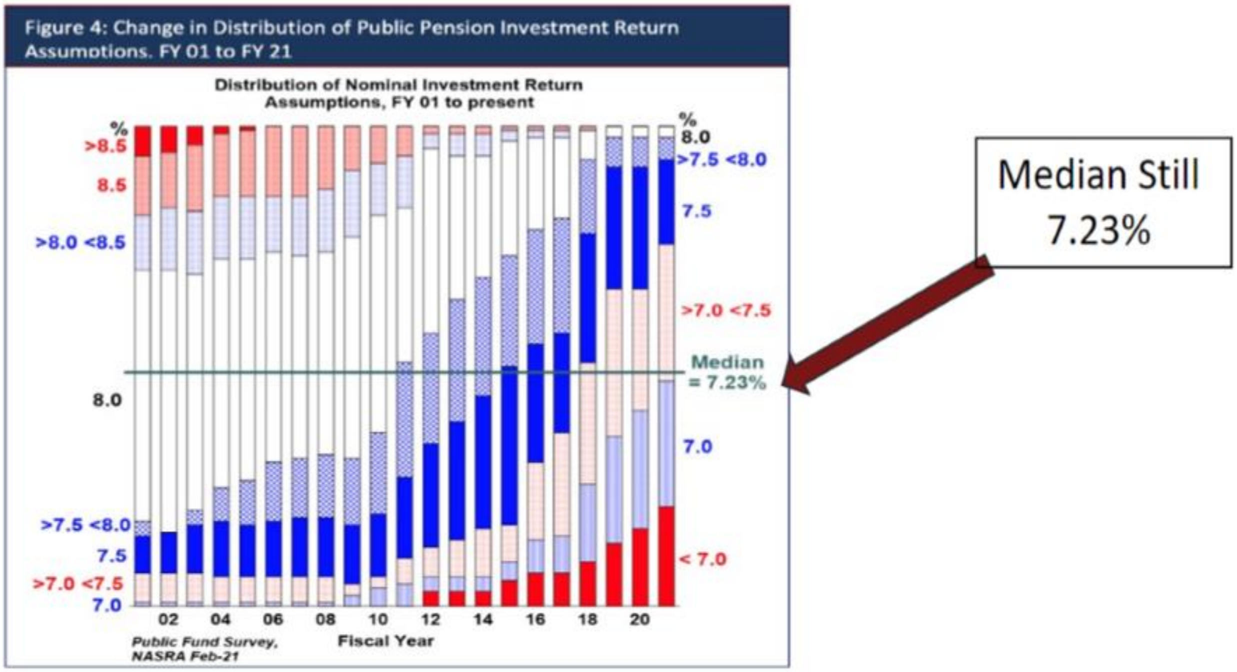
2013 Nationwide Investment Return Assumptions



8% is the predominant assumption

Source: Pg. 9 - April 30, 2014 - Cavanaugh Macdonald Consulting LLC- KRS Experience Study For the Five-Year Period Ending June 30, 2013 citing National Association of State Retirement Administrators: Public Pension Plan Investment Return Assumption.

Nationwide Investment Return Assumptions Today



Source: NASRA [National Association of State Retirement Administrators] Issue Brief: Public Pension Plan Investment Return Assumptions, February 2021, Pg. 3

Available evidence also indicates that trustees engaged in a healthy discussion of whether it was more prudent to proceed with a conservative AARIR for the Plans versus structuring asset allocations in an attempt to seek more substantial returns. As discussed, the KERS-NH, KERS-H and SPRS Plans were consistently faced with more severe underfunding issues than their CERS-NH and CERS-H counterparts that received full ARC funding from their participating employers. Correspondingly, the better funded Plans could pursue a wider range of investments (and a wider range of profit potential) with liquidity restrictions that were essentially off the table for the less funded Plans. Illustrating the link between changing asset allocations and a lower AARIR, then-CIO Robben commented to Investment Committee members that "it is a bit counterintuitive but if we increase core fixed income in the K and S plans, we actually lower the probability of hitting the 5.25% assumed rate of return. I believe this is because the return assumption for core fixed income is roughly 3.5% versus 6.25% for stocks, so as we increase its weight we essentially 'lock in' the lower return." *See* Ex. 76.

CavMac Firm Comments

The evidence that we reviewed shows that CavMac did not attempt to hide the true nature of the underfunding in communications with KRS. For example, in a September 23, 2009 email to William Thielen, Thomas Cavanaugh, then-CEO of Cavanaugh Macdonald, stated to Thielen that "if the systems earn the assumed rate after 08-09 they will never make up the loss." This was in response to a question from Thielen regarding how long it would take KRS to recover losses from the recession, if it earned its AARIR of 7.75%. In November 2009, Cavanaugh conducted an additional analysis following the annual Board Retreat to evaluate the importance of the Governor and General Assembly adhering, at a very minimum, to the graduated phase-in of funding levels as set forth in H.B. 1. In sharing Mr. Cavanaugh's findings with the Board, then-Executive Director Burnside stated that: "We just received the attached set of projections from Cavanaugh today. As you can see from his analysis, the funding levels based on actuarial projections are not much better than we had discussed at the board retreat. Based on the 7.75% rate of return and a 1.5% COLA, we could run out of money in 2017 if we are held to the same employer contributions we are receiving this year… If we do not receive at least the amount of funding required by HB 1 in each of the coming 10 years, it will be extremely difficult to keep the KERS NH and SPRS funds viable." *See* Ex. 77. This data was supplied during a time when KRS staff and trustees took steps to meet with Governor Beshear to express the importance of increased ARC funding. Available evidence shows that on October 27, 2009, Mr. Burnside, Mr. Tosh, Mr. Overstreet and Mr. Longmeyer met with the Governor to make this point, after Ms. Elliott was successful in securing a meeting just a week before it took place.

CavMac also provided critiques of what might be necessary to fix the funding problems at KRS. In a 2012 email reply to Thielen, Cavanaugh states that "Bill – the other paper doesn't say anything new although it is not as strident as some I've read. To me the issue for KRS is a serious look at whether benefits can be changed for current members. Something has to be done but the legislature has dug such a deep hole with the funding shortfalls that seeing the edge of the hole to climb out is getting tougher and tougher. We are ready willing and able to assist in this effort if the legislators recognize there is no magic bullet." *See* Ex. 78. This is in response to Thielen notifying Cavanaugh that a new Pension Task Force was formed to review changes to the structure of the public pension plans.

The challenge with addressing whether CavMac should have advocated or insisted on amending the AARIR is that the aforementioned industry standards for actuaries provide for a wide range of reasonableness. Indeed, in CavMac's 2008 and 2013 experience studies, CavMac recommended an AARIR within its determined ranges. This is also true of CavMac's calculations for wage inflation and price inflation at the time, as each were calculated using recent statistics from U.S. government sources (namely the Chief Actuary for Social Security with regard to wage inflation and the Consumer Price Index for price inflation). *See* Ex. 79, CavMac 2008 Experience Study at 8 and 17 and Ex. 74, *supra* at 5 and 17. The price inflation assumption was included in both the AARIR and wage inflation assumptions in each of CavMac's experience studies during the relevant period. *Id*. For example, in 2013 the 4.00% wage inflation rate was inclusive of 3.25% price inflation and only 0.75% actual wage growth -- this assumption fell within a defined reasonable range between 3.75% and 4.75%. *Id*. Though CavMac should likely have been more cognizant of issues such as the stagnant to decreasing size of the Commonwealth's workforce during the relevant period (and thereby the lower entry of new, contributing members to the Commonwealth Plans), and furloughs of existing employees, we acknowledge that the recommended assumptions are based on a thirty-year outlook for KRS.

There are long-term considerations that are core to actuarial assumptions, CavMac's 4.5% wage growth rate as set after the 2008 Experience Study was challenged by a journalist in 2009. In relaying his conversation, then-Executive Director Burnside stated: "I just got a call from the Courier Journal asking about our experience study. The question is, why are we assuming an increase in wages of 4.5% vs. the 3.5% we used previously, especially in light of the fact that the Governor's office is saying they are leaving 2,000 positions vacant and are not planning for any significant salary increases? I told her I would contact you for the full answer of what we assume with the 4.5% growth rate (i.e. there is more to this than just saying everyone gets a 4.5% raise)." *See* Ex. 80.

Mr. Cavanaugh explained that: "that assumption is a long-range assumption not what we expect will happen over the next year or two...[i]ts why I asked Bill for some 1970's or 1980's payroll information so we can hopefully show that such growth is not out of the question." *Id*.

In relation to the longer-term outlook underpinning the AARIR, then-CIO Carlson expressed in a September 2012 meeting of the Investment Committee that it is unrealistic that a return of 7.75% could be met over every five- or ten-year period, but that KRS had reached this rate of investment return when performance was viewed through the lens of a thirty-year look back. While Mr. Carlson expressed his view that evaluating a way to employ shorter-term assumptions could be beneficial, he also stated in a November 2012 internal email that "for the ten years ending September 30, 2012, the Pension plan returned 7.22% while the Insurance Fund returned 7.71%, nearly matching our long run goal of 7.75%." *See* Ex. 81. This includes the 2007-08 period when KRS suffered its worst investment losses as a result of the recession.

Concerned that CavMac's assumptions may not be appropriate, the Board of Trustees enlisted the services of Segal Consulting in 2015 to perform an audit of CavMac's 2013 Experience Study. Presenting to the Board of Trustees on September 10, 2015, representatives of Segal shared their view that CavMac's economic assumptions were geared toward the higher end of the reasonableness spectrum. Regarding the reduction to a 7.50% AARIR in 2014, a Segal representative posited that "although we really liked their [CavMac] 7.50% recommendation, it seemed like the data that they had used to support it was really pointing to something lower than 7.50%." A trustee noted that CavMac previously suggested an AARIR of 7.00% within its range of reasonableness to the Board of Trustees, but that change would have resulted in a contribution rate that would have increased significantly at a time when KRS was just beginning to receive full ARC funding.

Segal also noted that they viewed CavMac's price inflation figure of 3.25% to be on the higher side, as they were then recommending a rate of 3.00% and below to their clients. CavMac also presented at the September 10, 2015, meeting to respond to Segal's findings, stating that they were disappointed that Segal did not make an attempt to speak with them before issuing their audit, and noting that Segal found the rate of 7.50% to be "reasonable," with which CavMac agreed. CavMac also stated that, with respect to price inflation assumptions, "the actuary must take care not to put too much weight on recent events." CavMac further provided its view that in order to proceed with caution in making assumptions, it did "not make wild changes in our assumptions," and that "an incremental change down...is the prudent thing to do." In December 2015, the Board ultimately voted to reduce the AARIR to 6.75% for the more underfunded KERS-NH and SPRS plans.

As included in its contract with KRS, CavMac routinely provided analyses related to proposed legislation. In 2011, a bill was introduced that would have closed the existing defined benefit plan altogether (S.B. 2), necessarily resulting in increased *employer* contributions beyond those contained in H.B. 1 because *employee* contributions to the plan would then cease. A special Board of Trustees meeting was called to discuss the legislation and the Board ended up voting to oppose the legislation on these grounds.

In a recap to Board of Trustees members, then-Executive Director Burnside noted that "if employers are unable to meet the increased payments to the system with a closed plan, the health of our trust funds will be jeopardized, making it extremely difficult for us to manage our cash flow and restore the funds to a healthy status." *See* Ex. 82. In response to Burnside's email, then-Trustee Reynolds raised the following concern**:** "There is one big question that has been bothering me since Friday. It is a question for Tom Cavanaugh. In doing the projection for a 20 or 25 year study, would you be comfortable with a discount rate of 7.75? If a lower discount rate is used during any part of a 20 or 25 year study would[n]'t the ARC go off the charts?" *Id.* In replying to Reynolds, Burnside stated that:

> I can't speak totally for Tom on the discount rate, but when he did the experience study in late 2008 and recommended updated actuarial assumptions he did recommend we stay with 7.75% for the 30-year term of the annual valuations. The rationale is that he was assuming an inflation rate of 3.5% and a real rate of return of 4.25% over the long haul. Many people have been saying that assumed rates are too high across the industry, and they use that as a lead-in for their argument that the size of the unfunded liability for all pension systems is significantly understated.
>
> If we use a lower discount rate than 7.75%, the unfunded liability will increase even further and employer contribution rates will increase proportionally.

Id. As demonstrated in this example, CavMac's actuarial analyses were central to considerations by KRS as to the propriety of proposed legislation during this time.

Criticism of CavMac

As can be presumed from the fact that the Board of Trustees asked Segal to audit CavMac's experience study, from time to time there were criticisms surrounding CavMac's performance. Specifically, there were issues surrounding an actuarial analysis provided by CavMac to the General Assembly regarding the 2011 iteration of S.B. 2. Then-Executive Director Burnside notified senior staff and trustees that CavMac made a significant error in the analysis provided, with less than favorable consequences for KRS: "[U]nfortunately, the end result is that we will have some who use this as ammunition to cast doubt on other analyses we have provided in the past and will continue to provide for future bills." *See* Ex. 83. Responding to Burnside, then-

Trustee Wilcher stated “With all due respect to Tom, this does a great deal of harm to whatever credibility we had. It may not be possible to restore that in this session and Tom’s work product may be permanently tainted in the eyes of the legislature and LRC.” *Id*. In the end, the 2011 version of S.B. 2 did not become law, but arguably did pave the way for the 2013 iteration of S.B. 2, which established the cash-hybrid plan that is currently in place.

CavMac’s contract was not renewed after 2017.

Contractual Duties of CavMac

The terms of KRS contracts with CavMac do not expressly create a fiduciary duty. However, each of the agreements entered into sets forth a duty of care guiding CavMac’s performance of actuarial services:

> Contractor Assurances and Warranties: All services will be performed for the Systems in accordance with, but not limited to, generally recognized and accepted principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries. The Contractor shall perform its services with the judgment, care, skill, prudence, and diligence which persons of prudence, discretion, and intelligence acting in a like capacity and familiar with such matters would use in performing like services relative to the conduct of the enterprise of like character and with like aims.
>
> *See* Ex. 84 at 2 (2006 Contract) and Ex. 85 at 2 (2013 Contract).

To bring a claim against CavMac based upon the performance of its services related to the AARIR, it would be necessary to demonstrate that CavMac deviated from the above standard of care.

EXHIBIT 1

Kentucky Retirement Systems
Overview

Presented to the

Kentucky Public Pensions Task Force

by

William A. Thielen

Interim Executive Director

and

T. J. Carlson

Chief Investment Officer

July 2, 2012

Kentucky Retirement Systems (KRS) Facts

- **KRS administers retirement benefits for more than 324,000 state and local government employees.**
  - These employees include state employees, state police officers, city and county employees, local agency employees, and nonteaching staff of local school boards and regional universities.

- **KRS administers three plans:**
  - Kentucky Employees Retirement System (KERS)
    - KRS 61.510 to 61.705 and KY Administrative Regulations, Title 105
  - County Employees Retirement System (CERS)
    - KRS 78.510 to 78.852 and KY Administrative Regulations, Title 105
  - State Police Retirement System (SPRS)
    - KRS 16.505 to 16.652 and KY Administrative Regulations, Title 105

Plan Administration

- **A nine-member Board of Trustees administers the Systems:**
  - Two trustees elected by KERS members
  - Two trustees elected by CERS members
  - One trustee elected by SPRS members
  - Three trustees appointed by the Governor
    - *One must be knowledgeable about the pension requirements on local governments*
    - *Two must have at least 10 years of investment experience*
  - The Secretary of the Kentucky Personnel Cabinet, *ex officio*
- **The Board appoints an Executive Director to act as the Chief Administrative Officer of the Board**
- **KRS reports to the Kentucky General Assembly and Governor**

Plan Administration

- **The following standing committees are created in the bylaws of the KRS Board of Trustees:**
  - Administrative Appeals Committee
  - Disability Appeals Committee
  - Audit Committee
  - Investment Committee
  - Legislative and Budget Committee
  - Human Resources Committee
  - Retiree Health Committee
  - Legal, Compliance and Governance Committee

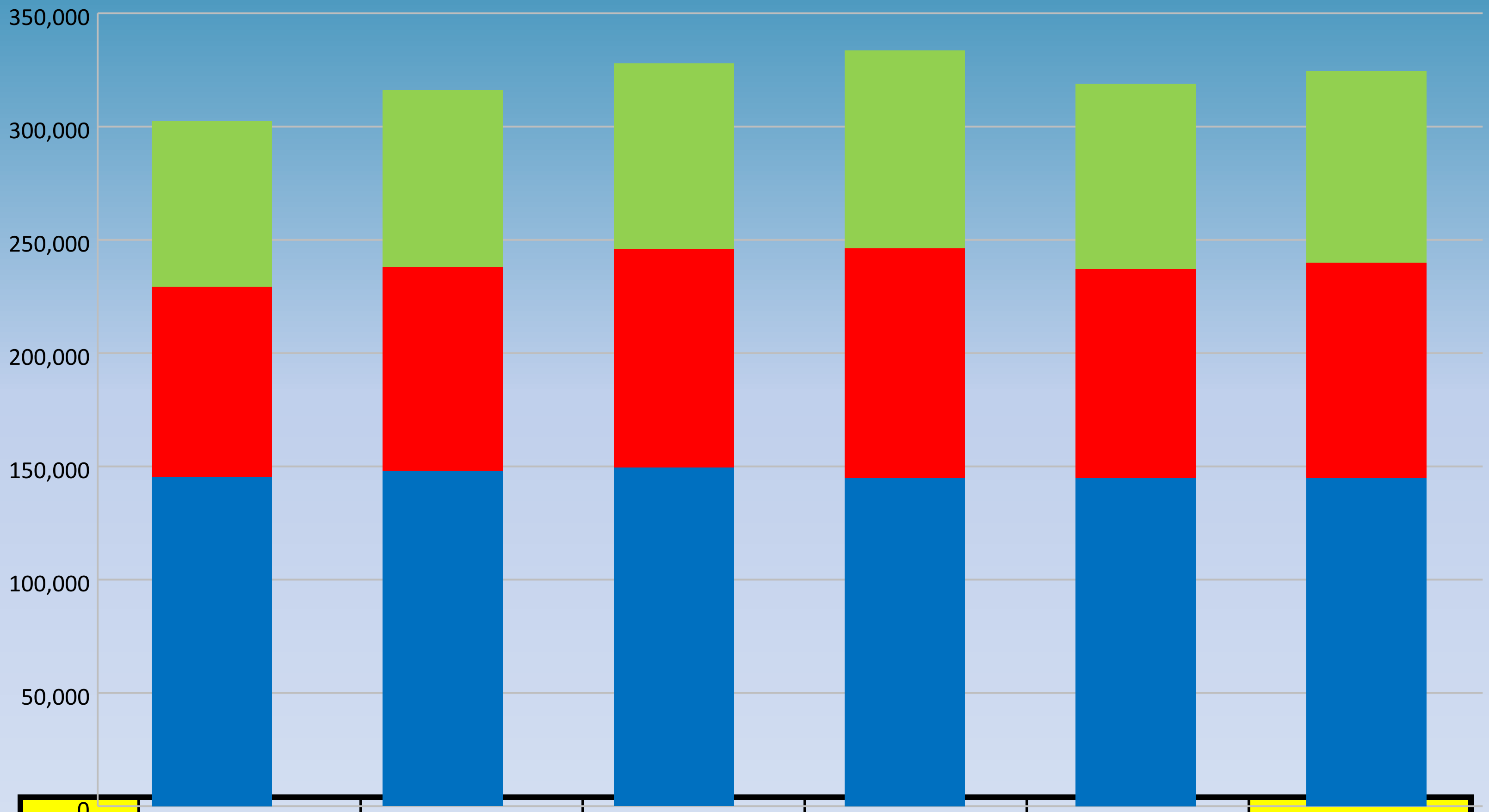
- **The members and the chair of each standing committee are appointed by the chair of the KRS Board of Trustees**

- **The chair of the KRS Board of Trustees or the Board may also create *ad hoc* committees, as needed.**

Plan Administration – KRS Organizational Chart

Board of Trustees
- Investment Committee
- Chief Investments Officer
- Div Director
- Alternative Assets
- Div Director
- Public Equity
- Div Director
- Fixed Income
- Div Director
- Absolute & Real Return Assets
- Executive Director
- Exec. Assnt
- Admin Assnt II
- General Counsel
- Div Director
- HR
- Chief Operations Officer
- Controller
- Accounting
- Div Director
- Information Technology
- Div Director
- Planning & Constituent Services
- Div Director
- Communications
- Div Director
- Procurement & Office Services
- Div Director
- Employer Compliance & Education
- Information Security Officer
- Chief Benefits
- Officer
- Div Director
- Payroll
- (formerly Retiree Services)
- Div Director
- Disability& Death
- Div Director
- Membership Support
- Div Director
- Member
- Services
- Sr. Advisor
- Retiree Health Care

KRS Membership (2006 – 2011)



TOTAL	302,297	316,107	327,925	333,652*	318,981**	324,599**

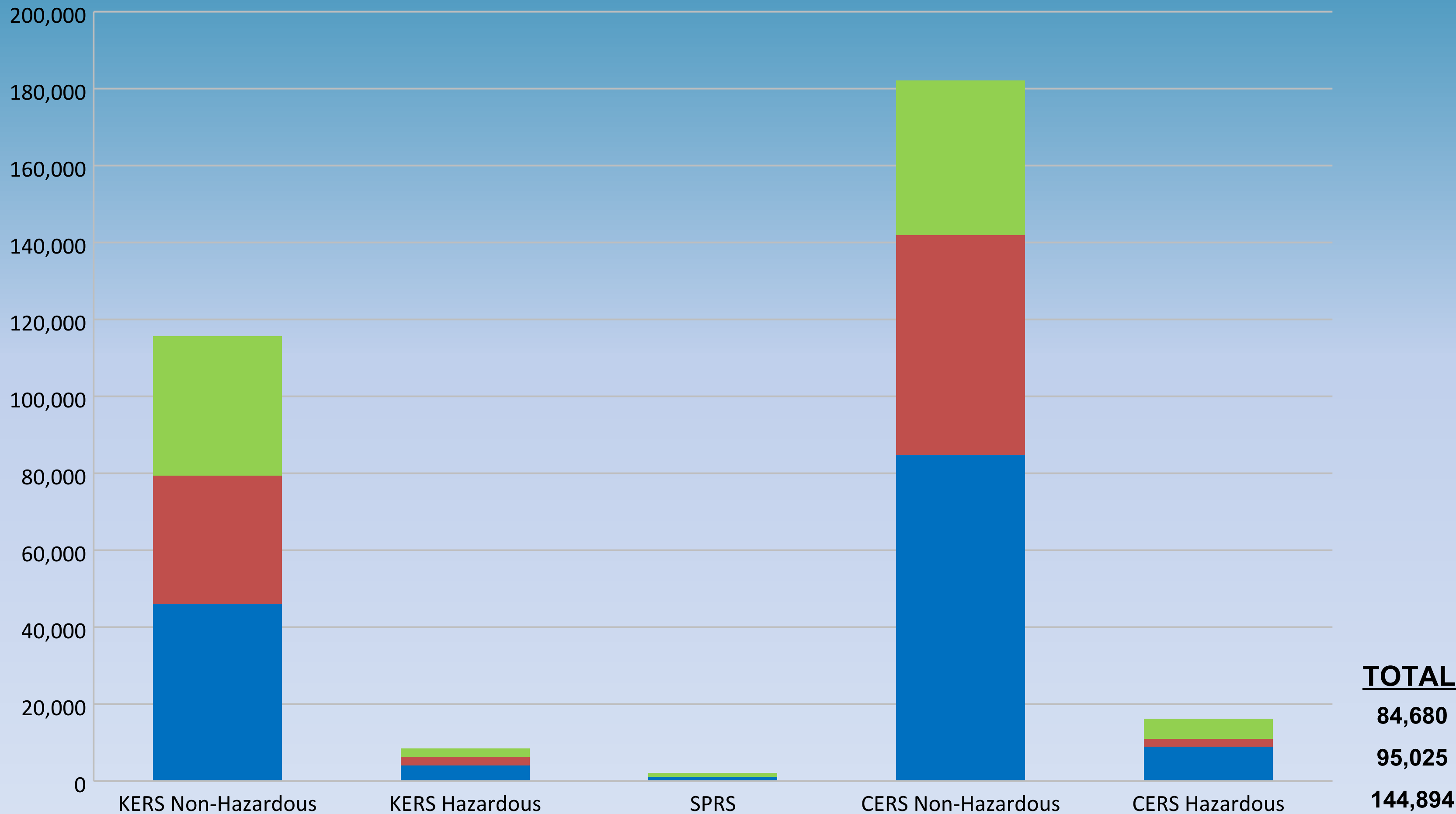
** The data for years 2006 – 2009 reflects the number of accounts in each system.*

*** Beginning in 2010 each person is counted only once in the Membership by System report.*

Source: *June 30, 2011 Comprehensive Annual Financial Report*

KRS Membership by System and Status

As of June 30, 2011



TOTAL	115,633	8,486	2,172	182,084	16,224	324,599

Source: *June 30, 2011 Comprehensive Annual Financial Report*

KRS Current Assets and Benefit Payments

- As of June 30, 2011 KRS assets were **$14.77 billion**
- KRS pays **$1.6 billion** in pension and health insurance benefits each year
  - 95% of benefit payments are delivered to Kentucky residents and have a significant impact on the Kentucky economy

Source: *June 30, 2011 Comprehensive Annual Financial Report*

Plan Type

The three systems administered by KRS are

Qualified Public Defined Benefit Plans

established under **Section 401a** of the Internal Revenue Code.

Defined Benefit plans pay pension benefits based on a formula, while Defined Contribution plans (*such as a 401(k) plan*) pay benefits based on contributions and earnings on those contributions.

Benefit Formula (Statutory)

The KRS formula at full retirement:

Final Compensation X **Benefit Factor** X **Years of Service** = **Annual Benefit**

Final Compensation	Benefit Factor	Years of Service
The average salary used for determining benefits at the time of retirement.	A percentage based upon the system, the type, and the timing of the member's service	Current service, prior service, past service, purchased service, and sick leave (if agency participates)

Statute References: KRS 61.595; KRS 16.576

Retirement Eligibility

- **Non-Hazardous Members (*Participation Date PRIOR to September 1, 2008*):**
  - Normal Retirement
    - Age 65 or older with at least one month of service credit but no more than 47 months of service credit may elect to receive a lifetime benefit that is an actuarial equivalent of twice the member's accumulated contributions
    - Age 65 or older with at least 48 months of service credit is eligible to receive an unreduced benefit for life based on the formula
    - A Non-Hazardous member with 27 or more years of service credit may retire at any time *(Unreduced benefit for life)*

Statute References: *KRS 61.510(18), 61.559*

  - Early Retirement
    - 25 years of service credit regardless of age *(Reduced benefit for life)*
    - Age 55 with 5 or more years of service credit *(Reduced benefit for life)*

Statute Reference: *KRS 61.559*

Retirement Eligibility

- **Non-Hazardous Members**
  (*Participation Date ON OR AFTER September 1, 2008*):
  - Normal Retirement
    - Age 57 or older, if age and years of service equal 87
      (Unreduced benefit for life)
    - Age 65 or older with at least 60 months of service credit

Statute References: *KRS 61.510(18), 61.559*

  - Early Retirement
    - Age 60 or older with at least 120 months of service credit
      (Reduced benefit for life)

Statute Reference: *KRS 61.559*

Retirement Eligibility

- **Hazardous Members**
  (*Participation Date PRIOR to September 1, 2008*):
  - Normal Retirement
    - 20 or more years of service credit *(Unreduced benefit for life)*
    - Age 55 or older with at least one month of hazardous duty service credit but no more than 59 months of service credit may elect to receive a lifetime benefit that is an actuarial equivalent of twice the member's accumulated contributions
    - Age 55 and older with at least 60 months of hazardous duty service credit is eligible to receive an unreduced benefit for life based on the formula

Statute Reference: *KRS 16.576*

  - Early Retirement
    - 20 years of service credit regardless of age *(Unreduced benefit for life)*
    - Age 50 with 15 or more years of service credit *(Reduced benefit for life)*

Statute Reference: *KRS 16.577, 16.505(20)*

Retirement Eligibility

- **Hazardous Members**
  (*Participation Date ON OR AFTER September 1, 2008*):
  - Normal Retirement
    - 25 or more years of service credit
      (Unreduced benefit for life)
    - Age 60 and older with at least 60 months of hazardous duty service credit may retire at any time
      (Unreduced benefit for life)

Statute Reference: *KRS 16.576*

  - Early Retirement
    - 25 years of service credit regardless of age
      (Unreduced benefit for life)
    - Age 50 or older with at least 15 years of service credit
      (Reduced benefit for life)

Statute Reference: *KRS 16.577, 16.505(20)*

KRS Health Insurance Benefits for Members Participating PRIOR to July 1, 2003

KRS pays a percentage of the monthly contribution rate for medical insurance coverage based on the retired member's years of service and type of service

Total Non-Hazardous Service	Percent Paid for Retired Member*	Total Hazardous Service	Percent Paid Toward Dependent Coverage**
Less than 4 Years	0%	Less than 4 Years	0%
4 – 9+ Years	25%	4 – 9+ Years	25%
10 – 14+ Years	50%	10 – 14+ Years	50%
15 – 19+ Years	75%	15 – 19+ Years	75%
20 or more Years	100%	20 or more Years	100%

* 100% of the monthly contribution is paid toward health insurance for a retired member in a Non-Hazardous position who is totally disabled from any employment as a result of a duty-related injury, regardless of actual service.

** 100% of the monthly contribution is paid towards the health insurance for a member, member's spouse and dependents, if the member is in a Hazardous position and is disabled in the line of duty as a result of a duty-related injury, regardless of actual service.

KRS Health Insurance Benefits

Participation between July 1, 2003 and August 31, 2008

- Employees must have 10 years of earned service credit

Participation on or after September 1, 2008

- Employees must have 15 years of earned service credit

Nonhazardous Members will earn $10 per month towards insurance for each year of earned service

Hazardous Members will earn $15 per month towards insurance for each year of earned service

The $10 contribution will be increased each year by the Cost of Living Adjustment (COLA)

Analysis of Initial Retirees FY 2010 - 2011

System	Number of Initial Retirees	Average Service Credit (Months)	Average Final Compensation	Average Monthly Benefit	Average System Payment for Health Insurance
KERS Non-Hazardous	1,486	174	$44,341	$1,047	$264
KERS Hazardous	247	184	$44,821	$1,379	$516
CERS Non-Hazardous	3,045	182	$32,359	$824	$284
CERS Hazardous	415	204	$58,814	$2,114	$777
SPRS	46	260	$71,501	$3,296	$874

Source: *June 30, 2011 Comprehensive Annual Financial Report*

How is KRS Funded?

- **There are three (3) sources of funding for Kentucky Retirement Systems:**
  - **Employee Contributions:**
    - Set by statute
  - **Employer Contributions:**
    - Set annually by the KRS Board of Trustees based on an independent actuarial valuation and recommendation
  - **Return on Investments**
    - The KRS Investment Committee has the authority to make investment decisions and hire external investment managers and consultants
    - KRS utilizes internal investment staff, external investment managers, and independent investment consultants to conduct the investment program

How is KRS Funded?

The Majority of KRS Funding Comes from **Return on Investments**

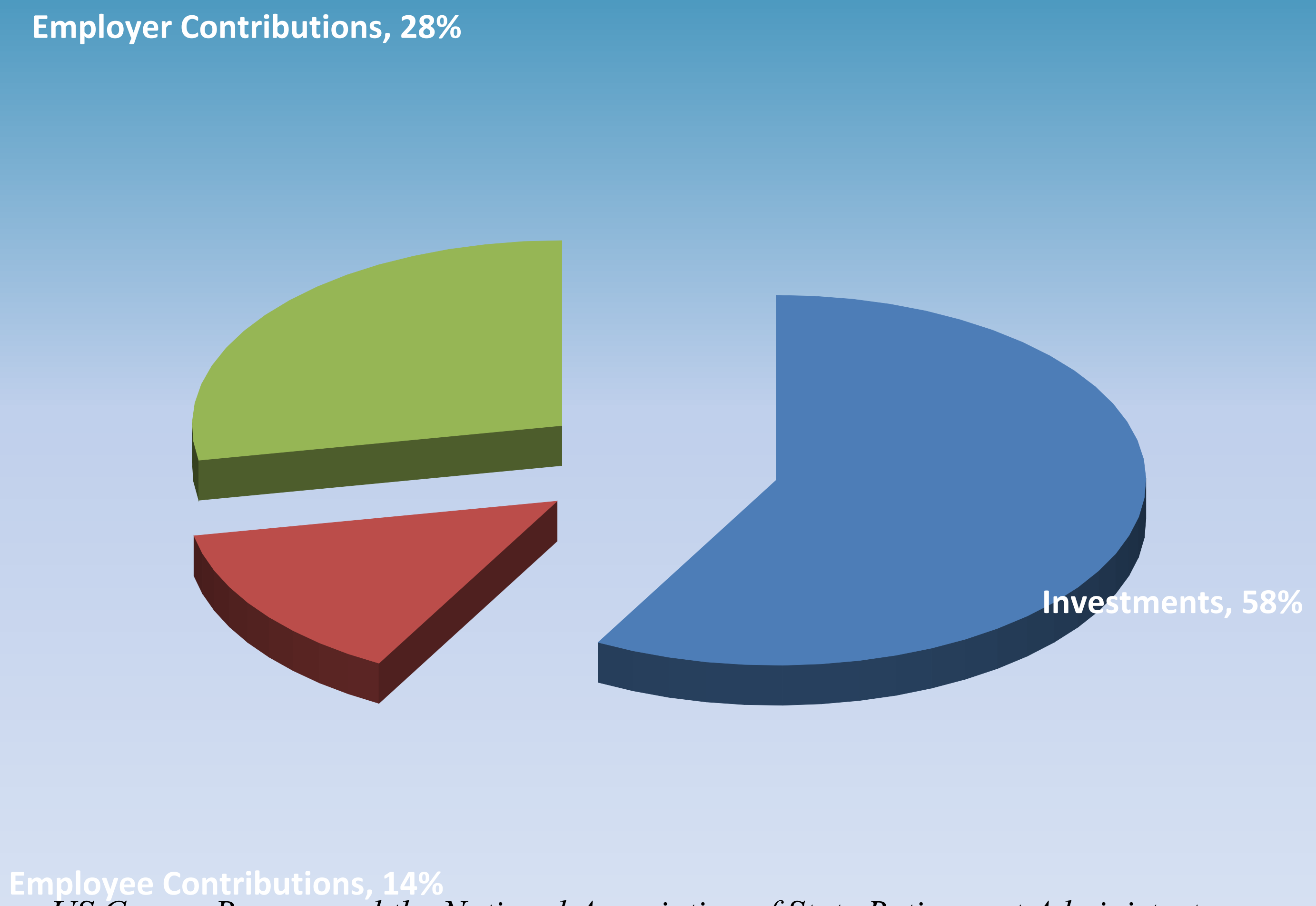
Employee
9% - 13%

Employer
16% - 21%

Investment Income
67% - 73%

NOTE: *These figures were calculated using PENSION fund data for each of the five systems found in the June 30, 2011 Comprehensive Annual Financial Report*

Public Pension Fund Revenue Sources
United States, 1982 to 2009



Sources: *US Census Bureau and the National Association of State Retirement Administrators (NASRA Issue Brief: Public Pension Plan Investment Returns, published October 2011).*
The US Census Bureau first began reporting public pension fund revenue data in 1982.

Employee Contributions

- Account for 9% to 13% of KRS funding
- Set by statute as a percentage of creditable compensation

System	Participation Date PRIOR to September 1, 2008	Participation Date ON or AFTER September 1, 2008*
KERS Non-Hazardous	5%	6%
KERS Hazardous	8%	9%
CERS Non-Hazardous	5%	6%
CERS Hazardous	8%	9%
SPRS	8%	9%

* Members with a participation date on or after September 1, 2008 contribute an additional 1% of creditable compensation, which is deposited into the KRS Insurance Fund.

Employer Contributions

- **Set by Board of Trustees based on actuarial analysis and recommendations**
- **Employer Contribution Rate Consists of:**
  - **Pension Contribution**
    - **Normal Cost** = Ongoing cost of the plan
      - In a perfect world, we would only have normal cost
    - **UAL Payment** = Amortized payment/Credit to pension fund for Unfunded Actuarial Liabilities
      - Can increase or reduce employer contributions
  - **Insurance Contribution**
    - Created by 1978 Legislature
    - Made a contractual obligation by 1988 Legislature
    - In 2006, GASB 43 and 45 changed the accounting and reporting requirements related to Other Post Employment Benefits (OPEB) for public retirement systems.
      - KRS must now recognize and report on an accrual basis the cost of retiree health insurance benefits over the working life of the employee

Actuarially Recommended 2012-2013 Employer Contributions

(as a percent of payroll)

System	Normal Cost	Admin. Expense	Payment On UAL	Insurance Fund	Actuarial Rates from 2011 Valuation *	Phase-in Rates**
KERS (Non-Hazardous)	3.84%	.54	23.65%	16.52%	44.55%	23.61%
KERS (Hazardous)	6.88%	.59	8.69%	19.73%	35.89%	29.79%
CERS (Non-Hazardous)	4.00%	.68	7.94%	8.59%	21.21%	19.55%
CERS (Hazardous)	7.12%	.28	12.70%	21.84%	41.94%	37.60%
SPRS	7.84%	.28	39.36%	55.93%	103.41%	63.67%

* These rates were adopted by the KRS Board of Trustees in accordance with the requirements of KRS 61.565 and the recommendation of the Systems' independent actuary.

** These are the KERS/SPRS rates after the HB 1 (08 SS) Phase-in percentages and an additional adjustment to the SPRS rate to meet GASB 45 requirements for the insurance portion of the rate were applied. The CERS rates reflect the ten-year phase-in of the insurance portion of the rate required by KRS 61.565(6).

Source: *June 30, 2011 Actuarial Valuation*

Recommended *versus* Actual
FY 2012 - 2013 Employer Contributions

- KERS and SPRS employer contribution rates are subject to approval by GA in biennial budget legislation
- CERS employer rates are set by the Board of Trustees

System	Recommended Contribution	Actual Contribution
KERS Non-Hazardous	44.55%*	23.61%
KERS Hazardous	35.89%*	29.79%
CERS Non-Hazardous	21.21%	19.55%**
CERS Hazardous	41.94%	37.60%**
SPRS	103.41%*	63.67%

* When the 2012 – 2013 budget biennium is complete, the state will have reduced KERS and SPRS contribution rates for fourteen (14) of the last 21 fiscal years.

** The CERS rates reflect the ten-year phase-in of the insurance portion of the rate required by KRS 61.565(6).

Employer Contribution Rates By System Since 1990

	KERS Non-Hazardous					
	Recommended Rate			*Budgeted Rate*		
Fiscal Year	***Pension***	***Insurance***	***Total***	***Pension***	***Insurance***	***Total***
1990-1991	5.86%	1.59%	7.45%	5.86%	1.59%	7.45%
1991-1992	5.88%	1.77%	7.65%	5.88%	1.77%	7.65%
1992-1993*	6.69%	1.97%	8.66%	5.68%	1.97%	7.65%
1993-1994*	5.54%	3.12%	8.66%	4.53%	3.12%	7.65%
1994-1995	5.43%	3.13%	8.56%	5.43%	3.13%	8.56%
1995-1996*	5.60%	3.15%	8.75%	5.41%	3.15%	8.56%
1996-1997	5.74%	3.15%	8.89%	5.74%	3.15%	8.89%
1997-1998	4.80%	4.09%	8.89%	4.80%	4.09%	8.89%
1998-1999	3.77%	4.26%	8.03%	3.77%	4.26%	8.03%
1999-2000	2.58%	5.45%	8.03%	2.58%	5.45%	8.03%
2000-2001	1.45%	4.44%	5.89%	1.45%	4.44%	5.89%
2001-2002	0.00%	5.89%	5.89%	0.00%	5.89%	5.89%
2002-2003*	0.34%	5.55%	5.89%	0.34%	3.42%	3.76%
2003-2004*	2.86%	4.67%	7.53%	1.22%	4.67%	5.89%
2004-2005*	5.11%	5.18%	10.29%	2.92%	2.97%	5.89%
2005-2006*	7.85%	5.77%	13.62%	3.39%	2.50%	5.89%
2006-2007*	10.68%	6.45%	17.13%	4.83%	2.92%	7.75%
2007-2008*	15.55%	32.82%	48.37%	5.47%	3.03%	8.50%
2008-2009*^	16.54%	12.06%	28.60%	5.79%	4.22%	10.01%
2009-2010*^	18.96%	12.33%	31.29%	6.65%	4.96%	11.61%
2010-2011*	21.77%	16.81%	38.58%	9.58%	7.40%	16.98%
2011-2012*	24.30%	16.41%	40.71%	11.59%	8.23%	19.82%
2012-2013*	28.03%	16.52%	44.55%	14.86%	8.75%	23.61%

* Rate Reduction

^ The Board adopted rate for fiscal years beginning July 1, 2008 and July 1, 2009 differ from the valuation rate (i.e., the actuarially recommended rate-ARC). This is due to the fact that the actuary used a blended rate of return (assumed rate of return) of 4.50% as required by GASB 43/45, in determining the recommended contribution rate during the valuation process. However, for funding purposes, it was assumed by the Board that the General Assembly would fully fund the ARC; therefore, a "full funding" rate, using the normal assumed rate of 7.75%, was developed. The KRS Board adopted the "full funding" rate for FY 2009 and FY 2010.

Employer Contribution Rates By System Since 1990

	KERS Hazardous					
	Recommended Rate			Budgeted Rate		
Fiscal Year	*Pension*	*Insurance*	*Total*	*Pension*	*Insurance*	*Total*
1990-1991	9.31%	5.74%	15.05%	9.31%	5.74%	15.05%
1991-1992	8.88%	6.17%	15.05%	8.88%	6.17%	15.05%
1992-1993*	10.81%	6.74%	17.55%	8.31%	6.74%	15.05%
1993-1994*	10.48%	7.38%	17.86%	7.67%	7.38%	15.05%
1994-1995	10.56%	7.41%	17.97%	10.56%	7.41%	17.97%
1995-1996*	10.59%	7.46%	18.05%	10.51%	7.46%	17.97%
1996-1997	10.41%	7.46%	17.87%	10.41%	7.46%	17.87%
1997-1998	7.84%	10.03%	17.87%	7.84%	10.03%	17.87%
1998-1999	8.26%	10.40%	18.66%	8.26%	10.40%	18.66%
1999-2000*	8.51%	10.40%	18.91%	8.26%	10.40%	18.66%
2000-2001	8.09%	10.75%	18.84%	8.09%	10.75%	18.84%
2001-2002	6.18%	12.66%	18.84%	6.18%	12.66%	18.84%
2002-2003*	6.57%	12.27%	18.84%	6.57%	11.03%	17.60%
2003-2004	7.37%	11.47%	18.84%	7.37%	11.47%	18.84%
2004-2005*	7.26%	12.21%	19.47%	7.03%	11.81%	18.84%
2005-2006*	8.52%	13.07%	21.59%	7.43%	11.41%	18.84%
2006-2007*	9.28%	14.04%	23.32%	8.75%	13.25%	22.00%
2007-2008*	10.20%	36.91%	47.11%	9.79%	14.46%	24.25%
2008-2009*	10.84%	23.94%	34.78%	9.79%	14.56%	24.35%
2009-2010*	11.98%	23.56%	35.54%	9.89%	14.80%	24.69%
2010-2011*	14.11%	20.26%	34.37%	10.72%	15.40%	26.12%
2011-2012*	14.11%	19.73%	33.84%	12.33%	16.65%	28.98%
2012-2013*	16.16%	19.73%	35.89%	13.41%	16.38%	29.79%

* Rate Reduction

Employer Contribution Rates By System Since 1990

	SPRS					
	Recommended Rate			***Budgeted Rate***		
Fiscal Year	***Pension***	***Insurance***	***Total***	***Pension***	***Insurance***	***Total***
1990-1991	11.39%	8.92%	20.31%	11.39%	8.92%	20.31%
1991-1992	10.09%	9.48%	19.57%	10.09%	9.48%	19.57%
1992-1993*	11.76%	10.08%	21.84%	9.49%	10.08%	19.57%
1993-1994*	7.73%	14.11%	21.84%	5.46%	14.11%	19.57%
1994-1995	7.64%	14.14%	21.78%	7.64%	14.14%	21.78%
1995-1996*	8.84%	14.21%	23.05%	7.57%	14.21%	21.78%
1996-1997	12.37%	14.21%	26.58%	12.37%	14.21%	26.58%
1997-1998	9.00%	17.58%	26.58%	9.00%	17.58%	26.58%
1998-1999	5.51%	17.90%	23.41%	5.51%	17.90%	23.41%
1999-2000*	7.36%	17.90%	25.26%	5.51%	17.90%	23.41%
2000-2001	3.44%	18.14%	21.58%	3.44%	18.14%	21.58%
2001-2002	0.00%	21.58%	21.58%	0.00%	21.58%	21.58%
2002-2003*	4.21%	17.37%	21.58%	0.00%	17.37%	17.37%
2003-2004	2.64%	18.94%	21.58%	2.64%	18.94%	21.58%
2004-2005*	8.49%	19.59%	28.08%	6.52%	15.06%	21.58%
2005-2006*	14.49%	20.34%	34.83%	8.98%	12.60%	21.58%
2006-2007*	20.64%	21.66%	42.30%	12.44%	13.06%	25.50%
2007-2008*	28.95%	91.05%	120.00%	14.23%	13.77%	28.00%
2008-2009*^	32.39%	27.75%	60.14%	15.28%	14.79%	30.07%
2009-2010*^	35.23%	26.64%	61.87%	16.81%	16.27%	33.08%
2010-2011*	35.74%	49.89%	85.63%	21.44%	24.10%	45.54%
2011-2012*	39.80%	54.83%	94.63%	26.55%	25.58%	52.13%
2012-2013*	47.48%	55.93%	103.41%	33.24%	30.43%	63.67%

* Rate Reduction

^ The Board adopted rate for fiscal years beginning July 1, 2008 and July 1, 2009 differ from the valuation rate (i.e., the actuarially recommended rate-ARC). This is due to the fact that the actuary used a blended rate of return (assumed rate of return) of 4.50% as required by GASB 43/45, in determining the recommended contribution rate during the valuation process. However, for funding purposes, it was assumed by the Board that the General Assembly would fully fund the ARC; therefore, a "full funding" rate, using the normal assumed rate of 7.75%, was developed. The KRS Board adopted the "full funding" rate for FY 2009 and FY 2010.

KENTUCKY RETIREMENT SYSTEMS INVESTMENT PROGRAM

Transparency / Web Site Update

- **Address: www.kyret.ky.gov**
- **Information available:**

  Latest Investment Performance Information and News

  Consultant Reports (new)

  Board and staff contact info

  5 years of Comprehensive Annual Financial Reports

  5 years of Annual Financial Statements

  5 Years of Audits

  Corporate Documents and Policies

  Committee Assignments

  Board and Committee Meeting Dates, Agendas, and Minutes

  Investment Holdings and Commissions

  Sections for Actives and Retirees

  ……. and more

Staff Educational Qualifications (10 staff)

- **Traditional Education – Advanced Degrees**
  - 7 MBA’s
  - 2 MS Finance

- **Industry Certifications**
  - 1 Chartered Financial Analyst (CFA) Charter holder
    - 6 CFA Candidates (all 7 covered by Code of Ethics)
  - 3 Chartered Alternative Investment Analysts (CAIA)
    - 2 CAIA Candidates
  - 1 Certified Treasury Professional (CTP)
    - 1 CTP Candidate
  - 2 Financial Risk Management Candidates (FRM)

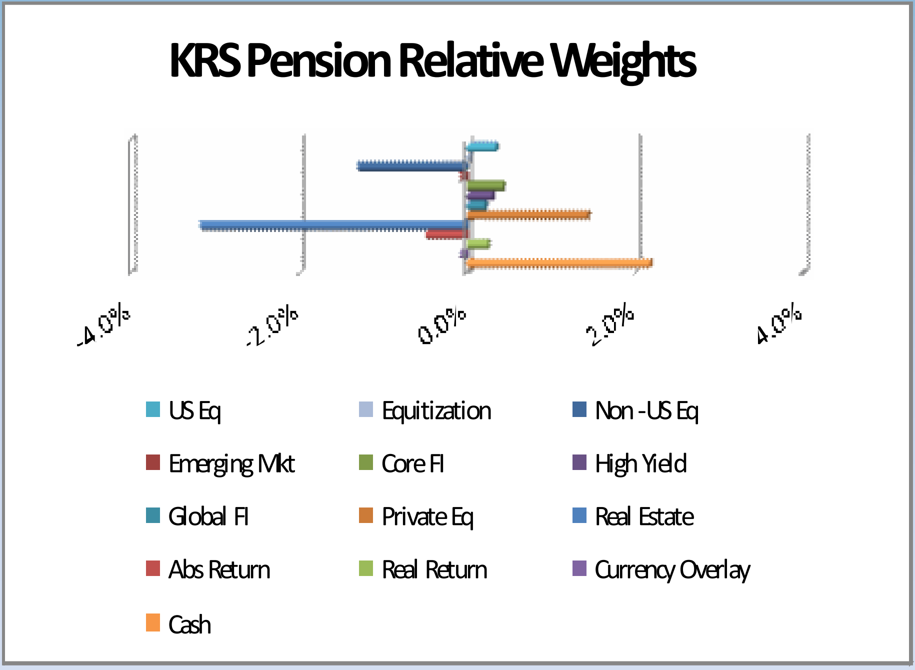
Designations previously held: Licensed International Financial Analyst (LIFA), 6,7,63,65, Life and Annuity, Chartered Mutual Fund Counselor

Asset Allocation Targets (Effective July 1, 2011)

KRS Pension Fund - Asset Allocation							
Asset Class	Benchmark	Target					Allowable Range (+/- Target)
		KERS	KERS Hazardous	CERS	CERS Hazardous	SPRS	
US Equity	Russell 3000	20.0%	20.0%	20.0%	20.0%	20.0%	5.0%
Non US Equity	MSCI ACWI Ex-US Standard	20.0%	20.0%	20.0%	20.0%	20.0%	5.0%
Emerging Market	MSCI Emerging Markets	4.0%	4.0%	4.0%	4.0%	4.0%	2.0%
Core Fixed Income	Barclays US Aggregate	10.0%	10.0%	10.0%	10.0%	10.0%	3.0%
High Yield Bonds	Barclays US High Yield	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Global Bonds	Barclays Global Agg	5.0%	5.0%	5.0%	5.0%	5.0%	2.0%
Real Estate	NCREIF ODCE	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%
Absolute Return	HFRI Diversified FOF	10.0%	10.0%	10.0%	10.0%	12.0%	3.0%
Real Return	CPI + 300 bps	10.0%	10.0%	10.0%	10.0%	10.0%	3.0%
Private Equity	Russell 3000 + 400 bps (lagged)	10.0%	10.0%	10.0%	10.0%	7.0%	5.0%
Cash	Cit Grp 3-mos Treasury Bill	1.0%	1.0%	1.0%	1.0%	2.0%	-

Asset Allocation Statistics

Asset Class	Market Value	Target	Actual
US Equity	704,430,635	21.1%	201.7%
Equitization	718,338	0.0%	0.2%
Non-US Equity	565,150,520	21.0%	161.8%
Emerging Markets	98,802,141	3.4%	28.3%
Core Fixed Income	327,902,531	14.1%	93.9%
High Yield	141,963,143	3.5%	40.7%
Global Fixed	137,263,262	1.7%	39.3%
Private Equity	191,344,651	8.3%	54.8%
Real Estate	31,391,652	4.3%	9.0%
Absolute Return	249,565,113	10.2%	71.5%
Real Return	349,192,475	11.4%	100.0%
Currency Overlay	(3,431,371)	0.0%	-1.0%
Cash	284,524,241	1.0%	81.5%
	3,078,817,331	100.0%	881.7%



As of April 30, 2012

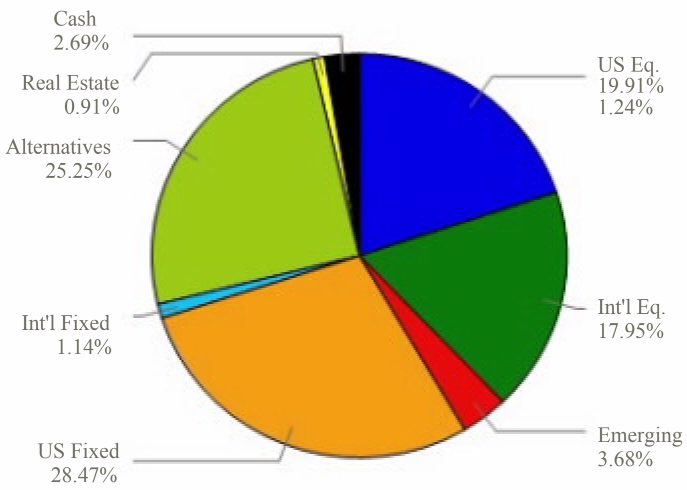
Asset Allocation

Kentucky Retirement Systems vs. Average of Similar Size Funds

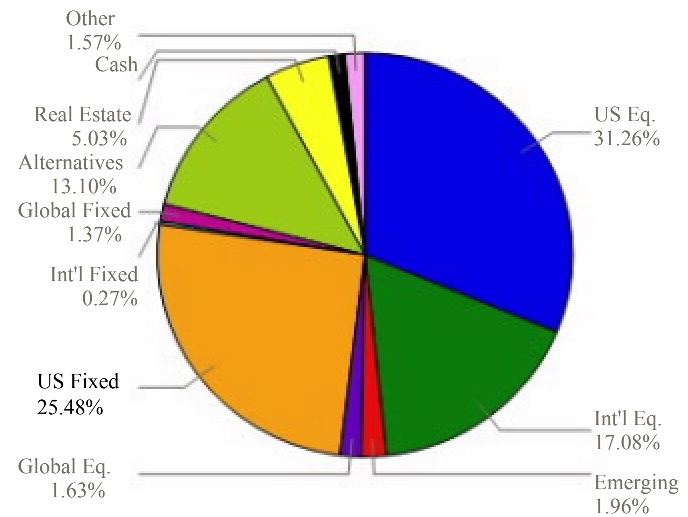
As of December 31, 2001

Fund Number: 1

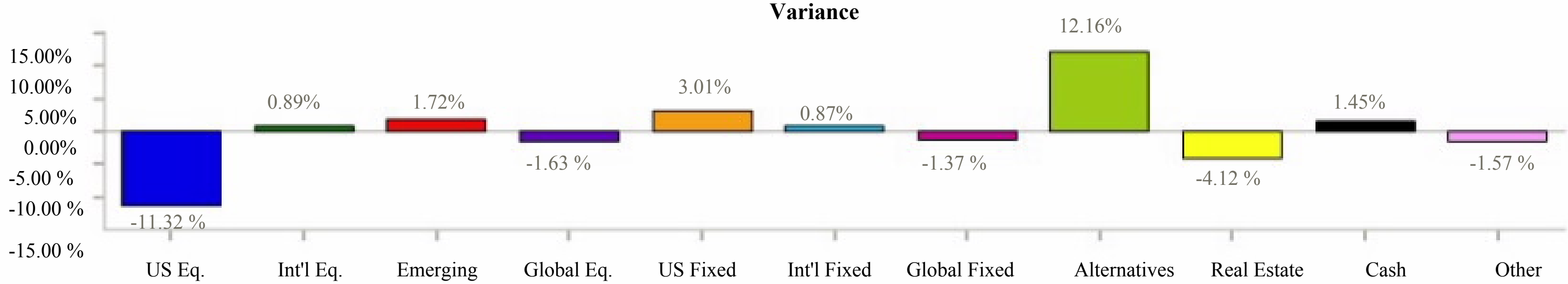
Kentucky Retirement Systems



$10-$20 Billion



Variance



Allocations shown may not sum up to 100% exactly due to rounding.

RVKuhns & ASSOCIATES, INC.

Fiscal and Calendar Year Returns

KRS Pension Fund	
Fiscal Year	**Return**
1990	11.67
1991	8.24
1992	11.67
1993	12.16
1994	1.02
1995	18.99
1996	17.63
1997	24.16
1998	20.76
1999	14.27
2000	6.41
2001	(5.41)
2002	(4.30)
2003	4.29
2004	13.58
2005	9.26
2006	9.68
2007	15.27
2008	(4.22)
2009	(17.21)
2010	15.78
2011	18.96
2012(10 mo.)	1.51

KRS Pension Fund	
Calendar Year	**Return**
1990	1.39
1991	21.79
1992	8.77
1993	7.40
1994	1.24
1995	26.91
1996	16.54
1997	23.27
1998	18.08
1999	14.08
2000	(2.69)
2001	(3.31)
2002	(6.81)
2003	20.02
2004	10.92
2005	6.41
2006	13.98
2007	6.58
2008	(23.91)
2009	19.66
2010	12.93
2011	(0.44)
2012 (4 mo.)	6.71

Performance as of: April 30, 2012

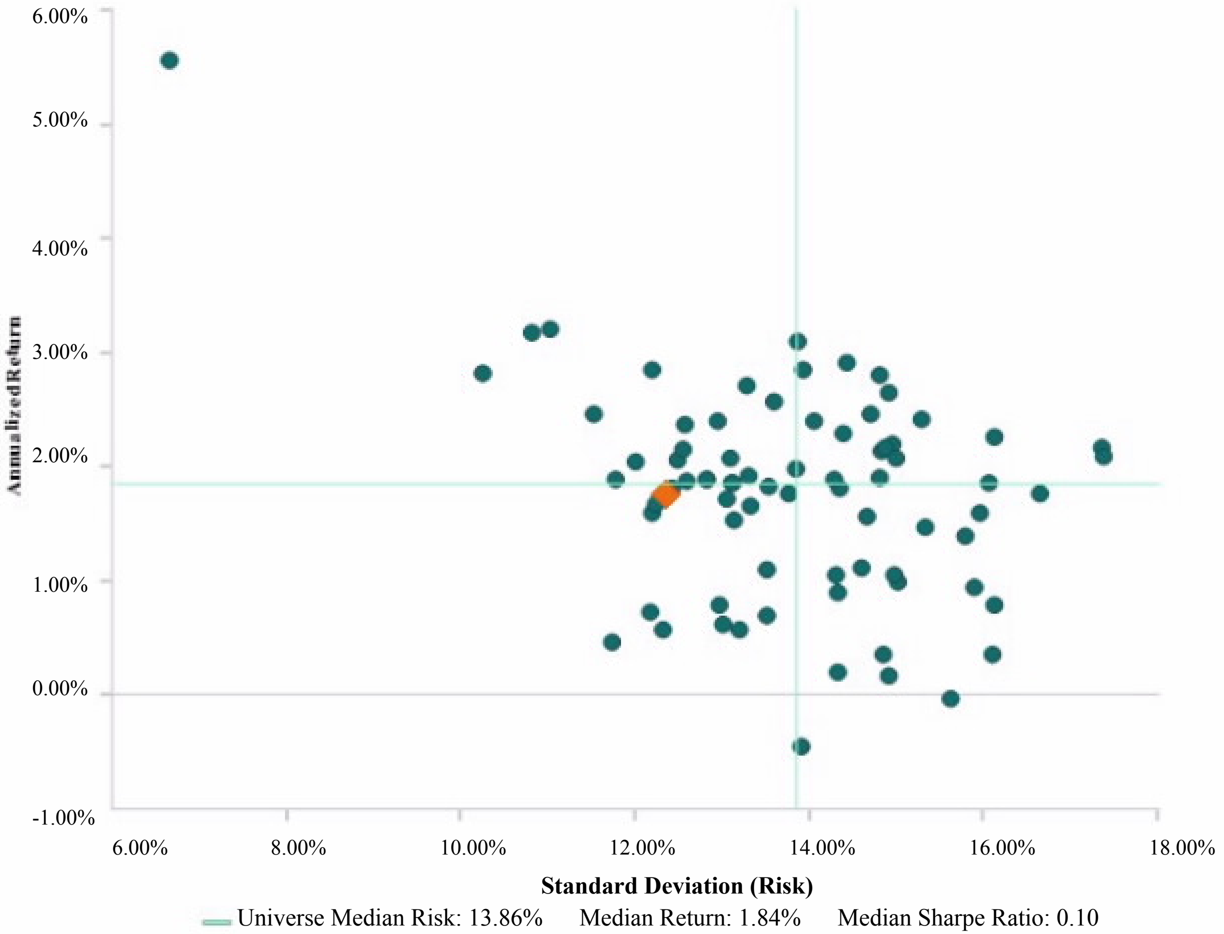
Kentucky Retirement Systems - Pension Fund															
April 2012		Apr. 2012		FYTD		1 YR		3 YR		5 YR		10 YR		Since Inception	
Account / Group	%	Mgr	Bmark	Mgr	Bmark	Mgr	Bmark	Mgr	Bmark	Mgr	Bmark	Mgr	Bmark	Mgr	Bmark
U.S. Equities															
Total US Equities Less Equitization	20.3%	(0.73)	(0.66)	5.41	6.51	2.79	3.40	19.26	19.92	1.48	1.25	5.19	5.17	2.46	2.15
Equitization	0.0%	(3.40)	–	(7.43)	–	(9.34)	–	27.75	–	(33.53)	–	–	–	(9.15)	–
Total US Equities	20.4%	(0.73)	(0.66)	5.48	6.51	2.85	3.07	19.28	18.80	1.49	0.18	5.20	4.20	2.47	1.64
Non-U.S. Equities															
Total Non-US Equities (Less Overlay)	18.7%	(1.67)	(1.49)	(10.46)	(8.69)	(14.23)	(12.55)	13.46	14.28	(2.43)	(3.00)	6.00	6.48	1.49	2.05
Record Currency Management	-0.1%	–	–	286.64	–	NMF	–	–	–	–	–	–	–	–	–
Total Non-US Equities (With Overlay)	18.6%	(1.68)	(1.49)	(11.33)	(8.69)	(15.28)	(12.55)	12.72	14.28	(2.81)	(3.00)	5.78	6.48	1.27	2.05
Emerging Market Equities															
Total Emerging Market Equity	3.9%	(0.97)	(1.18)	(2.55)	(8.65)	–	–	–	–	–	–	–	–	(2.55)	(8.65)
Total Equity															
Total Equity	42.9%	(1.17)	(1.08)	(2.90)	(1.94)	(6.12)	(5.36)	16.08	16.81	-0.46	(0.87)	5.03	5.10	10.79	10.62
Fixed Income															
Total Fixed Income	20.9%	1.24	1.09	7.19	6.40	8.48	7.51	9.08	7.54	6.19	6.59	5.99	6.18	8.28	8.12
Real Return															
Total Real Return	10.2%	1.87	0.55	11.58	4.47	–	–	–	–	–	–	–	–	11.58	4.47
Absolute Return															
Total Absolute Return	9.5%	0.29	0.16	1.66	(3.21)	3.26	(3.11)	–	–	–	–	–	–	2.57	1.57
Real Estate															
Total Real Estate	1.8%	0.47	-	5.83	9.60	9.45	13.28	7.94	2.13	4.80	2.91	4.60	7.97	5.33	-
Total Alternatives															
Total Private Equity	11.4%	1.29	5.37	7.86	3.08	11.89	0.90	13.56	17.43	1.05	2.32	10.36	5.35	10.87	–
Total Cash															
Cash	3.2%	0.03	0.01	0.19	0.03	0.29	0.04	0.67	0.10	1.78	1.04	2.80	1.80	4.69	3.87
Total Pension Fund															
Total Pension Fund	100.0%	0.12	0.35	1.51	1.82	0.09	0.18	13.46	13.49	2.18	2.72	5.84	5.91	9.47	9.57

Risk/Return Analysis
5 Year Annualized Total Fund Returns vs. Standard Deviation
As of December 31, 2011

77 of 77 funds provided Total Fund returns for this time period

Fund Sharpe Ratio: 0.08

Fund Number: 1



Funds with less history than the specified time period will not appear in the chart.

RVKuhns & ASSOCIATES, INC.

Risk/Return Analysis

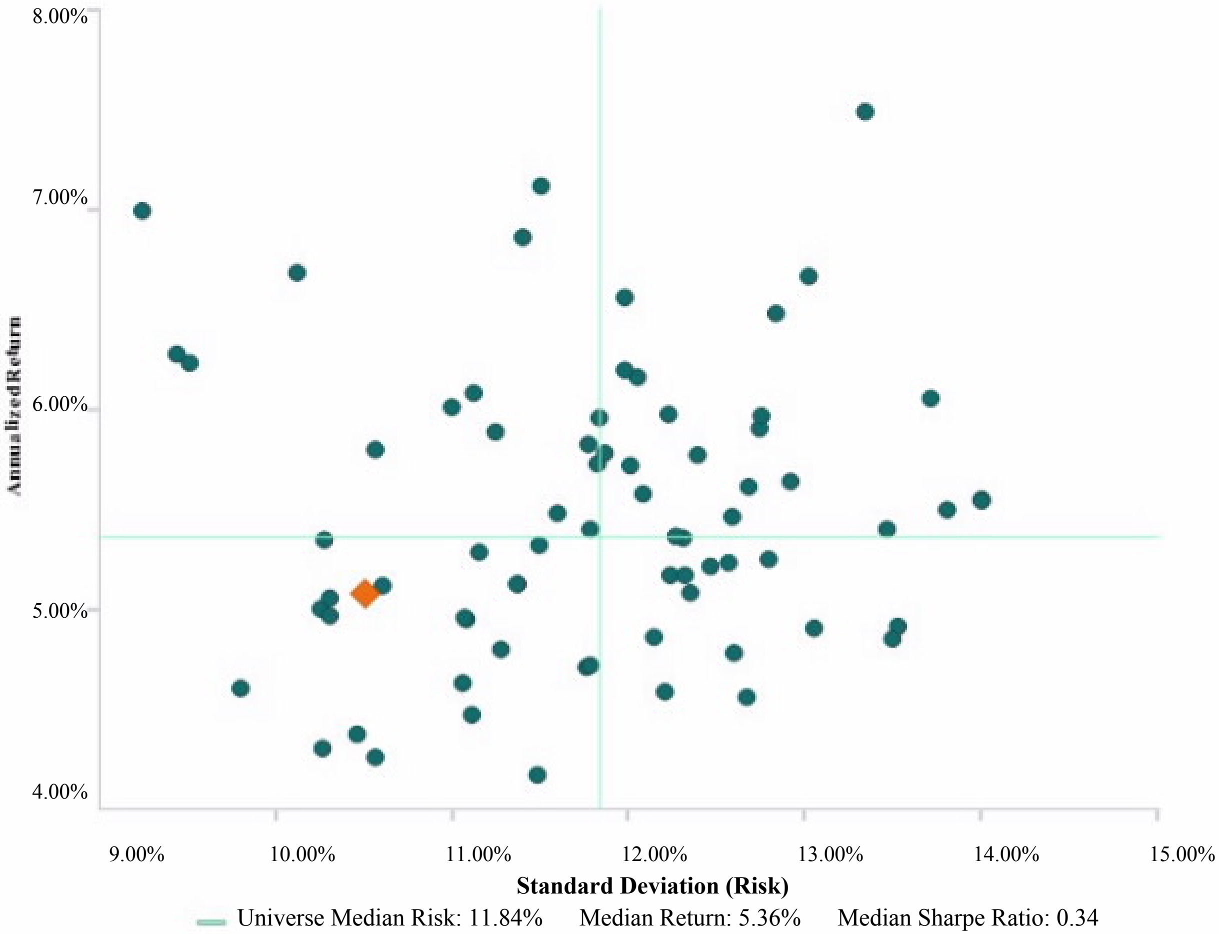
10 Year Annualized Total Fund Returns vs. Standard Deviation

As of December 31, 2011

Fund Number: 1

73 of 77 funds provided Total Fund returns for this time period

Fund Sharpe Ratio: 0.34



Funds with less history than the specified time period will not appear in the chart.

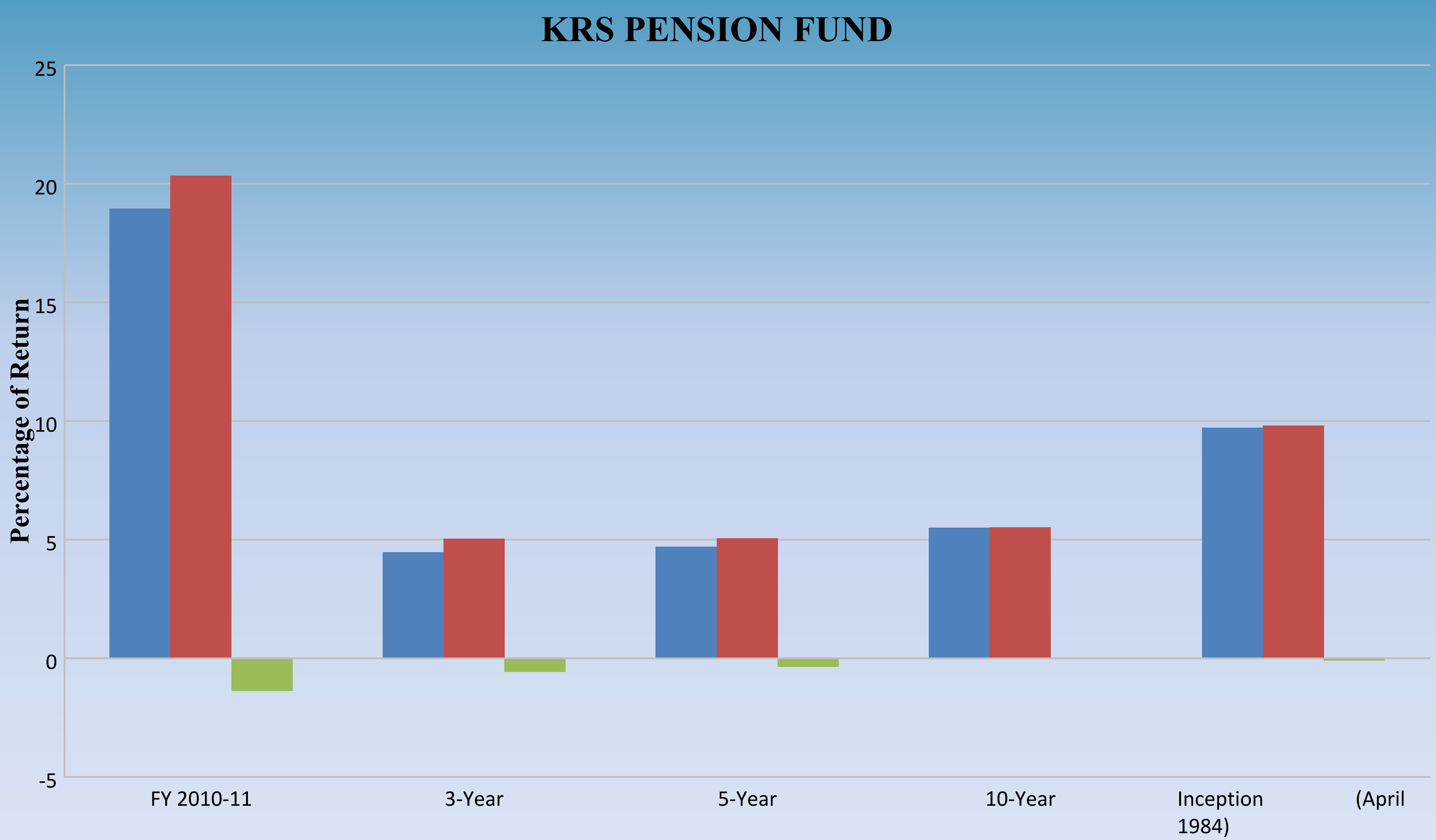
RVKuhns & ASSOCIATES, INC.

Dollar impact of HB1 Funding

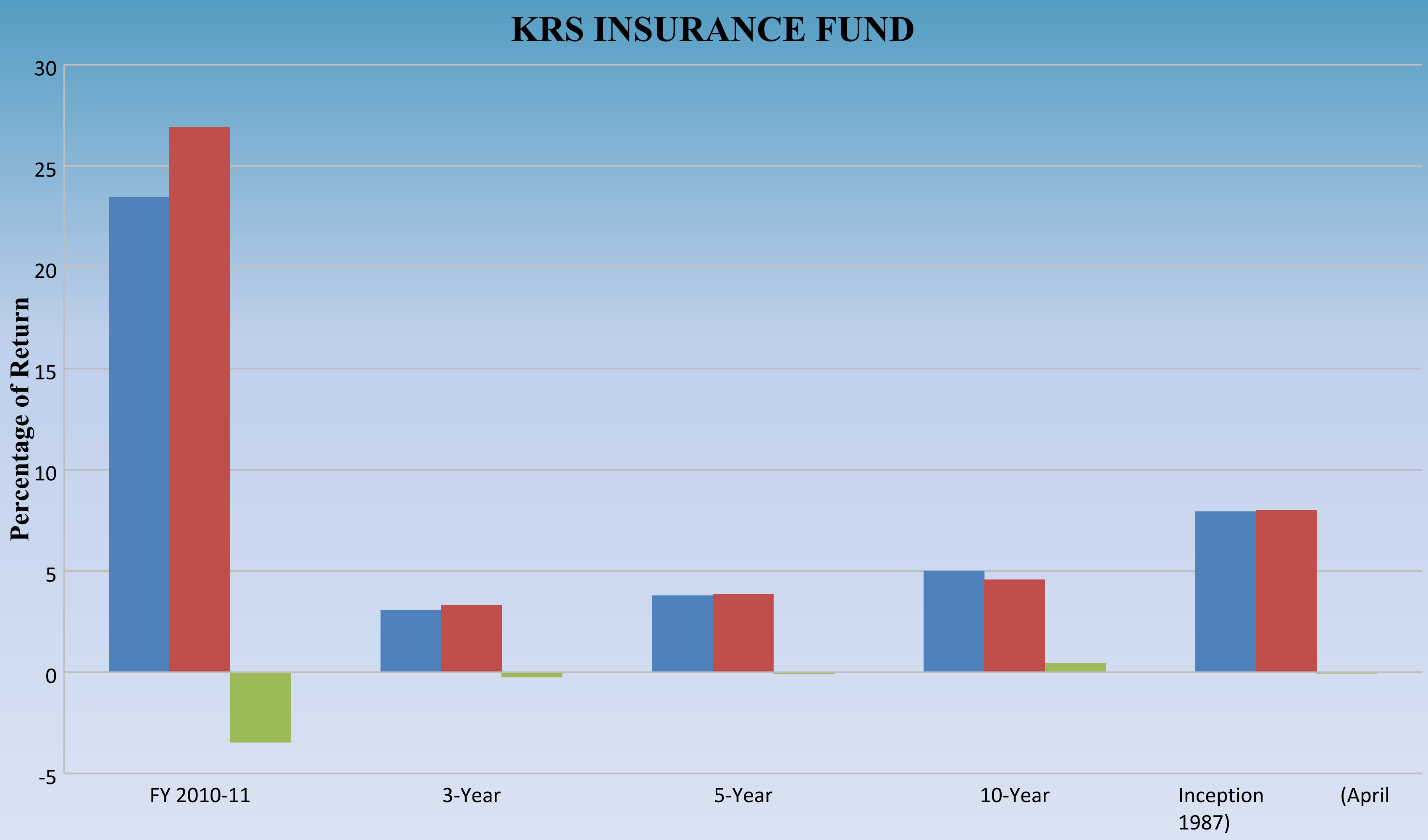
Actuary Projected Increase in $ Funding under KRS 61.565					
Fiscal Year	Actuary Estimated Employer Contribution ($ 000s)	$ 000s Increase in Employer Contribution vs. Prior Year	Annual % Increase in $ Funding vs. Prior Year	$ 000s Increase in Employer Contribution vs. Prior Biennium	% of Projected FY 2013 General Fund Total Resources (1.6% growth rate assumed)[1]
2012	413,541	n/a	n/a	n/a	n/a
2013	503,238	89,697	21.69%	267,646	5.2%
2014	588,112	84,874	16.87%		6.0%
2015	673,134	85,022	14.46%	332,757	6.7%
2016	750,973	77,839	11.56%		7.4%
2017	832,124	81,150	10.81%	324,357	8.1%
2018	916,340	84,217	10.12%		8.7%
2019	1,006,517	90,177	9.84%	360,830	9.4%
2020	1,102,777	96,260	9.56%		10.2%
2021	1,206,386	103,609	9.40%	415,373	11.0%
2022	1,318,281	111,895	9.28%		11.8%
2023	1,437,651	119,369	9.05%	477,392	12.7%
2024	1,564,409	126,758	8.82%		13.6%
2025	1,687,400	122,991	7.86%	463,163	14.4%

[1] - Growth rate assumed to occur between FY 2013 and 2014 Budgets per 2012-2014 Executive Budget in Brief

Kentucky Retirement Systems Investment Performance Compared to Benchmarks - PENSION



Kentucky Retirement Systems Investment Performance Compared to Benchmarks - INSURANCE

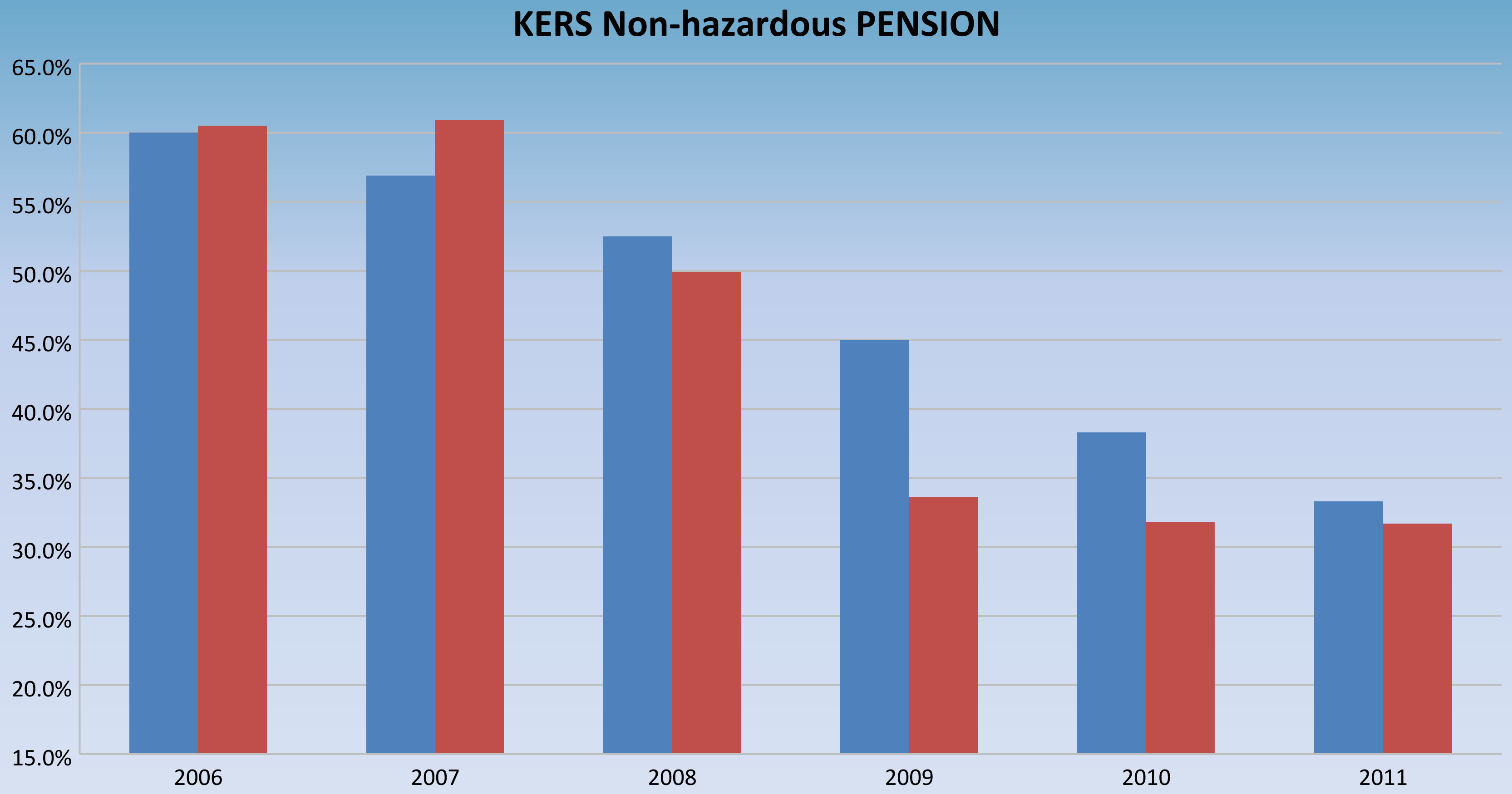


Actuarial Basics

- **Funding Level**
  - Ratio of Actuarial Assets to Actuarial Liabilities
  - Measure of the plan's financial soundness
  - Provides a "snapshot" of the plan's ability to meet liabilities (benefits) earned to date
  - Actuarial valuation is based on a 5-year smoothing method

Actuarial Basics

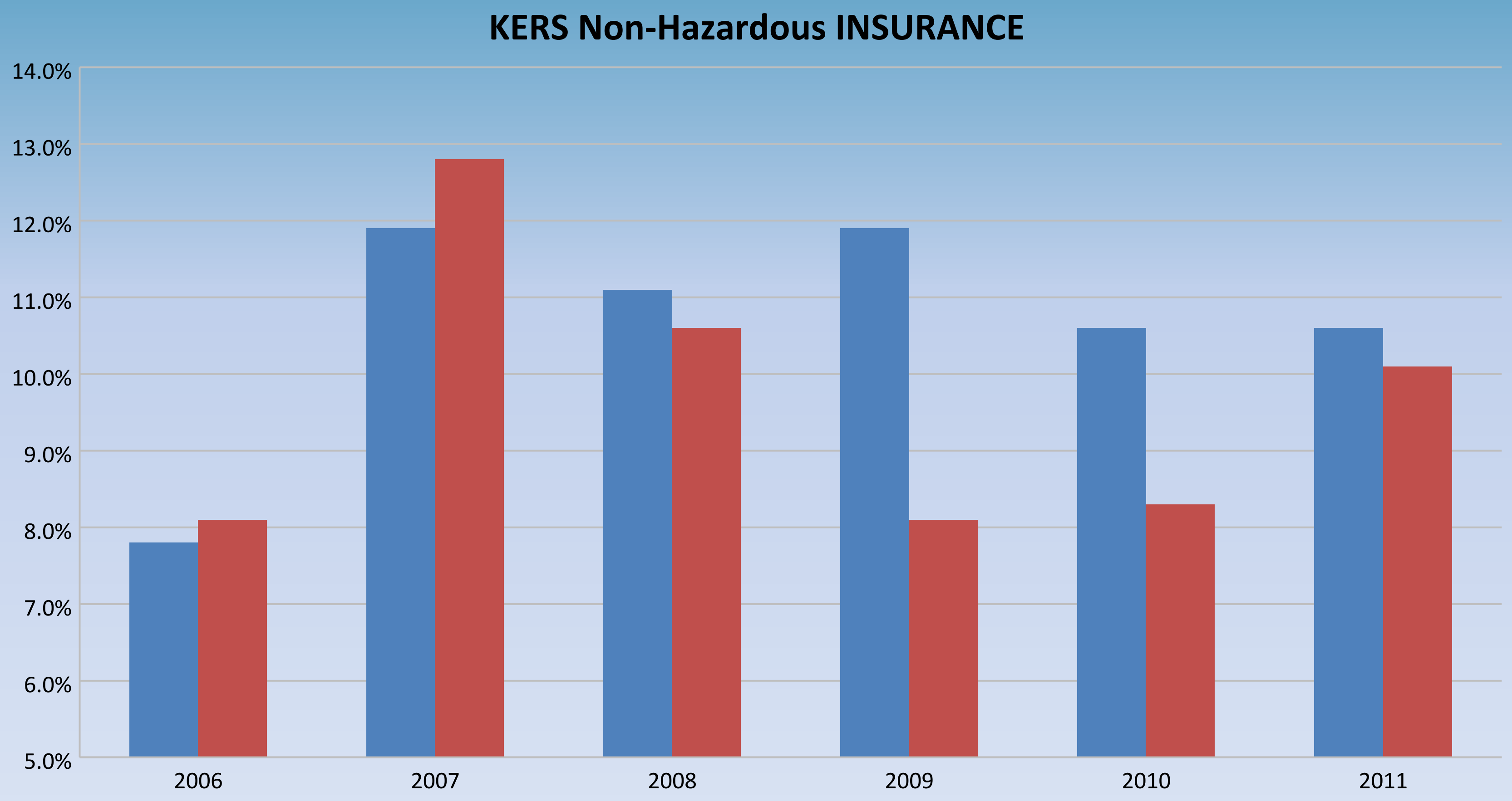
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

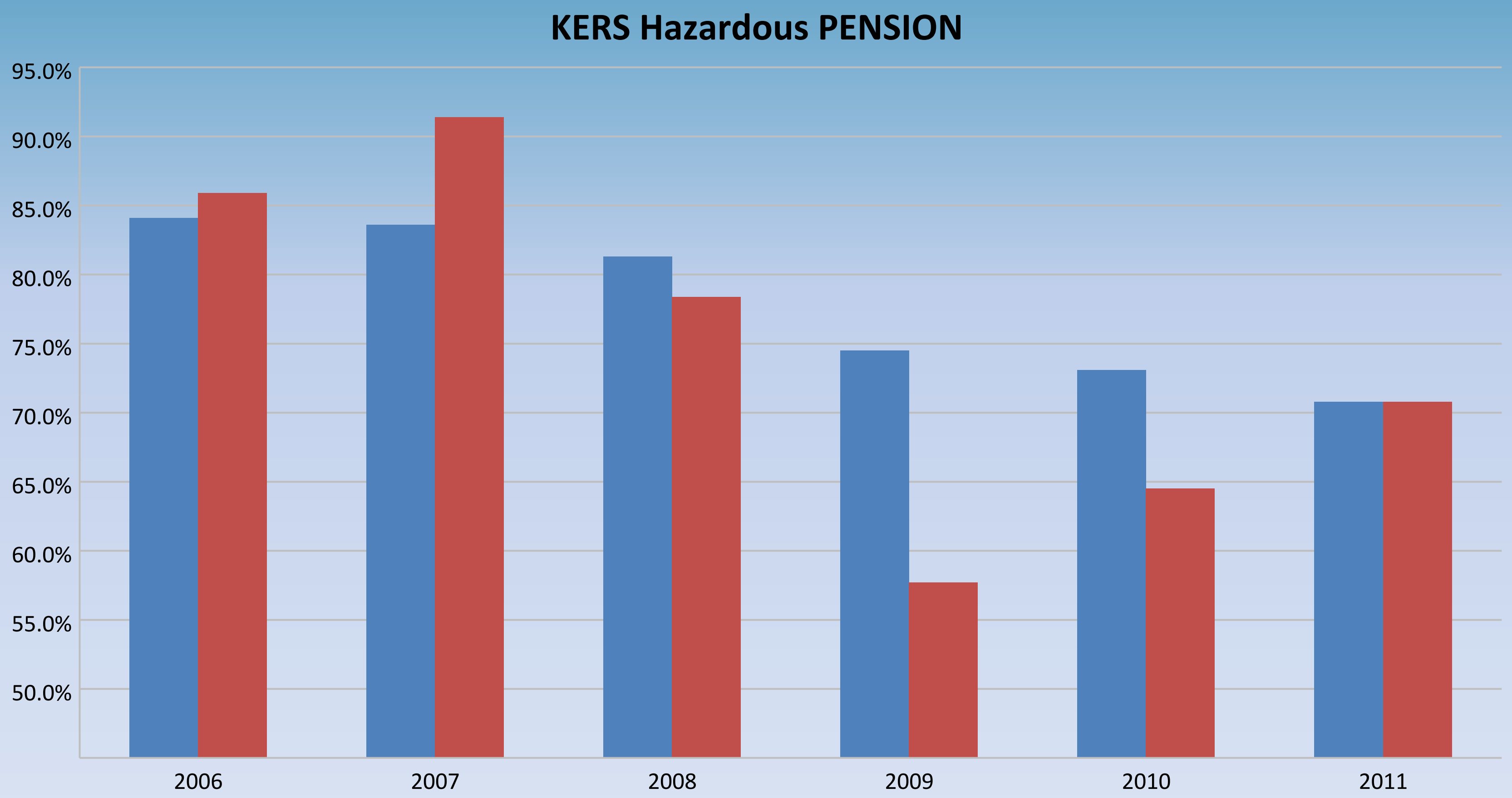
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

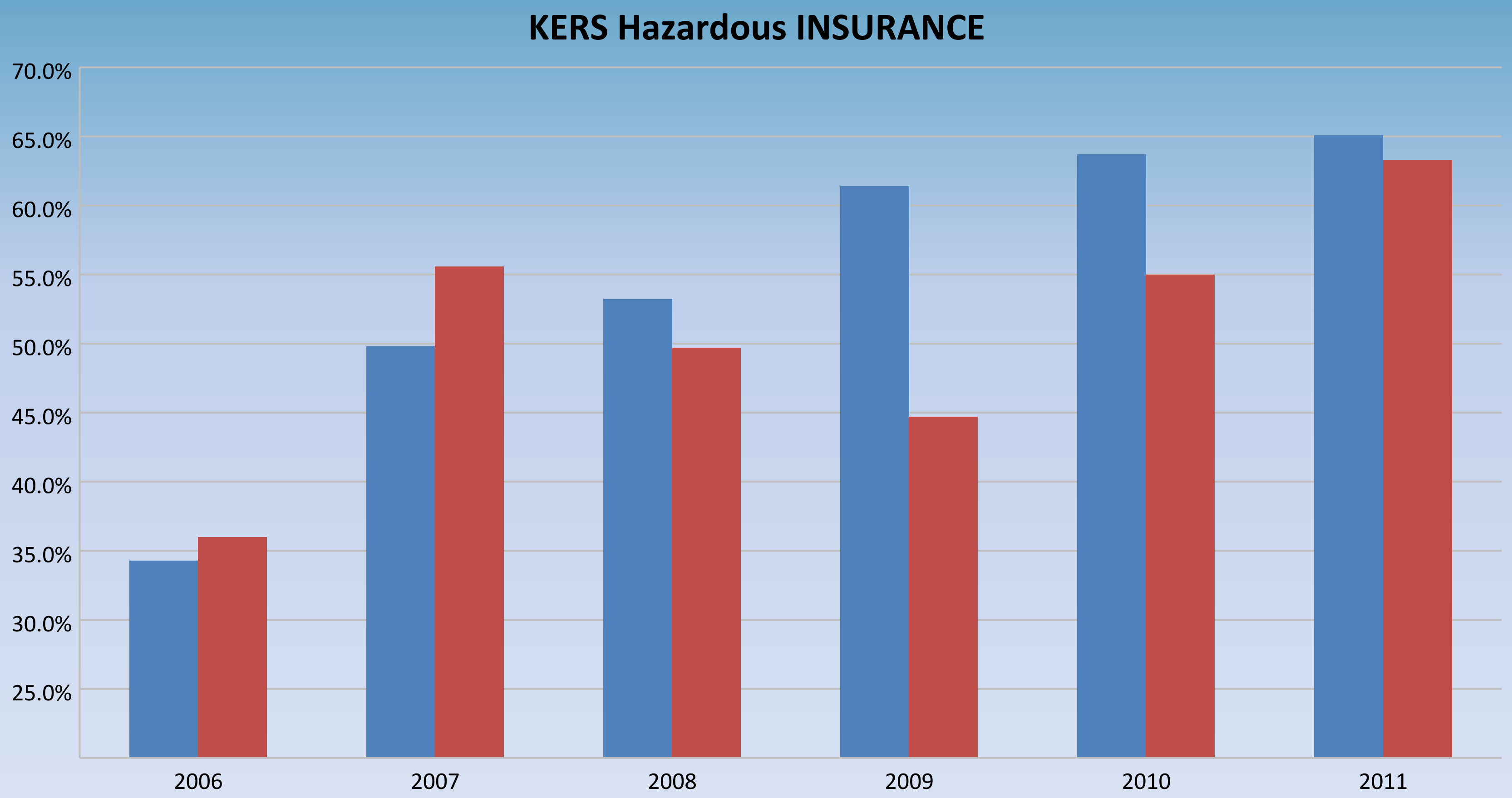
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

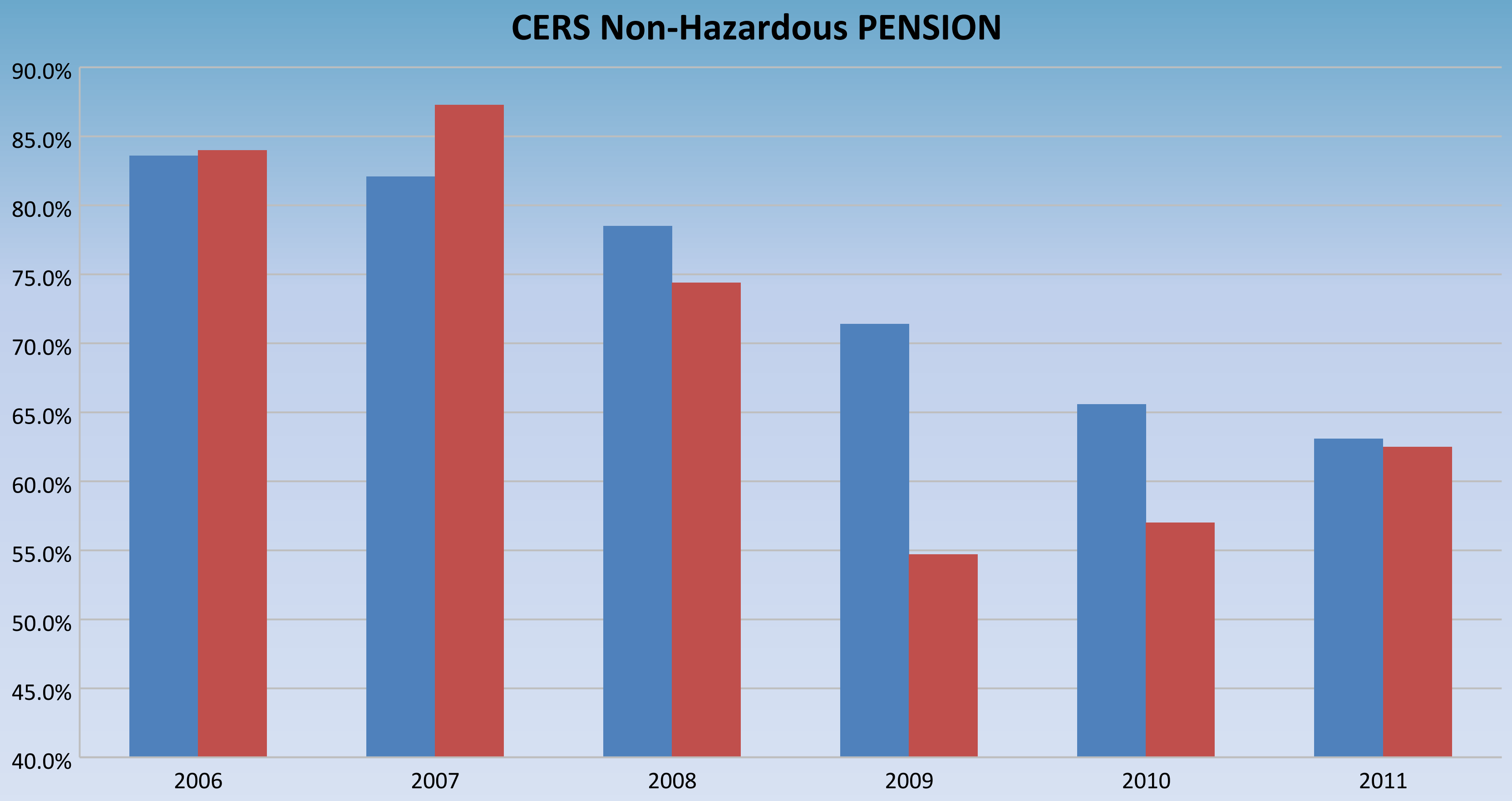
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

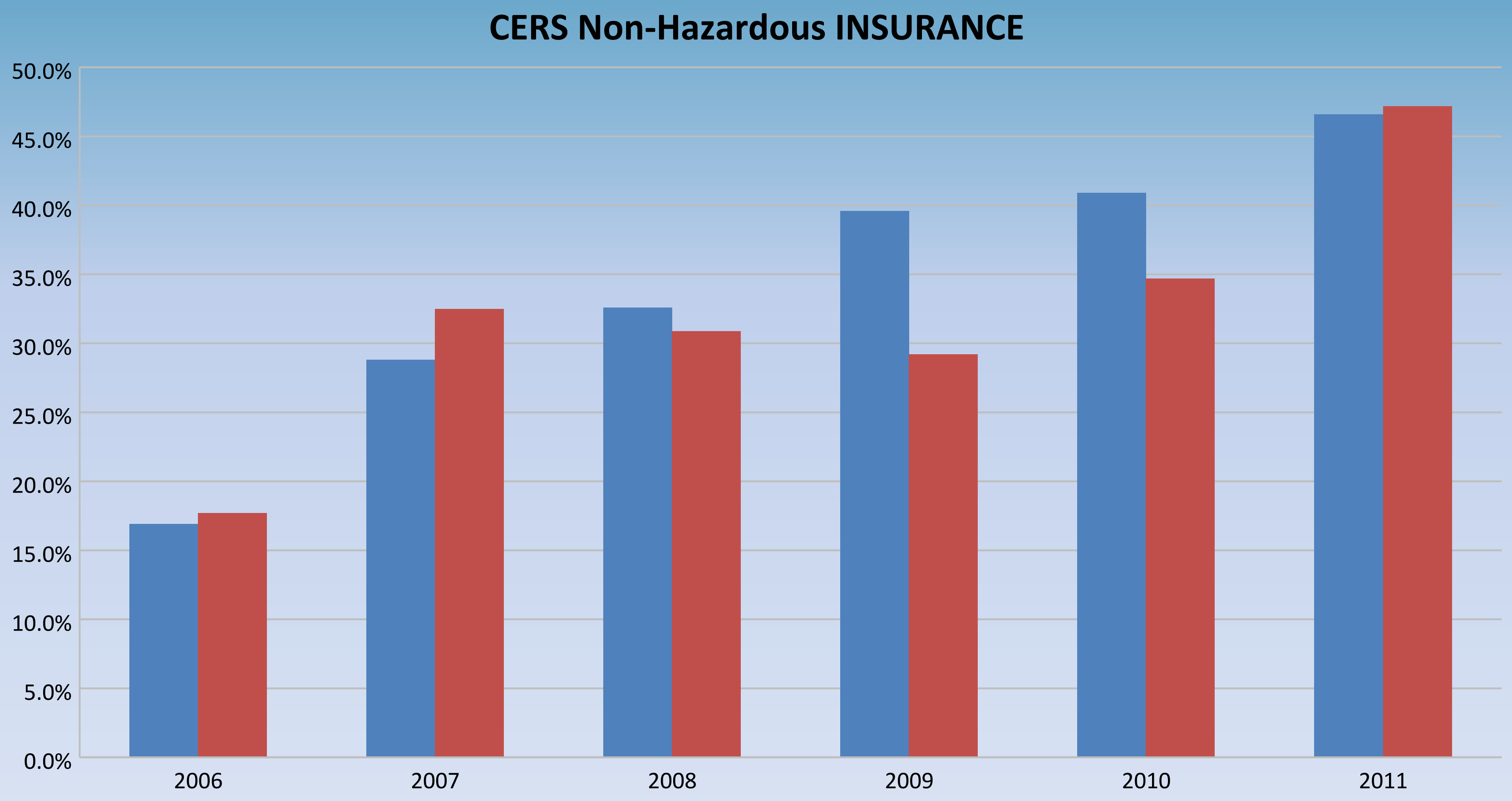
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

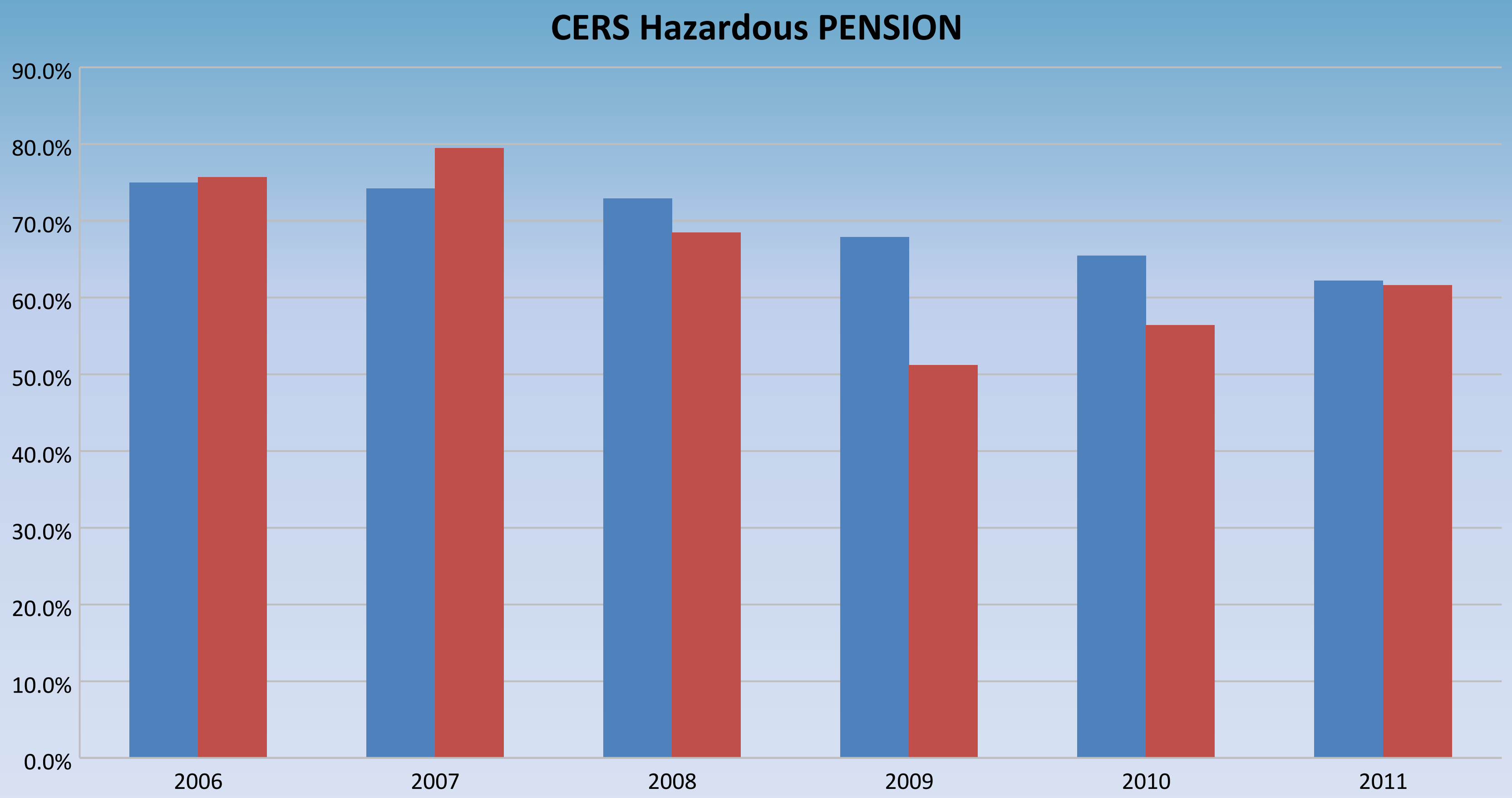
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

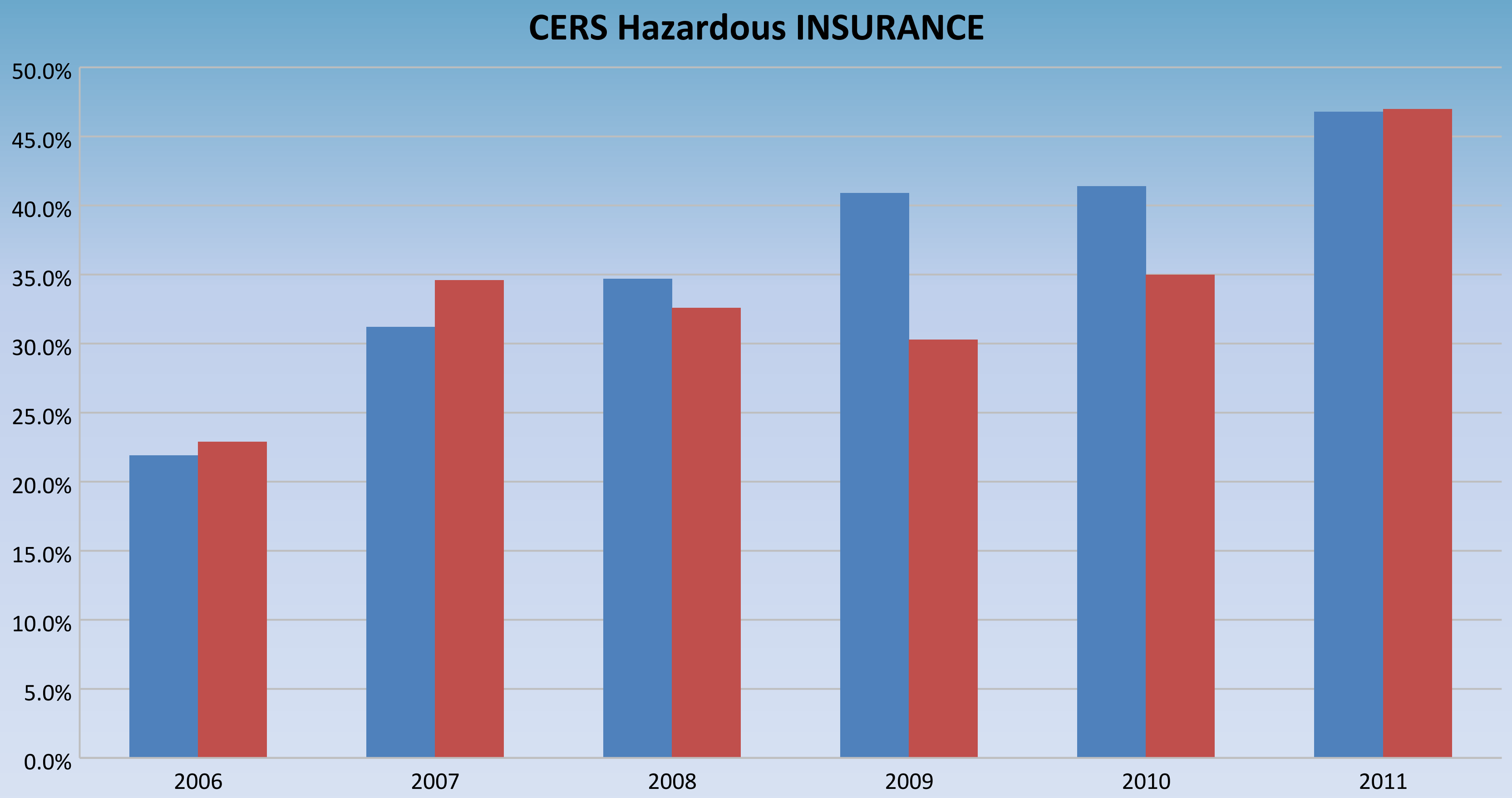
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

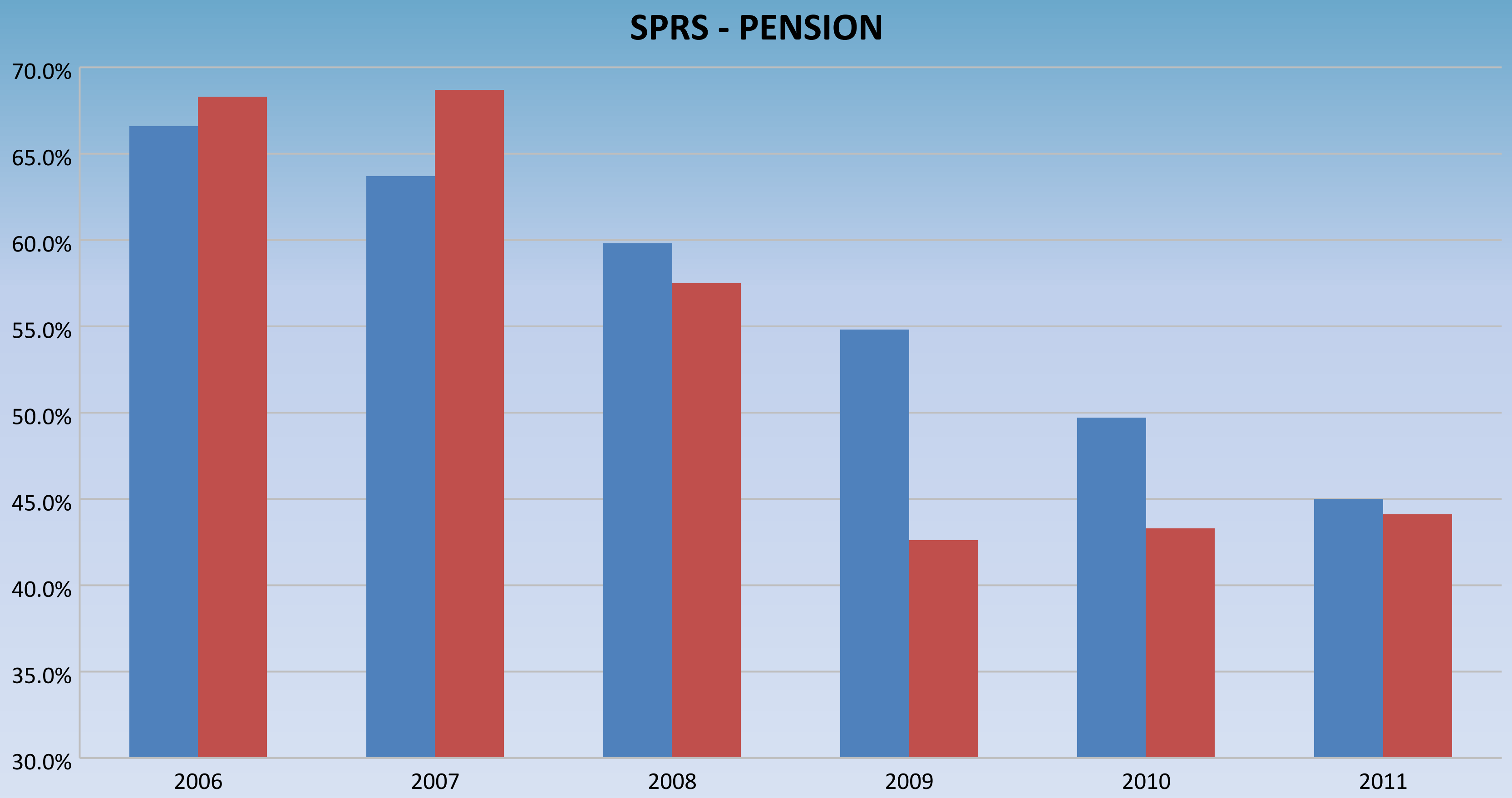
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

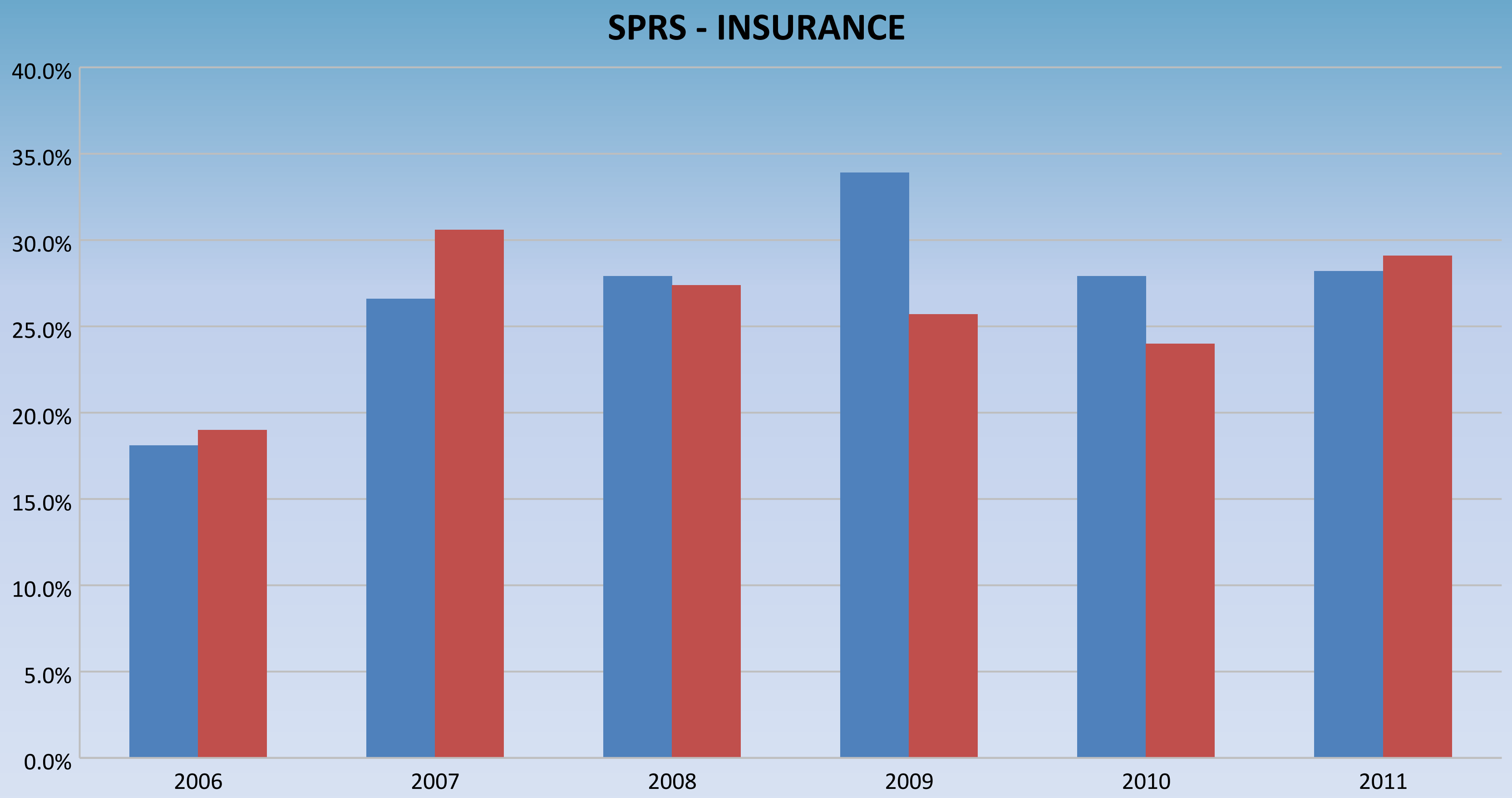
Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

Summary of Actuarial Funding Level (2006 – 2011)



Source: *June 30, 2011 Comprehensive Annual Financial Report*

Actuarial Basics

- **Unfunded Actuarial Liability (UAL)**
  – Difference between actuarial value of assets and liabilities
  – Represents liabilities on benefits already earned by employees and retirees
  – Amortized over a 30 year period, much like a home mortgage
  – The amortized payment is a part of the employer contribution rate

KERS/SPRS 2011 Unfunded Liabilities

(in billions of dollars)

	2011			2010		
System	**Pension**	**Insurance**	**Combined**	**Pension**	**Insurance**	**Combined**
KERS Non-Hazardous	$7.46	$3.82	$11.28	$6.79	$3.99	$10.80
KERS Hazardous	$0.21	$0.18	$0.39	$0.19	$0.18	$0.48
SPRS	$0.35	$0.32	$0.67	$0.31	$0.31	$0.65
TOTAL	$8.02	$4.32	**$12.34**	$7.29	$4.48	**$11.93**

Source: *June 30, 2010 and June 30, 2011 Actuarial Valuations*

CERS 2011 Unfunded Liabilities

(in billions of dollars)

	2011			2010		
System	**Pension**	**Insurance**	**Combined**	**Pension**	**Insurance**	**Combined**
CERS Non-Hazardous	$3.29	$1.64	$4.93	$2.91	$1.87	$4.78
CERS Hazardous	$1.08	$0.88	$1.96	$0.92	$0.98	$1.90
Total	$4.37	$2.52	**$6.89**	$3.83	$2.85	**$6.68**

Source: *June 30, 2010 and June 30, 2011 Actuarial Valuations*

What Caused the Increase in Unfunded Liabilities?

1. **Reductions to Employer Contribution Rates in KERS and SPRS**
   - $2.86 billion contribution and investment income shortfall over the past 20 years
2. **Cost Inflation for Retiree Insurance**
3. **GASB 43/45**
4. **Benefit Enhancements**
5. **Retiree COLA increases not pre-funded**
6. **2000-2002 and 2008-2009 Market Losses**

KERS Unfunded Liability Attribution

Table 3.1.2 - Actuary Prepared Attribution of Unfunded Liability: KERS Non-Hazardous Pension Plan									
Fiscal Year	Unfunded Actuarial Liability (Beg. Of Year)	Investment (G) / L	COLA	Benefits	Actuarial Assumptions	Employer Contribution Shortfall	Demographic & Salary Experience	Other	Unfunded Actuarial Liability (End of Year)
2006	2,000	186	118	133	702	34	195	232	3,601
2007	3,601	-55	212	0	0	100	84	147	4,089
2008	4,089	12	245	0	0	179	128	158	4,811
2009	4,811	308	205	-45	-12	198	131	269	5,864
2010	5,864	324	102	0	0	216	-37	326	6,795
2011	6,795	243	113	0	0	221	-129	212	7,455
Total Increase		1,018	995	88	690	948	371	1,345	5,455
Attribution %		18.7%	18.2%	1.6%	12.6%	17.4%	6.8%	24.7%	100.0%

Chart prepared by Cavanaugh & McDonald Consulting LLC

Historical Reductions to the Employer Contribution Rates

KERS Non-Hazardous

Kentucky Employees Retirement System (KERS): Non-Hazardous Employees							
Fiscal Year	**Covered Payroll**	**KRS Board Adopted Employer Rate**	**Recommended Dollar Contribution**	**Budgeted Employer Rate**	**Budgeted Dollar Contribution**	**Difference (%)**	**Difference ($)**
1992-1993	$1,079,322,020	8.66%	$93,469,287	7.65%	$82,568,135	1.01%	$10,901,152
1993-1994	$1,121,481,440	8.66%	$97,120,293	7.65%	$85,793,330	1.01%	$11,326,963
1995-1996	$1,232,974,460	8.75%	$107,885,265	8.56%	$105,542,614	0.19%	$2,342,651
2002-2003	$1,658,604,696	5.89%	$97,691,817	3.76%	$62,363,537	2.13%	$35,328,280
2003-2004	$1,645,412,496	7.53%	$123,899,561	5.89%	$96,914,796	1.64%	$26,984,765
2004-2005	$1,655,907,288	10.29%	$170,392,860	5.89%	$97,532,939	4.40%	$72,859,921
2005-2006	$1,702,230,777	13.62%	$231,843,832	5.89%	$100,261,393	7.73%	$131,582,439
2006-2007	$1,780,223,493	17.13%	$304,952,284	7.75%	$137,967,321	9.38%	$166,984,964
2007-2008	$1,837,873,488	48.37%	$888,979,406	8.50%	$156,219,246	39.87%	$732,760,160
2008-2009	$1,754,412,912	28.60%	$501,762,093	10.01%	$175,616,732	18.59%	$326,145,360
2009-2010	$1,815,146,388	31.29%	$567,959,305	11.61%	$210,738,496	19.68%	$357,220,809
2010-2011	$1,731,632,748	38.58%	$668,063,914	16.98%	$294,031,241	21.60%	$374,032,674
2011-2012*	$1,815,146,388	40.71%	$738,946,095	19.82%	$359,762,014	20.89%	$379,184,080
						Total KERS Non-Hazardous:	***$2,627,654,218***

* Projected payroll

Historical Reductions to the Employer Contribution Rates
KERS Hazardous

Kentucky Employees Retirement System (KERS): Hazardous Employees							
Fiscal Year	Covered Payroll	KRS Board Adopted Employer Rate	Recommended Dollar Contribution	Budgeted Employer Rate	Budgeted Dollar Contribution	Difference (%)	Difference ($)
1992-1993	$68,456,508	17.55%	$12,014,117	15.05%	$10,302,704	2.50%	$1,711,413
1993-1994	$69,357,624	17.86%	$12,387,272	15.05%	$10,438,322	2.81%	$1,948,949
1995-1996	$79,514,184	18.05%	$14,352,310	17.97%	$14,288,699	0.08%	$63,611
1999-2000	$115,639,439	18.91%	$21,867,418	18.66%	$21,578,319	0.25%	$289,099
2002-2003	$129,088,956	18.84%	$24,320,359	17.60%	$22,719,656	1.24%	$1,600,703
2004-2005	$131,687,088	19.47%	$25,639,476	18.84%	$24,809,847	0.63%	$829,629
2005-2006	$138,747,320	21.59%	$29,955,546	18.84%	$26,139,995	2.75%	$3,815,551
2006-2007	$144,838,020	23.32%	$33,776,226	22.00%	$31,864,364	1.32%	$1,911,862
2007-2008	$148,710,060	47.11%*	$70,057,309	24.25%	$36,062,190	22.86%	$33,995,120
2008-2009	$146,043,576	34.78%	$50,793,956	24.35%	$35,561,611	10.43%	$15,232,345
2009-2010	$143,557,944	35.54%	$51,020,493	24.69%	$35,444,456	10.85%	$15,576,037
2010-2011	$133,053,792	34.37%	$45,730,588	26.12%	$34,753,650	8.25%	$10,976,938
2011-2012*	$143,557,944	33.84%	$48,580,008	28.98%	$41,603,092	4.86%	$6,976,916
						Total KERS Hazardous:	***$94,928,172***

* Projected payroll

Historical Reductions to the Employer Contribution Rates
State Police Retirement System

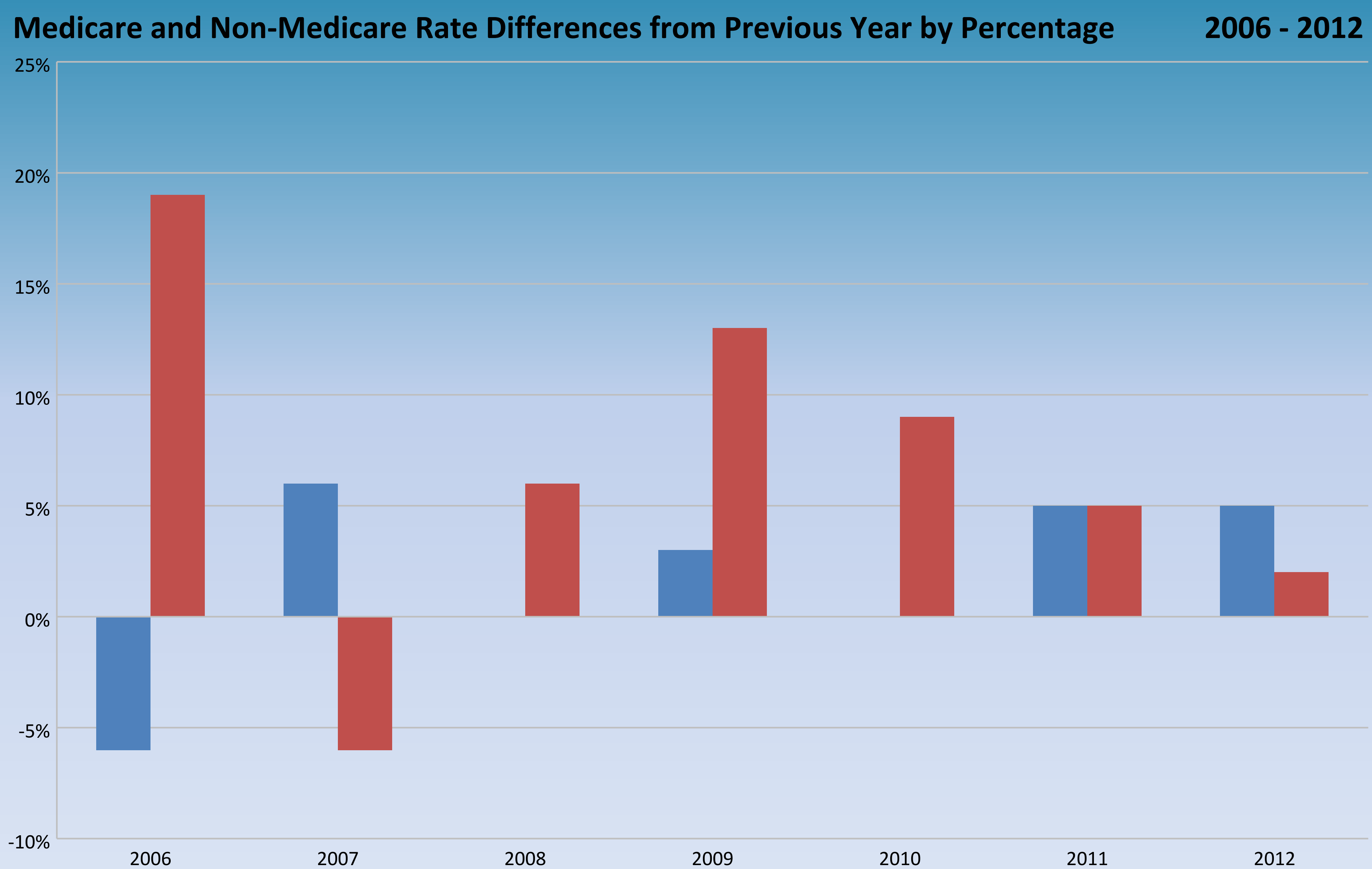
State Police Retirement System (SPRS)							
Fiscal Year	**Covered Payroll**	**KRS Board Adopted Employer Rate**	**Recommended Dollar Contribution**	**Budgeted Employer Rate**	**Budgeted Dollar Contribution**	**Difference (%)**	**Difference ($)**
1992-1993	$36,369,643	21.84%	$7,943,130	19.57%	$7,117,539	2.27%	$825,591
1993-1994	$36,783,743	21.84%	$8,033,569	19.57%	$7,198,579	2.27%	$834,991
1995-1996	$34,698,957	23.05%	$7,998,110	21.78%	$7,557,433	1.27%	$440,677
1999-2000	$43,619,383	25.26%	$11,018,256	23.41%	$10,211,298	1.85%	$806,959
2002-2003	$43,760,832	21.58%	$9,443,588	17.37%	$7,601,257	4.21%	$1,842,331
2004-2005	$43,720,092	28.08%	$12,276,602	21.58%	$9,434,796	6.50%	$2,841,806
2005-2006	$47,743,865	34.83%	$16,629,188	21.58%	$10,303,126	13.25%	$6,326,062
2006-2007	$49,247,580	42.30%	$20,831,726	25.50%	$12,558,133	16.80%	$8,273,593
2007-2008	$53,269,080	120.00%	$63,922,896	28.00%	$14,915,342	92.00%	$49,007,554
2008-2009	$51,660,396	60.14%	$31,068,562	30.07%	$15,534,281	30.07%	$15,534,281
2009-2010	$51,506,712	61.87%	$31,867,203	33.08%	$17,038,420	28.79%	$14,828,782
2010-2011	$48,692,616	85.63%	$41,695,487	45.54%	$22,174,617	40.09%	$19,520,870
2011-2012*	$51,506,712	94.63%	$48,740,802	52.13%	$26,850,449	42.50%	$21,890,353
						Total SPRS:	***$142,973,849***

Total KERS & SPRS: ***$2,865,556,239***

* Projected payroll

Cost Inflation for Retiree Insurance

Cost Inflation for Retiree Insurance



GASB 43/45

- New accounting standards that specify how the costs, liabilities and funding progress for “Other Post Employment Benefits” (OPEB), such as medical, dental and other health-related benefits, are to be measured and reported in the financial reports of OPEB plans and government employers and other sponsors of OPEB benefits.

- Although GASB 43/45 do not actually require funding, an absence of action taken to fund OPEB liabilities will be viewed by bond rating agencies as a negative credit rating factor.

GASB 43/45

- Under GASB 45, in order for actuaries to use long-term investment return assumptions, governments must set aside plan assets in irrevocable trusts. Partially funded plans are required to use a blended rate, based on the proportion of contributions being used for asset accumulation versus payment of current benefits. This is the reason a 4.5% blended rate, rather than the 7.75% rate, was used for KERS and SPRS.

- The higher the investment return assumption (discount rate), the lower the present value of future liabilities and the corresponding annual required contribution needed to fund those liabilities.

Benefit Enhancements

Examples of Some Recent Benefit Enhancements

- **1990:** Non-Hazardous Benefit Factor from 2.0 to 2.2% (CERS only)
- **1990:** "27 Years and Out" for Non-Hazardous becomes effective
- **1990, 1992:** School Board participation requirements were reduced to 80 hours per month for a majority, then all employees
- **1996:** Retiree Cost of Living Adjustment (COLA) with no pre-funding

Benefit Enhancements

Examples of Some Recent Benefit Enhancements

– **1998:** CERS Hazardous high-three

– **1998:** KERS 2.2% benefit factor with 20 years service

– **2000:** School Board Employees receive 12 months service credit for 9 months work

– **2001:** High-three window for KERS and CERS Non-Hazardous

Retiree Cost of Living Adjustment (COLA)

- The 1996 General Assembly enacted an automatic cost of living adjustment (COLA) provision for all recipients of KRS benefits

- During the 2008 Special Session, the General Assembly determined that each July beginning in 2009, retirees who have been receiving a retirement allowance for at least 12 months will receive an automatic COLA of 1.5%

- Statute does not allow pre-funding: the COLA becomes an unfunded liability for a 30 year amortization period

- **COLAs are NOT guaranteed by the inviolable contract language in state law**: the General Assembly has the right to reduce, suspend, or eliminate the COLA

- The General Assembly suspended COLAs for FY 2012-13 and FY 2013-14 per the State Executive Branch Budget bill (HB 265, 2012 RS)

Estimated Cost of Providing 1.50% *ad hoc* COLA for Retirees effective July 1, 2010

	Actuarial Accrued Liability ("AAL") as of June 30, 2009			Recommended Contribution Rate for the 2010-2011 Fiscal Year		
System	**Current AAL**	**1.50% *ad hoc* COLA AAL**	**Increase in AAL**	**Current Rate**	**1.50% *ad hoc* COLA Rate**	**Increase in Rate**
KERS Non-hazardous	$10,658,549,532	$10,767,315,997	$108,766,465	21.77%	22.10%	0.33%
KERS Hazardous	$674,411,781	$679,794,629	$5,382,848	14.11%	14.30%	0.19%
CERS Non-hazardous	$7,912,913,512	$7,970,525,408	$57,611,896	10.03%	10.17%	0.14%
CERS Hazardous	$2,578,444,600	$2,599,088,114	$20,643,514	16.79%	17.02%	0.23%
SPRS	$602,328,868	$608,536,751	$6,207,883	35.74%	36.37%	0.63%
TOTAL INCREASE in Actuarial Accrued Liability: $198,612,606						

Source: *July 7, 2010 letter from Cavanaugh Macdonald Consulting, LLC*

2000 – 2002 and 2008-2009 Market Losses

Two market meltdowns in less than a decade

- 2000 – 2002 was the longest market decline since World War II
- 2008 – 2009 global economic crisis

KRS uses a Five Year Smoothing Method to report investment gains and losses

- Under the Five Year Smoothing Method, 20% of the gain or loss in any one year is recognized in each of the following five years
- This helps to keep employer contribution rates more stable

What Action Has Already Been Taken to Address These Issues?

- Board completed a full review in 2003 and offered several considerations to the Legislature as it relates to benefits for future employees

- Many of these options for new hires were implemented into law by **HB 290** (2004 GA)

- Savings from these changes were estimated by KRS staff to amount to $2.25 billion dollars realized over a 20 year period as current employees are replaced by new employees covered under the new benefits provisions

What Action Has Already Been Taken to Address These Issues?

2004 Changes:

- ***Employees hired on or after July 1, 2003 earn health insurance benefits based upon dollar value***
  - *Non-Hazardous: $10/month for each year of actual service*
  - *Hazardous: $15/month for each year of actual service*
- ***Purchases***
  - *Purchases after 8/1/2004 do not count towards vesting for health insurance benefits*
  - *Purchases made by new hires after 8/1/2004 will not count towards vesting for retirement eligibility*
  - *Purchase factor methodology reviewed and amended in 2005*

What Action Has Already Been Taken to Address These Issues?

2006 Actuarial Experience Study:

- Modified actuarial assumptions related to retiree health premium increases, retirement rates, and life expectancies will increase rates

- Eventually, GASB 43/45 and changes in actuarial assumptions (including the expected continuation of retiree health premium inflation) and COLAs will exceed changes made to stabilize rates

What Action Has Already Been Taken to Address These Issues?

2008 Changes:

- House Bill 1 (2008 Special Session) made significant changes to retirement benefits for employees who begin participating with KRS on or after September 1, 2008
- HB 1 also had provisions affecting current employees and retirees
  - COLA at 1.5% instead of based on CPI-U
  - Service Purchase costs now include COLA and are calculated on earliest retirement date member can retire with an unreduced benefit
  - Retired/reemployed changes for employees returning to work on or after September 1, 2008 regardless of the employee's retirement date
- HB 1 amended KRS 61.565 to create a phase-in schedule for paying 100% of the Actuarially Required Contribution rates
  - If the General Assembly adheres to the schedule, all participating agencies will be required to pay the full employer contribution by 2025

KENTUCKY RETIREMENT SYSTEMS

Questions and Comments

CONTACT INFORMATION

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Exhibit 2

To: Investment Committee

From: KRS Investment Staff

Date: February 3, 2009

Subject: **KRS Absolute Return Strategy Allocation**

Recommendation:

It is the recommendation of the KRS Investment Staff and Consultant that the Investment Committee approve an initial allocation of up to 5.0% of the Fund's assets to be invested in absolute return strategy fund–of–funds ("FOF").

Introduction:

An initiative of the Kentucky Retirement Systems 2008-2009 Annual Five–Year Investment Plan calls for exposure to diversified asset classes and strategies (i.e., absolute return strategies). It is believed that this course of action will serve as a long-term driver of Fund performance. Furthermore, this action will seek to enhance the diversification of the investment portfolio through broader instruments and strategies, diminishing Fund volatility/risk and augmenting the Fund's ability to achieve its investment goals.

As discussed at previous Investment Committee Meetings, the Investment Staff and Consultant (R.V. Kuhns) agree that the near–term market and economic conditions are very challenging for investors. However, the expected long–term returns of many investment opportunities today have tremendous potential to exceed the Plan's actuarial return assumptions and historical returns. In this extremely difficult investment environment, absolute return strategy fund–of–funds may offer an opportunity to add value and mitigate risk to the overall portfolio.

The inclusion of absolute return strategies has the potential to reduce the total portfolio's overall risk through broader market, sector, and instrument diversification, as well as the added expected benefit of higher risk-adjusted and absolute returns. As a long-term investor, KRS is well positioned (relative to short- and intermediate-term horizon investors) to opportunistically take advantage of the tremendous dislocations that exist within the current markets and economic conditions.

Background:

The objective of the absolute return strategy is to preserve capital and deliver positive (absolute) returns under most market conditions. It is anticipated that the returns from this program should largely be uncorrelated to market movements (systematic risk) and primarily based on manager skill. It is intended that this program be structured so that risk should be specific to each manager, not to the systematic risk of the markets. Therefore, manager returns can be thought of as "alpha" that can potentially be "transported" back to the Plan's strategic asset allocation through the use of derivatives.

The fund–of–funds approach combines different investment strategies and asset classes to achieve a more predictable long–term return from the mix of mostly uncorrelated underlying funds. Absolute return strategy fund–of–funds will be identified that use different combinations of underlying managers and strategies to further diversify the return stream and control the volatility (risk) of the aggregate exposures. The active risk of the aggregate absolute return fund–of–funds managers before equitization should be similar or even less than that of many bond managers.

The absolute return strategy's implementation is designed to provide added active return (alpha) with minimal additional risk. The following are several of the strategies that are utilized by absolute return fund–of–funds:

- **Convertible Arbitrage:** Investment strategy that is long convertible securities and short the underlying equities
- **Distressed Securities:** Invests long (and some short) securities of companies that are in reorganizations, bankruptcies, or some other corporate restructuring
- **Emerging Markets:** Investment in securities of companies in developing or "emerging" countries - primarily long
- **Growth Funds:** Investment in a portfolio or "core" holdings in growth stocks. Many of these portfolios are hedged by shorting and utilizing options
- **Macro Funds:** The investment philosophy is based on shifts in global economies. Derivatives are often used to speculate on currency and interest rate moves
- **Market Neutral:** Strategy that attempts to lockout or "neutralize" market risk
- **Market Timing:** Allocation of assets among investments primarily switching between mutual funds and money markets
- **Merger Arbitrage:** Invests in event-driven situations of corporations, such as leveraged buy-outs, mergers, and hostile takeovers. Managers purchase stock in the firm being taken over and, in some situations, sell short the stock of the acquiring company
- **Multistrategies:** Specific portions are utilized for separate strategies, e.g., growth, convertible arbitrage, and market neutral
- **Opportunistic:** Investment theme is dominated by events that are seen as special situations or opportunities to capitalize from price fluctuations or imbalances
- **Sector Funds:** Invest in companies in sectors of the economy, e.g., financial institutions or bio-technologies. These funds invest in both long and short securities and will utilize options
- **Short Selling:** Short selling of securities
- **Derivative Funds:** These funds invest in derivative instruments such as futures and options with the aim of achieving high returns
- **Commodity Funds:** These funds invest in shares of companies that operate in commodity related industries or hold physical commodities such as bullion
- **CTA:** A fund that is a Commodity Trading Advisor's account where the trades are generally focused in commodity futures, options, and foreign exchange with a high degree of leverage

- **Short Bias:** A fund that consistently maintains a net short position to the overall market

Desirability of Absolute Return Strategies:

Absolute return strategies are generally constructed for the preservation of capital and are focused on generating positive earnings. An investor such as KRS would enter into a limited partnership (LP agreement similar to KRS private equity structure) with an absolute return fund–of–fund (FOF). The FOF would then select and manage underlying managers (hedge funds) on KRS' behalf. The FOF's General Partners often invest their own net worth alongside investors such as KRS, better aligning the interests of the FOF with that of the investors.

Absolute return strategies have tended to attract a larger amount of industry talent, allowing them to focus on what are believed to be the best investment ideas. Absolute return FOFs construct a diversified portfolio of generally uncorrelated managers (using upwards of 50 underlying managers). The strategy seeks to generate enhanced returns by providing KRS access to a broad range of investment styles and strategies, and by employing rebalancing strategies. The diversified approach of the FOF limits exposure to any particular style or strategy and reduces individual manager/fund volatility, delivering more consistent return streams across broader market and economic conditions.

Absolute return strategy fund–of–funds simplify and ease the administration, oversight, and monitoring of the investment strategy through the use of the FOF's internal staff's expertise, augmenting and bolstering KRS' resources and capacity for conducting due diligence consistent with industry best practices. The fund–of–funds due diligence process on many of the underlying managers may take up to six (6) months to complete before an initial investment is made. FOF risk management often starts with a dedicated risk management team that conducts up-front due diligence (utilizing private investigators, etc.) and does not invest with any manager/strategy where they do not have a clear understanding of how the returns are generated and what risks exist. FOFs also maintain constant contact with the portfolio managers and whenever possible provide a means for independent pricing of the underlying security positions within the portfolio.

Risks:

Just as with other investment strategies and exposures, absolute return strategies are exposed to various risks. Investment and structural risks are the primary concerns faced by absolute return fund–of–funds. Market, credit, and liquidity are some of the exposures comprising investment risk. Structural risks often entail risks to the organization or the operations of the absolute return strategies. While both risks can be mitigated, they cannot be eliminated. Yet, structural risks can be monitored and controlled by ensuring that extensive due diligence of the manager is conducted. Thorough due diligence may entail the use of private investigator checks on manager/employee's personal information, as well a significant organizational, back office, operational (legal structure, accounting, computer systems), and personnel interviews/due diligence to ensure that sufficient accounting/auditing controls and procedures are in place. Risk can also be managed by adequate transparency of fund holdings (security positions), portfolio characteristics, and the utilization of a separate and dedicated risk management team. The use of statistical attribution models to infer a manager's expected performance assists in managing and understanding the portfolio's risks. Additionally, ongoing communication, questionnaires, on-site visits, and timely (annual) reviews of audited financial statements, etc. go a long way in controlling portfolio/fund risks.

KRS' Approach to Monitoring and Managing Risks:

There are numerous fund–of–funds managers throughout the world; however, most do not have extensive experience and understanding of the requirements to work with institutional clients such as KRS. Historically, most fund–of–funds managers have focused on high–net worth individuals and families, which require a different type of relationship than that required by institutional funds such as KRS. High–net worth individuals are not (generally) as concerned with transparency, reporting, portfolio construction, and operations as much as institutional investors. However, the recent scandal and loss surrounding Bernard Madoff will likely increase the demand for greater risk controls and government regulation. High–net worth individuals and families also tend to move their money around with more frequency and are often seen as "chasing the hot managers." Institutional investors require relationships that conform to more disciplined protocols in order to meet the institutions needs.

In that respect, KRS Investment Staff and RVK have analyzed the following issues and are seeking to establish criteria when evaluating the fund–of–funds managers in order to recommend them as "institutional" quality acceptable for KRS' program:

- **Strategy** – The fund–of–funds should demonstrate that they have a clear strategy that attempts to exploit inefficiencies in the market
- **Capacity** – The fund–of–funds manager should be able to handle a fund of our size, and provide ample diversification across strategies and managers to reduce systematic risk
- **Underlying Manager Selection** – The fund–of–funds manager should demonstrate that they have a methodical quantitative as well as qualitative process for selecting absolute return managers (i.e. the due diligence process)
- **Portfolio Construction** – It should be demonstrated that the portfolio construction is designed to provide risk/return optimization and maximum diversification, while keeping costs in check, and maintaining a basically market neutral portfolio (beta to the S&P 500 around 0.0, to minimize systematic exposure)
- **Risk Controls** – The fund-of-funds should demonstrate that a systematic, well–documented and followed risk control procedure is in place, based on the underlying managers, as well as the portfolio as a whole
- **Monitoring** – The fund-of-funds should demonstrate the types of systems that are used to monitor the underlying managers, not only for performance and positions, but also for how the underlying managers affect the overall portfolio based upon their holdings and liquidity
- **Reporting** – The fund–of–funds should provide KRS with the required reporting and transparency so that we can properly manage a number of relationships with limited internal staff

- **Operations** – The fund–of–funds should be managed on a daily basis and there should be proper staffing checks and balances throughout the operations of the fund–of–funds
- **Experience** – The principals of the fund–of–funds should have extensive experience over various business cycles, and have extensive experience with institutional clients
- **Strategic Partnership** – The fund–of–funds should be willing to assist KRS with implementation, risk monitoring practices, as well as education

Fees:

Finally, while the fees associated with the use of fund–of–funds represent a premium over investing directly with the underlying managers, these costs should be offset by the experience and expertise of the fund–of–funds managers as well as simplifying administration (due diligence, oversight and monitoring) of broadly diversified investments across a wide array of absolute return funds.

Conclusion:

It is expected that an allocation (up to 5.0% of KRS' assets) dedicated to absolute return strategies provides the additional tools in which to preserve Fund capital, lower correlations between investment asset classes, instruments, and strategies. This action is believed to provide further diversification to the portfolio, thus mitigating Plan volatility and thereby delivering more consistent positive absolute returns. Absolute return strategy fund–of–fund implementation is designed to provide KRS with added active return (alpha) while concomitantly seeking to minimize the Fund's risk. The FOF's objective will be to identify and use different combinations of underlying managers and strategies to further broaden the return stream and control the volatility (risk) within specific segments, as well as across the aggregate portfolio exposure.

Recommendation:

It is the recommendation of the KRS Investment Staff and Consultant that the Investment Committee approve an initial allocation of up to 5.0% of the Fund's assets to be invested in absolute return strategy fund–of–funds ("FOF").

EXHIBIT 3

HammondAssociates
INSTITUTIONAL FUND CONSULTANTS, INC.

Kentucky Public Pension Working Group

Strategic Investment and Governance Review
Final Recommendations

October 14, 2008

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I. Executive Summary

Executive Summary

Background

- In July 2008, the Kentucky Public Pension Working Group Investment Sub-Committee hired Hammond Associates Institutional Fund Consultants, Inc. ("Hammond Associates") to conduct an operational and governance review and recommend new investment policies, strategies and benchmarks to improve the investment performance of the Kentucky Retirement Systems ("KRS") and the Kentucky Teachers' Retirement System ("KTRS"). The critical issues are summarized below:
  - Investment performance of both retirement systems has been unacceptable, significantly underperforming the actuarial assumed rate of return and their peer retirement systems across the country;
  - The governance structure responsible for investment oversight is inadequate;
  - The investment portfolio has insufficient diversification of asset classes;
  - The investment manager structure has concentrated positions, increasing risk.

Recommendations

- Based upon the results of our review, this report provides specific recommendations to address the four critical issues identified above. A summary of our recommendations follows on the next page.

Executive Summary

Summary Recommendations:

- Change the charter and composition of the investment committee of both retirement systems to upgrade the investment expertise available for oversight of the investment process.
- Consider forming one investment advisory committee with oversight responsibility for both retirement systems.
- Develop a new investment policy to broadly diversify both retirement systems' assets among traditional and alternative asset classes.
- Review the investment manager structure for poor performing managers and reduce the concentrated positions to more reasonable levels.
- Eliminate or amend administrative regulations that currently add unnecessary bureaucratic processes to the effective management of the KTRS investment portfolio.
- Review the Freedom of Information Act for limitations on implementing diversified portfolios.

II. Operational Review Observations

Operational Review Observations

Background

- The legislative and executive branches of the Commonwealth of Kentucky sensed that a problem existed with KRS and KTRS. The most obvious manifestation of this problem to the legislators was that investment returns for each fund seemed low. For the 1, 3, 5 and 10-year periods ending June 30, 2008, the KRS pension fund had produced returns of -4.2%, 6.6%, 8.5% and 5.6%, respectively, compared to an actuarial assumed rate of return of 7.75%. The returns for KTRS for the same periods were -5.8%, 4.6%, 6.2% and 4.5%, respectively, compared to an actuarial assumed rate of return of 7.5%.
- Two possible explanations for this performance exist. First, it was possible that similar funds had performed as poorly and that no reasonable changes could have altered the situation. It was also possible that a good portion of the investment world had changed their approach and that KRS and KTRS had not kept up with the changes. Based upon our review, it appears the investment community has changed their approach.
- The Commonwealth of Kentucky embarked upon a project to protect the assets of its retirement systems and decided to engage an independent firm to assist with the analysis of the problems. Hammond Associates responded to the request for proposal and was subsequently hired to conduct an operational and governance review.

Operational Review Observations *(continued)*

Hammond Associates Overview

- Hammond Associates is an investment consulting firm located in St. Louis, Missouri. The firm has over 200 clients with assets of approximately $57 billion.
- Two-thirds of Hammond Associates' clients are endowments and foundations. The mission and objectives of this group of clients is comparable in many ways to public retirement plans. Foundations and endowments also have a well-deserved reputation as thought leaders in the field of investment policy.
- The firm currently advises $25 billion of retirement plan assets which is an important and growing portion of Hammond Associates' clientele. One of these clients is a police officers retirement system with assets of approximately $3.5 billion. Another is a state teachers retirement plan with assets of approximately $15 billion.
- Given the significance of the Kentucky Public Pension Plan Working Group Investment Sub-Committee assignment, Hammond Associates appointed two principal consultants who have a significant amount of experience with retirement fund issues.
    - Jerry Woodham was Chief Investment Officer for the San Diego County Pension System for the period 2001-2003. This plan had assets of $5 billion when Mr. Woodham left at the end of 2003.
    - Rich Marra was the Assistant Treasurer and Director of Pension Investments with Smurfit-Stone Container Corporation from 1990 through 2005. He was responsible for setting policy and strategy for their retirement plan assets which exceeded $4 billion.

Operational Review Observations *(continued)*

Peer Ranking

- We compared returns for both KRS and KTRS to the Russell Mellon Public Plans Greater than $1 Billion universe. For the 1, 3, 5 and 10-year periods ending June 30, 2008, KRS ranked in the 2nd, 3rd, 4th and 3rd quartile, respectively. More specifically, for the 10-year period, KRS returned 5.6% compared to the the median of 6.6% and 75th percentile of 5.0%. For the same time periods, KTRS ranked in the 4th quartile for all measured periods. The KTRS return for the 10-year period was 4.5% compared to the 6.6% median.

Risk

- While historical market return studies point out that high levels of U.S. equity market exposure benefit long-term investors, the related risks are less obvious. Significant concentrations in a single asset class poses extraordinary risk to portfolio assets. Fortunately, diversification provides investors with a strong risk management tool. From October 1, 2007 through September 30, 2008, the performance of various asset classes over the 1-year and 10-year period are highlighted below.

	1-Year	10-Year
S&P 500	-22.1%	3.1%
Russell 2000	-14.5%	7.8%
International Equity	-30.5%	5.0%
Emerging Market Equity	-33.2%	14.5%
Lehman Aggregate	3.7%	5.2%
World Bond Index	5.9%	5.4%

	1-Year	10-Year
U.S. TIPS	6.2%	7.1%
Commodities	-3.7%	10.0%
Hedge Fund of Funds	-10.2%	6.6%
Real Estate	5.5%	11.8%
Timber	15.5%	9.2%

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Operational Review Observations *(continued)*

Risk (continued)

- By combining assets that move in different directions in response to market forces, more efficient portfolios can be built. At a given level of risk, properly diversified portfolios provide higher returns than less diversified portfolios. Conversely, through appropriate diversification, a given level of returns can be achieved at a lower risk. Professor Harry Markowitz, known for his pioneering work in modern portfolio theory, maintains that investment portfolio diversification provides the only "free lunch" available for investors, since risk can be reduced without sacrificing return.
- As of June 30, 2008, KTRS had 55% of the total portfolio allocated to the U.S. equity market and 86% of the total equity portfolio allocated to the U.S. equity market. This outsized exposure of more than one half of the portfolio invested in the U.S. equity market violates sensible diversification principles. Committing more than 50% of a portfolio to a single asset class exposes the investor to the preventable risk of large losses. By establishing an investment policy with a variety of asset classes that move at different times and in different directions, investors diminish the risk that a concentrated exposure to a single market will cause material damage.
- Our asset allocation model compared the KTRS investment portfolio against the median public plan portfolio in the Russell Mellon universe. The KTRS portfolio had lower expected return and higher risk across all metrics including: higher standard deviation, a greater probability of a loss year, a higher probability of a 10% or worse loss, greater value at risk, a lower Sharpe Ratio and a lower probability of reaching the 7.5% return objective.

Operational Review Observations *(continued)*

Opportunity Cost

- Hammond Associates calculated the cost of below median performance for KRS and KTRS for the 10-year period ended June 30, 2008. This "opportunity cost" was determined by comparing the fiscal year return with the median return for the Russell Mellon universe and applying the return to the prior year's market value. Based on this analysis, the opportunity cost for KRS Pension was $1.5 billion and KTRS was $3.5 billion for the 10 years ending June 30, 2008. If the funds had provided median returns over this period, the market value of assets would have been higher by the amount of the opportunity cost, all other variables held constant. *Note: Individual fiscal year calculations were compounded to determine the final opportunity cost. See section VI for the complete analysis.*

Possible Causes of Below Median Returns

- When returns for one member of a group of similar funds are below or above median, it is useful to examine the possible causes. These causes fall into one of two areas, either asset allocation impact or manager impact. For the 10-year period ended June 30, 2008, manager returns for both systems have generally been above median. Asset allocation for KRS and KTRS has differed substantially from the median. Therefore, the key differences in return must be attributed to differences in asset allocation. The differences in asset allocation lie in two primary areas. First, KRS and KTRS have held a higher allocation to U.S. equity and a lower allocation to international equity than the median fund. KRS now has an allocation which is comparable to the median fund. Second, both funds have had a lower allocation to alternative assets than the median fund.

Operational Review Observations *(continued)*

Value of Peer Rankings

- KTRS has indicated that they and their consultants feel that peer comparisons have, at best, limited usefulness. Hammond Associates would agree that over the short-term, peer comparisons could be less useful. During short-term periods (1-2 years), investment strategies and managers may produce returns that are not indicative of their long-term potential. However, over a longer time frame (5-10 years), if a fund ranks in the 3rd or 4th quartile of peer institutions, it seems fair to ask questions about what other funds are doing that your fund is not. There may be changes in managers or asset class valuations that could be beneficial to the fund. Since 1990, institutional investors have increased allocations to international equity and alternative assets while reducing reliance on U.S. equity and fixed income. Both KRS and KTRS do not utilize peer rankings and to varying degrees have not participated fully in this trend. KRS introduced TIPS, international equity and alternative assets to the portfolio in 2001, but still reacted more slowly than we think necessary. KTRS introduced international equity in 2006 and introduced alternative assets in 2008. KTRS has a high concentration of U.S. equity in the portfolio today.

Governance Structure

- The value of a high quality investment committee providing senior level oversight cannot be underestimated. Both the composition and the size of the investment committees at KRS and KTRS have contributed to the underperformance of both retirement systems' investments.

Operational Review Observations *(continued)*

Governance Structure (continued)

- While there is no magic bullet regarding the correct number of members for an investment committee, both KRS and KTRS appear too small. We recommend a 7-9 member committee. KRS has a 5 member committee and requires no specific investment background in order to be a member. The committee structure for KTRS requires only three members, including the Executive Secretary. It is unusual for the Executive Secretary to be a voting member. In addition to committee size, one can reasonably raise a question about the qualification requirements for committee members. Many of the funds in our survey require that some committee members have investment background and experience. The Virginia Retirement System ("VRS") goes one step further and is mentioned as a model for larger public funds. VRS requires that four of their nine board members must be investment experts. To further ensure that the proper talent is brought to bear on investment issues, VRS utilizes an Investment Advisory Committee, which supports and advises their Board of Trustees in matters of investment policy, asset allocation and manager selection. All Investment Advisory Committee members must be investment experts and are selected by the board and CIO. Finally, we compared the composition of the Boards of the systems' peers, in an attempt to determine whether funds which required that some level of investment expertise be present with board or committee members resulted in better investment decisions. Returns for the five years ending June 30, 2007 were analyzed. Funds in the top quartile for that period were compared with those in the bottom quartile. The results of this analysis were not 100% consistent with our expectations, but were suggestive that perhaps we were on the right track.

Operational Review Observations *(continued)*

Governance Structure (continued)

- We had only the fund's stated requirements to analyze and could not interview each member to determine their true level of expertise. However, in the top quartile, 5 of the 12 funds required that some level of investment talent be evidenced. In the bottom quartile, only 2 of the 12 funds had the same requirement. We cannot prove cause and effect with these results. However, common sense would indicate that this is a step in the right direction. The objective is to increase the probability of success in meeting long-term investment objectives. Seeking talented and investment savvy board or committee members is consistent with improving this probability.

Social Security

- KTRS members do not participate in Social Security. KTRS believes this is a rare situation. Our research shows that 11 of the 47 retirement systems presented in the universe on page 30 indicated that their members do not participate in Social Security. 9 of the 11 non-participating systems are education employee-specific plans. For the 3, 5 and 10-year periods ended June 30, 2007, KTRS was the worst performing plan in this subset universe. KTRS further states that opting out of Social Security creates a situation in which the fund must be managed more conservatively than if Social Security was available to members. While the need to be more cautious may be reasonable, it raises the question as to which type of risk the fund should try to minimize. We compared risk, as measured by standard deviation of returns, for both systems and found that for the 3 and 5-years ended June 30, 2008, the returns were less volatile than the Russell Mellon universe, but not materially.

Operational Review Observations *(continued)*

Social Security (continued)

- More importantly, an analysis of forecasted returns and risk comparing the target allocation for both KRS and KTRS with more diversified portfolios containing larger allocations to international equity and alternative assets reveals that both KRS and KTRS have lower projected returns and higher levels of risk. The risk metrics included standard deviation, probability of a loss year, probability of a 10% or worse loss, lowest likely one year return and the probability of achieving target returns. Both portfolios, due to an overweighting of U.S. equity vs. international equity and a lower allocation to alternative assets, will likely present a higher risk situation instead of the lower risk that KTRS prefers. *See section VII for further analysis.*

Executive Investment Committee Structure

- It has been suggested that KTRS and KRS may consider an executive investment committee structure in which one single committee would support and advise both Boards of Trustees in matters of investment policy, asset allocation and manager selection, much as VRS does. While this is one form of governance may seem attractive, it is clearly not the only option. It is entirely possible that both funds could adopt enlightened policies and function much more effectively as separate entities than they have in the past. Under assumptions regarding scarce investment talent at the board level, it is also possible that support would grow for a single board. We feel it is inappropriate for us to state a preference for one committee versus two committees, when both forms have the potential for success. This is an issue that the Working Group Sub-Committee as a whole must address.

Operational Review Observations *(continued)*

Funding Policy

- While the funding policy was outside the scope of this Working Group Sub-Committe, we noted that the funded ratio for the five funds managed by KRS ranged from 83.6% to 56.9% and the funded ratio for KTRS was 71.9% as of June 30, 2007. While active and retired teachers have a statutory fixed employer contribution rate, the General Assembly can change this through legislation at any time. The timing of contributions has no adverse impact on the performance of retirement fund assets as long as the investments are made in accordance with a sound investment policy which has been approved by the investment committee. Adverse consequences occur when contributions are not made in accordance with the investment policy.

Administrative Regulations

- The KTRS' Executive Secretary testified that his board is impaired by regulations that prohibit broad investments in various asset classes. However, those regulations have been imposed on KTRS by the KTRS board. The process of establishing an investment policy based upon the "prudent man" standard currently within statutes provides the fiduciaries of the retirement systems with the necessary guidelines to make appropriate decisions regarding investment policy.

III. Recommendations

Recommendations

Recommendation 1:

Change the charter and composition of the investment committee of both retirement systems in order to upgrade the investment expertise available for oversight of the investment process.

- The investment committee should possess the following characteristics:
  - Minimum of seven members
  - Investment expertise required (as defined on page 22)
  - Commitment to participate in continuing educational programs and conferences
- The investment committee member selection process should be established by the Working Group Investment Sub-Committee, or its designee.
- The selection process should commence immediately.

Recommendations *(continued)*

Recommendation 1A:

Form one investment advisory committee with oversight responsibility for both retirement systems (an Executive Investment Committee).

- The Executive Investment Committee should possess the following characteristics:
  - Oversight responsibilities for both retirement systems
  - Minimum of nine members
  - Investment expertise required (as defined on page 22)
  - Commitment to participate in continuing educational programs and conferences
- The investment committee member selection process should be established by the Working Group Investment Sub-Committee, or its designee.
- The selection process should commence immediately.

Recommendations *(continued)*

Definition of Investment Expertise:

Investment experience has been defined by similar plans as the following:

- An individual with at least ten years substantial experience as any one or a combination of the following that also poses no conflict of interest:
  - A portfolio manager acting in a fiduciary capacity
  - A securities analyst
  - A current or retired employee or principal of a trust institution, investment organization or endowment fund acting either in a management or an investment related capacity.
  - A chartered financial analyst in good standing as determined by the CFA Institute
  - A professor at the university level, teaching economics or investment related subjects
  - An economist
  - Any other professional engaged in the field of public or private finances

Recommendations *(continued)*

Recommendation 2:

Conduct an investment policy review.

- Asset mix should be broadly diversified among traditional and alternative asset classes.
- The critical items to be reviewed would include:
  - Time horizon
  - Risk tolerance
  - Return objective
  - Policy asset mix and related benchmarks (peer universe)
  - Rebalancing policy
  - Portfolio risk characteristics
  - Investment manager structure and related benchmarks
  - Conflict of interest policy
- The policy review should be conducted by the new investment committee, the CIO and the investment consultant.

Recommendations *(continued)*

Recommendation 3:

Reduce investment manager concentrations in the KRS and KTRS portfolio.

- Limit manager positions to 10% of the market value of the fund.
- As of June 30, 2008, KRS Pension Fund holds an outsized allocation to Pyramis Global Investors (12.7%) across 2 products.
  - KRS also internally managers an S&P 1500 indexed fund (22.8%).
- As of June 30, 2008, KTRS holds an outsized allocation to Todd Investment Advisors (25.0%) across 5 products.
  - KTRS also internally manages an S&P 500 indexed fund (20.5%).

Recommendations *(continued)*

Recommendation 4:

Conduct a formal review of the administrative regulations of KTRS.

  - Regulations which impair the ability of the investment committees to construct, implement and monitor efficient investment portfolios should be modified or amended as necessary.
  - The review should be conducted by members of the Working Group Investment Sub-Committee, or its designee, and commence immediately.
- The "prudent man" standard currently within the statutes provides the fiduciaries of the retirement systems with the necessary guidelines to make the appropriate decisions regarding investment policy.

Recommendations *(continued)*

Recommendation 5:

Conduct a formal review of the requirements under Kentucky's Freedom of Information act.

- Strict Freedom of Information Act regulations impede access to top tier private equity funds and must be addressed to implement a broadly diversified portfolio.
- All public retirement systems with alternative asset allocations face this issue.
- Regulations which impair the ability of the investment committees to construct, implement and monitor efficient investment portfolios should be modified or amended, if applicable.
- The review should be conducted by members of the Working Group Investment Sub-Committee, or its designee, and commence immediately.
- Hammond Associates recommends the Working Group Investment Sub-Committee seek legal advice for specific guidance.

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IV. Portfolio Performance

Portfolio Performance – Introduction

- Trailing period returns for both KRS and KTRS were compared to both a custom peer universe and a Russell Mellon universe.
- KRS and KTRS were compared to a custom universe of all state pension plans with asset greater than $5 billion, publicly available return data, and a fiscal year ending June 30th.
  - The universe contains 47 funds with $1.73 trillion in total assets.
  - The average size of a fund in the universe is $36.9 billion.
- The other benchmark used for comparison purposes was the Russell Mellon Public Funds Greater than $1 Billion universe.
  - The universe contains 58 funds with $944 billion in total assets.
  - The average size of a fund in the universe is $16.3 billion.
- Both KRS and KTRS have underperformed their peers over the past ten years when compared to either universe.

Public Pension Plan Return Data – Custom Peer Universe

		Period Ending June 30, 2007			
System	**Assets**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Pennsylvania Public School Employees Retirement System	$67,340,997	22.9%	16.9%	14.5%	NA
Louisiana Teachers Retirement System	16,148,730	19.7%	15.0%	14.0%	9.7%
Washington Department of Retirement Systems	69,059,082	21.3%	17.0%	14.0%	NA
South Dakota Retirement System	8,158,169	21.4%	15.9%	13.8%	10.3%
Oregon Employees Retirement System	62,891,942	18.6%	15.6%	13.4%	NA
Missouri State Employees Retirement System	8,129,174	18.7%	14.2%	13.3%	9.2%
Ohio State Teachers Retirement System	72,935,433	20.7%	15.5%	13.2%	NA
California State Teachers Retirement System	172,377,918	21.0%	15.1%	13.1%	NA
California Public Employees Retirement System	251,122,682	19.1%	14.6%	12.8%	9.1%
Idaho Public Employee Retirement System	11,257,959	20.0%	14.3%	12.8%	NA
Oklahoma Teachers Retirement System	9,651,042	18.5%	12.8%	12.8%	NA
Virginia Retirement System	56,890,203	20.4%	14.9%	12.8%	NA
Louisiana State Employees Retirement System	9,351,148	19.2%	13.7%	12.6%	NA
Illinois Teachers Retirement System	41,909,318	19.2%	13.9%	12.5%	9.1%
New York State Teachers Retirement System	104,912,949	19.3%	13.8%	12.3%	8.8%
Kansas Public Employees Retirement System	14,183,073	18.0%	14.1%	12.3%	8.8%
Arkansas Teachers Retirement System	11,636,935	19.1%	14.0%	12.1%	NA
Minnesota Teachers Retirement Association	19,938,882	18.5%	14.0%	12.0%	8.5%
Illinois State Universities Retirement System	15,985,730	18.3%	13.4%	11.9%	8.5%
Minnesota Public Employees Retirement Association	16,718,662	18.3%	13.8%	11.9%	8.3%
Minnesota State Retirement System	15,214,339	18.3%	13.8%	11.9%	NA
Indiana Public Employees Retirement Fund	17,181,295	18.2%	12.8%	11.8%	NA
Arkansas Public Employees Retirement System	5,970,244	18.1%	13.3%	11.7%	NA
Ohio School Employees Retirement System	11,546,062	18.7%	13.8%	11.7%	8.2%
New Mexico Public Employees Retirement Association	13,616,098	18.1%	13.2%	11.7%	NA
Hawaii Employees Retirement System	11,462,417	17.7%	13.3%	11.7%	NA
Indiana State Teachers Retirement Fund	8,987,744	18.2%	12.9%	11.6%	NA
Iowa Public Employees Retirement System	23,217,168	16.3%	12.9%	11.6%	9.0%
Alaska Public Employees Retirement System	7,439,387	18.9%	13.1%	11.5%	NA
Florida Retirement System	134,317,778	18.1%	12.9%	11.5%	8.5%
Delaware Public Employees Retirement System	7,413,370	15.9%	12.7%	11.5%	9.0%
Mississippi Public Employees Retirement System	21,912,350	18.9%	13.1%	11.4%	NA
Maine State Retirement System	11,023,021	16.2%	11.8%	11.4%	7.7%
Maryland State Retirement and Pension System	39,444,781	17.6%	12.4%	11.3%	7.2%
Texas Employees Retirement System	24,460,276	13.9%	11.8%	11.2%	NA
Arizona State Retirement System	28,475,997	17.8%	11.9%	11.0%	8.4%
Oklahoma Public Employees Retirement System	6,640,477	16.4%	11.6%	10.9%	NA
Illinois State Employees Retirement System	12,078,909	17.1%	12.6%	10.8%	NA
Missouri Public Schools Retirement System	31,964,843	16.6%	11.8%	10.5%	NA
Kentucky Retirement Systems	*14,228,184*	*15.3%*	*11.4%*	*10.4%*	*8.1%*
North Carolina Retirement Systems	75,953,334	14.8%	10.6%	10.3%	NA
Nevada Public Employees Retirement System	22,701,360	15.0%	11.0%	10.0%	7.9%
South Carolina Retirement Systems	28,048,780	13.4%	8.6%	8.8%	7.0%
Georgia Employees Retirement System	17,516,903	14.7%	9.5%	8.5%	NA
Georgia Teachers Retirement System	53,133,101	NA	9.5%	8.5%	NA
Kentucky Teachers Retirement System	*15,492,519*	*15.2%*	*9.3%*	*8.5%*	*7.1%*
Tennessee Consolidated Retirement System	32,365,969	13.2%	9.1%	8.3%	NA
High		22.9%	17.0%	14.5%	10.3%
Mean		17.9%	13.0%	11.7%	8.5%
Median		18.3%	13.2%	11.7%	8.5%
Low		13.2%	8.6%	8.3%	7.0%

Source: Comprehensive annual financial report published by each represented system for the period ending June 30, 2007.
Notes: Returns shown for Kentucky Retirement Systems represent only the returns for the Pension Fund. Plans are ranked according to their 5-year performance.

Public Pension Plan Return Data – Plans Not Covered by Social Security

- The table below shows return data for the systems contained in the peer universe on the previous page whose members do not participate in Social Security.
- For the 3, 5 and 10-year periods ending June 30, 2007, KTRS was the worst performing plan in this universe.

		Period Ending June 30, 2007			
System	**Assets**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Louisiana Teachers Retirement System	16,148,730	19.7%	15.0%	14.0%	9.7%
Ohio State Teachers Retirement System	72,935,433	20.7%	15.5%	13.2%	NA
California State Teachers Retirement System	172,377,918	21.0%	15.1%	13.1%	NA
Louisiana State Employees Retirement System	9,351,148	19.2%	13.7%	12.6%	NA
Illinois Teachers Retirement System	41,909,318	19.2%	13.9%	12.5%	9.1%
Illinois State Universities Retirement System	15,985,730	18.3%	13.4%	11.9%	8.5%
Ohio School Employees Retirement System	11,546,062	18.7%	13.8%	11.7%	8.2%
Maine State Retirement System	11,023,021	16.2%	11.8%	11.4%	7.7%
Missouri Public Schools Retirement System	31,964,843	16.6%	11.8%	10.5%	NA
Nevada Public Employees Retirement System	22,701,360	15.0%	11.0%	10.0%	7.9%
Kentucky Teachers Retirement System	*15,492,519*	*15.2%*	*9.3%*	*8.5%*	*7.1%*
High		21.0%	15.5%	14.0%	9.7%
Mean		18.2%	13.1%	11.8%	8.3%
Median		18.7%	13.7%	11.9%	8.2%
Low		15.0%	9.3%	8.5%	7.1%

- According to the National Education Association, of the 98 plans in which education employees participate, 22% of the plans are those in which “Few/None” of the members are covered by Social Security
- According to the same survey only 58% of the plans are categorized as having “All” members covered.

Source: Comprehensive annual financial report published by each represented system for the period ending June 30, 2007.
Note: Plans are ranked according to their 5-year performance.

Portfolio Performance – KRS Pension Fund

	Period Ending June 30, 2008			
	1-Year	3-Year	5-Year	10-Year
KRS Pension Fund	***-4.2%***	***6.6%***	***8.5%***	***5.6%***
Median Return	-4.3%	8.4%	10.7%	6.6%
Excess Return	0.1%	-1.8%	-2.2%	-1.0%
Quartile Ranking	2nd	3rd	4th	3rd

- KRS Pension Fund returns have ranged between the second and fourth quartiles of the Russell Mellon Public Pension Plan Greater than $1 Billion Universe over the last 1, 3, 5 and 10-year periods ending June 30, 2008.
- Peer performance has improved recently, ranking in the second quartile of the Russell Mellon universe over the past year.
- Over the past ten years the KRS Pension Fund has underperformed the median return for the Russell Mellon universe by 100 basis points.
- The underperformance relative to the universe median represents an opportunity cost of approximately $1.5 billion in lost returns which could have been added to the Fund's asset base.
- The KRS Pension Fund has an actuarial assumed rate of return of 7.75%.

Portfolio Performance – KRS Insurance Fund

	Period Ending June 30, 2008			
	1-Year	3-Year	5-Year	10-Year
KRS Insurance Fund	***-7.9%***	***7.3%***	***10.1%***	***5.5%***
Median Return	-4.3%	8.4%	10.7%	6.6%
Excess Return	-3.6%	-1.1%	-0.6%	-1.1%
Quartile Ranking	4th	3rd	3rd	3rd

- KRS Insurance Fund returns have been either in the third or fourth quartile of the Russell Mellon universe over the last 1, 3, 5 and 10-year periods ending June 30, 2008.
- Over the past ten years the KRS Insurance Fund has underperformed the median return for the Russell Mellon universe by 110 basis points.
- The KRS Insurance Fund has an actuarial assumed rate of return of 7.75%.

Portfolio Performance – KTRS

	Period Ending June 30, 2008			
	1-Year	3-Year	5-Year	10-Year
KTRS	***-5.8%***	***4.6%***	***6.2%***	***4.5%***
Median Return	-4.3%	8.4%	10.7%	6.6%
Excess Return	-1.5%	-3.8%	-4.5%	-2.1%
Quartile Ranking	4^{th}	4^{th}	4^{th}	4^{th}

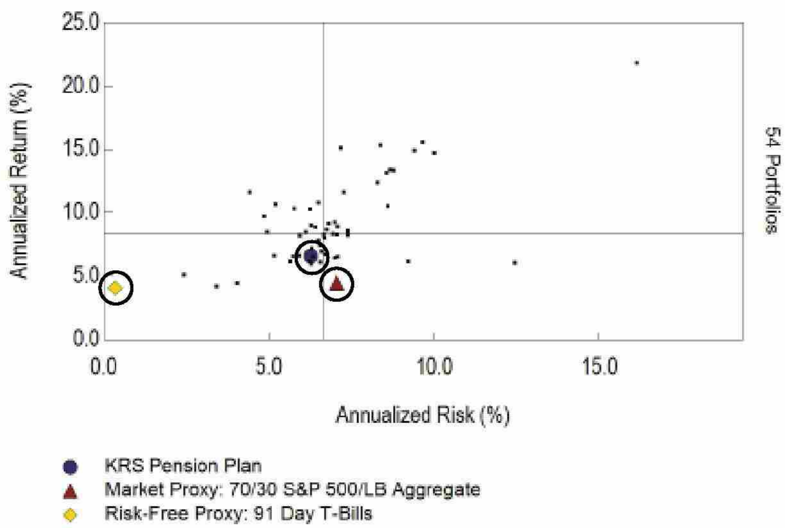
- Kentucky Teachers' Retirement Systems' returns have ranked in the fourth quartile of the Russell Mellon Public Pension Plan Greater than $1 Billion Universe over the last 1, 3, 5 and 10-year periods ending June 30, 2008.
- Over the past ten years KTRS has underperformed the median return for the Russell Mellon universe by 210 basis points.
- The underperformance relative to the universe median represents an opportunity cost of approximately $3.5 billion in lost returns which could have been added to the Fund's asset base.
- KTRS has an assumed actuarial rate of return of 7.5%.

Peer Ranking Analysis

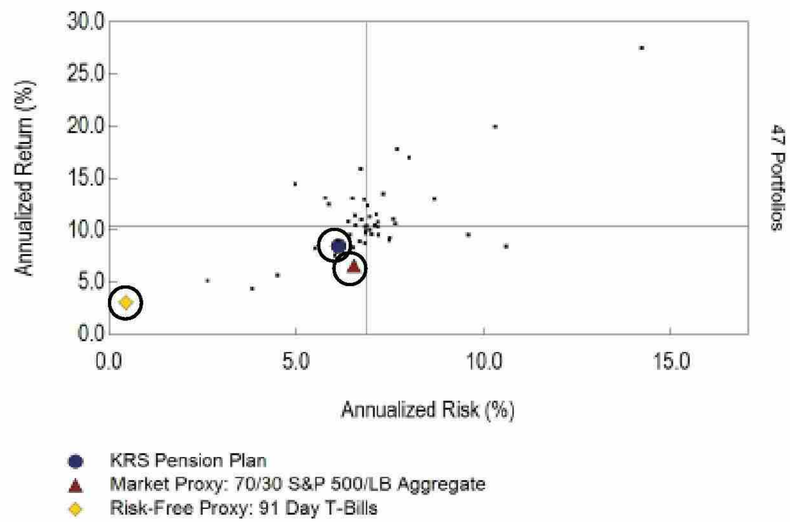
- The key metric in performance measurement is the long-term target return.
- Pension plans cannot manage with top quartile performance as the goal. Top quartile performance is the result of good management.
- Peer rankings provide some insight as to what similar institutional investors are doing.
- Consistently low peer rankings, at a minimum, should serve as notice to review both your policy and the policies of the top performing funds (long-term).

Risk/Return Profile – KRS Pension Plan vs. Public Funds > $1b

PUBLIC FUNDS >$1B ACCOUNTS
3 YEARS ENDING JUNE 30, 2008



PUBLIC FUNDS >$1B ACCOUNTS
5 YEARS ENDING JUNE 30, 2008



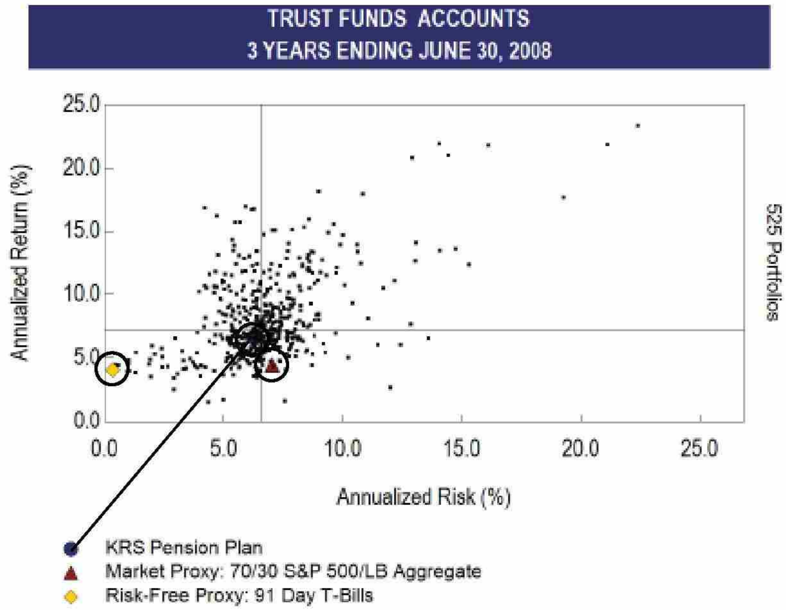
Risk vs. Return for 3 Years Ending June 30, 2008

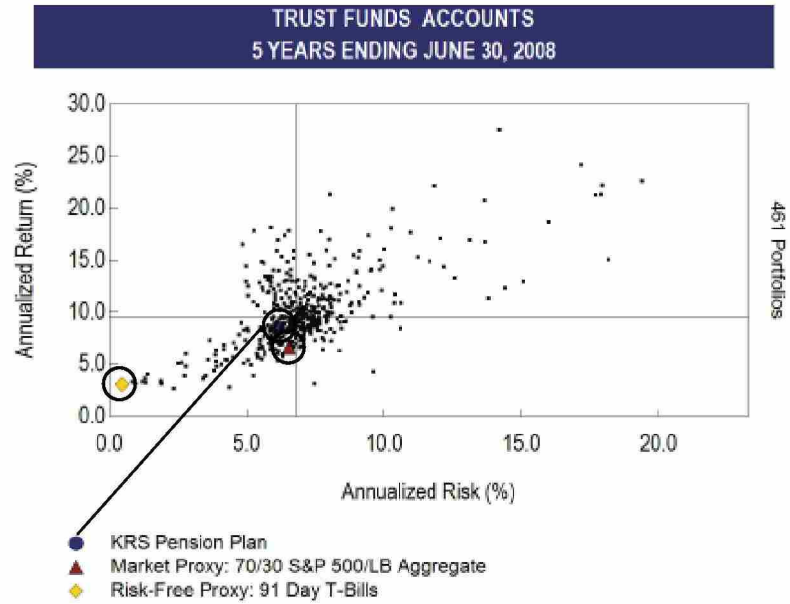
Rank within Public Funds >$1B (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Pension Plan	6.6%	77	6.3%
70/30 S&P 500/LB Aggregate	4.5%	98	7.0%
Median for this Universe	8.4%		6.7%

Risk vs. Return for 5 Years Ending June 30, 2008

Rank within Public Funds >$1B (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Pension Plan	8.5%	85	6.1%
70/30 S&P 500/LB Aggregate	6.6%	95	6.5%
Median for this Universe	10.4%		6.8%

Risk/Return Profile – KRS Pension Plan vs. Total Plan Universe





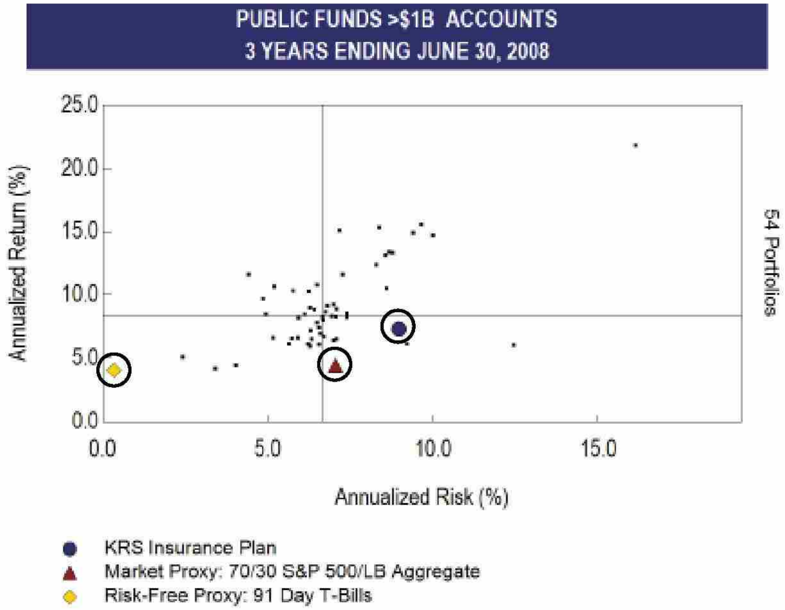
Risk vs. Return for 3 Years Ending June 30, 2008

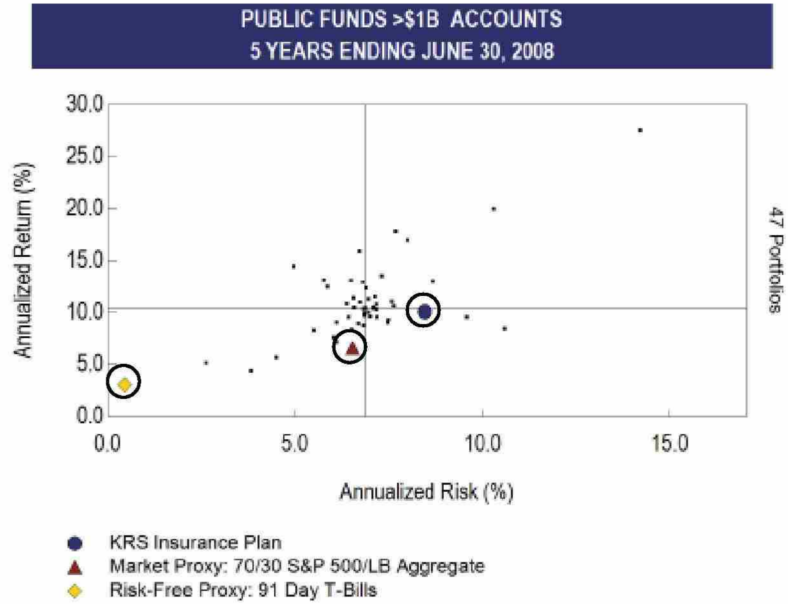
Rank within Trust Funds (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Pension Plan	6.6%	62	6.3%
70/30 S&P 500/LB Aggregate	4.5%	93	7.0%
Median for this Universe	7.2%		6.6%

Risk vs. Return for 5 Years Ending June 30, 2008

Rank within Trust Funds (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Pension Plan	8.5%	69	6.1%
70/30 S&P 500/LB Aggregate	6.6%	89	6.5%
Median for this Universe	9.5%		6.8%

Risk/Return Profile – KRS Insurance Plan vs. Public Funds > $1b





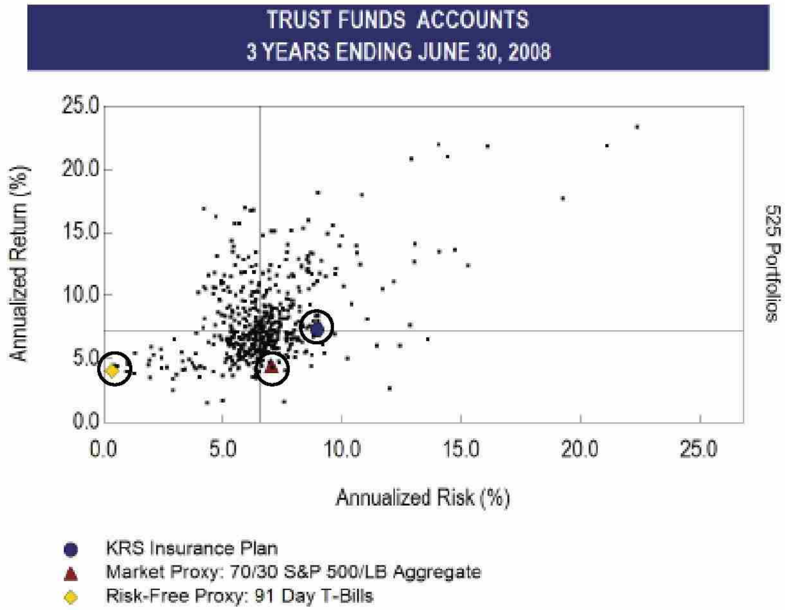
Risk vs. Return for 3 Years Ending June 30, 2008

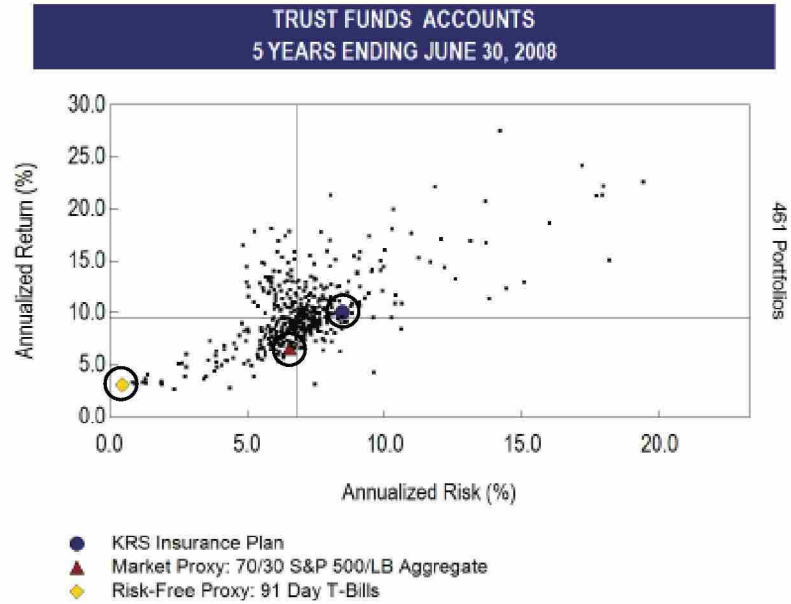
Rank within Public Funds >$1B (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Insurance Plan	7.3%	68	9.0%
70/30 S&P 500/LB Aggregate	4.5%	98	7.0%
Median for this Universe	8.4%		6.7%

Risk vs. Return for 5 Years Ending June 30, 2008

Rank within Public Funds >$1B (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Insurance Plan	10.1%	59	8.5%
70/30 S&P 500/LB Aggregate	6.6%	95	6.5%
Median for this Universe	10.4%		6.8%

Risk/Return Profile – KRS Insurance Plan vs. Total Plan Universe





Risk vs. Return for 3 Years Ending June 30, 2008

Rank within Trust Funds (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Insurance Plan	7.3%	48	9.0%
70/30 S&P 500/LB Aggregate	4.5%	93	7.0%
Median for this Universe	7.2%		6.6%

Risk vs. Return for 5 Years Ending June 30, 2008

Rank within Trust Funds (peer)	Annualized Return	Percentile Rank	Standard Deviation
KRS Insurance Plan	10.1%	42	8.5%
70/30 S&P 500/LB Aggregate	6.6%	89	6.5%
Median for this Universe	9.5%		6.8%

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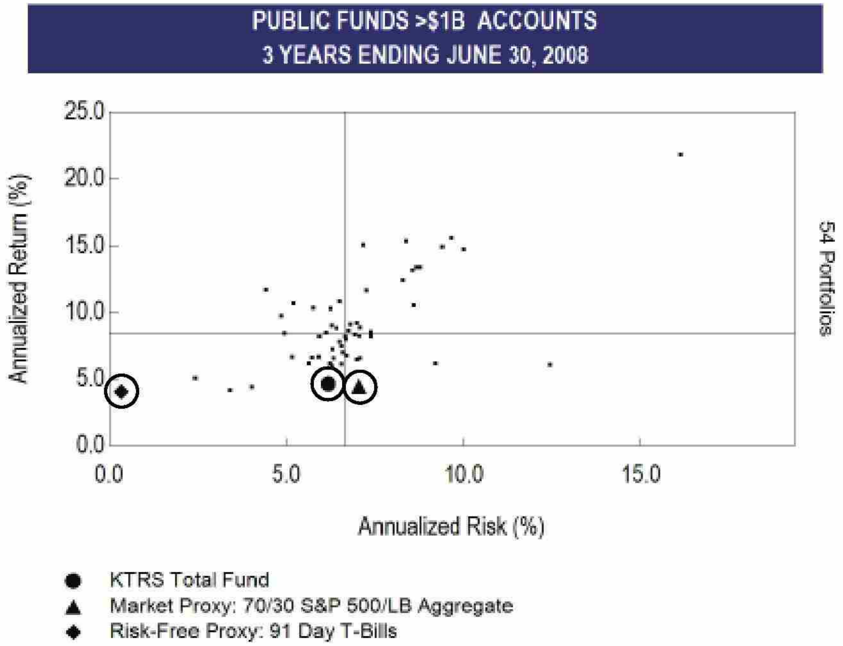
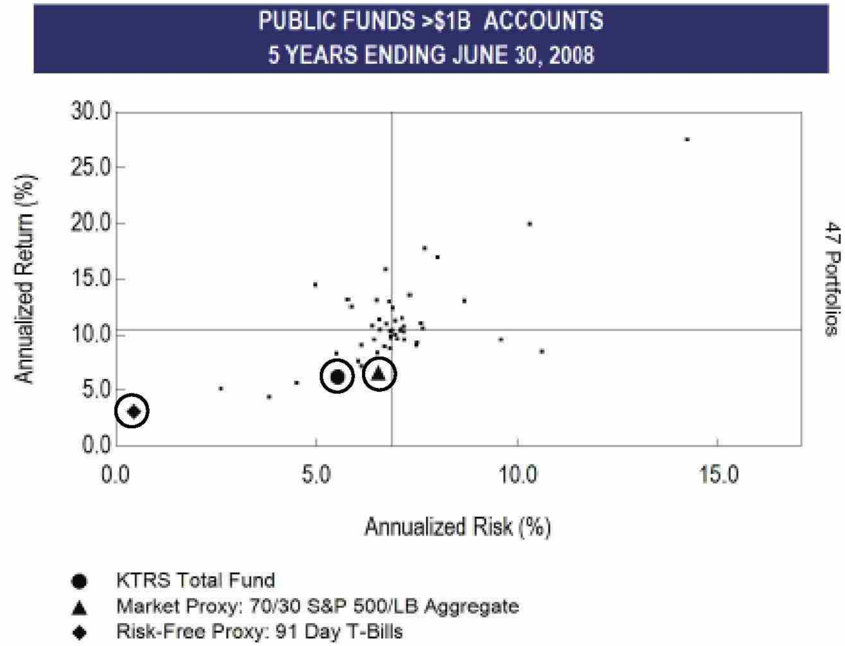
Risk/Return Profile – KTRS Total Fund vs. Public Funds > $1b





Risk vs. Return for 3 Years Ending June 30, 2008

Rank within Public Funds >$1B (peer)	Annualized Return	Percentile Rank	Standard Deviation
KTRS Total Fund	4.6%	98	6.2%
Median for this Universe	8.4%		6.7%

Risk vs. Return for 5 Years Ending June 30, 2008

Rank within Public Funds >$1B (peer)	Annualized Return	Percentile Rank	Standard Deviation
KTRS Total Fund	6.2%	95	5.5%
Median for this Universe	10.4%		6.8%

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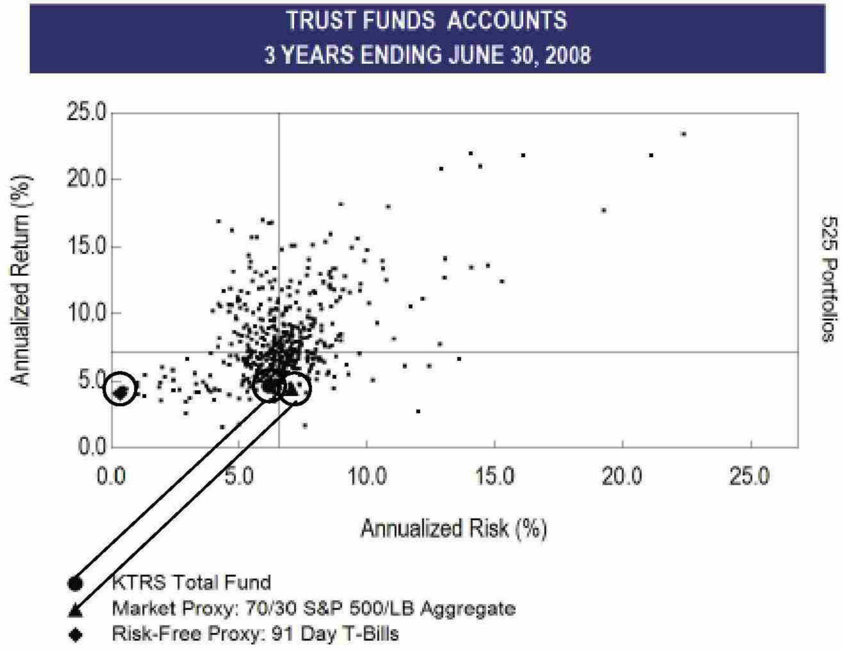
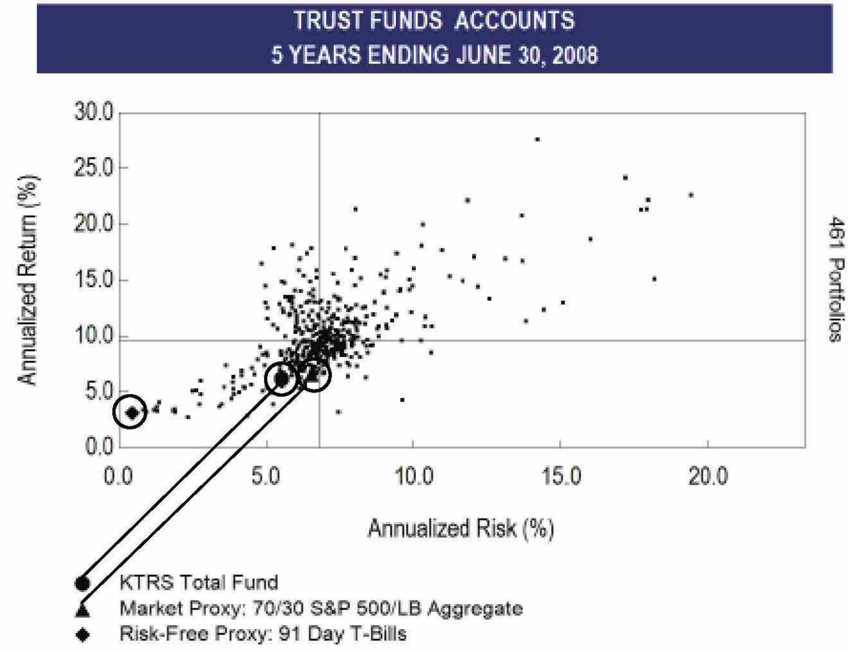
Risk/Return Profile – KTRS Total Fund vs. Total Plan Universe





Risk vs. Return for 3 Years Ending June 30, 2008

Rank within Trust Funds (peer)	Annualized Return	Percentile Rank	Standard Deviation
KTRS Total Fund	4.6%	92	6.2%
Median for this Universe	7.2%		6.6%

Risk vs. Return for 5 Years Ending June 30, 2008

Rank within Trust Funds (peer)	Annualized Return	Percentile Rank	Standard Deviation
KTRS Total Fund	6.2%	91	5.5%
Median for this Universe	9.5%		6.8%

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V. Manager Performance

Manager Performance

- Manager performance has met exceeded expectations for both KRS and KTRS.
- Over the past 3, 5, and 10-year periods ending June 30, 2008, the majority of KRS and KTRS managers have ranked in the top half of their respective peer universe, with many ranking in the top quartile.
- Performance over the past year has been more varied, which is as expected due to the shorter time horizon. However, more managers have ranked in the top half of their universe versus the bottom half over the past year.
- Manager selection and performance did not contribute to the systems' underperformance and likely improved performance.
- The underperformance of KRS and KTRS can be attributed to the asset allocation of each system.

Manager Performance – KRS

KRS Pension Fund Manager Universe Comparison Summary (as of 6/30/08)

Peer Return Rankings Distribution								
	1 Year		3 Years		5 Years		10 Years	
1st Quartile Managers	1	(11%)	2	(29%)	2	(50%)	1	(100%)
2nd Quartile Managers	4	(44%)	3	(43%)	2	(50%)	0	(0%)
3rd Quartile Managers	3	(33%)	1	(14%)	0	(0%)	0	(0%)
4th Quartile Managers	1	(11%)	1	(14%)	0	(0%)	0	(0%)

KRS Insurance Fund Manager Universe Comparison Summary (as of 6/30/08)

Peer Return Rankings Distribution						
	1 Year		3 Years		5 Years	
1st Quartile Managers	1	(100%)	0	(0%)	1	(100%)
2nd Quartile Managers	0	(0%)	1	(100%)	0	(0%)
3rd Quartile Managers	0	(0%)	0	(0%)	0	(0%)
4th Quartile Managers	0	(0%)	0	(0%)	0	(0%)

- The KRS managers are ranked according to their 1, 3, 5 and 10-year returns against a peer universe of managers in the same asset class. The peer universe of managers is then divided into four quartiles.
- For the 1-year period ending June 30, 2008, 5 of 9 KRS Pension Fund managers ranked in the top half of their respective peer universes. For the 3-year period, 5 of 7 managers with sufficient data ranked in the top half. For the 5-year and 10-year period, all managers with sufficient data ranked in the top half.
- Individual manager rankings can be found on pages 47-50.

Note: Peer return rankings only include active externally managed investments.

Manager Performance – KTRS

KTRS Manager Universe Comparison Summary (as of 6/30/08)

Peer Return Rankings Distribution								
	1 Year		3 Years		5 Years		10 Years	
1st Quartile Managers	2	(15%)	2	(40%)	2	(40%)	3	(60%)
2nd Quartile Managers	5	(38%)	2	(40%)	2	(40%)	2	(40%)
3rd Quartile Managers	3	(23%)	0	(0%)	1	(20%)	0	(0%)
4th Quartile Managers	3	(23%)	1	(20%)	0	(0%)	0	(0%)

- The KTRS managers are ranked according to their 1, 3, 5 and 10-year returns against a peer universe of managers in the same asset class. The peer universe of managers is then divided into four quartiles.
- For the 3 and 5-year periods ending June 30, 2008, 4 of 5 KTRS managers ranked in the top half of their respective peer universes. For the 10-year period, all 5 managers with sufficient data ranked in the top half.
- Individual manager rankings can be found on pages 51-55.

Note: Peer return rankings only include active externally managed investments.

KRS Pension Fund – U.S. Equity Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Internal S&P 1500 Index	**-12.7%**	**4.7%**	**8.0%**	**NA**	**-11.1%**	**5.3%**	**15.4%**	**5.8%**	**11.2%**	**29.6%**	**-20.5%**	**NA**	**NA**	**NA**
S&P 1500	*-12.7%*	*4.6%*	*8.2%*	*NA*	*-11.1%*	*5.5%*	*15.3%*	*5.7%*	*11.8%*	*29.6%*	*-21.3%*	*NA*	*NA*	*NA*
Peer Ranking	45th	45th	56th	NA	58th	45th	39th	57th	59th	51st	54th	NA	NA	NA
Standard Deviation Ranking	23rd	17th	17th	NA										
INVESCO Structured Core	**-10.2%**	**7.8%**	**NA**	**NA**	**-11.2%**	**5.3%**	**22.8%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 500	*-13.1%*	*4.4%*	*NA*	*NA*	*-11.9%*	*5.5%*	*15.8%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	29th	11th	NA	NA	50th	55th	2nd	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	60th	71st	NA	NA										
Northern Trust Quantitative Advisors	**-17.1%**	**3.9%**	**11.2%**	**NA**	**-9.1%**	**-2.5%**	**17.9%**	**6.7%**	**20.2%**	**50.9%**	**-15.0%**	**6.2%**	**-5.1%**	**NA**
Russell 2000	*-16.2%*	*3.8%*	*10.3%*	*NA*	*-9.4%*	*-1.6%*	*18.4%*	*4.6%*	*18.3%*	*47.3%*	*-20.5%*	*2.5%*	*-3.0%*	*NA*
Peer Ranking	48th	40th	33rd	NA	48th	59th	24th	55th	42nd	17th	42nd	51st	92nd	NA
Standard Deviation Ranking	30th	40th	57th											

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KRS Pension Fund – International Equity Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Barclays Global Investors	**-11.5%**	**13.0%**	**NA**	**NA**	**-9.2%**	**8.4%**	**27.9%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI EAFE (net)	*-10.6%*	*12.8%*	*NA*	*NA*	*-11.0%*	*11.2%*	*26.3%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	65th	56th	NA	NA	24th	82nd	24th	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	20th	23rd	NA	NA										
Boston Companny	**-14.3%**	**9.4%**	**NA**	**NA**	**-12.4%**	**6.2%**	**23.8%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI EAFE (net)	*-10.6%*	*12.8%*	*NA*	*NA*	*-11.0%*	*11.2%*	*26.3%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	84th	92nd	NA	NA	74th	91st	66th	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	11th	8th	NA	NA										
Pyramis Global Investors	**-4.7%**	**14.7%**	**18.0%**	**NA**	**-8.9%**	**14.7%**	**24.3%**	**16.1%**	**20.0%**	**38.1%**	**-10.6%**	**NA**	**NA**	**NA**
MSCI EAFE (net)	*-10.6%*	*12.8%*	*16.7%*	*NA*	*-11.0%*	*11.2%*	*26.3%*	*13.5%*	*20.2%*	*38.6%*	*-15.9%*	*NA*	*NA*	*NA*
Peer Ranking	18th	29th	25th	NA	23rd	34th	59th	36th	31st	37th	17th	NA	NA	NA
Standard Deviation Ranking	67th	48th	48th	NA										
Aberdeen	**NA**	**NA**	**NA**	**NA**	**-6.9%**	**34.9%**	**36.7%**	**37.4%**	**28.0%**	**63.0%**	**6.9%**	**-4.9%**	**-18.6%**	**72.0%**
MSCI Emerging Markets Free	*NA*	*NA*	*NA*	*NA*	*-11.7%*	*39.4%*	*32.2%*	*34.0%*	*25.6%*	*55.8%*	*-6.2%*	*-2.6%*	*-30.6%*	*66.4%*
Peer Ranking	NA	NA	NA	NA	5th	66th	17th	24th	25th	31st	2nd	69th	6th	45th
Standard Deviation Ranking	NA	NA	NA	NA										
Wellington	**NA**	**NA**	**NA**	**NA**	**-10.1%**	**47.2%**	**35.2%**	**36.1%**	**27.8%**	**62.7%**	**-4.1%**	**4.2%**	**-31.1%**	**84.7%**
MSCI Emerging Markets Free	*NA*	*NA*	*NA*	*NA*	*-11.7%*	*39.4%*	*32.2%*	*34.0%*	*25.6%*	*55.8%*	*-6.2%*	*-2.6%*	*-30.6%*	*66.4%*
Peer Ranking	NA	NA	NA	NA	31st	7th	23rd	27th	27th	33rd	43rd	11th	60th	23rd
Standard Deviation Ranking	NA	NA	NA	NA										

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KRS Pension Fund – Fixed Income Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Lehman Brothers	**4.5%**	**3.3%**	**3.5%**	**5.6%**	**-0.6%**	**6.2%**	**4.6%**	**2.5%**	**4.6%**	**4.5%**	**10.8%**	**8.5%**	**11.8%**	**-0.8%**
Lehman Aggregate Bond Index	*7.1%*	*4.1%*	*3.9%*	*5.7%*	*1.1%*	*7.0%*	*4.3%*	*2.4%*	*4.3%*	*4.1%*	*10.3%*	*8.4%*	*11.6%*	*-0.8%*
Peer Ranking	55th	50th	35th	13th	67th	35th	27th	22nd	31st	51st	8th	29th	17th	44th
Standard Deviation Ranking	37th	53rd	59th	39th										
Baird Advisors	**3.7%**	**NA**	**NA**	**NA**	**-0.6%**	**5.6%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Lehman Aggregate Bond Index	*7.1%*	*NA*	*NA*	*NA*	*1.1%*	*7.0%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	65th	NA	NA	NA	67th	54th	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	19th	NA	NA	NA										
Pyramis Global Investors	**6.1%**	**NA**	**NA**	**NA**	**0.9%**	**6.4%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Lehman Aggregate Bond Index	*7.1%*	*NA*	*NA*	*NA*	*1.1%*	*7.0%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	35th	NA	NA	NA	32nd	26th	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	6th	NA	NA	NA										
Internal TIPS	**15.4%**	**5.7%**	**6.0%**	**NA**	**5.2%**	**11.5%**	**0.6%**	**2.9%**	**8.2%**	**8.7%**	**NA**	**NA**	**NA**	**NA**
Citigroup Inflation Linked Bond	*15.1%*	*5.6%*	*5.9%*	*NA*	*4.9%*	*11.6%*	*0.4%*	*2.9%*	*8.4%*	*8.3%*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	24th	21st	6th	NA	28th	14th	24th	11th	29th	14th	NA	NA	NA	NA
Standard Deviation Ranking	69th	69th	66th	NA										
Weaver Barksdale TIPS	**15.2%**	**5.7%**	**6.1%**	**NA**	**5.0%**	**11.4%**	**0.6%**	**2.9%**	**8.6%**	**8.8%**	**16.4%**	**NA**	**NA**	**NA**
Citigroup Inflation Linked Bond	*15.1%*	*5.6%*	*5.9%*	*NA*	*4.9%*	*11.6%*	*0.4%*	*2.9%*	*8.4%*	*8.3%*	*16.7%*	*NA*	*NA*	*NA*
Peer Ranking	31st	21st	6th	NA	36th	27th	24th	11th	15th	14th	29th	NA	NA	NA
Standard Deviation Ranking	76th	69th	60th	NA										

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KRS Insurance Fund – Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Internal S&P 1500 Index	**-13.0%**	**4.6%**	**8.2%**	**NA**	**-11.2%**	**5.0%**	**15.4%**	**6.3%**	**11.7%**	**29.6%**	**-20.9%**	**NA**	**NA**	**NA**
S&P 1500	*-12.7%*	*4.6%*	*8.2%*	*NA*	*-11.1%*	*5.5%*	*15.3%*	*5.7%*	*11.8%*	*29.6%*	*-21.3%*	*NA*	*NA*	*NA*
Peer Ranking	48th	48th	55th	NA	60th	50th	39th	51th	55th	51st	57th	NA	NA	NA
Standard Deviation Ranking	23rd	19th	26th	NA										
	Periods Ending 6/30/08				**Calendar Year Ending**									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Fidelity	**-4.5%**	**14.8%**	**17.9%**	**NA**	**-9.0%**	**14.9%**	**24.2%**	**15.9%**	**19.8%**	**37.7%**	**-10.4%**	**NA**	**NA**	**NA**
MSCI EAFE (net)	*-10.6%*	*12.8%*	*16.7%*	*NA*	*-11.0%*	*11.2%*	*26.3%*	*13.5%*	*20.2%*	*38.6%*	*-15.9%*	*NA*	*NA*	*NA*
Peer Ranking	18th	29th	25th	NA	24th	33rd	60th	37th	33rd	40th	15th	NA	NA	NA
Standard Deviation Ranking	68th	48th	48th	NA										
International large-cap equity, quantitative														
Aberdeen	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI Emerging Markets Free	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	NA	NA	NA	NA										
Wellington	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI Emerging Markets Free	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	NA	NA	NA	NA										
	Periods Ending 6/30/08				**Calendar Year Ending**									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Internal TIPS	**15.3%**	**5.7%**	**NA**	**NA**	**5.2%**	**11.5%**	**0.5%**	**3.0%**	**8.9%**	**NA**	**NA**	**NA**	**NA**	**NA**
Citigroup Inflation Linked Bond	*15.1%*	*5.6%*	*NA*	*NA*	*4.9%*	*11.6%*	*0.4%*	*2.9%*	*8.4%*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	26th	21st	NA	NA	26th	22nd	27th	11th	10th	NA	NA	NA	NA	NA
Standard Deviation Ranking	58th	56th	NA	NA										

KTRS – U.S. Equity Large-Cap Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
UBS Global	**-15.9%**	**4.4%**	**9.1%**	**4.7%**	**-11.1%**	**2.1%**	**16.1%**	**10.7%**	**13.5%**	**32.0%**	**-15.5%**	**4.1%**	**7.0%**	**-7.7%**
Russell 1000 Value	*-18.8%*	*3.5%*	*8.9%*	*4.9%*	*-13.6%*	*-0.2%*	*22.2%*	*7.1%*	*16.5%*	*30.0%*	*-15.5%*	*-5.6%*	*7.0%*	*7.3%*
Peer Ranking	38th	33rd	32nd	42nd	30th	47th	78th	10th	52nd	24th	37th	19th	70th	97th
Standard Deviation Ranking	74th	57th	49th	57th										
S&P 500 Equity Index	**-13.0%**	**4.5%**	**7.7%**	**3.0%**	**-11.9%**	**5.6%**	**16.0%**	**5.0%**	**10.9%**	**28.9%**	**-21.9%**	**-12.2%**	**-8.9%**	**21.4%**
S&P 500	*-13.1%*	*4.4%*	*7.6%*	*2.9%*	*-11.9%*	*5.5%*	*15.8%*	*4.9%*	*10.9%*	*28.7%*	*-22.1%*	*-11.9%*	*-9.1%*	*21.0%*
Peer Ranking	55th	48th	47th	49th	62nd	47th	22nd	57th	43rd	34th	52nd	66th	66th	35th
Standard Deviation Ranking	38th	39th	28th	55th										
Todd Alpha	**-16.2%**	**NA**	**NA**	**NA**	**-7.5%**	**-4.2%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 500	*-13.1%*	*NA*	*NA*	*NA*	*-11.9%*	*5.5%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	87th	NA	NA	NA	12th	98th	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	90th	NA	NA	NA										
Todd U.S. Equity	**-11.0%**	**5.0%**	**8.7%**	**5.5%**	**-10.4%**	**5.4%**	**17.0%**	**7.6%**	**13.3%**	**26.5%**	**-19.2%**	**-2.2%**	**-1.3%**	**14.1%**
S&P 500	*-13.1%*	*4.4%*	*7.6%*	*2.9%*	*-11.9%*	*5.5%*	*15.8%*	*4.9%*	*10.9%*	*28.7%*	*-22.1%*	*-11.9%*	*-9.1%*	*21.0%*
Peer Ranking	35th	38th	27th	18th	37th	51st	12th	28th	20th	68th	32nd	15th	36th	77th
Standard Deviation Ranking	14th	12th	8th	16th										
UBS Alpha	**-17.4%**	**NA**	**NA**	**NA**	**-12.8%**	**1.8%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Russell 1000	*-12.4%*	*NA*	*NA*	*NA*	*-11.2%*	*5.8%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	91st	NA	NA	NA	83rd	85th	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	79th	NA	NA	NA										
Wellington Intersection	**-13.0%**	**NA**	**NA**	**NA**	**-11.8%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 500	*-13.1%*	*NA*	*NA*	*NA*	*-11.9%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	55th	NA	NA	NA	59th	NA	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	99th	NA	NA	NA										
GE Asset Management	**-6.7%**	**NA**	**NA**	**NA**	**-6.5%**	**5.7%**	**10.3%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Russell 1000 Growth	*-6.0%*	*NA*	*NA*	*NA*	*-9.1%*	*11.8%*	*9.1%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	57th	NA	NA	NA	15th	87th	26th	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	5th	NA	NA	NA										

KTRS – U.S. Equity Mid-Cap and Small-Cap Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending										
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
S&P 400 Equity Index	**-6.2%**	**NA**	**NA**	**NA**	**-3.2%**	**9.1%**	**8.1%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 400 (Mid-Cap)	*-7.3%*	*NA*	*NA*	*NA*	*-3.9%*	*8.0%*	*10.3%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	17th	NA	NA	NA	17th	21st	90th	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	56th	NA	NA	NA										
Wellington Mid	**-10.8%**	**NA**	**NA**	**NA**	**-4.0%**	**2.9%**	**11.2%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 400 (Mid-Cap)	*-7.3%*	*NA*	*NA*	*NA*	*-3.9%*	*8.0%*	*10.3%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	41st	NA	NA	NA	21st	65th	63rd	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	76th	NA	NA	NA										
S&P 600 Equity Index	**-0.6%**	**4.3%**	**NA**	**NA**	**-6.5%**	**-0.5%**	**15.1%**	**8.3%**	**23.7%**	**NA**	**NA**	**NA**	**NA**	**NA**
S&P 600 (Small-Cap)	*-0.5%*	*4.1%*	*NA*	*NA*	*-7.1%*	*-0.3%*	*15.1%*	*7.7%*	*22.6%*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	28th	37th	NA	NA	26th	37th	52nd	37th	17th	NA	NA	NA	NA	NA
Standard Deviation Ranking	19th	33rd	NA	NA										
Wellington Small	**-19.7%**	**0.6%**	**9.1%**	**8.0%**	**-6.1%**	**-9.6%**	**13.1%**	**10.2%**	**19.0%**	**38.1%**	**-16.1%**	**6.4%**	**13.5%**	**26.2%**
Russell 2000	*-16.2%*	*3.8%*	*10.3%*	*5.5%*	*-9.4%*	*-1.6%*	*18.4%*	*4.6%*	*18.3%*	*47.3%*	*-20.5%*	*2.5%*	*-3.0%*	*21.3%*
Peer Ranking	70th	87th	75th	33rd	23rd	93rd	72nd	22nd	50th	71st	51st	50th	41st	27th
Standard Deviation Ranking	67th	84th	66th	67th										

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KTRS – International Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Todd International	**-8.6%**	**NA**	**NA**	**NA**	**-13.5%**	**16.3%**	**29.3%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI EAFE (net)	*-10.6%*	*NA*	*NA*	*NA*	*-11.0%*	*11.2%*	*26.3%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	43rd	NA	NA	NA	87th	25th	14th	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	83rd	NA	NA	NA										
UBS International	**-14.6%**	**NA**	**NA**	**NA**	**-13.0%**	**6.8%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
MSCI EAFE (net)	*-10.6%*	*NA*	*NA*	*NA*	*-11.0%*	*11.2%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	84th	NA	NA	NA	81st	90th	NA	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	10th	NA	NA	NA										

KTRS – Fixed Income Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Galliard	**7.2%**	**NA**	**NA**	**NA**	**1.1%**	**6.7%**	**4.1%**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Lehman Government-Credit Index	*7.2%*	*NA*	*NA*	*NA*	*1.0%*	*7.3%*	*3.8%*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Peer Ranking	25th	NA	NA	NA	35th	23rd	50th	NA	NA	NA	NA	NA	NA	NA
Standard Deviation Ranking	80th	NA	NA	NA										
In-House Broad Market	**7.8%**	**4.2%**	**3.9%**	**5.9%**	**1.6%**	**7.2%**	**4.0%**	**3.4%**	**4.3%**	**3.5%**	**12.0%**	**8.2%**	**12.6%**	**-2.4%**
Lehman Government-Credit Index	*7.2%*	*3.8%*	*3.6%*	*5.7%*	*1.0%*	*7.3%*	*3.8%*	*2.3%*	*4.2%*	*4.7%*	*11.0%*	*8.5%*	*11.8%*	*-2.2%*
Peer Ranking	14th	18th	16th	8th	15th	15th	50th	4th	34th	61st	4th	32nd	9th	79th
Standard Deviation Ranking	85th	91st	92nd	88th										
Todd Bond	**7.3%**	**4.3%**	**3.9%**	**5.6%**	**1.3%**	**7.0%**	**4.4%**	**2.8%**	**4.5%**	**4.1%**	**11.0%**	**8.2%**	**11.4%**	**-2.9%**
Lehman Government-Credit Index	*7.2%*	*3.8%*	*3.6%*	*5.7%*	*1.0%*	*7.3%*	*3.8%*	*2.3%*	*4.2%*	*4.7%*	*11.0%*	*8.5%*	*11.8%*	*-2.2%*
Peer Ranking	21st	15th	17th	11th	27th	18th	31st	10th	29th	48th	8th	30th	29th	86th
Standard Deviation Ranking	54th	77th	83rd	84th										
Todd Bond Plus	**7.1%**	**4.1%**	**3.9%**	**5.8%**	**1.1%**	**7.0%**	**4.4%**	**3.0%**	**5.0%**	**4.0%**	**11.8%**	**8.1%**	**11.6%**	**-2.0%**
Intermediate Government-Credit	*7.2%*	*3.8%*	*3.6%*	*5.7%*	*1.0%*	*7.3%*	*3.8%*	*2.3%*	*4.2%*	*4.7%*	*11.0%*	*8.5%*	*11.8%*	*-2.2%*
Peer Ranking	27th	24th	15th	8th	33rd	17th	32nd	6th	15th	50th	5th	34th	24th	72nd
Standard Deviation Ranking	59th	82nd	92nd	89th										
In-House Long Bond	**7.6%**	**3.4%**	**3.9%**	**6.0%**	**0.9%**	**7.0%**	**3.4%**	**4.0%**	**5.9%**	**4.1%**	**13.4%**	**8.0%**	**13.2%**	**-4.3%**
Lehman Long Government-Credit Index	*6.8%*	*2.2%*	*4.0%*	*6.3%*	*-0.7%*	*6.6%*	*2.7%*	*5.3%*	*8.6%*	*5.9%*	*14.8%*	*7.3%*	*16.2%*	*-7.6%*
Peer Ranking	21st	24th	56th	34th	20th	27th	65th	31st	71st	99th	13th	99th	15th	43rd
Standard Deviation Ranking	60th	61st	33rd	33rd										

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KTRS – Fixed Income Manager Performance

	Periods Ending 6/30/08				Calendar Year Ending									
Managers	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**YTD**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
In-House Intermediate Bond	**7.8%**	**4.7%**	**3.8%**	**5.7%**	**1.9%**	**7.6%**	**4.2%**	**2.3%**	**2.9%**	**3.8%**	**10.8%**	**8.3%**	**10.3%**	**0.6%**
Lehman Intermediate Government-Credit Index	*7.4%*	*4.3%*	*3.5%*	*5.5%*	*1.4%*	*7.4%*	*4.1%*	*1.6%*	*3.0%*	*4.3%*	*9.8%*	*9.0%*	*10.1%*	*0.4%*
Peer Ranking	12th	5th	19th	10th	8th	10th	39th	33rd	85th	56th	11th	29th	60th	19th
Standard Deviation Ranking	54th	20th	13th	18th										
Internal	**5.3%**	**3.9%**	**2.4%**	**6.0%**	**0.7%**	**7.3%**	**4.4%**	**0.4%**	**2.0%**	**-0.9%**	**19.7%**	**10.4%**	**13.6%**	**-2.0%**
Lehman Mortgage Backed Securities Index	*7.8%*	*4.8%*	*4.6%*	*5.8%*	*1.9%*	*6.9%*	*5.2%*	*2.6%*	*4.7%*	*3.1%*	*8.7%*	*8.2%*	*11.2%*	*1.9%*
Peer Ranking	44th	21st	88th	6th	37th	9th	35th	99th	98th	99th	1st	4th	1st	74th
Standard Deviation Ranking	9th	5th	99th	99th										
Life Retired	**9.1%**	**5.4%**	**4.5%**	**NA**	**2.0%**	**8.5%**	**4.8%**	**3.1%**	**3.3%**	**2.4%**	**5.0%**	**NA**	**NA**	**NA**
Lehman Intermediate Government Index	*9.2%*	*4.8%*	*3.6%*	*NA*	*2.2%*	*8.5%*	*3.8%*	*1.7%*	*2.3%*	*2.3%*	*9.6%*	*NA*	*NA*	*NA*
Peer Ranking	14th	2nd	2nd	NA	18th	8th	5th	6th	54th	30th	98th	NA	NA	NA
Standard Deviation Ranking	62nd	17th	2nd	NA										
Scholarship Fund	**9.3%**	**4.6%**	**3.5%**	**NA**	**2.2%**	**8.8%**	**3.4%**	**1.7%**	**3.5%**	**2.2%**	**14.0%**	**7.4%**	**NA**	**NA**
Citi 3-Month Treasury Bill	*3.3%*	*4.1%*	*3.1%*	*NA*	*1.1%*	*4.7%*	*4.8%*	*3.0%*	*1.2%*	*1.1%*	*1.7%*	*4.1%*	*NA*	*NA*
Peer Ranking	1st	2nd	7th	NA	3rd	1st	96th	43rd	7th	69th	1st	57th	NA	NA
Standard Deviation Ranking	87th	99th	99th	NA										
TSA	**7.6%**	**3.4%**	**3.9%**	**6.0%**	**0.9%**	**7.0%**	**3.4%**	**4.0%**	**5.9%**	**4.1%**	**13.4%**	**8.0%**	**13.2%**	**-4.3%**
Citi 3-Month Treasury Bill	*6.8%*	*2.2%*	*4.0%*	*6.3%*	*-0.7%*	*6.6%*	*2.7%*	*5.3%*	*8.6%*	*5.9%*	*14.8%*	*7.3%*	*16.2%*	*-7.6%*
Peer Ranking	21st	24th	56th	34th	20th	27th	65th	31st	71st	99th	13th	99th	15th	43rd
Standard Deviation Ranking	60th	61st	33rd	33rd										

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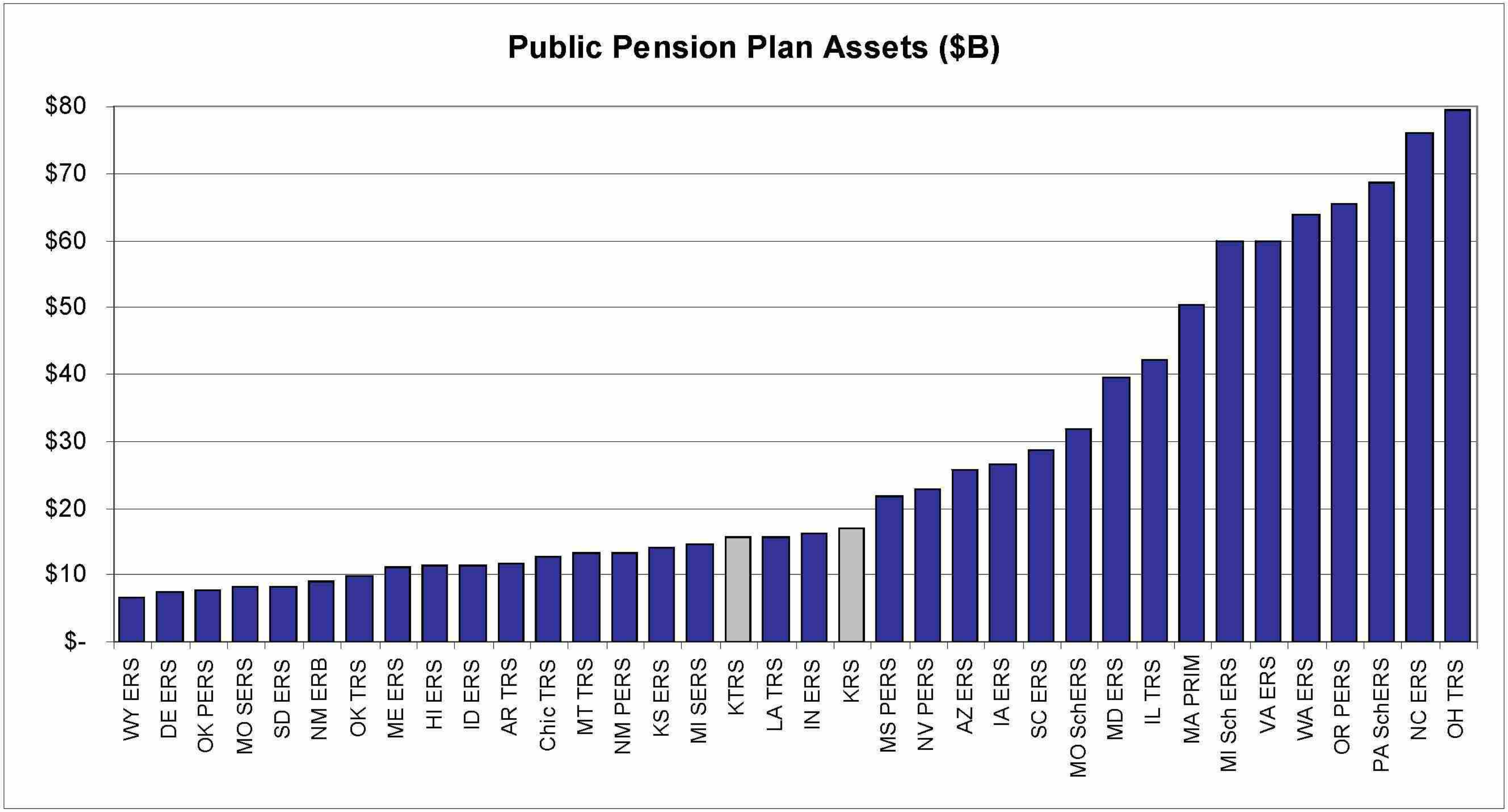
Public Pension Fund – Traditional Manager Study

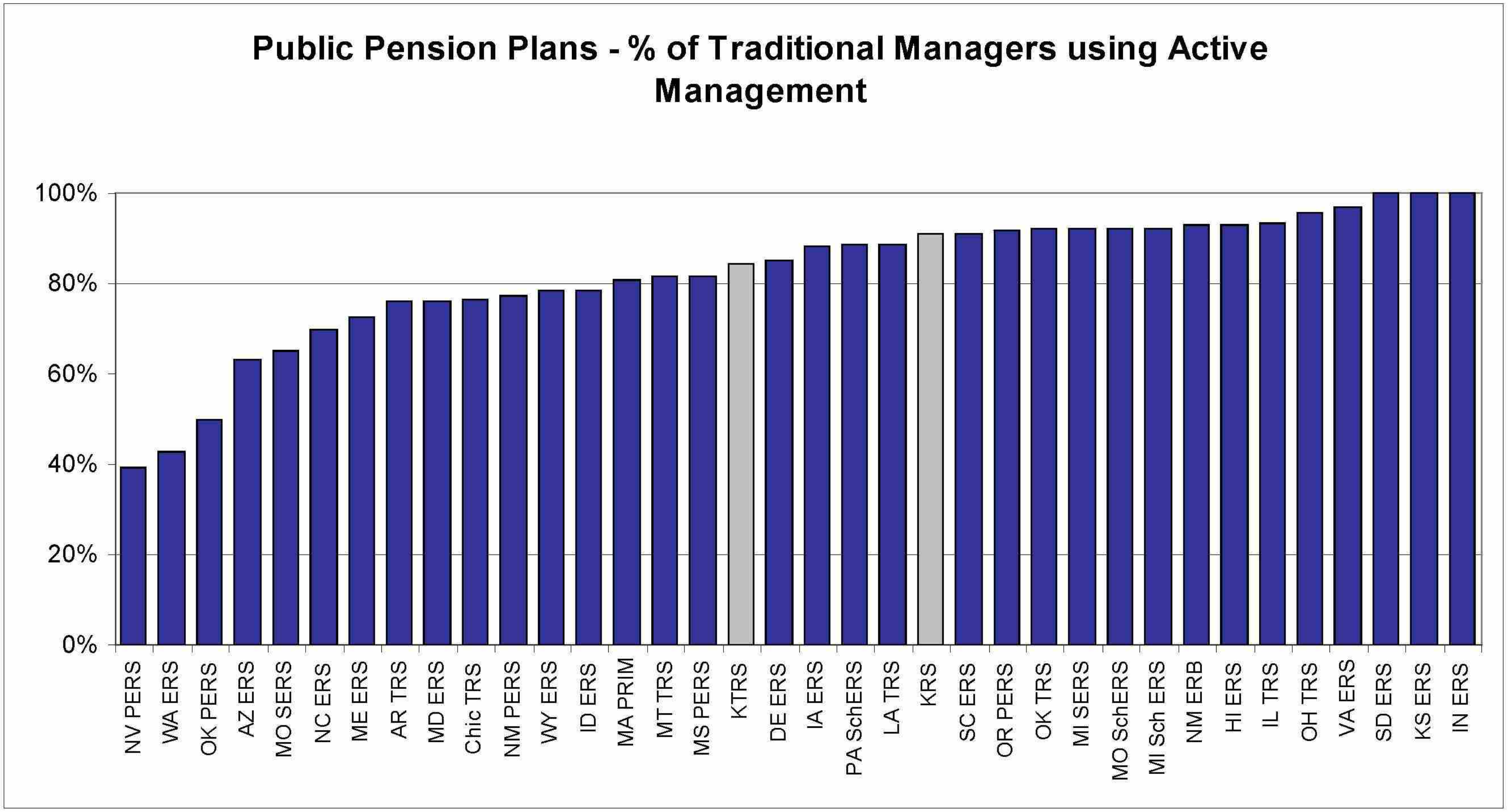
- Hammond Associates conducted a study analyzing the traditional managers of 9 teacher retirement plans, 15 state/public employee plans and 11 consolidated state plans.
- Both KRS and KTRS are near the median plan size in the study's universe.



Source: Hammond Associates internal research

Public Pension Fund – Traditional Manager Study *(continued)*

- Both KRS and KTRS are near the median for the percentage of active managers used versus passive managers.



Source: Hammond Associates internal research

RVK000120207

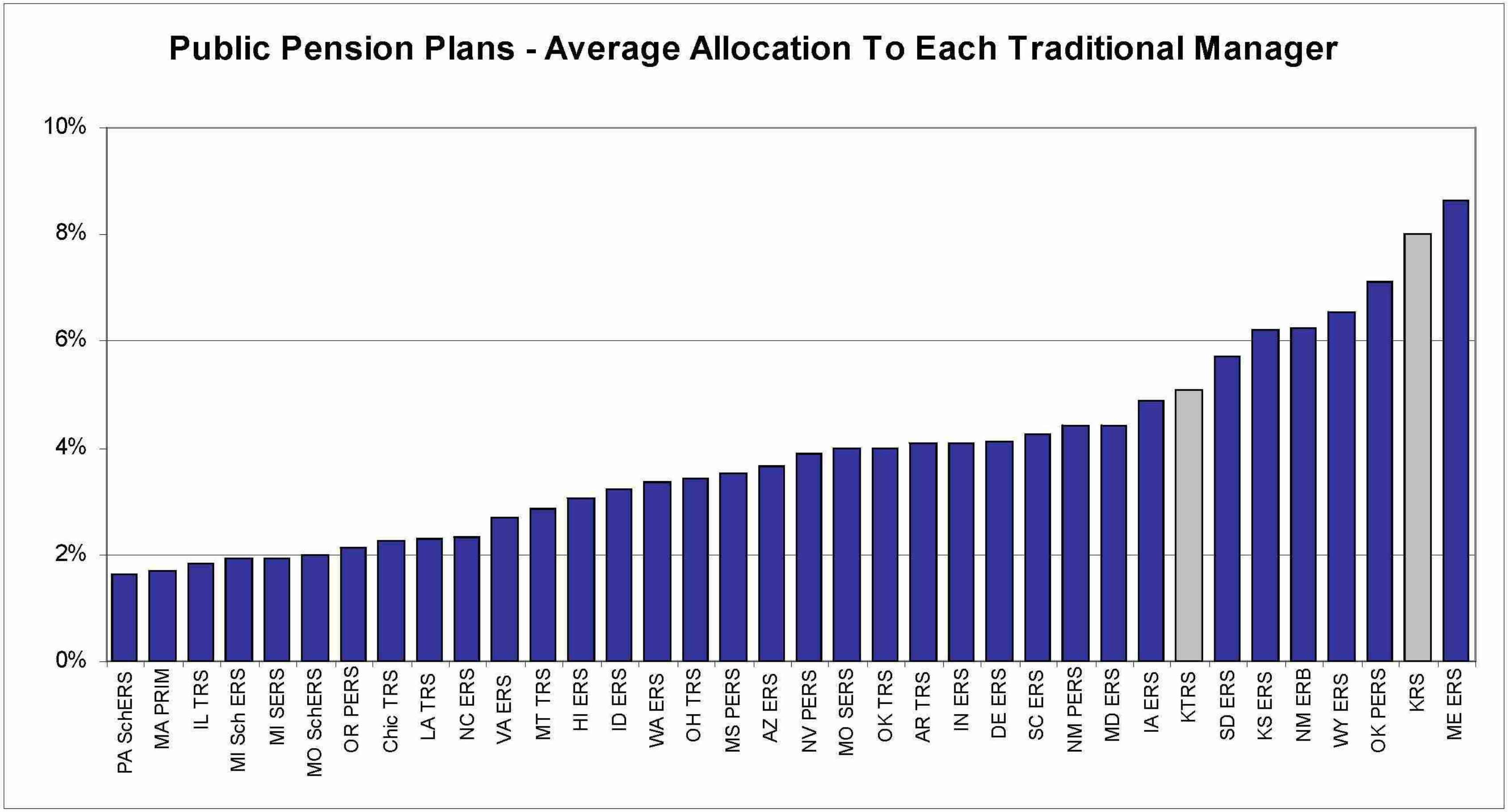
Public Pension Fund – Traditional Manager Study *(continued)*

- KRS and KTRS have far fewer traditional managers than their peers.

Source: Hammond Associates internal research

Public Pension Fund – Traditional Manager Study *(continued)*

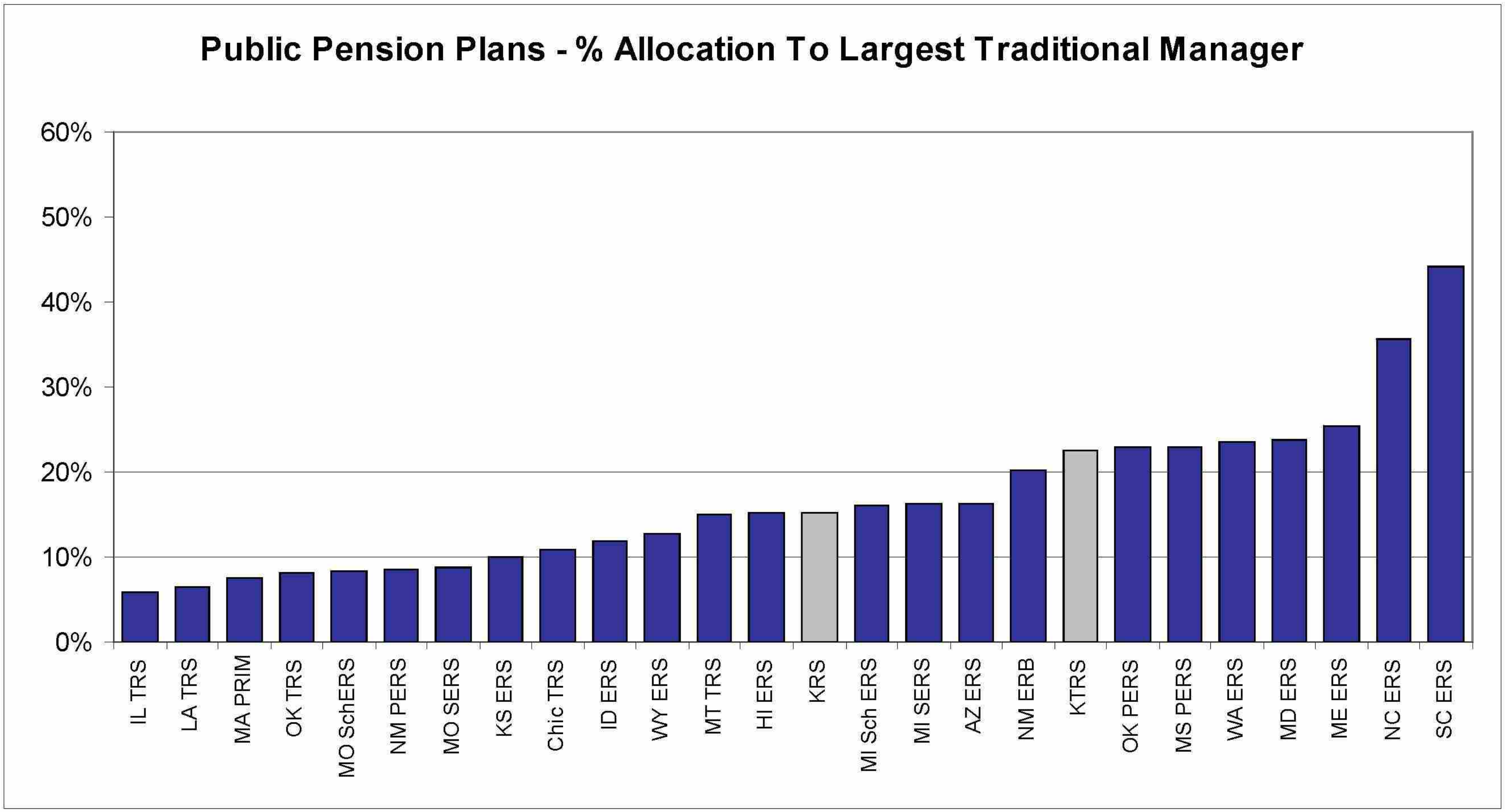
- Because KRS and KTRS have fewer traditional managers than their peers, the size of the investment with each traditional manger is much higher than the peer universe.
- The more concentrated positions give rise to additional manager specific risk.



Source: Hammond Associates internal research

Public Pension Fund – Traditional Manager Study *(continued)*

- KRS has an allocation of approximately 15% to a single manager, Pyramis Global Investors.
- KTRS internally manages slightly more than 20% of its portfolio in an S&P 500 indexed fund.



Source: Hammond Associates internal research

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VI. Opportunity Cost

Opportunity Cost

What has been left on the table?

- The actual returns for KRS and KTRS were compared to the median return of the Russell Mellon universe to determine the excess return in comparison to the benchmark.
- In most periods measured excess return was negative, indicating underperformance.
- The value of KRS Pension and KTRS was adjusted to account only for portfolio returns.
- The median fiscal year return of the Russell Mellon universe was applied to the beginning value of the fund to project fund growth.
- Assuming no compounding of the returns, the opportunity cost or lost return was as follows:
  - KRS Pension - $1.2 billion
  - KTRS - $2.6 billion
- Assuming that returns were compounded, the opportunity costs grows to the following:
  - KRS Pension $1.5 billion
  - KTRS - $3.5 billion
- The possible determinants of this lost opportunity include:
  - Asset allocation
  - Manager selection.

Opportunity Cost *(continued)*

Asset Allocation (as of June 30, 2008)

- Equity allocation
  - KRS has the same 34% allocation to U.S. equity and 20% allocation to international equity as the median Russell Mellon universe allocation.
  - KTRS has a higher allocation to U.S. equity (55% versus 35%) and a lower allocation to international equity (9% versus 20%) than its peers.
- Fixed Income
  - Both the KRS (24%) and KTRS (33%) fixed income allocation (including cash) is close to that of the peer universe (34%)
- Alternative Assets
  - Both KRS (10%) and KTRS (4%) have a lower allocation to alternative assets than the Russell Mellon universe (14%).

Manager selection

  - Manager selection and performance did not contribute to the systems' underperformance and likely improved performance.

The underperformance of KRS and KTRS can be attributed to the asset allocation of each system.

Opportunity Cost Analysis – KRS Pension

	Adjusted Market Value	Actual Return	Russell Mellon Public Funds > $1 Billion 25th	Median	75th	Projected Value w/ Median Return	Cumulative Projected Value - Adjusted Value
6/30/98	10,470.8						
6/30/99	11,965.0	14.3%	12.7%	11.2%	10.2%	11,643.5	(321.5)
6/30/00	12,731.9	6.4%	14.1%	10.8%	8.9%	12,901.0	169.1
6/30/01	12,043.1	-5.4%	-2.1%	-5.9%	-7.3%	12,139.9	96.7
6/30/02	11,525.3	-4.3%	-4.0%	-5.7%	-7.3%	11,447.9	(77.4)
6/30/03	12,019.7	4.3%	5.6%	3.8%	2.9%	11,882.9	(136.8)
6/30/04	13,652.0	13.6%	18.8%	17.5%	15.0%	13,962.4	310.4
6/30/05	14,916.2	9.3%	13.4%	11.1%	10.0%	15,512.3	596.1
6/30/06	16,360.1	9.7%	14.7%	11.9%	9.6%	17,358.2	998.2
6/30/07	18,858.2	15.3%	19.1%	17.9%	16.5%	20,465.3	1,607.1
6/30/08	18,064.3	-4.2%	-2.2%	-4.3%	-5.3%	***19,585.3***	***1,521.0***

RVK000120215

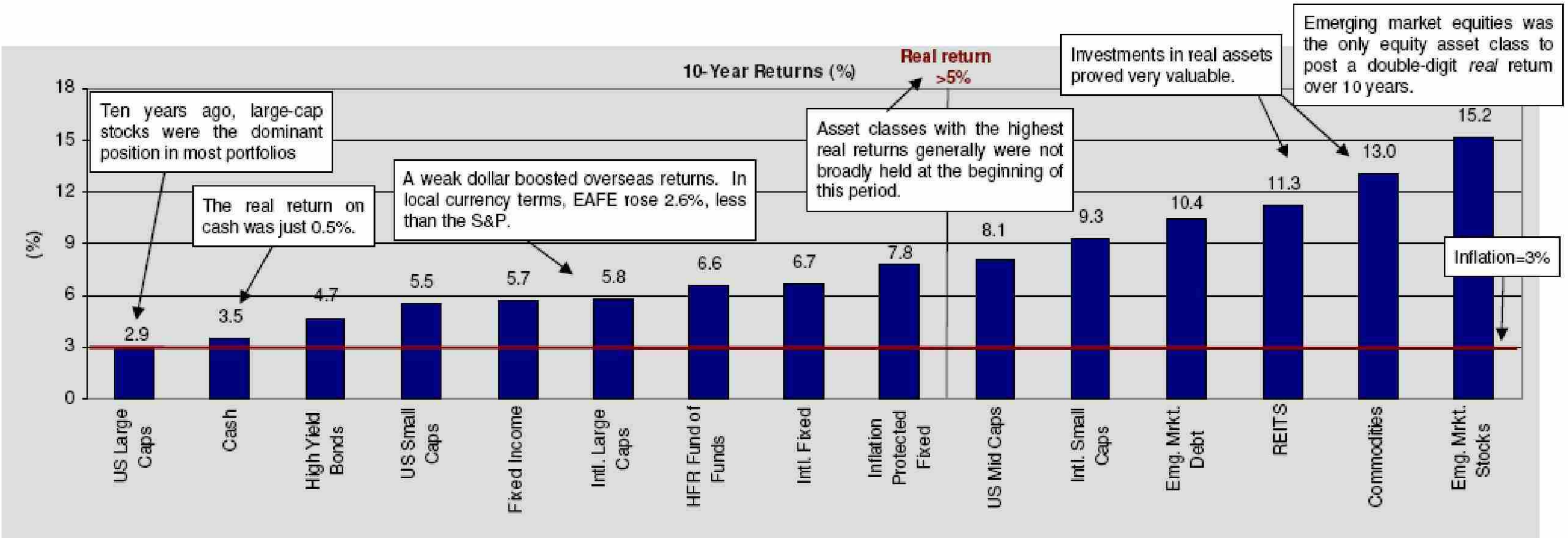
Opportunity Cost Analysis – KTRS

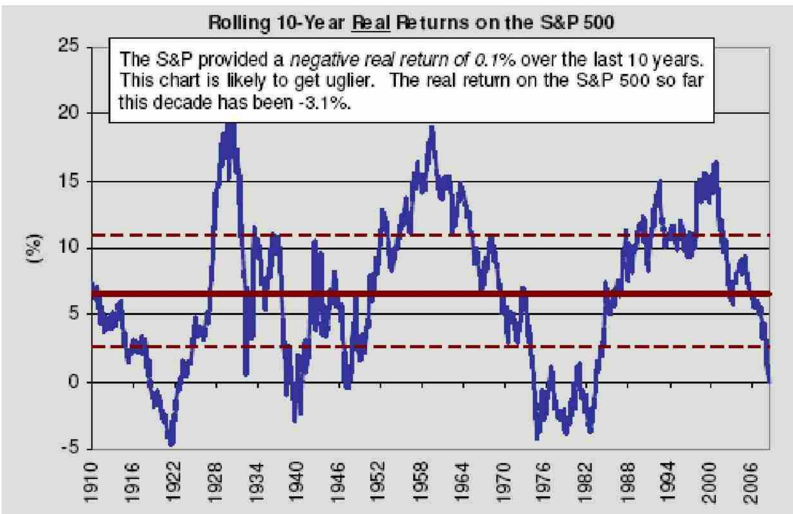
	Adjusted Market Value	Actual Return	Russell Mellon Public Funds > $1 Billion 25th	Median	75th	Projected Value w/ Median Return	Cumulative Projected Value - Actual Value
6/30/98	11,223.9						
6/30/99	12,514.7	11.5%	12.7%	11.2%	10.2%	12,481.0	(33.7)
6/30/00	12,965.2	3.6%	14.1%	10.8%	8.9%	13,829.0	863.7
6/30/01	12,874.5	-0.7%	-2.1%	-5.9%	-7.3%	13,013.1	138.6
6/30/02	12,346.6	-4.1%	-4.0%	-5.7%	-7.3%	12,271.3	(75.3)
6/30/03	12,939.2	4.8%	5.6%	3.8%	2.9%	12,737.6	(201.6)
6/30/04	14,194.3	9.7%	18.8%	17.5%	15.0%	14,966.7	772.4
6/30/05	15,258.9	7.5%	13.4%	11.1%	10.0%	16,628.0	1,369.1
6/30/06	16,098.2	5.5%	14.7%	11.9%	9.6%	18,606.7	2,508.6
6/30/07	18,545.1	15.2%	19.1%	17.9%	16.5%	21,937.3	3,392.3
6/30/08	17,469.5	-5.8%	-2.2%	-4.3%	-5.3%	***20,994.0***	***3,524.6***

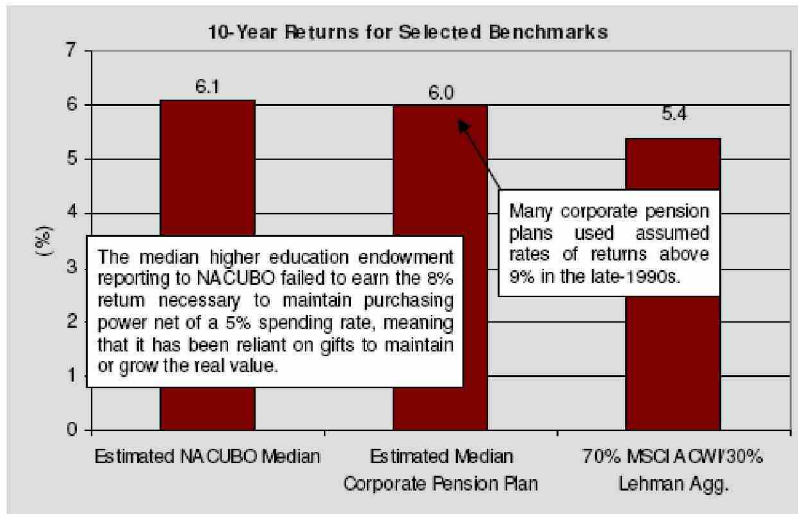
RVK000120216

VII. Asset Allocation

Ten Lean Years for Investors *(as of 6/30/08)*







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Asset Allocation Strategy

- We live in a low return world. Real interest rates (~1.5%) are low and equity risk premiums are below the long-term average. **A traditional 60% stock / 40% bond portfolio is very unlikely to earn a typical 5% real return requirement to offset spending over the coming decade.**
- With current real yields below 1.5%, Treasuries are far from enough to cover most institutions' return need. Credit spreads have widened materially since bottoming June 2007. Investment-grade credit is attractive relative to Treasuries.
- Assuming US stocks continue to trade at today's elevated valuations, they are priced to provide a 4.5% real return in the future. A contraction in valuations risks pushing the real return even lower. Unlike several years ago, there are now few opportunities to add value within the U.S. market.
  - At the beginning of 2000, value was relatively cheap, but now looks overvalued relative to the broad market. At the beginning of 1999, small-caps (particularly small-value) were very attractive relative to large-caps; but they now appear overvalued.
  - Hammond Associates has historically tilted towards value and small-caps due to academic evidence on their long-term performance advantage. We do not recommend tilts towards these areas at this time. Instead, we recommend tilting towards large-cap growth stocks, with a particular focus on high quality growth stocks.
- International equities remain more attractive than US equities, but offer far less potential for outperformance than they did earlier this decade.
  - On a valuation basis international developed stocks are modestly more attractively priced than U.S. stocks.
  - The dollar was massively overvalued several years ago, and subsequently plunged. Looking forward, the dollar likely needs to fall further on a trade-weighted basis because the trade deficit remains unsustainably high. However, European currencies that dominate the MSCI EAFE index look overvalued versus the buck. The dollar is most likely to weaken against Asian currencies.
  - The valuations of emerging market stocks appear stretched. We believe they still offer the highest long-term return potential among equity asset classes, but the downside risk is increasing. In particular, we are concerned about their reliance on developed economies for economic and profit growth.
  - Hammond Associates recommends avoiding home country bias and weight US and international similar to how they appear in global markets (43% US / 57% international).

Asset Allocation Strategy *(continued)*

- The flood of money into alternative asset classes has reduced opportunities. However, with traditional asset classes still priced to provide very low returns, we believe alternative asset classes should play a significant role in a diversified portfolio.
  - Hedge funds manage well over $1 trillion in capital (and much more when leverage is considered). The reward for investing in common arbitrage opportunities, such as convertible and merger, has diminished. Many hedge funds are moving into more illiquid assets and that trend is likely to continue. While aggregate returns from hedge funds are likely to be below most investors' expectations, we are confident in the small group of managers that we work with.
  - The credit crunch and uncertain future exit valuations are risks for buyouts. We are focusing on small and mid-market funds that bring operating expertise, while avoiding larger funds that are more dependant on debt. Venture capital and distressed debt offer more promise.
  - A risk of rising capitalization rates and higher debt costs pose risk for real estate portfolios. We continue to focus on value-added partnerships. Energy remains attractive long-term investment.
- Conclusion: **Diversify**
  - There's little reason to make large bets on particular asset classes or strategies when the expected return premium is modest and there is a high potential for error.
  - Watch for new opportunities and capitalize on them.

2007 NACUBO Study – Nominal Returns

Investment Pool Nominal Returns (%) *Years Ended June 30, 2007*				
	Average Annual Compound Returns			
	1 Year 2007	***3 Years 2005-2007***	***5 Years 2003-2007***	***10 Years 1998-2007***
In Aggregate:				
Equal-Weighted Mean	17.2	12.4	11.1	8.6
Dollar-Weighted Mean	21.5	16.8	14.4	11.7
Median	17.5	12.3	11.3	8.4
By Endowment Size:				
(Equal-Weighted mean)				
Less than or equal to $25 million	14.1	9.7	8.8	6.7
$26 million to $50 million	15.9	10.7	9.8	7.3
$51 million to $100 million	16.7	11.9	10.8	7.9
$101 million to $500 million	18.0	13.1	11.5	8.5
$501 million to $1 billion	19.3	14.2	12.3	9.5
Over $1 billion	21.3	16.4	13.9	11.1
KRS Pension Fund	*15.3*	*11.4*	*10.4*	*8.1*
KRS Insurance Fund	*19.3*	*13.7*	*12.3*	*8.4*
KTRS	*15.3*	*9.3*	*8.5*	*7.1*
By Type:				
(Equal-Weighted mean)				
Public	16.8	11.9	10.8	8.2
Independent	17.5	12.7	11.3	8.8

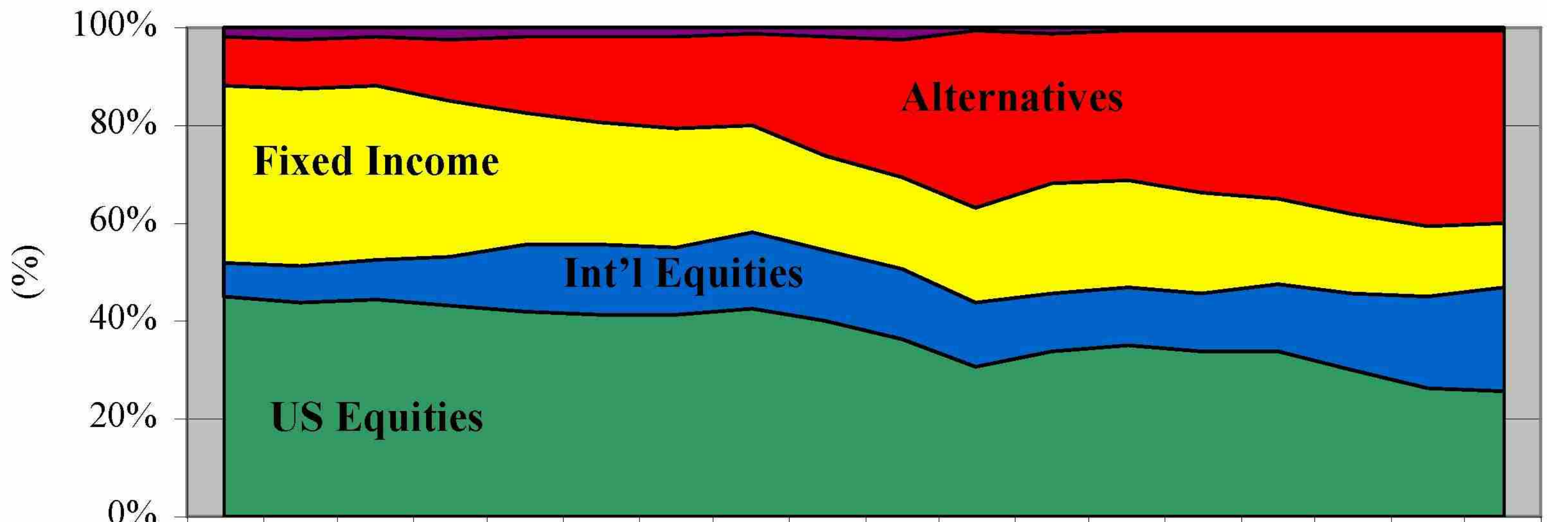
Source: NACUBO: National Association of College and University Business Officers

2007 NACUBO Study – Asset Allocation

Investment Pool Asset Allocation (%) *As of June 30, 2007*							
Responding Institutions (778)	***U.S. Stocks***	***Int'l Stocks***	***Fixed and Cash***	***Private Equity***	***Hedge Funds***	***Real Assets***	***Other***
In Aggregate:							
Equal-Weighted Mean	42.1	15.4	22.1	3.2	10.6	4.9	1.4
Dollar-Weighted Mean	26.7	20.8	14.1	9.0	18.2	10.2	1.0
By Investment Pool Size: *(Equal-Weighted Mean)*							
Less than or equal to $25 million	49.3	10.2	33.9	0.6	2.9	2.1	0.9
$26 million to $50 million	50.7	12.4	24.3	0.6	6.9	3.8	1.0
$51 million to $100 million	45.2	14.9	23.0	1.6	8.7	4.9	1.8
$101 million to $500 million	38.8	17.8	17.9	3.9	13.8	5.8	2.0
$501 million to $1 billion	30.4	20.1	15.7	7.7	17.7	7.7	0.8
Over $1 billion	25.7	21.3	12.8	10.4	20.5	8.6	0.6
KRS Pension Fund	*38.4*	*18.4*	*36.3*	*3.5*	*0.0*	*3.5*	*0.0*
KRS Insurance Fund	*55.5*	*20.4*	*18.3*	*2.9*	*0.0*	*2.9*	*0.0*
KTRS	*58.4*	*6.7*	*32.4*	*0.0*	*0.0*	*2.5*	*0.0*
By Type: *(Equal-Weighted Mean)*							
Public	42.4	14.7	26.5	2.6	8.4	4.1	1.6
Independent	42.0	15.8	19.8	3.5	11.9	5.4	1.4

Source: NACUBO: National Association of College and University Business Officers

Asset Allocation for the Largest NACUBO Reporting Institutions

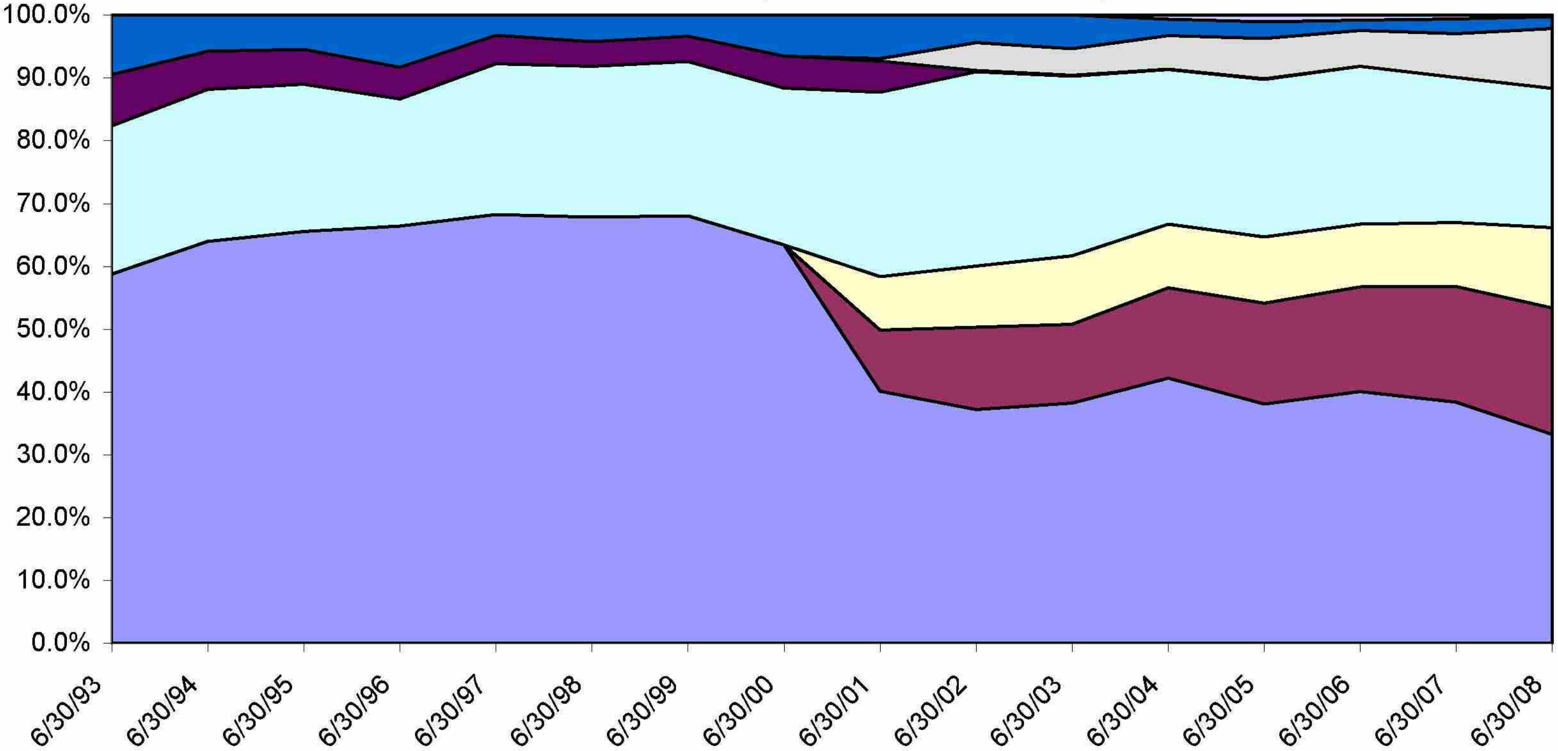


	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Other	2	2.2	1.9	2.3	1.7	1.6	1.8	1.5	2	2.3	0.6	1.1	0.5	0.7	0.7	0.4	0.5	0.6
Alternatives	10	10.2	9.7	12.6	16.1	18	19	18.5	24.4	28.2	36.4	31	30.6	33.2	34.2	37.5	40.4	39.5
Fixed Income	36.1	36.3	35.9	31.9	26.3	25	24.1	21.8	19	18.7	19.3	22.5	22.3	20.4	18	16.3	14.2	12.8
Int'l Equities	6.6	7.8	8.1	10.2	14.3	14.1	14	15.9	14.7	14.5	13.2	11.5	11.7	12.2	13.3	16	18.6	21.3
US Equities	45.3	43.5	44.4	43	41.6	41.3	41.1	42.3	39.9	36.3	30.5	34.1	34.9	33.9	34.1	29.9	26.3	25.7

Notes: From 1990 through 1997, largest NACUBO reporting institution category exceeded $400 million. For 1998 through 2007, the largest category exceeded $1 billion.

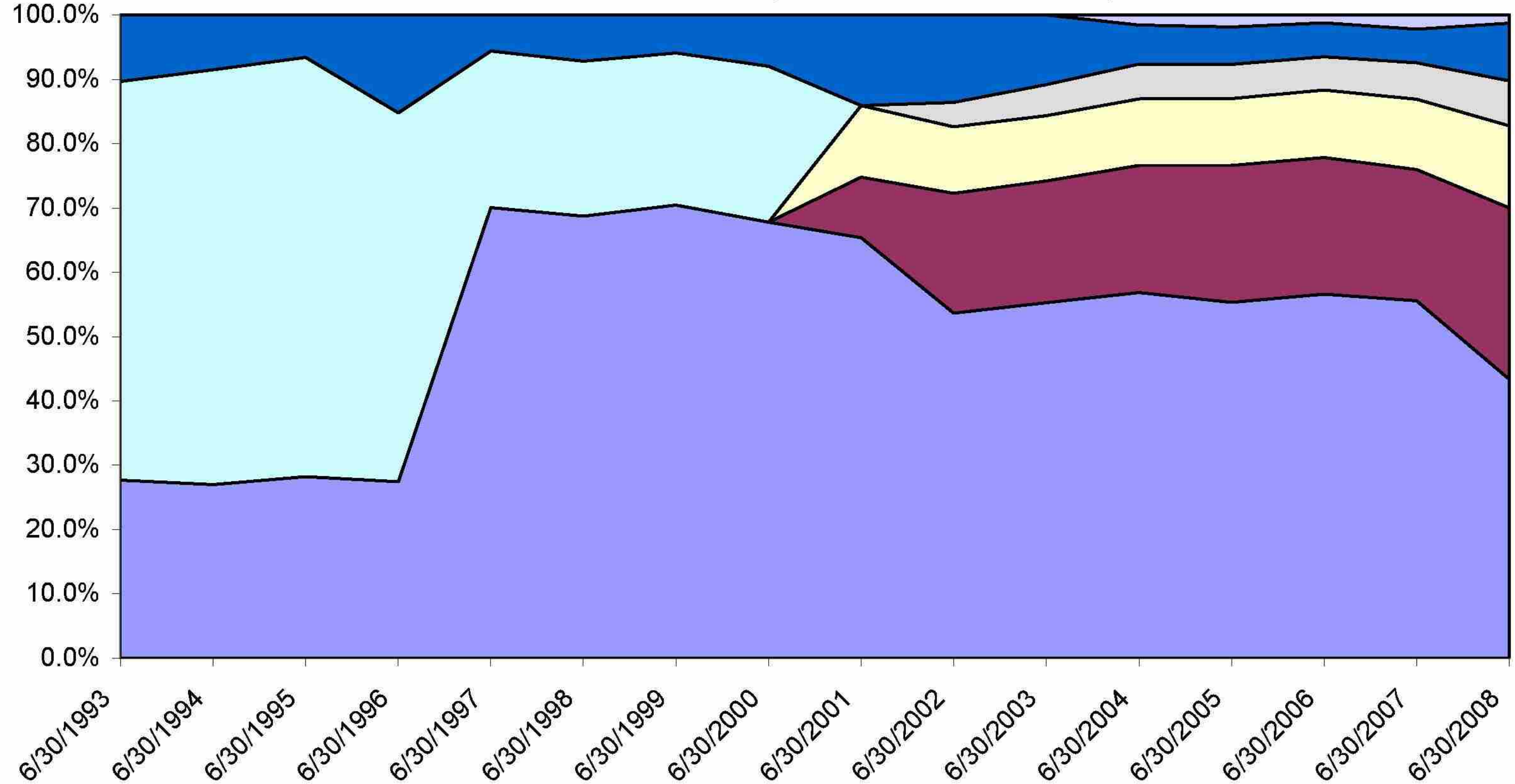
- Since 1990, the largest NACUBO reporting institutions have significantly altered their asset allocations.
- Allocations to international equities and, especially, alternative investments have increased, while allocations to U.S. equities and fixed income have trended downward.
- These trends may be the result of institutional investors seeking higher returning or less-correlated asset classes.

KRS Pension Fund Asset Allocation *(6/30/1993 – 6/30/2008)*



	Jun-93	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
Equitization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	1.1%	0.8%	0.6%	0.3%
Cash	9.5%	5.8%	5.4%	8.3%	3.2%	4.2%	3.4%	6.5%	7.0%	4.4%	5.4%	2.6%	2.6%	1.6%	2.4%	1.9%
Alternatives	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	4.4%	4.2%	5.3%	6.5%	5.7%	7.0%	9.6%
Real Estate	8.1%	6.1%	5.6%	5.0%	4.5%	4.0%	4.0%	5.1%	5.0%	0.2%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%
Core Fixed	23.6%	24.2%	23.5%	20.2%	24.0%	24.0%	24.6%	25.0%	29.4%	30.9%	28.6%	24.6%	25.1%	25.1%	23.1%	22.1%
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.5%	9.7%	10.9%	10.2%	10.5%	10.0%	10.2%	12.8%
Non-US Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.7%	13.1%	12.5%	14.4%	16.1%	16.6%	18.4%	20.2%
U.S. Equity	58.8%	64.0%	65.6%	66.4%	68.2%	67.9%	68.1%	63.4%	40.1%	37.2%	38.2%	42.2%	38.1%	40.1%	38.4%	33.2%

KRS Insurance Fund Asset Allocation *(6/30/1993 – 6/30/2008)*



	Jun-93	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
Equitization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	1.9%	1.2%	2.2%	1.3%
Cash	10.4%	8.5%	6.6%	15.2%	5.6%	7.2%	5.9%	8.0%	14.1%	13.6%	10.9%	6.0%	5.8%	5.3%	5.2%	9.0%
Alternatives	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.8%	4.8%	5.4%	5.3%	5.1%	5.7%	7.0%
Core Fixed	62.0%	64.5%	65.2%	57.4%	24.3%	24.1%	23.7%	24.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TIPS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	11.1%	10.4%	10.2%	10.3%	10.4%	10.5%	10.9%	12.8%
Non-US Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.4%	18.6%	18.9%	19.8%	21.3%	21.2%	20.4%	26.7%
Domestic Equity	27.7%	27.0%	28.2%	27.4%	70.0%	68.7%	70.4%	67.8%	65.4%	53.6%	55.3%	56.8%	55.3%	56.6%	55.5%	43.3%

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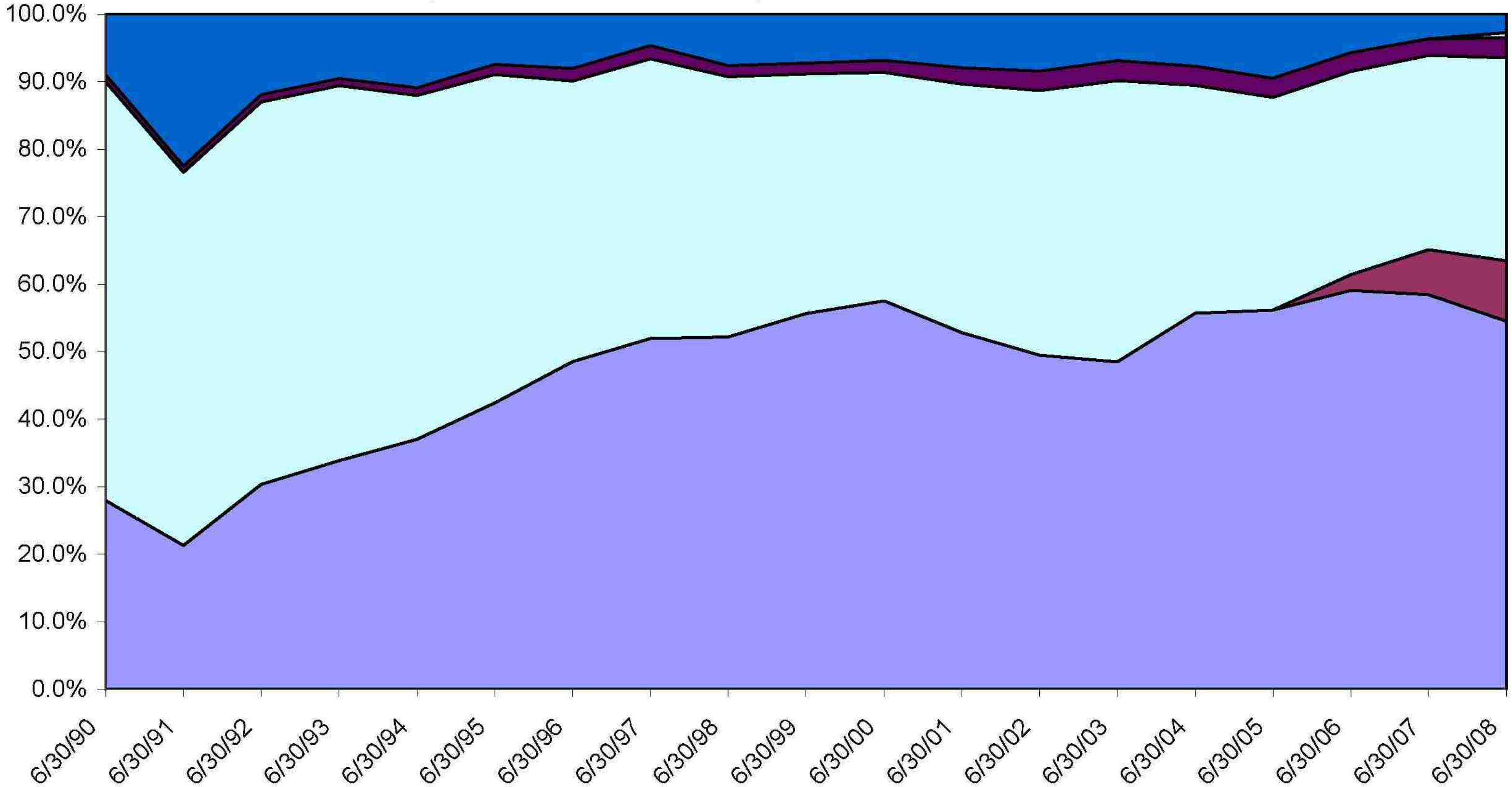
KTRS Asset Allocation *(6/30/1990 – 6/30/2008)*



	Jun-90	Jun-91	Jun-92	Jun-93	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08
Cash	9.0%	22.5%	11.9%	9.6%	10.9%	7.5%	8.0%	4.7%	7.6%	7.3%	6.8%	7.9%	8.5%	6.9%	7.7%	9.5%	5.7%	3.6%	2.7%
Alternatives	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%
Real Estate	1.0%	0.9%	1.1%	1.0%	1.1%	1.5%	1.9%	2.0%	1.7%	1.6%	1.8%	2.4%	2.9%	3.0%	2.8%	2.8%	2.8%	2.5%	3.0%
Core Fixed	62.1%	55.3%	56.7%	55.6%	50.9%	48.7%	41.6%	41.4%	38.6%	35.5%	33.9%	36.8%	39.2%	41.7%	33.8%	31.5%	30.1%	28.8%	30.1%
Non-US Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%	6.7%	9.0%
U.S. Equity	27.9%	21.3%	30.3%	33.8%	37.0%	42.4%	48.5%	51.9%	52.2%	55.6%	57.5%	52.8%	49.5%	48.5%	55.7%	56.2%	59.1%	58.4%	54.5%

Asset Allocations Analysis

Asset Class	*KRS Proposed L-T Target*	*KRS Actual Allocation 6/30/08*	*KTRS 2008-2009 Target*	*KTRS Act. Allocation 6/30/08*	*70% S&P/ 30% LBAG*	*NACUBO >$1B*	*Yale Policy 6/30/07*	*Harvard Policy 1/1/08*	*OFM Peer Universe Average*	*RM Public Plans > $1B*	*HA Research Portfolio*
	A	*B*	*C*	*D*	*E*	*F*	*G*	*H*	*I*	*J*	*K*
Growth Assets											
US All-Cap Stocks	30%					26%	11%	12%	44%	34%	
US Large Stocks		29%	45%	36%	70%						7%
US Large Growth Stocks				5%							4%
US Large Quality Stocks											4%
US Large Value Stocks				7%							
US Mid Stocks			5%	4%							
US Small Stocks		5%	3%	3%							
US Equity	*30%*	*34%*	*53%*	*55%*	*70%*	*26%*	*11%*	*12%*	*44%*	*34%*	*15%*
Intl Large Stocks	22%	20%	11%	9%		16%	6%	12%	18%	20%	16%
Intl Emerging Market Stocks	5%					5%	9%	10%			4%
Intl Equity	*27%*	*20%*	*11%*	*9%*	*0%*	*21%*	*15%*	*22%*	*18%*	*20%*	*20%*
Private Equity / Special Situations	7%	7%	2%	0%		10%	19%	11%	3%	8%	15%
Total Growth Assets	**64%**	**61%**	**66%**	**64%**	**70%**	**57%**	**45%**	**45%**	**65%**	**61%**	**50%**
Risk Reduction Assets											
Cash	1%	2%	2%	2%		2%		-5%	2%	4%	
US / Global Fixed Income	10%	22%	28%	31%	30%	11%	4%	8%	27%	30%	10%
US High Yield Fixed	5%							1%			
Intl Emg Market Debt	5%										
Hedge Funds						21%	23%	18%			20%
Total Risk Reduction Assets	**21%**	**24%**	**30%**	**33%**	**30%**	**34%**	**27%**	**22%**	**29%**	**33%**	**30%**
Inflation Protection Assets											
US Inflation Protected Fixed	5%	13%							2%		5%
Real Assets	10%	3%	4%	4%		9%	28%	33%	5%	6%	15%
Total Inflation Protection Assets	**15%**	**16%**	**4%**	**4%**	**0%**	**9%**	**28%**	**33%**	**7%**	**6%**	**20%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Asset Allocations Analysis

Asset Class	*KRS Proposed L-T Target*	*KRS Actual Allocation 6/30/08*	*KTRS 2008-2009 Target*	*KTRS Act. Allocation 6/30/08*	*70% S&P/ 30% LBAG*	*NACUBO >$1B*	*Yale Policy 6/30/07*	*Harvard Policy 1/1/08*	*OFM Peer Universe Average*	*RM Public Plans > $1B*	*HA Research Portfolio*
	A	*B*	*C*	*D*	*E*	*F*	*G*	*H*	*I*	*J*	*K*
Return											
L/T Compound Expected Return	8.2%	7.5%	7.4%	7.2%	7.1%	8.7%	9.7%	9.4%	7.5%	7.8%	8.9%
10 Yr. Horizon Expected Return	7.5%	6.7%	6.6%	6.3%	6.2%	8.0%	9.0%	8.8%	6.7%	7.0%	8.5%
Risk (L/T Expectations)											
Standard Deviation (1 Yr.)	±12.3%	±10.8%	±11.9%	±11.6%	±12.9%	±11.3%	±12.0%	±11.7%	±11.5%	±11.2%	±10.9%
Probability of Loss Year	23.4%	22.9%	24.9%	24.8%	27.2%	20.6%	19.5%	19.6%	24.0%	22.8%	19.3%
Probability of 10% or Worse Loss	6.2%	4.7%	6.4%	6.1%	8.4%	4.4%	4.5%	4.4%	5.8%	5.1%	3.7%
Lowest Likely Return (1 Yr.)	-19.7%	-17.1%	-19.6%	-19.1%	-22.2%	-17.0%	-17.6%	-17.2%	-18.7%	-17.7%	-15.9%
Sharpe Ratio	0.34	0.32	0.29	0.28	0.24	0.41	0.47	0.46	0.31	0.34	0.45
Risk (10-Yr Horizon Expectations)											
Probability of Loss Year	25.3%	24.9%	27.2%	27.4%	29.5%	22.4%	21.0%	21.1%	26.3%	24.9%	20.4%
Probability of 10% or Worse Loss	7.0%	5.4%	7.4%	7.1%	9.5%	5.0%	5.0%	4.9%	6.7%	5.8%	4.0%
Lowest Likely Return (1 Yr.)	-20.5%	-17.8%	-20.4%	-19.9%	-23.1%	-17.7%	-18.2%	-17.8%	-19.5%	-18.5%	-16.3%
Sharpe Ratio	0.32	0.30	0.26	0.25	0.21	0.40	0.46	0.45	0.28	0.31	0.46
Probability of Achieving 7.5% Goal Return											
Based on L/T Compound Return	57.5%	49.5%	48.9%	45.7%	45.7%	63.0%	72.1%	69.6%	50.4%	53.1%	65.8%
Based on 10 Yr. Horizon Return (10 Yr.)	49.8%	40.4%	40.0%	35.9%	37.2%	55.3%	66.0%	63.5%	41.3%	44.7%	61.2%
Probability of Achieving 7.75% Goal Return											
Based on L/T Compound Return	54.9%	46.6%	46.2%	44.3%	43.2%	60.2%	69.8%	67.1%	47.6%	50.3%	63.1%
Based on 10 Yr. Horizon Return (10 Yr.)	47.3%	38.3%	37.5%	34.9%	34.9%	52.5%	63.5%	60.9%	38.7%	41.9%	58.3%

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Long-Term Asset Class Expectations

Asset Class	Compound Expected Return	Expected Standard Deviation
Growth Assets		
US Large Stocks	7.5	17.5
US Mid Stocks	8.0	19.0
US Small Stocks	8.5	22.0
Intl Large Stocks	7.5	18.0
Intl Small Stocks	8.5	19.0
Intl Emerging Market Stocks	9.5	27.0
Private Equity	12.5	27.0
Risk Protection Assets		
US Fixed Income	5.2	5.5
Cash	4.0	0.5
Hedge Funds	8.0	7.0
Inflation Protection Assets		
US Inflation Protected Bonds	4.7	5.0
Real Assets	8.5	12.5

This represents our long-term expected return on stocks when they are priced at equilibrium. Current valuations appear to be above equilibrium.

Small-cap stocks are expected to outperform large-cap stocks by 1% and value stocks are expected to outperform broad stock allocations.

Over the long-term, we expect US stocks and international developed market stocks to provide similar returns.

We expect cash to earn 4.0% nominal (based on 2.5% inflation) over the long-term. All other asset class returns are built off the cash rate.

Inflation-protected bonds are expected to underperform a broad US fixed income allocation (as proxied by the Lehman Aggregate Bond index) because a broad fixed allocation has exposure to credit spreads.

Methodology for Determining Asset Class Expectations

Our approach to developing long-term forecasts blends realized historical results and an examination of current conditions. In developing the forecasts, we begin by averaging historical data for the longest period available to determine how much investors have been rewarded for exposure to risk factors in the past. We then use internal and external research to identify structural reasons that risk premiums in the future might be different than those experienced in the past, and adjust our forecasts accordingly. This methodology generally results in lower return forecasts, particularly for equity asset classes, than have been experienced in the past.

<u>Note</u>: The return expectations do not include manager alpha except for absolute return strategies. The expected return in excess of cash for absolute return strategies consists mostly of expected alpha.

10-Year Horizon Expected Returns

Asset Class	L/T Expected Return	10-Year Horizon Returns
Growth Assets		
US Large Stocks	7.5	6.5
US Large Value Stocks	8.0	5.5
US Large Growth Stocks	7.0	7.5
US Large Quality Stocks	8.0	8.0
US Mid Stocks	8.0	6.0
US Small Stocks	8.5	5.5
US Small Value Stocks	9.5	5.5
Intl Large Stocks	7.5	7.5
Intl Small Stocks	8.5	6.5
Intl Emerging Market Stocks	9.5	6.5
Private Equity	12.5	11.5
Risk Protection Assets		
Cash	4.0	3.5
Fixed Income	5.2	4.6
Hedge Funds	8.0	8.0
Inflation Protection Assets		
US Inflation Protected Bonds	4.7	3.9
Real Assets	8.5	8.5

10-Year Expectations – Rationale

- The long-term expectations represent the expected returns of asset classes at equilibrium. They are an estimate of what investors require to invest in each asset class, given the risk, in a normal interest rate environment. They are not affected by current valuations.

- Given their lofty valuations, many asset classes appear to be priced above equilibrium. In other words, their current expected return is below the equilibrium expected return. The horizon expectations are an estimate of the return over the next 10-years assuming all asset classes finish the period at equilibrium.

- Equities are priced to provide low returns in the future. At equilibrium real interest rates, we estimate that the S&P 500 should trade at a normalized P/E ratio of roughly 20. At a P/E ratio of 20, stocks would be priced to provide a risk premium to long-term TIPS bonds of 2.5%.

- If the normalized P/E ratio on the S&P 500 falls to 20 over the next 10 years, we estimate that the S&P 500 will earn a nominal return of 5.5%, versus the long-term expected return of 7.5%.

Correlation Assumptions

	US Large Stocks	US Mid Stocks	US Small Stocks	REITs	Intl Large Stocks	Intl Small Stocks	Intl Emerging Market Stocks	US Fixed Income	US Inflation Protected Fixed	US High Yield Fixed	Cash	Real Assets	Private Equity	Hedge Funds
US Large Stocks	-	0.90	0.80	0.50	0.65	0.50	0.60	0.35	0.20	0.55	(0.05)	0.35	0.70	0.35
US Mid Stocks		-	0.90	0.50	0.60	0.50	0.60	0.30	0.20	0.55	(0.05)	0.35	0.75	0.35
US Small Stocks			-	0.55	0.55	0.50	0.55	0.25	0.15	0.60	(0.10)	0.35	0.80	0.40
Intl Large Stocks					-	0.85	0.60	0.20	0.10	0.40	(0.10)	0.30	0.50	0.25
Intl Small Stocks						-	0.60	0.15	0.10	0.40	(0.10)	0.30	0.50	0.30
Intl Emerging Market Stocks							-	0.10	0.10	0.50	(0.15)	0.45	0.45	0.40
US Fixed Income								-	0.60	0.40	0.00	0.15	0.25	0.30
US Inflation Protected Fixed									-	0.30	0.10	0.35	0.15	0.20
US High Yield Fixed										-	(0.10)	0.25	0.60	0.40
Cash											-	0.00	(0.10)	0.10
Real Assets												-	0.50	0.30
Private Equity													-	0.30
Hedge Funds														-

- **Correlation coefficients** measure the degree of co-movement between two asset classes. A correlation of 1.00 indicates that both assets move in lock-step with one another, while a correlation of (1.00) suggests that the assets move in opposite directions. A correlation of 0 means that there is no relation.
- Diversified portfolios take advantage of the tendency of asset classes to behave in different ways relative to each other. Asset classes with low correlations to one another can be combined to produce portfolios with less risk than any specific asset class displays on a stand-alone basis.

Glossary of Terms

- **10-Yr Horizon Return** - The 10-year mean reversion return represents our best estimate of returns over the next 10 years. We assume that normalized P/E ratios and interest rates revert to their equilibrium levels over the next 10-years.
- **Net Average Expected Return** - The average return in the portfolio's distribution of possible portfolio returns, net of indexed management fees. In any one-year period, there is a 50% chance that the return will be below the expected return and a 50% chance that the return will be above the expected return.
- **Net Compound Expected Return** - The median return of possible multi-year portfolio returns, net of indexed management fees. For example, in a ten-year period, there is a 50% chance that the annualized return will be below the median expected return and a 50% chance that the annualized return will be above median expected return.
- **Standard Deviation** - This statistic simply quantifies the expected variability of returns around their mean. Both returns *above* and *below* the expected return are included in this risk measure. There is roughly a two out of three chance that the return in any given year will fall within the range bounded by the expected return plus or minus the standard deviation.
- **Sharpe Ratio** - The Sharpe Ratio is a measure of risk-adjusted returns. It is the amount of return obtained (above the risk-free rate) for each unit of risk incurred; therefore, higher Sharpe Ratios indicate a more favorable reward/risk tradeoff. Mathematically, it is the expected return of the portfolio less the risk-free rate divided by the standard deviation.
- **Lowest Likely Return**– Also known as the Value at Risk (VAR), VAR indicates the lowest return we would expect from the portfolio in 99 periods out of 100. In one period out of 100, we would expect the return to be worse.
- **Downside Probability** - The probability of *missing* the goal return over the period. A 20 year downside probability of 33% indicates that there is a one in three chance of missing the goal return over a twenty- year horizon.

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VIII. Pension Fund Governance

Effective Pension Fund Governance

- ***What constitutes "Best Practices in Pension Fund Governance"?***
  - Management and Oversight
  - Accountability
  - Investment Policy

- ***How does pension fund governance affect fund performance?***
  - Bad governance practices have an economic cost of 2% per annum.[1]

1- Source: "The Three Grades of Pension Fund Governance Quality, Bad, Better, Best" K. Ambactsheer

Effective Pension Fund Governance *(continued)*

- ***What prevents private and public retirement systems from achieving best practices in pension fund governance?***
  - Legal barriers
  - Organizational barriers
  - Competency barriers
  - Scale barriers

Barriers to Excellence

Rank	Barrier	Cited %
1	Poor Decision Process	98%
2	Inadequate Resources	48%
3	Lack of Focus/Clear Mission	43%
4	Conservatism	35%
4	Insufficient Skill	35%
6	Inadequate Technology	13%
7	Conflicts	8%
7	Difficult Markets	8%
9	Lack of Innovation	5%
9	Suppliers	5%

Source: "Excellence Shortfall in Pension Fund Management: Anatomy of a Problem" by K. Ambactsheer, C. Boice, D. Ezra, J. McLaughlin

Effective Pension Fund Governance *(continued)*

- Four Key Attributes:
  - Trustee Structure – Trade off between “representative” and “expertise”
  - Operating Structure – Deliver results in a cost effective manner
  - Culture – Sense of urgency/high performance team
  - Scale – Bigger is better

Effective Pension Fund Governance *(continued)*

- Strong Board of Trustees is critical to an effective governance structure
- Selection process is key
  - Motivation
  - Expertise
    - Think strategically
    - Relevant skill/experience
      - Investments
      - Risk management
      - Audit
      - Actuarial/Human Resources

Effective Pension Fund Governance *(continued)*

- KRS Governance: 9 member Board of Trustees
  - 5 elected; 3 appointed; 1 ex officio
  - Investment committee: 5 Trustees
  - Investment expertise noted in one trustee biography

- KTRS Governance: 9 member Board of Trustees
  - 7 elected; 2 ex officio
  - Investment committee: 2 trustees and Executive Secretary
  - No investment expertise noted in trustee biographies

- Institutional investment best practices
  - Investment committee members with investment expertise.
  - Supplement with education

Effective Pension Fund Governance

- What constitutes “best practices in portfolio management”?
  - Active vs. passive
  - Internal vs. external
  - Marketable securities vs. illiquid partnerships

- Creating value through implementation (compensation for risk)

- CIO, staff and external advisors skill set is critical to success

- Is the portfolio behaving as expected? (asset/liability study)
  - Recommended every 3-5 years depending upon policy changes
  - KRS – July 2006
  - KTRS – June 2002, update expected in 2008-2009

- Is the portfolio behaving as expected? (benchmarks)
  - Yes – continue monitoring process
  - No – address the issue with appropriate resources (time, talent or terminations)

IX. Board and Investment Committee Structure

Investment Committee Structure – Peer Return Rankings

		Period Ending June 30, 2007			
System	**Assets**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Pennsylvania Public School Employees Retirement System	$67,340,997	22.9%	16.9%	14.5%	NA
Louisiana Teachers Retirement System	16,148,730	19.7%	15.0%	14.0%	9.7%
Washington Department of Retirement Systems	69,059,082	21.3%	17.0%	14.0%	NA
South Dakota Retirement System	8,158,169	21.4%	15.9%	13.8%	10.3%
Oregon Employees Retirement System	62,891,942	18.6%	15.6%	13.4%	NA
Missouri State Employees Retirement System	8,129,174	18.7%	14.2%	13.3%	9.2%
Ohio State Teachers Retirement System	72,935,433	20.7%	15.5%	13.2%	NA
California State Teachers Retirement System	172,377,918	21.0%	15.1%	13.1%	NA
California Public Employees Retirement System	251,122,682	19.1%	14.6%	12.8%	9.1%
Virginia Retirement System	56,890,203	20.4%	14.9%	12.8%	NA
Idaho Public Employee Retirement System	11,257,959	20.0%	14.3%	12.8%	NA
Oklahoma Teachers Retirement System	9,651,042	18.5%	12.8%	12.8%	NA
Louisiana State Employees Retirement System	9,351,148	19.2%	13.7%	12.6%	NA
Illinois Teachers Retirement System	41,909,318	19.2%	13.9%	12.5%	9.1%
New York State Teachers Retirement System	104,912,949	19.3%	13.8%	12.3%	8.8%
Kansas Public Employees Retirement System	14,183,073	18.0%	14.1%	12.3%	8.8%
Arkansas Teachers Retirement System	11,636,935	19.1%	14.0%	12.1%	NA
Minnesota Teachers Retirement Association	19,938,882	18.5%	14.0%	12.0%	8.5%
Illinois State Universities Retirement System	15,985,730	18.3%	13.4%	11.9%	8.5%
Minnesota Public Employees Retirement Association	16,718,662	18.3%	13.8%	11.9%	8.3%
Minnesota State Retirement System	15,214,339	18.3%	13.8%	11.9%	NA
Indiana Public Employees Retirement Fund	17,181,295	18.2%	12.8%	11.8%	NA
Arkansas Public Employees Retirement System	5,970,244	18.1%	13.3%	11.7%	NA
Ohio School Employees Retirement System	11,546,062	18.7%	13.8%	11.7%	8.2%
New Mexico Public Employees Retirement Association	13,616,098	18.1%	13.2%	11.7%	NA
Hawaii Employees Retirement System	11,462,417	17.7%	13.3%	11.7%	NA
Indiana State Teachers Retirement Fund	8,987,744	18.2%	12.9%	11.6%	NA
Iowa Public Employees Retirement System	23,217,168	16.3%	12.9%	11.6%	9.0%
Alaska Public Employees Retirement System	7,439,387	18.9%	13.1%	11.5%	NA
Florida Retirement System	134,317,778	18.1%	12.9%	11.5%	8.5%
Delaware Public Employees Retirement System	7,413,370	15.9%	12.7%	11.5%	9.0%
Mississippi Public Employees Retirement System	21,912,350	18.9%	13.1%	11.4%	NA
Maine State Retirement System	11,023,021	16.2%	11.8%	11.4%	7.7%
Maryland State Retirement and Pension System	39,444,781	17.6%	12.4%	11.3%	7.2%
Texas Employees Retirement System	24,460,276	13.9%	11.8%	11.2%	NA
Arizona State Retirement System	28,475,997	17.8%	11.9%	11.0%	8.4%
Oklahoma Public Employees Retirement System	6,640,477	16.4%	11.6%	10.9%	NA
Illinois State Employees Retirement System	12,078,909	17.1%	12.6%	10.8%	NA
Missouri Public Schools Retirement System	31,964,843	16.6%	11.8%	10.5%	NA
Kentucky Retirement Systems	*14,228,184*	*15.3%*	*11.4%*	*10.4%*	*8.1%*
North Carolina Retirement Systems	75,953,334	14.8%	10.6%	10.3%	NA
Nevada Public Employees Retirement System	22,701,360	15.0%	11.0%	10.0%	7.9%
South Carolina Retirement Systems	28,048,780	13.4%	8.6%	8.8%	7.0%
Georgia Employees Retirement System	17,516,903	14.7%	9.5%	8.5%	NA
Georgia Teachers Retirement System	53,133,101	NA	9.5%	8.5%	NA
Kentucky Teachers Retirement System	*15,492,519*	*15.2%*	*9.3%*	*8.5%*	*7.1%*
Tennessee Consolidated Retirement System	32,365,969	13.2%	9.1%	8.3%	NA
High		22.9%	17.0%	14.5%	10.3%
Mean		17.9%	13.0%	11.7%	8.5%
Median		18.3%	13.2%	11.7%	8.5%
Low		13.2%	8.6%	8.3%	7.0%

Source: Comprehensive annual financial report published by each represented retirement system for the period ending June 30, 2007.

Note: Returns shown for Kentucky Retirement Systems represent only the returns for the Pension Fund. Plans are ranked according to their 5-year performance.

Board Structure – 1st Quartile Board Composition

- Pennsylvania Public School Employees Retirement System - 1) Secretary of education 2) State treasurer 3) Executive director of the Pennsylvania School Boards Association (PSBA) 4-5) Gubernatorial appointments 6) Annuitant 7-9) Active members 10) ESP 11) PSBA representative 12-13) Two members of the House of Representatives, one from the majority party and one from the minority party 14-15) Two senators, one from the majority party and one from the minority party
- Louisiana Teachers Retirement System - 1) State superintendent of Public Education 2) State treasurer 3) Chairman of the retirement committee of the House of Representatives 4) Chairman of the retirement committee of the Senate 5) Trustee representing school food service employees 6) Trustee representing state college and university employees 7-13) Trustee from Districts 1-7 14) Trustee representing superintendents 15-16) Retired teachers
- Washington Department of Retirement Systems - 1-2) Two active Public Employees' Retirement System (PERS) members 3) One retired PERS member 4-5) Two active Teachers' Retirement System (TRS) members 6) One retired TRS member 7-8) Two active School Employees' Retirement System (SERS) members 9) One retired SERS member *10-11) Two individuals with experience in defined contribution plan administration* 12) One Deferred Compensation Program participant
- South Dakota Retirement System - 1-2) Teacher members 3-4) State employee members 5) Participating municipality member 6) Participating county member 7) Participating classified employee member 8) Current contributing Class B member 9) Current Class B member other than a justice, judge or magistrate judge 10) County commissioner of a participating county 11) School district board member 12) Elected municipal official of a participating municipality 13) Retired member 14) Faculty or administrative member employed by the Board of Regents 15-16) Head of principal department or head of a bureau under the office of executive management *17) Individual from private or public sector*

Board Structure – 1st Quartile Board Composition

- Oregon Employees Retirement System - *1-3) Individual with experience in business management, pension management or investing that are not members of the PERS system* 4) Individual who is either an employee of the state in a management position or holds an elective office in the governing body of a participating public employer other than the state 5) Individual representing public employees
- Missouri State Employees Retirement System - 1-2) Members of the Senate appointed by the President Pro Tem of the Senate 3-4) Members of the House of Representatives appointed by the Speaker of the House 5-6) Appointed by governor 7) State Treasurer 8) Commissioner of Administration 9-10) Active members elected by the active and terminated-vested members 11) Retiree elected by the retired members
- Ohio State Teachers Retirement System - 1) Superintendent of Public Instruction or his/her designee 2) Investment designee of state treasurer *3-4) Investment experts* 5-9) Active teachers 10-11) Retirees
- California State Teachers Retirement System - 1) Superintendent of Public Instruction 2) Controller 3) Treasurer 4) Director of finance 5-6) K-12 classroom teachers 7) Community college instructor 8) School board member or community college board member 9) Retired member 10-12) Public members
- California Public Employees Retirement System - 1-2) Elected by and from all CalPERS members 3) Elected by and from all active State members 4) Elected by and from all active CalPERS school members 5) Elected by and from all active CalPERS public agency members 6) Elected by and from the retired members of CalPERS 7) Elected official of a local government 8) Official of a life insurer 9) Public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee 10) State Treasurer 11) State Controller 12) Director of Department of Personnel Administration 13) Designee of the State Personnel Board

Board Structure – 1st Quartile Board Composition

- Virginia Retirement System - *1-4) Investment expert 5) Experienced in employee benefit plans* 6) Local government employee 7) Employee of a Virginia public institution of higher education 8) State employee 9) Public school teacher
- Idaho Public Employee Retirement System - 1-2) Active PERSI members with at least ten years of service *3-5) Idaho citizens not members of the system*
- Oklahoma Teachers Retirement System - 1) State superintendent of Public Instruction 2) Director of the state Department of Career and Technology Education, or designee 3) Director of state finance *4-7) Representatives of investment, finance, or other profession* 8) Representative of higher education 9) Member of the system of non-classified optional personnel status 10) Active teacher 11) Retired member of the system 12) Active teacher 13) Retired teacher

Board Structure – 4th Quartile Board Composition

- Arizona State Retirement System - 1) Educator 2) Employee of a political subdivision 3) Retired member 4) Employee of the state 5) At large member representing any ASRS member group *5-9) Individual with at least ten years experience as a portfolio manager acting in a fiduciary capacity, a securities analyst, an employee or principal of a trust institution, investment organization or endowment fund acting in either a management or investment related capacity, a chartered financial analyst in good standing as determined by the association for investment management and research, a professor at the university level teaching economics or investment related subjects, an economist or any other professional engaged in the field of public or private finances*

- Oklahoma Public Employees Retirement System - 1) Member of the Corporation Commission 2) Member of the Tax Commission 3) Administrator of the Office of personnel management or designee 4) State Insurance Commissioner or designee 5) Director of State Finance or designee 6-8) Appointed by governor 9) Appointed by the Supreme Court 10-11) Appointed by the Speaker of the House of Representatives 12-13) Appointed by the President Pro Tempore of the Senate

- Illinois State Employees Retirement System - 1) Director of the Governor's Office of Management and Budget 2) The Comptroller 3) Trustee not a state employee who shall be chairman 4-5) Two members of the system (one of whom shall be an annuitant over the age of 60 having 8 years of creditable service 6) Member of the system having at least 8 years of creditable service 7) Annuitant of the system who has been an annuitant for at least one full year

- Missouri Public Schools Retirement System - 1-3) PSRS members 4) PEERS member 5) Retired member of either PEERS or PSRS 6-7) Public members who must residents of school districts included in retirement system, but must not be employees of such districts, nor be state employees or state elected officials

Board Structure – 4th Quartile Board Composition

- Kentucky Retirement Systems - 1-2) KERS member 3-4) CERS member 5) SPRS member 6-8) Appointed by governor 9) Secretary of State Personnel Cabinet
- North Carolina Retirement Systems – NA
- Nevada Public Employees Retirement System - NA
- South Carolina Retirement Systems - 1) Municipal employee representative 2) County employee representative 3-5) State employee representative 6-7) Public school teacher representative 8) Higher education teacher representative
- Georgia Employees Retirement System – NA
- Georgia Teachers Retirement System - 1) State auditor 2-3) Classroom teachers, not an employee of the Board of Regents of University of Georgia (BRUGA) 4) Director of the Office of Treasury and Fiscal Services 5) School administrator, not a BRUGA employee 6) Active TRS member who is not BRUGA employee 7) Active TRS member who is a BRUGA employee 8) Individual (citizen of Georgia) 9) Retiree *10) Individual with investment experience who is not a TRS member*
- Kentucky Teachers Retirement System - 1) Chief state school officer 2) State treasurer 3-6) Teachers 7) Retired teacher 8-9) Lay trustees (non-teacher)
- Tennessee Consolidated Retirement System - 1) Chair of the Legislative Council on Pensions and Insurance (non-voting) 2) Vice-chair of the Legislative Council on Pensions and Insurance (non-voting) 3) Commissioner of Human Resources 4) Commissioner of Finance and Administration 5) Comptroller of the Treasury 6) Secretary of State 7) Administrative Director of the Courts 8) State Treasurer 9) Director of TCRS 10-12) Teacher representative 13-14) State employee representative 15) Public safety officer representative 16-18) Local government representative 19-20) Retiree representative

Board and Investment Committee Structure

- Many of the top performing plans have either boards or investment committees that require investment expertise.
- Investment experience has been defined by similar plans as the following:
- An individual with at least ten years' substantial experience as any one or a combination of the following:
  - A portfolio manager acting in a fiduciary capacity
  - A securities analyst
  - An active or retired employee or principal of a trust institution, investment organization or endowment fund acting either in a management or an investment related capacity
  - A chartered financial analyst in good standing as determined by the CFA Institute
  - A professor at the university level teaching economics or investment related subjects
  - An economist
  - Any other professional engaged in the field of public or private finances.

Virginia Retirement System Case Study

The Virginia Retirement System administers a defined benefit plan, a group life insurance plan, a deferred compensation plan and a cash match plan for Virginia's public sector employees.

Nine members serve on the VRS Board of Trustees. Their appointment is shared between the executive and legislative branches of state government. The Governor appoints five members, including the chairman. The Joint Rules Committee of the Virginia General Assembly appoints four members. The General Assembly confirms all appointments. Of the nine Board members, four must be investment experts; one must be a local government employee; one must be an employee of a Virginia public institution of higher education; one must be a state employee; and one must be a public school teacher. The public employee one must be a local government employee; one must be an employee of a Virginia public institution of higher education; one must be a state employee; and one must be a public school teacher. The public employee members may be either active or retired.

The Virginia Retirement System also utilizes an Investment Advisory Committee which supports and advises the Board of Trustees in matters of investment policy, asset allocation and manager selection. The Investment Advisory Committee members are profiled on the next page.

Virginia Retirement System Case Study

- Joe Grills - Committee Chair, Former CIO, IBM Retirement Funds
- Erwin H. Will, Jr. - Committee Vice Chair, Retired, Chief Investment Officer of VRS and Retired, President of Capitoline Investment Management
- Christopher J. Brightman - Chief Executive Officer of the University of Virginia Investment Management Company (UVIMCO)
- Patricia Gerrick - Deputy State Treasurer/State Investment Officer for the North Carolina Department of the State Treasurer
- Deborah Allen-Hewitt - President, Rutledge Research
- Donald W. Lindsey - Chief Investment Officer, The George Washington University
- Stuart A. Sachs -Retired President, Sovran Capital Management
- Rod Smyth - Chief Investment Strategist, Riverfront Investment Group
- Hance West - Managing Director, Investure

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Appendix I. Consulting Team Biographies

Consulting Team Biographies

Richard P. Marra

Rich is the Director of Corporate Retirement Plans and a Principal Consultant at Hammond Associates. He is a 1983 graduate of Boston College with a BS in Management, concentration in Accounting. Rich is a Certified Public Accountant in the state of New Jersey; status is currently retired. Prior to joining Hammond Associates, Rich was appointed Assistant Treasurer in 1990 and Director of Pension Investments in 1997 at Smurfit-Stone Container Corporation. During the 15 years as Assistant Treasurer he was responsible for managing the capital markets activity of Smurfit-Stone Container Corporation including equity issuance, public debt issuance, asset-backed security issuance, private placement debt issuance and interest rate risk management. During the 9 years as Director of Pension Investments he was a member of the Administrative Committee of the Retirement Plans at Smurfit-Stone Container Corporation, which is responsible for managing investment policy and strategy for $2.0 billion of defined benefit assets in the United States plans; $690 million of defined benefit assets in Canadian plans and $1.1 billion of defined contribution plan assets. Prior to working at Smurfit-Stone Container Corporation, Rich was employed by publisher Simon & Schuster and by the accounting firm PricewaterhouseCoopers. Rich is also a member of the Board of Directors of WestBridge Bank and Trust, located in Chesterfield, Missouri.

Jerry V. Woodham, MBA

Jerry is a Director of our Public Retirement Practice and is a Principal Consultant at Hammond Associates. He holds an MBA in Finance from Chapman University as well as a BS in Economics from the University of Missouri. Before joining Hammond Associates, he served as the Chief Investment Officer for the San Diego County Employees Retirement Association, a $5.0 billion plan with $300 million in direct alternative investments. In addition to his experience at San Diego, Jerry spent twenty years working as Chief Investment Officer for two university endowments, Washington University and St. Louis University. From 1996-2001 he served as Treasurer and Chief Investment Officer at St. Louis University where he was responsible for managing the institution's endowment and operating funds, which totaled $1 billion and included more than $200 million in direct alternative investments. From 1981-1996 he served as the Treasurer and Chief Investment Officer at Washington University. At that time endowment assets exceeded $3 billion, including nearly $500 million in direct alternative investments. In addition to his Chief Investment Officer positions, he also spent seven years (1989-1996) on the Common*f*und Alternative Equity Committee. Jerry has served as Board member and Chairman of the Board for Firstar Mutual Funds, and as President and Chairman for Mercantile Mutual Funds. He has also served as a member of the Investment and Finance Committees for the Missouri Historical Society and Mary Institute and Country Day School.

Timothy D. Westrich, CFA

Tim is an Associate Consultant at Hammond Associates. He holds a BSBA in Finance/Banking and Real Estate from the University of Missouri. Prior to joining Hammond Associates, Tim was an Analyst in the Investment Banking department at A.G. Edwards, working in the Financial Institutions and Real Estate Group. Prior to joining A.G. Edwards, Tim was an Analyst in the Public Finance department at Edward Jones. Tim has earned the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute and CFA Society of St. Louis.

Important Disclosures

Past performance is not indicative of future results. *Individual client returns may vary based on timing of recommendation and/or timing of implementation. All client portfolios may experience gain or loss. Actual client returns presented herein are net of fees, which may include the following: brokerage commissions, investment management fees, custodial fees, and advisory fees. The portfolios included in client return data represent all non-discretionary and discretionary institutional, non-taxable accounts advised during each time period. Most Hammond Associates clients are non-discretionary consulting clients to whom Hammond Associates provides recommendations regarding asset allocation and investments. Accordingly, those clients, not Hammond Associates, select their asset allocations and specific investments. The returns used herein assume reinvestment of dividends and other earnings. All returns are net of additions and withdrawals to the accounts. Returns represent the performance of current client portfolios and excludes the performance of ex-client portfolios. It excludes assets for which we do not advise or simply report performance. This data is used for informational purposes only to illustrate Hammond Associates' experience with providing advisory consulting services to institutional clients over various time periods. The Standard & Poor's 500 Index and the Lehman Aggregate Bond Index are used in this document to illustrate market conditions for the relevant time periods. Hammond Associates began recommending alternative investments (including hedge fund investments) in 2001. Not all clients included in these returns pursued the same investment strategy or employed the same asset allocation.*

Opinions included herein constitute Hammond Associates' judgment as of the date(s) indicated and are subject to change without notice. The sources of information used in this presentation are believed to be reliable. Hammond Associates has not independently verified all of the information contained herein. Any asset allocation model referenced in this presentation does not represent actual trading and may not reflect the impact that economic and market factors might have had on decision making if money was actually invested in the model. This presentation is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security or other investment vehicle. This presentation does not itself constitute either investment advice or recommendations on the part of Hammond Associates and may not adequately take into account the particular investment objectives, financial situations, or needs of the presentation's recipients. This document is intended only for the individual or authorized agents of the entity to whom it is addressed and may not be reproduced or distributed to any other person.

EXHIBIT 4

2008 NASRA Roll Call of the States

Please complete this form, save it, then copy and paste your responses to the online form at http://www.nasra.org/rollcall/Form_RollCall.asp.

Market Value of Assets: (billions)	$16.9 as of June 30, 2007
Assets as of June 30, 2007:	$14.2 billion Pension Fund $2.7 billion Insurance Fund $16.9 billion TOTAL ASSETS
Participants as of (June 30, 2007):	316,107
Number of Active Members:	148,202
Number of Annuitants:	77,879
Inactive Members:	90,026

Legislation

The 2008 regular session of the Kentucky General Assembly adjourned *sine die* on April 15. Despite several last-minute discussions on a "pension reform bill" actively supported by the governor, the legislature left Frankfort without passage of any significant legislation affecting Kentucky Retirement Systems.

Following the session, the leadership of the House and Senate continued to meet in private sessions and eventually reached an agreement on certain pension reform principles, prompting a call from Governor Steve Beshear to bring the General Assembly into special session on June 23, 2008 for the specific purpose of passing legislation designed to make significant changes to the benefit structure for new hires entering the Systems on or after September 1, 2008.

The highlights of the new legislation, House Bill 1, include:

- Raising the retirement ages for future hires;
- Lowering the cost of living adjustment to 1.5 percent;
- Requiring new employees to contribute 1 percent of their salary to the health insurance fund; and
- Reforming the practice of "double dipping."

Governor Beshear also issued an Executive Order on May 29, 2008 that established a working group to study ways to improve investment return for pension funds and other unresolved issues. It is made up of experts from government, the private sector, cities, counties, and employee groups, and is expected to issue a final report in November 2008.

System Governance

A nine-member Board of Trustees administers the Systems:

- Two trustees elected by KERS members
- Two trustees elected by CERS members
- One trustee elected by SPRS members
- Three trustees appointed by the Governor
- The Secretary of the Personnel Cabinet, ex officio

Three new members have joined the Board of Trustees since December 2007: Secretary of the Personnel Cabinet Nikki Jackson replaced outgoing Personnel Secretary Brian Crall in December; and Gayle McGrath and Christopher Tobe were named by incoming Governor Steve Beshear to replace Walter Pagan and Lynn Harpring, whose terms expired in March 2008.

Technology

Project START (Strategic Technology Advancements for the Retirement of Tomorrow) continues to move toward full implementation in January 2010. KRS is working with BearingPoint to implement START, which is a major strategic effort to modernize the Systems' 30-year-old legacy pension architecture and associated programs. Since 2007, START has worked to expand the options available to our members for obtaining their information, with the eventual goal of providing 24-hour a day access through the Internet.

For example, our retiree community will be able to use the Internet to see information about their accounts, including check stubs, benefit amounts, tax status and withholding, beneficiary information, and address information. Retirees will also be able to review healthcare plan benefits and cost, and to select and enroll in healthcare online. Of course, KRS will continue to offer retirees these services in-person as well.

Employers will also see improvements in the monthly process of reporting and filing of contributions. Using encryption technologies, START will allow KRS to receive online information from employers (and members, retirees, and other government agencies) in a more secure and efficient manner. One benefit of this improvement will be to help ensure that a member's account is up-to-date, which will translate into more accurate retirement benefit estimates, calculations, and an improved retirement process.

KRS is well into Phase 5 of 6 total phases, and will begin training employees on the new system later this summer.

Litigation / Corporate Governance

Kentucky Retirement Systems' litigation with the Equal Employment Opportunity Commission came to an end on June 19, 2008, when the U.S. Supreme Court, in a 5-4 decision, ruled in favor of the Retirement Systems. The Court held that Kentucky Retirement Systems' retirement plan, which provides for enhanced disability benefits for certain eligible members, does not discriminate against workers who become disabled after becoming eligible for retirement based on age, and thus does not violate the Age Discrimination in Employment Act of 1967 (ADEA). Kentucky's disability benefits plan provides that certain workers who are already eligible for an unreduced retirement benefit on the basis of age are ineligible for further enhancements to their benefit on the basis of disability. The majority opinion, written by Justice Stephen Breyer, found that Kentucky's rules regarding disability benefits did not impermissibly use pension eligibility status as a proxy for age. In setting forth the rule adopted by the court, Justice Breyer wrote that "[w]here an employer adopts a pension plan that includes age as a factor, and that employer then treats employees differently based on pension status, a plaintiff, to state a disparate treatment claim under the ADEA, must come forward with sufficient evidence to show that the differential treatment was 'actually motivated' by age, not pension status." The case is Kentucky Retirement Systems v. E.E.O.C., 2008 WL 2445078.

Funding Issues

In recent years, funding levels for the pension and insurance funds have fallen dramatically as a result of the rising cost of health care; an annual pension cost of living allowance (COLA) that is not pre-funded; compliance with GASB 43/45 accounting and reporting requirements; struggling investment returns from the 2002 and current year economic recessions; and the failure of state government to fund the actuarially required contribution in 7 of the last 15 years in the KERS and SPRS plans.

As of June 30, 2007, the various systems are funded at the following levels (funded ratio based on actuarial value of assets):

SYSTEM	PENSION FUND	INSURANCE FUND
KERS Nonhazardous	56.9%	11.9%
KERS Hazardous	83.6%	49.8%
CERS Nonhazardous	82.1%	28.8%
CERS Hazardous	74.2%	31.2%
State Police (SPRS)	63.7%	26.6%

Model Practices

KRS began working with L.R. Wechsler, Ltd. of Fairfax, Virginia beginning in fiscal year 2005 to study KRS workflow processes and procedures in an effort to streamline operations and provide better customer service to our members. The implementation of several recommendations identified by the Wechsler study, including the installation of a new line of business model (the START project mentioned in the "Technology" section of this report), continues to progress.

Investment Activity/Initiatives

For the fiscal year ended June 30, 2007, KRS pension fund returned 15.3%, which exceeded the return of its benchmark by 0.4%. The 15.3% return also exceeded the actuarially assumed rate of return of 7.75%. The above benchmark performance of the pension fund was due in large part to an above benchmark weighting to international equities and a below benchmark weighting to fixed income, the best and worst performing asset classes for the measurement period.

Pension Total Fund Return						
	Inception Date	**Fiscal Year**	**3-Year**	**5-Year**	**10-Year**	**Inception**
KRS Total Fund	Apr-84	15.3%	11.4%	10.4%	8.1%	11.1%
Performance Benchmark		14.9%	10.5%	10.1%	8.0%	11.1%

Current Policy Benchmark is compromised of 14% LB Aggregate, 13% LB Government/Credit, 10% LB U.S. TIPS, 15% MSCI EAFE, 5% Russell 2000, 31.4% S&P 1500 Composite (Price Only), 6.6% S&P 500, 3% 3-Month Treasury Bill, and 2% LB High Yield Corporate Index

The KRS insurance fund also posted a strong return for the fiscal year ending June 30, 2007. The portfolio returned 19.3% compared to the benchmark's 19.1% return and the actuarially assumed rate of 7.75%. The above benchmark performance of the insurance fund was also due in large part to higher than benchmark allocations to international equities and above benchmark performance from the domestic equity asset class.

Insurance Total Fund Return						
	Inception Date	**Fiscal Year**	**3-Year**	**5-Year**	**10-Year**	**Inception**
KRS Total Insurance Fund	Apr-84	19.3%	13.7%	12.3%	8.4%	9.5%
Performance Benchmark		19.1%	12.9%	11.8%	8.0%	9.6%

Current Policy Benchmark is compromised of 10% LB U.S. TIPS, 20% MSCI EAFE, 64% S&P 1500 Composite (Price Only), 5% 3-Month Treasury Bill, and 1% LB High Yield Corporate Index.

Long-Term Results:

The 10 year period ending June 30, 2007 provided returns that, by historical measures, were quite good. The KRS pension fund portfolio earned an annualized total return of 8.1%, which placed it ahead of or in line with its benchmark for each of the time periods presented.

The KRS insurance fund also enjoyed a strong period of growth over the past 10 years, earning an 8.4% return for the 10-year period ending June 30, 2007.

Asset Allocation

Actual percentage allocations for each asset class as of 6/30/07:

PENSION FUND	INSURANCE FUND	CLASS
38.4%	55.5%	**Domestic Equity**
18.4%	20.4%	**Foreign Equity**
23.1%	0%	**Domestic Fixed Income**
0%	0%	**Foreign Fixed Income**
10.2%	10.9%	**TIPS**
6.9%	5.7%	**Alternatives** (private equity, real estate, venture capital, hedge funds, etc.)
3.0%	7.4%	**Cash** (includes equitization positions)
0%	0%	**Other**

Defined Contribution Plans

Kentucky Retirement Systems does not administer any Defined Contribution plans. There is an optional deferred compensation (401K and 457) plan that is administered by the Kentucky Employees Deferred Compensation Authority.

Other

On January 3, 2008 Robert M. (Mike) Burnside became the Executive Director of Kentucky Retirement Systems following a national search to replace retiring Executive Director William Hanes. Mike most recently served as the Secretary of Kentucky's Finance Cabinet, where he also acted as the Vice-Chair of former Governor Ernie Fletcher's Blue Ribbon Commission on Public Employees Retirement Systems. Mike has served in various executive positions in Kentucky state government since June 1996, following a 20-year career in the United States Air Force as an officer, pilot, and budget officer at the Pentagon.

EXHIBIT 5

MINUTES OF MEETING NO. 346
BOARD OF TRUSTEES
KENTUCKY RETIREMENT SYSTEMS
November 20, 2008 at 9:00 A.M., E.T.
Board Room
Perimeter Park West, 1270 Louisville Road
Frankfort, Kentucky 40601

Item 1

At the quarterly Meeting of the Board of Trustees held on November 20, 2008, the following members answered to their name: Randy J. Overstreet, Chair, Patricia R. Ballenger, Bobby D. Henson, Susan S. Horne, Vince Lang, W. Lewis Reynolds III, Christopher B. Tobe and Tim Longmeyer, Personnel Cabinet, proxy for Nikki R. Jackson.

In addition, those present were Robert M. Burnside, Executive Director, and Tracey M. Mulder, Recording Secretary. Also present were William A. Thielen, Gerri D. Miller, Jennifer A. Jones, Brent Aldridge, Marlane F. Robinson, Todd E. Coleman, Scarlett Consalvi, Shawn Sparks, Richard Schultz, Jennifer Steele and Connie A. Davis, KRS; Mary Helen Peter and Rebecca Heckler, Kentucky Public Retirees; Kelly Dudley, Frank Willey and Brad Gross, Legislative Research Commission; Ed Davis, Fraternal Order of Police; Craig T. Bowman, Northern Kentucky Area Development District; John Wilkerson, Kentucky Education Association; Joe Ewalt, Kentucky League of Cities; Bruce Roberts, Kentucky Professional Firefighters Association; Tom Troth, Kentucky Association of Counties; Paul Glasser, *The State Journal*; David W. Richard and Joseph W. Overhults, Dean, Dorton & Ford; Tom Cavanaugh, Alisa Bennett and Todd Green, Cavanaugh Macdonald Consulting; Melvin L. Schafer and Ben Lampton.

Mr. Overstreet advised that Mr. Longmeyer was sitting in for Ms. Jackson. An Attorney General's ruling from Scott White, Assistant Deputy Attorney General, advises that KRS 18A.035(1) provides that the Secretary "…may from time to time designate in writing an employee of the cabinet to act for him in case of his absence or inability from any cause to discharge the powers and duties of his position. In this case, the powers and duties of the Secretary shall devolve upon his designee."

Item 2

Mr. Overstreet presented the memorandum "Human Resources Committee Report."

Mr. Reynolds reviewed the memorandum "Continuation of Health Reimbursement Account (HRA)."

It was moved by Mr. Reynolds, seconded by Mr. Longmeyer and carried by the Board of Trustees to adopt the recommendations of the Human Resources Committee with respect to Kentucky Retirement Systems continuing to provide the Health Reimbursement Account (HRA) for 2009 with a monthly contribution of $36.74 per eligible employee and the monthly waiver contribution to match that which is provided by the Commonwealth of Kentucky's Personnel Cabinet.

Mr. Reynolds reviewed the memorandum "Amendments to Personnel Policies."

It was moved by Mr. Reynolds, seconded by Mr. Longmeyer and carried by the Board of Trustees to adopt the recommendations of the Human Resources Committee with respect to approving the corrections to the Kentucky Retirement Systems Personnel Polices and authorize staff to file the corrected polices as a proposed amendment to 105 KAR 1:370.

Item 3

Mr. Overstreet presented the memorandum "Affirmative Action Plan."

Ms. Robinson reviewed the memorandum.

This memorandum was presented for informational purposes.

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Ms. Robinson departed.

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Item 4

Mr. Overstreet presented the memorandum "Audit Committee Quarterly Report."

Ms. Ballenger reviewed the memorandum.

It was moved by Ms. Ballenger, seconded by Mr. Reynolds and carried by the Board of Trustees to ratify the actions of the Audit Committee with respect to approving of the Audit Report "Review of Investment Expenses and Professional Consultant Fees"; accepting the Quarterly Financial Statements as presented; approving the Audit Report "Review of Securities Lending"; approving the Audit Report "Review of Data Backup"; approving the Audit Report "Review of Great Plains System"; approving the Audit Report "Review of Death Audit Utilizing the PBI Death Report"; accepting the 2009 meeting dates; electing Mr. Reynolds as Vice-Chair of the Committee; approving the "Annual Audit Plan – FYE 2009, 2010 & 2011"; and approving the "Kentucky Retirement Systems Division of Internal Audit Self-Assessment Quality Assurance Report".

Item 5

Mr. Overstreet advised that the next item on the agenda was the Audit Report for Year ending June 30, 2008.

Mr. Richard presented the Audit Report for the fiscal year ending June 30, 2008.

Mr. Tobe noted that in the 2006 Comprehensive Annual Financial Report (CAFR) there was a mention of IRS issues that have never been resolved in a subsequent CAFR. In addition, there was a fiduciary insurance claim regarding the Holly Hill property acquisition that was reported in the 2006 CAFR that has not been addressed. Mr. Tobe opined that these matters should be addressed as part of Note L – Alternative Investment on page 43.
Mr. Richard stated that the notes in the report can be changed at the Board's discretion.
Mr. Thielen stated that there has been no change on either issue from one year to the next, but that when something does occur with either issue it will be reported in the corresponding year's financial statements and CAFR.
Mr. Tobe noted that there was a 30% increase in salaries reported between the 2005 and 2006 CAFR. There was then a restatement of the salaries for 2007. Mr. Tobe opined that there should be a comment regarding the reasons for the restatement on page 60 – Schedule of Administrative Expenses.
Mr. Richard stated that the comment can be made at the Board's discretion, although it may not be so material that it need be disclosed.
Mr. Thielen stated that the salary increases had been fully addressed last year.
Mr. Coleman stated that it was a bookkeeping error and it was addressed in a footnote in the Financial Statements for fiscal year 2007.

It was moved by Ms. Horne, seconded by Ms. Ballenger and carried by the majority to approve the Audit Report as presented.

Mr. Tobe dissented.

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Mr. Richard and Mr. Overhult departed.

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<u>Item 6</u>

Mr. Overstreet presented the memorandum "Actuarial Valuations for Year Ending June 30, 2008."

Mr. Cavanaugh, Ms. Bennett and Mr. Green presented *"June 30, 2008 Valuation Results."*

Mr. Cavanaugh presented the proposed employer contribution rates for fiscal year 2009-2010. As part of his analysis, he reviewed a request that was jointly submitted to the Board by the Kentucky League of Cities (KLC) and the Kentucky Association of Counties (KACo) to change the phase-in time period for health insurance contributions. In 2006, a new accounting rule, GASB 45, became effective, requiring all public pension plans to report the full amount of the unfunded actuarial liability for Other Post-Employment Benefits (OPEB) in their financial reports. This rule created an immediate increase in unfunded liability for the Kentucky

Retirement Systems of approximately $4.0 billion. City and county employers were unable to absorb an immediate increase to their contribution rates to pay 100% of the Annual Required Contribution (ARC) for health insurance benefits. Accordingly, the Board adopted a policy to allow city and county employers to phase in their contribution rates over a five year period during which 20% of the health insurance contribution rate increase would be phased-in each year beginning with FY 2008-2009, and reaching 100% in FY 2012-2013.

City and county employers have repeatedly asked for a more lenient phase-in period. In a letter to the Board dated November 5, 2008, KLC and KACo requested the Board to expand the window to allow employers 10 years to reach the full ARC, citing financial difficulties facing the cities and counties with the current economic recession and shrinking local budgets. The Board discussed this proposal at some length. The benefit of expanding the window to 10 years for the cities and counties would be a lower payment and therefore budgetary relief in the short term. However, this benefit would be offset by a larger contribution rate when they finally reach 100% of the ARC. The net assessment is the 10-year phase-in would be a more expensive option over the life of the amortization period. It was mentioned that the cities and counties would pursue legislative relief if the Board did not approve their request as a matter of policy. Board members expressed the concern that this is the same pattern that has been followed by the legislature when setting the appropriation rates for KERS employers. Once the lower rate is adopted, it is extremely difficult to control future requests for reductions or to regain a contribution rate of 100% of the ARC. Additionally, the longer phase-in period would exacerbate the negative cash flow currently being experienced by KRS. In fact, this is one of the main contributing factors to the low funding ratios of the KERS system.

It was moved by Mr. Lang to adopt a 10-year phase-in period for CERS employers to reach 100% of the health insurance ARC. The motion did not receive a second, therefore the motion failed.

It was moved by Mr. Reynolds, seconded by Mr. Tobe and carried by the majority to accept the Actuarial Valuation for the year ending June 30, 2008 and to adopt the contribution rates, representative of the continuation of the five-year insurance phase-in for CERS and the full funding rates for KERS non hazardous, KERS hazardous and SPRS, and that the contribution rate document be signed by the Chair and copies made available to the membership and the public; noting that these rates do not represent any legislation that might be enacted that would impact the contribution rates.

Mr. Lang dissented.

*****

Mr. Cavanaugh, Ms. Bennett and Mr. Green departed.

*****

<u>Item 7</u>

Mr. Overstreet presented the memorandum "Comprehensive Annual Financial Report – June 30, 2008."

Mr. Thielen advised that a draft report is presented.
Mr. Tobe stated that as he mentioned during the Audit Report discussion, he opined that the matters mentioned in the 2006 CAFR regarding IRS issues and a fiduciary insurance claim should be included.
Mr. Overstreet noted that Mr. Thielen addressed the issues during the discussion and when the final action is made on either issue it will be included in the corresponding year's CAFR.

It was moved by Ms. Horne, seconded by Mr. Reynolds and carried by the Board of Trustees to authorize staff to print and distribute the June 30, 2008 Comprehensive Annual Financial Report.

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Mr. Coleman and Ms. Consalvi departed.

*****

Item 8

Mr. Overstreet presented the memorandum "Retiree Health Plan Committee Report."

Mr. Henson reviewed the memorandum.

It was moved by Mr. Lang, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of the Retiree Health Plan Committee.

Item 9

Mr. Overstreet presented the memorandum "Contracts."

Ms. Jones reviewed the memorandum.

It was moved by Ms. Horne, seconded by Mr. Reynolds and carried by the Board of Trustees to authorize the following contracts:

A contract extension with Dr. Esten Kimbel to provide medical reviewer services at a rate of $50.00 per case.

A contract with R.V. Kuhns & Associates, Inc. to perform general investment consulting services at the following fee schedule:

A. An annual retainer fee, which shall include all expenses incurred by the consultant including travel expenses, as follows:
   i. For the time period from September 25, 2008 to June 30, 2009 - $296,250;
   ii. For the time period from July 1, 2009 to June 30, 2010 - $395,000;

iii. For the time period from July 1, 2010 to June 30, 2011 - $395,000;
iv. For the time period from July 1, 2011 to June 30, 2012 - $395,000 plus an increase of 3% or the CPI, whichever is greater;
v. For the time period from July 1, 2012 to June 30, 2013 – the annual retainer fee paid for time period from July 1, 2011 to June 30, 2012 plus an increase of 3% or the CPI, whichever is greater.

B. For services rendered by the consultant in accordance with Paragraph 4 of this agreement (custody search), a fixed fee of $20,000.
C. For services rendered by the consultant in accordance with Paragraph 5 of this agreement (asset/liability modeling study), a fixed fee of $55,000.

A contract with NISA Investment Advisors, LLC to perform investment management services at the following fee schedule:

The quarterly equivalent of said fee shall be paid in arrears and shall be computed on the basis of the closing market value of assets as determined by NISA on the last business day of each calendar quarter, in accordance with the following schedule; provided however, that the market value shall be adjusted such that contributions and disbursements made during the quarter (and which constitute greater than one percent of the total portfolio market value) shall be billed on a pro rata basis for the amount of time under management.

The following annual fee schedule shall apply so long as the portfolio market value is greater than $1 billion:

0.125% on the first $1.5 billion
0.105% on the next $1.0 billion
0.085% on the balance

If the portfolio market value is less than $1 billion, the following annual fee schedule shall apply, provided however that the quarterly fee shall be subject to a minimum of $50,000 and a maximum of $312,500 (the $312,500 maximum assures that a portfolio with less than $1 billion in market value will never pay a higher fee than one with greater than $1 billion in market value):

0.165% on the first $500 million
0.125% on the balance

A contract with Independent Pharmaceutical Consultants, Inc. to provide support of KRS's application with the Centers for Medicare and Medicaid Services (CMS) for a Prescription Drug Plan under the Employer Group Waiver Plan option for retirees in plan year 2010 at the following fee schedule:

Direct Contract EGWP PDP Set-up and Analysis			
Start Date:	*August 20, 2008*		
End Date:	*January 31, 2010*		
Service Category	*Estimated Hours*	*Blended Rate*	*Not To Exceed*

1	Assist in determining the best method for the analysis of the current drug utilization data for the KRS. Estimating the impact of the proposed plan design and any modifications to that plan design that may be necessary to meet CMS guidelines.	40	$ 235	$ 9,400
2	The Consultant would be required to provide an analysis assessing the benefits, if any, providing prescription drug plan benefits to retirees and assisting in the application process to implement such a program. The Consultant will also assist KRS staff in designing an internal program that will coordinate eligibility, reporting and compliance in order to meet CMS requirements for Prescription Drug Plans as outlined in the Solicitation for Applications for New Prescription Drug Plans (PDP) Sponsors, 2009 Contract year.	200	$ 235	$ 47,000
3	Provide assistance in development of an application to CMS for an Employer Group Waiver Prescription Drug Plan. Prepare a report detailing the timeline and expected costs associated with establishing a prescription drug plan and outline for KRS specific requirements to meet the goal of providing this benefit for January 1, 2010.	267	$ 235	$ 62,745
4	Assistance in reviewing changes under the Medicare Modernization Act and new provisions under Part D that impact the KRS' over 65 population and make recommendation on any actions needed.	65	$ 235	$ 15,275
5	Assist in the coordination and oversight of recommendations made by any other studies or analysis as deemed necessary and appropriate during the period of this engagement.	150	$ 235	$ 35,250
6	Attend meetings of the Board, Committees and staff as needed to assist in the development of program offerings.	240	$ 235	$ 56,400

Direct Contract EGWP PDP Management Assistance, Compliance and Renewal			
Start Date:	*February 1, 2010*		
End Date:	*January 31, 2011*		
Service Category	*Estimated Hours*	*Blended Rate*	*Not To Exceed*

1	Support the administration of the EGWP PDP and oversee compliance with CMS contract by providing the following services: (1) Formulary review, review of website formulary tools, formulary submission file management, timely submission of formulary to CMS (2) Continue to monitor the compliance plan as required by the contract between the Plan and CMS to operate an EGWP Medicare prescription drug program, (3) Compliance support, meeting preparation and administration (4) Mock CMS compliance audit (5) CMS reporting (6) Annual PBM contract review for compliance with future CMS requirements (7) CMS compliant complaint handling and reporting (8) Beneficiary communication materials review for CMS compliance	300	$ 243	$ 72,900
2	Assisting in providing reports and services required by CMS for the operation of a voluntary Medicare prescription drug plan	96	$ 243	$ 23,328
3	Monitor and manage HPMS Complaint Tracking Module (CTM) (1) Determine responsible entity (PBM, Plan and CMS) (2) Problem resolution and compliance within CMS timeline requirements (3) Grievances and appeals (4) Vendor coordination	52	$ 243	$ 12,636
4	PDE management (1) Data integration and tracking (2) Response processing (3) Reject resolution (4) Discrepancy resolution	180	$ 243	$ 43,740
5	Plan design consulting (1) Bid support including KRS designated actuary coordination and certification, application completion and submission, data comparison, contract Management and CMS follow-up (2) Meeting support including Health care Committee and Board support materials and presentations (3) Cost Change Analysis (4) Assistance with cost forecasting and budgeting (5) Plan design modeling	120	$ 243	$ 29,160
6	Attend meetings of the Board, Committees and staff as needed to assist in the support of program offerings.	288	$ 243	$ 69,984

Item 10

Mr. Overstreet presented the memorandum "Kentucky Retirement Systems Board of Trustees Policy and Procedures Regarding Open Records Requests Made in Accordance with KRS 61.870-61.884."

Ms. Jones reviewed the memorandum.

It was moved by Ms. Ballenger, seconded by Mr. Henson and carried by the Board of Trustees to adopt the Kentucky Retirement Systems Board of Trustees Policy and Procedures Regarding Open Records Requests Made in Accordance with KRS 61.870-61.884 as presented.

Item 11

Mr. Overstreet presented the memorandum "New Administrative Regulation 105 KAR 1:440 – Kentucky Retirement Systems Trustee Education Program."

It was moved by Mr. Lang, seconded by Mr. Reynolds and carried by the Board of Trustees to adopt the Kentucky Retirement Systems Trustees Education Program and authorize staff to file with the Legislative Research Commission (LRC) the proposed new administrative regulation 105 KAR 1:440, Kentucky Retirement Systems Trustee Education Program, and to work with LRC to make recommended changes that do not alter the effect of the new administrative regulation.

Item 12

Mr. Overstreet presented the memorandum "Summary of Housekeeping Matters for the 2009 Legislative Session."

Ms. Jones reviewed the memorandum.

It was moved by Ms. Ballenger, seconded by Mr. Henson and carried by the Board of Trustees to authorize staff to pursue filing of the Housekeeping Bill as presented.

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Mr. Schultz, Mr. Sparks and Ms. Steele departed.

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Item 13

Mr. Overstreet presented the memorandum "Initial Retirement Cases, First Quarter, 08-09."

Ms. Miller reviewed the memorandum.

It was moved by Mr. Tobe, seconded by Ms. Ballenger and carried by the Board of Trustees to ratify the action of staff and approve the payment of initial retirement benefits as presented.

Item 14

Mr. Overstreet presented the memorandum "Death Benefit Payments, First Quarter, 08-09."

It was moved by Mr. Reynolds, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of staff and approve the payment of death benefits as presented.

Item 15

Mr. Overstreet presented the memorandum "Excess Benefit Payroll, First Quarter 08-09."

It was moved by Ms. Ballenger, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of staff and approve the monthly payments from the excess benefit plan as presented.

Item 16

Mr. Overstreet presented the memorandum "Refund of Member Contributions for the Quarter Ended September 30, 2008."

It was moved by Mr. Lang, seconded by Ms. Horne and carried by the Board of Trustees to approve the action of the staff in the refund of member contributions for the quarter ended September 30, 2008.

Item 17

Mr. Overstreet presented the memorandum "Fiduciary and Ethics Report."

Ms. Jones reviewed the memorandum and related articles.

This memorandum was presented for informational purposes.

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Chris Clark, KRS, entered the meeting during the presentation.

*****

Item 18

Mr. Overstreet presented the memorandum "START Quarterly Report."

Mr. Clark reviewed the memorandum.

This memorandum was presented for informational purposes.

*****

Mr. Clark departed.

*****

Item 19

Mr. Overstreet presented the memorandum "Investment Portfolio, September 30, 2008."

Mr. Aldridge reviewed the memorandum.

This memorandum was presented for informational purposes.

Item 20

Mr. Overstreet presented the memorandum "Investment Committee Quarterly Report."

Ms. Horne reviewed the memorandum.

It was moved by Ms. Ballenger, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of the Investment Committee with respect to approve and hire R.V. Kuhns & Associates, Inc. as the KRS General Investment Consultant subject to successful contract negotiations; approve the Real Estate Investment Policy Statement, providing the guidelines within which KRS's real estate investments are to be made and managed; and terminate/pare-back the Lehman Brothers Asset Management fixed income portfolio, manage the pare-back in a prudent manner and to hire and transfer assets to NISA Investment Advisors.

Item 21

Mr. Overstreet presented a letter dated November 19, 2008 from Finance and Administration Cabinet Secretary Jonathan Miller with the attachment titled "Governor Steve Beshear's Public Pension Working Group Recommended Investment Actions" for discussion.

Mr. Burnside advised that the letter and attachment were delivered to the attention of Chairman Overstreet immediately before the meeting. The letter stated that Governor Beshear recommends investment reforms outlined in the attachment, with a suggested implementation date no later than the end of the calendar year. Specifically, the letter recommends that the Board establish a 7-member investment committee with two members being governor's appointees to the Board of Trustees who are investment experts, two investment experts who are in no way connected to the Board or KRS that are selected by the Board of Trustees and three other Board of Trustee members who are not required to have investment expertise. Additionally, the Governor recommends educational requirements for investment committee members, an immediate asset/liability modeling study be conducted by the Board, a formal review of existing regulations to remove all impediments to efficient portfolio management, and limitations on the concentration of the fund with any one external money manager.

Mr. Burnside noted that the Board either has already implemented or is in the process of implementing all the recommendations except for changes to membership of the investment committee. The Board will be unable to implement the requested changes to investment committee membership without statutory changes, as there is no existing law that requires the governor to appoint two investment experts to the Board. While the current governor may require investment expertise for two of his appointees to the Board, future governors may not follow that guideline, and the Board would be unable to comply with any regulatory changes made to that effect.

After a brief discussion by the Board, Mr. Burnside stated that he would send a letter of reply, stating that the Board would take the recommendations under advisement and comply with them to the extent possible under current statutes.

These documents were presented for informational purposes.

<u>Item 22</u>

Mr. Overstreet presented the memorandum "Review of Commissions."

This memorandum was presented for informational purposes.

<u>Item 23</u>

Mr. Overstreet presented the memorandum "Participation of Additional Agencies and Hazardous Positions."

Ms. Miller reviewed the memorandum.

It was moved by Mr. Lang, seconded by Ms. Horne and carried by the Board of Trustees to approve CERS participation of Warren County Public Library.

Ms. Miller led a discussion regarding the recertification of hazardous positions for employees hired on or after September 1, 2008. The pension reforms enacted through House Bill 1 (HB 1) in the 2008 Extraordinary Session included changes in the definition of hazardous employees as well as revisions to the procedures required of CERS employers when requesting certification of hazardous duty positions. Specifically, HB 1 requires that employers desiring to provide hazardous coverage to employees hired after September 1, 2008 must request that the Board certify the positions as hazardous duty in accordance with the revised criteria set forth in KRS 61.592. Employee groups raised several concerns regarding the interpretation of KRS 61.592 and its potential impact on hazardous employees. In order to resolve the issue, the KRS Executive Director requested a formal opinion on the interpretation of the revised statute from the Office of the Attorney General. The Attorney General has not responded as of the date of this meeting. In order to ensure the statute is interpreted correctly and to eliminate the potential for incorrect application of the statute, KRS staff recommends that the Board defer all positions for recertification of hazardous duty until an opinion from the Attorney General has been received.

It was the consensus of the Board of Trustees to defer all positions for recertification of hazardous duty until an opinion from the Attorney General has been received.

Ms. Miller noted that the hazardous duty positions for consideration are not affected by the recertification process.

Mr. Henson recused himself.

It was moved by Ms. Horne, seconded by Mr. Reynolds and carried by the majority to approve hazardous duty coverage for the following positions:

Senior Captain, City of Ashland, retroactive to July 1, 2003
Deputy Fire Chief, City of Ashland, retroactive to July 1, 2003
Battalion Chief, City of Ashland, retroactive to July 1, 2003
Contract School Resource Officer, City of Edgewood, retroactive to July 1, 2008
Fire Chief, City of Edgewood, retroactive to July 1, 2008
Firefighter/EMT-Fire Inspector, City of Edgewood, retroactive to July 1, 2008
Asst. Fire Chief, City of Edgewood, retroactive to July 1, 2008
Police Major, City of Mt. Washington, effective December 1, 2008
Police Detective, City of Mt. Washington, effective December 1, 2008
Police Sergeant, City of Mt. Washington, effective December 1, 2008
Police Captain/Asst. Chief of Police, City of Morehead, retroactive to November 1, 2004
Police Recruit, City of Morehead, retroactive to November 1, 2004
Detective/Sergeant, City of Morehead, retroactive to November 1, 2004
Police Major, City of Eminence, effective December 1, 2008
Police Detective, City of Eminence, retroactive to December 1, 2004
Deputy Chief, City of Wilmore, retroactive to January 1, 2004
Safety and Training Officer/Firefighter, City of Harrodsburg, retroactive to July 1, 2008
Lieutenant (Police), City of Harrodsburg, retroactive to February 1, 2008
Asst. Chief of Police (Major), City of Nicholasville, retroactive to June 1, 2006
Firefighter/Paramedic, Southern Campbell Fire District, retroactive to June 1, 2008
Sheriff Detective, Harrison County Fiscal Court, retroactive to December 1, 2005
Lieutenant, Fairdale Fire Department, effective December 1, 2008
Staff Assistant (Dept of Criminal Investigations), Office of the Attorney General, retroactive to August 1, 2007

*****

It was moved by Ms. Ballenger, seconded by Mr. Lang and carried by the Board of Trustees to enter into "Closed Session" for the purposes of 1) discussing litigation pursuant to KRS 61.810(1)(c) because of the necessity of protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege; 2) discussing member accounts pursuant to KRS 61.810(1)(k) due to the sensitive and personal nature of the medical records to be considered and the requirement of KRS 61.661(1) that each member's account be administered in a confidential manner.

*****

Mr. Aldridge, Ms. Davis and all visitors departed.

*****

It was moved by Mr. Henson, seconded by Ms. Horne and carried by the Board to return to "Open Session" after discussion of member accounts and litigation in "Closed Session" under the provisions of KRS 61.810(1)(c), (k) and KRS 61.661(1) with no action being taken in "Closed Session."

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Item 24

Mr. Overstreet presented the memorandum "Pending Litigation."

Pending litigation was reviewed in closed session with no action being taken.

Item 25

Mr. Overstreet presented the memorandum "Medical Examiners Approvals/Denials of Disability Retirement."

It was moved by Mr. Henson, seconded by Mr. Tobe and carried by the Board of Trustees to ratify the action of staff in the denial of 143 disability applications and approval of 45 disability applications, for the quarter ending September 30, 2008.

Item 26

Mr. Overstreet presented the memorandum "Disability Appeals Committee Quarterly Report."

It was moved by Mr. Lang, seconded by Mr. Reynolds and carried by the Board of Trustees to ratify the action of the Disability Appeals Committee for the quarter ending September 30, 2008.

Item 27

Mr. Overstreet presented the memorandum "Administrative Appeals Committee Quarterly Report."

It was moved by Ms. Ballenger, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of the Administrative Appeals Committee for the quarter ending September 30, 2008.

Item 28

Mr. Overstreet presented the memorandum “Annual Review Update for Recipients Receiving Disability Benefits."

It was moved by Mr. Reynolds, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of staff in the termination of disability retirement benefits for two recipients.

Item 29

Mr. Overstreet presented the memorandum "Recommendations for Hazardous Disability Retirement."

It was moved by Mr. Lang, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of staff and approve hazardous disability retirement benefits for six applicants, with one of those being approved for in-the-line-of-duty benefits.

Item 30

There being no further business, the meeting was adjourned at 12:15 p.m., to meet on February 19, 2009 or upon the call of the Chair, Executive Director, or at the request of five members of the Board.

CERTIFICATION

I, Tracey M. Mulder, do certify that I was present at this meeting and that I have recorded above the action of the Board on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805 through 61.850 were met in connection with this meeting. Finally, I certify that the Minutes and supporting materials have been forwarded to each member of the Board and have been included in the permanent records of the Board.

____

Tracey M. Mulder
Recording Secretary

We, the Chair and the Executive Director of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of Meeting No. 346 were approved by the Board on February 19, 2009

Signed: ____
Chair

Signed: ____
Executive Director

I, Jennifer A. Jones, have reviewed the Minutes of Meeting No. 346 for form, content and legality.

____

Assistant General Counsel

EXHIBIT 6

Executive Summary
Fund of Hedge Funds Search
August 2nd, 2011

OVERVIEW & RECOMMENDATION

Overview

The KRS Investment Committee, as part of its approval of asset liability models in 2010 and 2011, approved 10-12% allocations to absolute return strategies in the underlying KRS pension and insurance plans (see Addendum A for plan targets). Through discussions with KRS general consultant R.V. Kuhns & Associates ("RVK") it was agreed that KRS would initially hire fund of hedge fund managers ("FoHFs") to gain exposure to absolute return strategies and then reduce those over time by investing in other diversifying absolute return strategies. The hiring of these FoHFs will also serve a role in helping develop KRS Staff's ability to invest directly in hedge funds, thus, ultimately saving KRS money by enabling investment in lower fee structure vehicles. All recommended FoHF managers have agreed that the underlying hedge fund capacity received by KRS through our FoHF investments will belong to KRS and not the FoHF manager.

RVK initially recommended that KRS hire FoHF managers as a first step to gain broader exposure to absolute return strategies within limited partnership (or similar) structures, placing the risk centers of allocation, selection/de-selection, and individual strategy monitoring responsibilities on external investment management teams dedicated to the hedge fund industry. The search process sought to understand the risks being taken by the FoHF managers in these areas and create an optimal risk/return generating portfolio around portfolio construction considerations and individual manager assessments. The materials that follow, in aggregate, discuss Staff's process and primary considerations in ensuring that investment risks associated with a diversified fund of hedge funds mandate have been mitigated to the extent possible and that investment recommendations have a diligent, reasonable basis. Additional analysis of fund of hedge funds and the risks involved was provided to the Investment Committee on February 3, 2009; please see Addendum B for a copy of this memorandum. The outline of the search process that follows was carried out in-line with the KRS Statement of Investment Policy and Investment Transaction Procedures Policy: Addendum A – Limited Partnerships.

KRS is pursuing absolute return strategies principally as a result of favorable risk-adjusted returns and the diversification benefits of broadening KRS' exposure to different investment strategies and instruments. Absolute return strategies, by definition, are not necessarily a separate asset class, but broaden the opportunity set within existing asset classes by going both long and short, employing derivatives, and shortening and extending investment horizons, amongst others. By focusing on the idiosyncratic risks of security selection and often attempting to minimize systematic market risks through hedging activities, absolute return managers can make investment decisions unconstrained by restrictive relative benchmarks such as the S&P 500 or Barclay's Aggregate Bond Index and add value to portfolios by achieving favorable risk adjusted returns in most market environments. The absolute return opportunity set is generally considered to include hedge funds and other strategies attempting to achieve positive returns without heavy reliance on the assumption of traditional systematic risk factors. RVK's long term capital market expectations for absolute return strategies is to have an expected return of 7.50% and expected standard deviation of 9.0%. This is comparable to RVK's long term projections in terms of the risk-return trade-off to core fixed income (4.5% expected return and 5.5% expected standard deviation) and favorable to the risk-return trade-off of global equity (8.45% expected return and 17.85% expected standard deviation).

Recommendation

Having completed an extensive search process, KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to 100% of the unfilled pension plan and insurance plan absolute return allocations into three FoHFs: Blackstone Alternative Asset Management ("BAAM"), Pacific Alternative Asset Management Company ("PAAMCO"), and Prisma Capital Partners. As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is approximately up to $1.4 billion (see addendum A for plan allocation scheme). KRS Investment Staff intends to allocate this capital equally amongst the three FoHF managers.

SEARCH PROCESS

Consultant Role & Selection Criteria

RVK was instrumental to the FoHF search process by providing Staff with preliminary manager lists, supplying search books and due diligence questionnaires with detailed performance, process, and organizational assessments of prospect firms, and as a sounding board to Staff generated ideas. Through the due diligence process, topics Staff wished to assess most in depth included firm structure, portfolio construction, manager selection, operational due diligence, risk management, client service, and strategic partnering capacities. An assessment of the recommended managers' competencies in these areas is presented as part of the manage write-ups that follow. The list of criteria employed by RVK in their analysis is provided in an attached RVK prepared memorandum.

Research Process & Timeline

Staff and RVK formally commenced the FoHF managers search process in the summer of 2010. As part of that process, RVK provided Staff with a list of 13 of its most highly regarded managers (see addendum C for the complete list of managers included in the search process). Using that list of 13 managers as part of the formal search process, Staff and RVK conducted conference calls with nine fund managers, had meetings in Kentucky with seven managers, and conducted on-site due diligence meetings with four managers. In addition, since 2009, Investment Staff has had meetings and/or conference calls with 16 additional managers. A summary of interactions with prospects shall be made available to the Investment Committee upon request.

PORTFOLIO CONSTRUCTION CONSIDERATIONS

Throughout the FoHF search process, portfolio construction and how individual managers would be pieced together was an active thought process for KRS Investment Staff. Major factors considered by Staff in the context of portfolio aggregation included process complementarities, strategy allocations, the sizes of underlying hedge fund managers being pursued, and the total number of underlying hedge fund managers. A brief assessment of each of the four factors mentioned is presented is as follows:

Process Complementarities – Fund of hedge funds attempt to add value through strategy allocation and manager selection. While all hedge fund of fund managers employ tactics to add value through both of these mechanisms, Staff was most impressed by BAAM's formulaic implementation of top down views into its strategy selection parameters, PAAMCO's detailed implementation of its risk management process through position level transparency into its top-down and bottom-up decision making processes, and Prisma's experienced and specialist approach to making alpha-generating bottom-up manager selection decisions.

Strategy Allocations – BAAM, PAAMCO, and Prisma take complementary approaches in their strategy allocation biases. BAAM tends to be heavily weighted, compared to its peers, in commodities and its willingness to overweight trading strategies in certain market environments. PAAMCO heavily emphasizes directionally based strategies; directionally based in this context does not mean long-biased necessarily, but given PAAMCO's organizational structure tends to lead to large positions in long/short credit and long-short equity strategies. Prisma looks at a wide universe of managers, seeking highly specialized managers such as those that may have sector or geographic orientations.

Sizes of Underlying Hedge Fund Managers being Pursued – Evident through the due diligence process was the need to diversify across stages of underlying hedge fund manager development. PAAMCO seeks the smallest managers and are day one investors with many funds, thus capturing the potential for early outperformance and negotiating significant fee discounts. Prisma also focuses on early stage managers seeking to benefit from early outperformance, but not to the extreme PAAMCO does. BAAM tends to focus on a wide range of manager sizes, neither neglecting the small end nor large end. All three FoHF managers invest in a wide range of hedge fund sizes, but the proposed portfolio is, in Staff's opinion, balanced in such a way that the potential for manager overlap is minimized and diversification optimized. In fact, in the current composite proposed portfolio, there is no underlying manager overlap.

Total Number of Underlying Hedge Fund Managers – The total number of underlying hedge fund managers was a factor to consider in how many funds of hedge funds to hire. The proposed FoHF managers all tend to maintain portfolios of approximately 30-40 managers. Thus, at the KRS portfolio level, by hiring three managers, KRS is ultimately investing in approximately 90-120 underlying managers. When contextualized with other diversification considerations such as potential for manager overlap and risk-return optimization, Staff and Consultant determined the hiring of three FoHFs was the appropriate course of action.

With these portfolio construction considerations taken into account, in addition to individual manager assessments as presented in the materials that follow, Staff has concluded that a combination of investments in BAAM, PAAMCO and Prisma is the optimal portfolio of absolute return investments to pursue at this time.

BAAM
Fund of Hedge Funds Search
August 2nd, 2011

RECOMMENDATION & EVALUATION

Recommendation

KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to one third of 100% of the unfilled pension plan and insurance plan absolute return allocations to Blackstone Alternative Asset Management ("BAAM"). As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is up to approximately $460 million (see addendum A for plan allocation scheme).

Firm Overview

Blackstone Alternative Asset Management L.P. ("BAAM"), the marketable alternative investments division of Blackstone, was founded in 1990 to manage the internal assets of the firm by creating a diversified portfolio of hedge fund investments to offset the equity exposure of the firm's other businesses. BAAM has developed into a leading institutional fund of hedge funds with approximately $32.9 billion in assets under management as of December 31, 2010, of which 92% is institutional capital and 4% is Blackstone/Blackstone employee capital. Approximately 50% of BAAM's total assets come from pension plans. With offices in New York, London and Hong Kong, BAAM's team of 144 experienced professionals is led by J. Tomilson Hill, President& CEO, and Vice Chairman of The Blackstone Group.

Blackstone's other businesses lines include the management of private equity funds, real estate funds, credit-oriented funds, collateralized loan obligation vehicles (CLOs) and closed-end mutual funds. The Blackstone Group also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. KRS is currently invested in Blackstone Capital Partners V (2005 vintage, $60 million commitment) and Blackstone Capital Partners VI (2011 vintage, $100 million commitment), Blackstone's two most recent private equity fund vintages.

Evaluation

Through the due diligence process, topics Staff wished to assess most in depth included firm structure, portfolio construction, operational due diligence, risk management, client service, and strategic partnering capacities.

Firm Structure – BAAM, as a business within the broader Blackstone platform, is not the sole focus of the parent company. Potential concerns that may arise from being the client of a multi-business organization are lack of adequate resources or attention being paid to the BAAM business line, diluted client service, and conflicts of interests between product lines. Comfort in the Blackstone business model is gained from the fact that BAAM operates with its own dedicated and ample staff that is also currently in the middle of a hiring initiative, has an institutional focus on client service, and has information barriers and policies and procedures to resolve conflicts of interest (see description of hedge fund seeding platform below for an example). In addition, the broad platform of investment products provides the Blackstone firm with broad and deep knowledge of financial markets that can be leveraged across product lines.

BAAM also manages a hedge fund seeding platform. BAAM, in its portfolio construction process, considers its seeding platform funds for inclusion in the portfolios of clients to the degree the seeded fund's business is scalable to larger account sizes and appropriate for those accounts in the context of its risk-reward profile. BAAM has a history of allocating emerging managers to its custom account portfolios; the model portfolio presented to KRS included two funds to have emerged from its seeding platform. To mitigate conflicts of interest associated with the seeding platform, any revenues received by Blackstone from seeded funds in which KRS would invest through its account are 100% offset against management fees.

Portfolio Construction – BAAM heavily emphasizes top-down macro views as a means to select a strategy mix that optimizes the risk return profiles of its portfolios. Dedicated staff formulate economic views and map the current environment to stages in the business cycle. BAAM has formulated a strategy playbook based on its perceptions of the economy. The ability to forecast, according to BAAM, is aided by the Blackstone Group's broad reach into capital markets that allows it to develop deeper views than other firms. BAAM broadly categorizes its strategy buckets as Equity, Fixed Income / Relative Value, and Arbitrage / Credit / Event strategies; the proposed initial KRS portfolio has 26%, 24% and 50% in the respective strategy groupings. A distinguishing feature of the BAAM investment philosophy is a heavy gearing towards the commodities space and global opportunities which is driven by its emphasis on top-down views.

As the strategies that are deemed optimal for the current environment have been selected, the bottom-up focus of the manager selection process fills the optimal portfolio allocations. Identified managers may be core managers which BAAM considers to be long-term relationships that are "best of breed", tactical managers that seek to exploit cyclical exposure to attractive opportunity sets, managers tied to dynamic risk mitigation, or custom vehicles utilized to capture niche sources of alpha.

Operational Due Diligence – BAAM's operational due diligence process is highlighted by its requirement to re-underwrite the operational capacities of the hedge funds in which it invests on an annual basis. This requires annual on-sites and other periodic reviews. The process focuses on the hedge fund manager's relationship with prime brokers/custodians, auditors, and administrators in addition to the hedge fund's own internal controls. A sample of internal controls that the BAAM team seeks to understand includes valuation policies, compliance policies, and cash management policies. BAAM also runs background checks and independent reviews of service providers used by underlying hedge funds.

Risk Management –The goal of the risk management process at BAAM is to understand and embrace reasonable risk, not avoid it. As a means to achieve this end the risk management team seeks to determine if the managers in which they invest have an understanding of the risks they are taking and if expected returns are commensurate with those risks assumed. At the portfolio level, the risk management process seeks to understand the incremental impacts of each manager, the impacts and potential impacts of market events, and whether or not strategy allocation decisions are consistent with top-down views. The risk management platform has been aided by the recent Blackstone development of a proprietary software platform called "Hedge Hog". The platform neatly helps to aggregate portfolio attributes and enable modeling such that PMs and the risk management team can begin to answer the questions posed by the risk management process.

Client Service & Strategic Partnering – BAAM touts itself as a "solutions provider" and not simply a fund of hedge funds platform. By solutions provider the firm aims to relay the message that it is in the business of customizing portfolios to clients' needs, providing a range of products from which clients can choose to invest, and providing tools for clients to manage their investments. The client service platform offers week in review reports, detailed monthly statements and market reports with additional detail provided at quarter ends, an annual conference and educational workshops. In addition, Hedge Hog, the proprietary Blackstone software platform is available to strategic clients and has been offered to KRS in conjunction with its potential investment.

Performance

Performance Analysis - BAAM

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
6.4%	3.2%	5.1%	5.9%	5.9%
2010	**2009**	**2008**	**2007**	**2006**
7.4%	15.6%	-15.5%	12.6%	11.7%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
5.7%	0.5	72.2%	0.2	0.2
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
5.2%	0.5	75.0%	0.2	0.1

*Data as of March 31, 2011; Batting Average is defined as % of months with positive returns

Summary of Key Investment Personnel

J. Tomilson Hill, *President & CEO of BAAM, Vice Chairman of Blackstone* – Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group at Blackstone before assuming his role in BAAM. In his current capacity, Mr. Hill has been responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. He also serves as a member of Blackstone's Management and Executive Committees. Mr. Hill is a graduate of Harvard College and the Harvard Business School.

Steve Sullens, *Head of Portfolio Management for BAAM* – Mr. Sullens oversees portfolio management for all of BAAM's multi-manager programs. He is responsible for directing the manager research team in hedge fund manager selection and monitoring. Before joining Blackstone in 2001, Mr. Sullens served as a Director with Citi Alternative Investment Strategies, Citigroup's hedge fund investment center. In that role, he was responsible for manager selection and monitoring, as well as portfolio management. Previously, Mr. Sullens served as Manager of Alternative Investments for The Walt Disney Company, where he directed the company's alternative investment program, including investments in private equity, real estate, venture capital and hedge funds. Mr. Sullens received both an MS in Industrial Engineering and a BA in Economics from Stanford University. He has earned the right to use the Chartered Financial Analyst designation.

Brian Gavin, *COO for BAAM* – Mr. Gavin leads a cross-functional team charged with evaluating the operational and business risks of BAAM's underlying hedge fund managers. He is responsible for business management, administration, technology, operations and finance of BAAM, and for helping determine the strategic direction and growth of BAAM. He also serves on BAAM's Investment Committee. Before joining Blackstone in 2002, Mr. Gavin was a Partner in Arthur Andersen's Hedge Fund Advisory and Capital Markets group. Mr. Gavin received a BS in Accounting from New York University. He is a Certified Public Accountant.

Gideon Berger, *Head of Risk Management for BAAM* – Mr. Berger is responsible for hedge fund manager risk analysis, as well as risk monitoring and analysis of the BAAM funds. He serves on BAAM's Investment Committee. Before joining Blackstone in 2002, Mr. Berger was a founder and President of Ez-Ways, Incorporated, a technology startup, where he also served on the Board of Directors. Prior to that, Mr. Berger was a founder and Principal of a consulting firm specializing in the design and implementation of database and enterprise solutions. Mr. Berger received a BA in Mathematics and Physics from Vassar College, an MS in Applied Physics from Columbia University and a PhD in Computer Science from the Courant Institute of Mathematical Sciences at New York University.

Scott Soussa, *Co-Head of Operational Due Diligence of BAAM* – Since joining Blackstone, Mr. Soussa has been involved in performing operational due diligence and monitoring procedures on BAAM's underlying managers from a business/financial perspective. He also serves on BAAM’s Investment Committee. Before joining Blackstone in 2003, Mr. Soussa was Controller of Lava Trading Inc., a securities trading technology company. Prior to that, he worked in Arthur Andersen’s Hedge Fund Advisory and Capital Markets Group. Mr. Soussa received a BS in Accounting from Binghamton University, where he graduated summa cum laude and was elected to Beta Gamma Sigma. He is a Certified Public Accountant.

Patrick McKeon, *Co-Head of Operational Due Diligence of BAAM* – Mr. McKeon is involved in performing operational due diligence and monitoring procedures on BAAM's underlying hedge fund managers from a business/financial perspective. He also serves on BAAM’s Investment Committee. Prior to joining Blackstone in 2003, Mr. McKeon worked in the financial services division of Arthur Andersen and also in the Investment Management Funds group of KPMG. Mr. McKeon received his BA in Economics and Accounting from the College of the Holy Cross and is a Certified Public Accountant.

FUND TERMS

1. Management Fee	.50% annually
2. Incentive Fee	10% of profits with 3M USD LIBOR hurdle
3. Liquidity Terms	Separate account mandate will have liquidity pass though to the underlying investments.
4. Expense Ratio	.05%-.06% estimated annually

*BAAM estimates an average management fee rate of 1.62% and average incentive fee of 19.78% on the underlying managers in its proposed KRS model portfolio.

OTHER ITEMS

Placement Agents – BAAM did not utilize the services of a placement agent in seeking investment capital from Kentucky Retirement Systems.

Investment Manager Involvement in Regulatory Proceedings – BAAM principals have not been involved in any regulatory proceedings.

Conflicts of Interest – There are no known conflicts of interest to exist between KRS and BAAM, BAAM principals, or BAAM’s parent company The Blackstone Group.

*BAAM’s signed representation of these statements is attached to the back of this memorandum.

SUMMARY OF STAFF INTERACTION WITH THE INVESTMENT MANAGER

Formal due diligence meetings carried out by Staff post FoHF search commencement were as follows:

April 6, 2011 – Frankfort, KY
KRS Attendees: TJ Carlson, David Peden, Bo Cracraft, Tom Masthay
Investment Manager Attendees: Brian Gavin, Pat Cronin, Iliana Sobczak

May 12, 2011 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Steve Sullens, Brian Gavin, Iliana Sobczak

June 15, 2011 – On-Site, NYC
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
R.V. Kuhns Attendees: Tony Johnson, Matt Griffith
Investment Manager Attendees: J. Tomilson Hill, Investment, Operational, and Risk Management Teams

June 22, 2011 – Conference Call
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
Investment Manager Attendees: Steve Sullens, Brian Gavin, Iliana Sobczak

PAAMCO
Fund of Hedge Funds Search
August 2nd, 2011

RECOMMENDATION & EVALUATION

Recommendation

KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to one third of 100% of the unfilled pension plan and insurance plan absolute return allocations to Pacific Alternative Asset Management Company ("PAAMCO"). As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is up to approximately $460 million (see addendum A for plan allocation scheme).

Firm Overview

Founded in March 2000, Pacific Alternative Asset Management Company, LLC, ("PAAMCO") is an independent investment advisory firm. PAAMCO was formed by four Founding Partners (Jim Berens, Jane Buchan, Bill Knight, and Judy Posnikoff) who had previously worked together at Collins Associates, another institutional fund of funds manager. In 2003, the four founding partners contributed their membership interests in PAAMCO to a new company called PAAMCO Founders Co., LLC to focus on being an institutionally focused fund of hedge funds platform. Currently the firm has approximately $10.2 billion in assets under management of which 97% are attributable to institutional clients and .15% is attributable to PAAMCO employees. PAAMCO maintains its headquarters in Irvine, CA with satellite offices in London and Singapore, employing a total of 133 individuals.

Evaluation

Through the due diligence process, topics Staff wished to assess most in depth included firm structure, portfolio construction, operational due diligence, risk management, client service, and strategic partnering capacities.

Firm Structure – PAAMCO is set up solely as a fund of hedge funds platform. The firm does not seed emerging hedge fund managers but rather focuses on them as part of the PAAMCO investment process. In lieu of taking revenue shares PAAMCO instead negotiates other contractual provisions generally related to management fees and incentive fees as compensation for being an early investor; these benefits flow straight through to the ultimate PAAMCO investors like KRS.

Portfolio Construction – The PAAMCO investment process begins with hedge fund manager identification, due diligence, and selection. This process is initiated through sector specialist led teams that are broadly cut along the lines of directional strategies, opportunistic investments, and relative value strategies; the proposed initial KRS portfolio contains approximately 76%, 3% and 21% to the respective strategy groupings. Prospective managers are put through the rigors of an extensive bottoms-up analysis; the managers ultimately selected are filtered up to strategy selection outlooks and weighted accordingly in order to create a diversified portfolio.

A unique aspect to the PAAMCO investment process lies in the requirement that their underlying managers provide full position level transparency. This has implications for the ongoing monitoring of fund investments and the risk management process. PAAMCO uses position level transparency to do bottoms-up analysis that can aid in the assessment of a hedge fund manager's adherence to their stated strategy, and enables analysis of potential upside and downside outcomes at both the underlying investment level and the PAAMCO portfolio level, and thus allows for an understanding of aggregate portfolio level exposures.

Another differentiating factor to the PAAMCO investment process is the gravitation to smaller newer managers where empirical evidence has suggested there are superior returns to be earned. Additional advantages to this aspect of the process are the previously mentioned ability to negotiate fee discounts by being an early and significant investor and also the notion that PAAMCO can add more value to a young firm by helping ensure the business and operations of the prospective hedge fund investment are set up appropriately to warrant institutional investment.

Operational Due Diligence – PAAMCO's operational due diligence process is highlighted by its requirement to conduct extensive review on an annual basis of all of its hedge fund investments. The process focuses on the hedge fund manager's relationship with prime brokers/custodians, auditors, and administrators in addition to the hedge fund's own internal controls. A sample of internal controls that the PAAMCO team seeks to understand includes valuation policies, compliance policies, and cash management policies. PAAMCO also runs background checks and independent reviews of service providers used by underlying hedge funds. Additionally, the operational due diligence team adds value to the investment process of small managers by being able to provide valuable insights and suggestions about their business operations.

Risk Management – The PAAMCO risk management platform is highlighted by its requirement for position level transparency. Using this data PAAMCO tackles risk both defensively and offensively using both traditional and behavioral tools. Defensive checks include independent assessment of pricing and understanding in detail how managers are likely to trade and behave. Offensive checks include the analysis of positions for unseen alpha opportunities and the search for new instruments and markets. The overall guiding philosophy of the risk management process is that position transparency is not enough – the data must lead decisions. Examples of decisions that flow out of the risk management process include asset allocation, beta hedging, and manager termination decisions.

Client Service & Strategic Partnering – PAAMCO emphasizes the notion of creating customized portfolio solutions for institutional investors seeking to develop or enhance their hedge fund programs. Client service includes detailed monthly reporting packages, with additional detail in "PAAMCO Viewpoint" reports on a quarterly basis. Monthly client calls with senior portfolio managers, access to published and pre-published research, hands-on day-to-day support for investors' in-house staff, and the opportunity to meet underlying hedge fund managers are all services available to investors with PAAMCO.

Performance

Performance Analysis - PAAMCO

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
5.9%	1.1%	4.5%	5.1%	-
2010	**2009**	**2008**	**2007**	**2006**
6.1%	18.4%	-21.8%	17.4%	10.8%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
8.7%	0.1	75.0%	0.2	0.4
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
7.6%	0.3	73.3%	0.2	0.2

*Data as of March 31, 2011; Batting Average is defined as % of months with positive returns

Summary of Key Investment Personnel

Jane Buchan, *CEO & Sector Specialist* – Jane is responsible for overall business strategy and firm direction. In addition, she is a Sector Specialist responsible for the evaluation and management of fixed income relative value hedge funds in the various PAAMCO portfolios. Jane is also a member of the Investment Management, Risk Management and Account Management Committees. Prior to forming PAAMCO, Jane held various positions ranging from Director of Quantitative Analysis to CIO of non-directional strategies at Collins Associates, an institutional fund of funds and consulting firm. She also currently sits on the Board of the Chartered Alternative Investment Analyst Association (CAIA). Jane graduated from Yale University with a B.A. in Economics and received both her M.A. and Ph.D. in Business Economics (Finance) from Harvard University. Jane has twenty-four years of experience.

James Berens, *Managing Director & Sector Specialist* – James is a Managing Director and the Sector Specialist responsible for the evaluation and management of the distressed debt and long/short credit hedge funds in the various PAAMCO portfolios. Jim is also the Portfolio Manager for the PAAMCO commingled funds. Jim serves on the Investment Management and Risk Management Committees. Prior to forming PAAMCO, Jim was Co-Managing Partner at Collins Associates, an institutional fund of funds and consulting firm, with responsibilities for directional hedge fund strategies. Jim graduated from the University of Redlands with a B.A. in Economics and Political Science, received his M.A. from the University of California, Riverside in Financial Economics and received his Ph.D. in Administration (concentration in Finance) from the University of California, Irvine. Jim has seventeen years of experience in investment management and portfolio construction with institutional investors.

Judith Posnikoff, *Managing Director & Sector Specialist* – Judith is a Managing Director and the Sector Specialist responsible for the evaluation and management of equity market neutral hedge funds in the various PAAMCO portfolios. Judith serves on the Investment Management Committee and Account Management Committees. Prior to forming PAAMCO, Judy was Assistant Portfolio Manager/Research Associate at Collins Associates, an institutional fund of funds and consulting firm, where she focused on market neutral strategies in addition to directing large-scale quantitative research projects focusing on alternative strategies. Judy graduated from the University of California, Riverside with a B.S. in Administrative Studies where she also received her M.B.A. and M.A. in Financial Economics and her Ph.D. in Financial and Managerial Economics. Judy has fifteen years of experience in investment management and portfolio construction with institutional investors.

Bill Knight, *Managing Director & Sector Specialist* – Bill is a Managing Director and the Sector Specialist responsible for the evaluation and management of the event-driven equity hedge funds in the various PAAMCO portfolios. Bill serves as Chair of Investment Management Committee and PAAMCO Board of Directors. Prior to forming PAAMCO, Bill was Senior Portfolio Manager at Collins Associates, an institutional fund of funds and consulting firm, for two long-only domestic equity funds, two low-beta funds, and a short-biased equity fund. Bill graduated from Vanguard University with a B.A. in Social Sciences (History), received his M.A. from California State University, Fullerton in Social Sciences (Sociology and Psychology), and received his Ph.D. in Education (concentration in Management) from the University of California, Riverside. Bill has twenty-eight years of experience in investment management and portfolio construction with institutional investors.

Phillipe Jorion, *Managing Director, Risk Management Group* – Philippe Jorion is a Managing Director in the Risk Management Group and is responsible for developing and implementing PAAMCO's offensively directed risk management concepts. He also oversees the PAAMCO infrastructure employed in evaluating individual hedge funds from a position level perspective, risk at the level of the various sectors as well as the risk structure of the overall PAAMCO portfolio. Philippe is a member of the Risk Management and Strategy Allocation Committees. He also serves as the Chancellor's Professor of Finance at the Paul Merage School of Business at the University of California at Irvine. Philippe holds an M.B.A. and a Ph.D. from the University of Chicago and a degree in engineering from the University of Brussels. Philippe has twenty-seven years of experience in risk management and international finance.

Kevin Williams, *Managing Director, Investment Operations* – Kevin Williams is the Head of Investment Operations and Chief Compliance Officer, responsible for overseeing operational due diligence, legal and regulatory due diligence, fund accounting and administration, the PAAMCO managed account platform, and compliance. In addition, Kevin has select institutional account management responsibilities and serves on the board of several funds. He is also a member of the firm's Investment Management and Account Management Committees. Prior to joining PAAMCO, Kevin worked for McGladrey and Pullen LLP, a national public accounting and consulting firm, where he audited several financial services clients. He also served as a controller for a technology company. Kevin graduated from the University of California, Los Angeles with a B.A. in Economics, and received his M.B.A. with a concentration in Investment Finance from the Marshall School of Business at the University of Southern California. Kevin has nine years of experience in the financial services sector

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FUND TERMS

1. Management Fee	.75% annually
2. Incentive Fee	5% of profits with 3M USD LIBOR hurdle
3. Liquidity Terms	Separate account mandate will have liquidity pass though to the underlying investments.
4. Expense Ratio	.05% capped annually

*PAAMCO estimates an average management fee rate of 1.2% and average incentive fee of 14.7% on the underlying managers in its proposed KRS model portfolio.

OTHER ITEMS

Placement Agents – PAAMCO did not utilize the services of a placement agent in seeking investment capital from Kentucky Retirement Systems.

Investment Manager Involvement in Regulatory Proceedings – PAAMCO principals have not been involved in any regulatory proceedings.

Conflicts of Interest – There are no known conflicts of interest to exist between KRS and PAAMCO.

*PAAMCO's signed representation of these statements is attached to the back of this memorandum.

SUMMARY OF STAFF INTERACTION WITH THE INVESTMENT MANAGER

Formal due diligence meetings carried out by Staff post-FoHF search commencement were as follows:

August 24, 2010 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Jane Buchan, Sam Foster

September 28, 2010 – Frankfort, KY
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Jim Berens, Kevin Williams, Carl Ludwigson, Sam Foster

May 18, 2011 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Jim Berens, Sam Dietrich, Kevin Williams

June 29, 2011 – On-Site, Irvine, CA
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
R.V. Kuhns Attendees: Todd Schupp
Investment Manager Attendees: Jane Buchan, Jim Berens, Investment, Operational, and Risk Management Teams

PRISMA
Fund of Hedge Funds Search
August 2nd, 2011

RECOMMENDATION & EVALUATION

Recommendation

KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to one third of 100% of the unfilled pension plan and insurance plan absolute return allocations to Prisma Capital Partners. As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is up to approximately $460 million (see addendum A for plan allocation scheme).

Firm Overview

Prisma was founded in 2004 by Girish Reddy, Thomas Healey and Gavyn Davies on the notion that the caliber of rigorous portfolio management, monitoring, due diligence and risk controls demanded by institutional investors in most traditional asset classes was lacking in the hedge fund arena. As such, they set out to create a firm that would address the investment requirements of institutions systematically with experienced individuals and institutional quality disciplines. In May 2004, Prisma acquired the portfolio management team of Aegon USA Investment Management ("AUIM") and the $1.2 billion proprietary hedge fund portfolio that they managed in exchange for an equity interest in Prisma; today Prisma employees own more than 40% of the firm with contractual provisions to allow Prisma to continue to buy back equity interest. As part of this acquisition, Prisma took over the management of AUIM's portfolio (the "Zero Beta Account"), which began in 1997 and was managed to a zero beta constraint against equity, fixed income and high yield indices. Today, Prisma manages more than $6 billion in assets, over 94% of which are managed on behalf of institutional clients and 1.3% of which are Prisma employees' capital. Prisma maintains its headquarters in New York, NY with satellite offices in Louisville, KY and London, employing a total of 55 individuals.

Evaluation

Through the due diligence process, topics Staff wished to assess most in depth included: firm structure, portfolio construction, operational due diligence, risk management, client service, and strategic partnering capacities.

Firm Structure – Prisma is set up solely as a fund of hedge funds platform. The firm principally manages separate accounts for clients, but also has a commingled product and a platform emerging L/S equity manager program.. The emerging manager platform is not an extensive line of business for Prisma, but managers who were established through the seeding platform are eligible to graduate to the customized account level and flagship commingled fund if deemed appropriate by Prisma management.

Portfolio Construction – Prisma's investment process combines a top-down strategy allocation process with bottom-up manager selection to arrive at what Prisma believes is an optimal portfolio given a client's risk and return objectives. From a strategy selection standpoint, economic forecasts generated by Prisma are blended with a quantitative framework aimed at incorporating bottom-up portfolio managers' views to determine strategy allocations; the proposed initial KRS portfolio contains 26% in event driven strategies, 24% in relative value strategies, 24% in L/S Equity Strategies, 12% in distressed credit strategies, 8% in global macro strategies and 6% in other strategies/cash. The manager selection process is keyed by Prisma's utilization of staff organized by strategy specialty and the extensive implementation of risk management into hiring decisions.

A unique aspect to the Prisma process is that no junior personnel are front-lining due diligence efforts. The Prisma team is unusually experienced, averaging 24 years of experience across the senior investment professional team. Using a specialist approach, each of the seven strategy specific senior investment professionals has a clearly defined space in which to provide their expertise and guide manager selection decisions. When this expertise in manager selection is combined with the capacities of the risk management team, a cohesive formulation of a portfolio within the confines of top-down strategy allocations can be achieved with optimal risk-return characteristics.

Another unique aspect to the Prisma process is its focus on mangers with smaller amounts of assets under management. Three quarters of Prisma's underlying hedge funds managed less than $2 billion in assets at the time of investment. As a $6 billion fund of funds, Prisma believes it is in the position to be able to access specialized and nimble managers who may be more dynamic across market environments.

Operational Due Diligence – Prisma's operational due diligence process is highlighted by its requirement to conduct extensive on-site reviews on an annual basis of all of its hedge fund investments. This procedure involves working with hedge fund managers to resolve issues in areas of concern noted in the previous monitoring/analysis of the fund. The process focuses on the hedge fund manager's relationship with prime brokers/custodians, auditors, and administrators in addition to the hedge fund's own internal controls. The operational team also surveys managers with respect to market events to understand how operational items have unfolded during periods of market dislocations. The operations team stays focused on providing ongoing periodic monitoring of all of its investments and doing ad hoc reviews as necessary.

Risk Management – Prisma's risk management process is focused on the philosophy that risk management must be actionable at every step. In the strategy allocation process, this is aimed at avoiding strategies that have undue risk; at the manger selection level this involves only selecting managers with returns commensurate with risk; in portfolio construction, risk management aims to blend strategies and managers that produce stable low volatility returns; and monitoring aims to avoid risk concentrations over time. Risk measures are aggregated into Prisma's proprietary software platform; this aggregation of data allows for both risk management and investment professionals to form bases for asking insightful questions of the underlying hedge fund managers about the implementation of their strategies.

Client Service & Strategic Partnering – Prisma is heavily experienced in providing customized solutions for clients as over 70% of the firm's assets are managed in separate vehicle structures where the clients have formulated the investment guidelines. As part of its strategic partnering program, Prisma's software platform will be available to clients in the near future, opportunities to visit hedge fund managers with Prisma personnel are available, each client has a dedicated portfolio manager for account reviews, and a limited number of large institutional clients firm-wide enables regular client interaction with senior Prisma professionals. The reporting platform offers detailed monthly statements and market reports with additional detail provided at quarter-ends and audited annual financial statements.

Performance

Performance Analysis - Prisma

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
6.9%	3.0%	5.2%	-	-
2010	**2009**	**2008**	**2007**	**2006**
7.6%	17.3%	-16.5%	13.4%	8.4%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
7.3%	0.3	75.0%	0.2	0.3
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
6.5%	0.5	73.3%	0.2	0.1

*Data as of March 31, 2011; Batting Average is defined as % of months with positive returns

Summary of Key Investment Personnel

Girish Reddy, *Managing Partner* – Mr. Reddy is a former partner of Goldman, Sachs & Co., where he was a co-head of equity derivatives. Prior to Goldman, he was the CIO of LOR Associates, a hedging and strategy advising firm based in Los Angeles, developing strategic alliances with other established asset managers like Wells Fargo and Aetna Insurance. Earlier in his career, he was a senior vice president of portfolio construction and asset allocation, at Travelers Investment Management Company, where he specialized in various overlay strategies for the firm using listed futures and options.

Bill Cook, *Senior Portfolio Manager* – Prior to joining Prisma, Mr. Cook was the head of the capital market strategies group at AEGON USA Investment Management, LLC. He was focusing on alternative investments, SBA loans, and special opportunities. Also at AEGON USA, Mr. Cook was the head of the derivatives group which was spun out of the public fixed income group. Prior, and also at AEGON USA, Mr. Cook was the head of public fixed income group where he led teams of six portfolio managers and a group of 15 employees.

Eric Wolfe, *Senior Portfolio Manager* – Prior to joining Prisma, Mr. Wolfe was a vice president and leading portfolio manager of the hedge fund of funds group at Safra National Bank of New York. He managed the accounts group, and headed the research process to source hedge fund investments for fund-of-funds. Previously, he was the chief financial officer for Buyroad.com, where he co-managed a 20 employee web design team from pre-launch to a revenue producing entity serving the small/medium business market. Earlier, Mr. Wolfe was a vice president and global balanced portfolio manager at J.P. Morgan Investment Management, serving as portfolio manager of over $16 billion in global balanced assets. Also at J.P. Morgan, he was an analyst in the structured derivatives group of the asset management company.

Emanuel Derman, *Co-Head of Risk Management* – Prior to joining Prisma, Professor Derman was the managing director of firm-wide risk at Goldman, Sachs & Co. Concurrent with his employment with Prisma, he is the director of the MS program in financial engineering of Columbia University. Previously, he was the columnist for Risk Magazine and also a member of the editorial board for the Applied Mathematical Finance Journal. Additionally, he was an associate editor of The Journal of Derivatives and Journal of Risk. He was the IAFE/Sungard Financial Engineer of the Year 2000, and included in the Risk Magazine hall of fame 2002.

Shankar Nagarajan, *Co-Head of Risk Management* – Prior to joining Prisma, Mr. Nagarajan was the managing partner of Risk Capital, LLC, where he was responsible for advising major companies on strategic and tactical risk management issues. He was formerly an adjunct professor of economics and finance of Columbia University. Previously, he was the senior manager & head of the valuation group at Deloitte & Touche. He was named Euromoney's Best Risk Advisor 2004.

Mark DeGaetano, *Head of Operational Due-Diligence* – Prior to joining Prisma, Mr. DeGaetano was a head of operations for the single manager and fund of funds platforms at Deutsche Bank in absolute return strategies where he had global responsibility for operational due diligence. Previously, he was a vice president at Cross Mar a technology subsidiary of Citicorp, responsible for the building and successful implementation of a new B2B Trade Finance Solution. Prior, he was a vice president at Citibank Capital Markets LLC, providing management within a structured finance operations environment.

FUND TERMS

1. Management Fee	.70% annually
2. Incentive Fee	5% of profits with 13 week US T-Bill Rate Hurdle
3. Liquidity Terms	Separate account mandate will have liquidity pass though to the underlying investments.
4. Expense Ratio	.05% capped annually

*Prisma estimates an average management fee rate of 1.82% and average incentive fee of 19.71% on the underlying managers in its proposed KRS model portfolio.

OTHER ITEMS

Placement Agents – PAAMCO did not utilize the services of a placement agent in seeking investment capital from Kentucky Retirement Systems.

Investment Manager Involvement in Regulatory Proceedings – Prisma principals have not been involved in any regulatory proceedings.

Conflicts of Interest – There are three known relationships between KRS Trustees/employees and Prisma Capital Partners: 1) KRS Board of Trustees Chair Jennifer Elliott's employer, Stites & Harbison, PLLC (but not Ms. Elliott), has provided legal work for Prisma co-owner Aegon Group; 2) KRS Board of Trustees member Chris Tobe was previously employed by Prisma co-owner Aegon Group; and 3) KRS Fixed Income Director David Peden was previously employed by both Aegon Group and Prisma Capital Partners.

*Prisma's signed representation of these statements is attached to the back of this memorandum.

SUMMARY OF STAFF INTERACTION WITH THE INVESTMENT MANAGER

Formal due diligence meetings carried out by Staff post-FoHF search commencement were as follows:

*June 17, 2010 – On-Site, Louisville, KY**
KRS Attendees: David Peden, Bo Cracraft, Brent Aldridge, Adam Tosh, Joe Gilbert, Tom Masthay
Investment Manager Attendees: Girish Reddy, Eric Wolfe

August 25, 2010 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Girish Reddy, Eric Wolfe

May 19, 2011 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Girish Reddy, Eric Wolfe, Helenmarie Rodgers

June 16, 2011 – On-Site, NYC
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
R.V. Kuhns Attendees: Tony Johnson, Matt Griffith
Investment Manager Attendees: Girish Reddy, Eric Wolfe, Investment, Operational, and Risk Management Teams

*Meeting held prior to formal start of search process

ADDENDUM A – ALLOCATION SCHEMES

The following discussion outlines KRS Investment Staff's sizing recommendation and how fund of hedge fund allocations amongst the underlying plans will be pursued. Strategic asset allocations as approved by the KRS Investment Committee are shown in Table A-1.

Table A-1: Absolute Return Allocations

	Pension	Insurance
KERS	10%	10%
KERSH	10%	12%
CERS	10%	10%
CERSH	10%	10%
SPRS	12%	10%

KRS currently has one investment classified as an absolute return strategy: Arrowhawk Durable Alpha, LP. In seeking approval for an investment in FoHFs, Arrowhawk has been taken into consideration by deducting the Arrowhawk exposures from target plan balances available to be funded by investments in FoHFs. As of May 31, 2011 month end allocations, available exposure to absolute return strategies as determined by strategic targets set forth as described in Table A-1 above was $1,386,900,000. See Table A-2 for plan breakdown of this total as of May 31, 2011:

Table A-2: FoHF Plan Allocations

	Pension	Insurance
KERS	$ 337,100,000	$ 38,700,000
KERSH	48,300,000	35,200,000
CERS	521,600,000	128,700,000
CERSH	165,100,000	68,700,000
SPRS	31,900,000	11,600,000
Total by System	**$ 1,104,000,000**	**$ 282,900,000**
Total KRS		**$ 1,386,900,000**

*As of May 31, 2011

The figures presented in table A-2 are subject to change based on portfolio movements between May 31, 2011 and the ultimate funding dates. For each plan, the maximum allocations approximated by Table A-2 above will be initially allocated equally amongst managers in the three manager portfolio being presented by Staff for prospective approval by the Investment Committee.

ADDENDUM B – FUND OF HEDGE FUND MEMORANDUM – FEBRUARY 3, 2009

To: Investment Committee

From: KRS Investment Staff

Date: February 3, 2009

Subject: KRS Absolute Return Strategy Allocation

Recommendation:

It is the recommendation of the KRS Investment Staff and Consultant that the Investment Committee approve an initial allocation of up to 5.0% of the Fund's assets to be invested in absolute return strategy fund–of–funds ("FOF").

Introduction:

An initiative of the Kentucky Retirement Systems 2008-2009 Annual Five–Year Investment Plan calls for exposure to diversified asset classes and strategies (i.e., absolute return strategies). It is believed that this course of action will serve as a long-term driver of Fund performance. Furthermore, this action will seek to enhance the diversification of the investment portfolio through broader instruments and strategies, diminishing Fund volatility/risk and augmenting the Fund's ability to achieve its investment goals.

As discussed at previous Investment Committee Meetings, the Investment Staff and Consultant (R.V. Kuhns) agree that the near–term market and economic conditions are very challenging for investors. However, the expected long–term returns of many investment opportunities today have tremendous potential to exceed the Plan's actuarial return assumptions and historical returns. In this extremely difficult investment environment, absolute return strategy fund–of–funds may offer an opportunity to add value and mitigate risk to the overall portfolio.

The inclusion of absolute return strategies has the potential to reduce the total portfolio's overall risk through broader market, sector, and instrument diversification, as well as the added expected benefit of higher risk-adjusted and absolute returns. As a long-term investor, KRS is well positioned (relative to short- and intermediate-term horizon investors) to opportunistically take advantage of the tremendous dislocations that exist within the current markets and economic conditions.

Background:

The objective of the absolute return strategy is to preserve capital and deliver positive (absolute) returns under most market conditions. It is anticipated that the returns from this program should largely be uncorrelated to market movements (systematic risk) and primarily based on manager skill. It is intended that this program be structured so that risk should be specific to each manager, not to the systematic risk of the markets. Therefore, manager returns can be thought of as "alpha" that can potentially be "transported" back to the Plan's strategic asset allocation through the use of derivatives.

The fund–of–funds approach combines different investment strategies and asset classes to achieve a more predictable long–term return from the mix of mostly uncorrelated underlying funds. Absolute return strategy fund–of–funds will be identified that use different combinations of underlying managers and strategies to further diversify the return stream and control the volatility (risk) of the aggregate exposures. The active risk of the aggregate absolute return fund–of–funds managers before equitization should be similar or even less than that of many bond managers.

The absolute return strategy's implementation is designed to provide added active return (alpha) with minimal additional risk. The following are several of the strategies that are utilized by absolute return fund–of–funds:

- **Convertible Arbitrage:** Investment strategy that is long convertible securities and short the underlying equities
- **Distressed Securities:** Invests long (and some short) securities of companies that are in reorganizations, bankruptcies, or some other corporate restructuring
- **Emerging Markets:** Investment in securities of companies in developing or "emerging" countries - primarily long
- **Growth Funds:** Investment in a portfolio or "core" holdings in growth stocks. Many of these portfolios are hedged by shorting and utilizing options
- **Macro Funds:** The investment philosophy is based on shifts in global economies. Derivatives are often used to speculate on currency and interest rate moves
- **Market Neutral:** Strategy that attempts to lockout or "neutralize" market risk
- **Market Timing:** Allocation of assets among investments primarily switching between mutual funds and money markets
- **Merger Arbitrage:** Invests in event-driven situations of corporations, such as leveraged buy-outs, mergers, and hostile takeovers. Managers purchase stock in the firm being taken over and, in some situations, sell short the stock of the acquiring company
- **Multistrategies:** Specific portions are utilized for separate strategies, e.g., growth, convertible arbitrage, and market neutral
- **Opportunistic:** Investment theme is dominated by events that are seen as special situations or opportunities to capitalize from price fluctuations or imbalances
- **Sector Funds:** Invest in companies in sectors of the economy, e.g., financial institutions or bio-technologies. These funds invest in both long and short securities and will utilize options
- **Short Selling:** Short selling of securities
- **Derivative Funds:** These funds invest in derivative instruments such as futures and options with the aim of achieving high returns
- **Commodity Funds:** These funds invest in shares of companies that operate in commodity related industries or hold physical commodities such as bullion
- **CTA:** A fund that is a Commodity Trading Advisor's account where the trades are generally focused in commodity futures, options, and foreign exchange with a high degree of leverage
- **Short Bias:** A fund that consistently maintains a net short position to the overall market

Desirability of Absolute Return Strategies:

Absolute return strategies are generally constructed for the preservation of capital and are focused on generating positive earnings. An investor such as KRS would enter into a limited partnership (LP agreement similar to KRS private equity structure) with an absolute return fund–of–fund (FOF). The FOF would then select and manage underlying managers (hedge funds) on KRS' behalf. The FOF's General Partners often invest their own net worth alongside investors such as KRS, better aligning the interests of the FOF with that of the investors.

Absolute return strategies have tended to attract a larger amount of industry talent, allowing them to focus on what are believed to be the best investment ideas. Absolute return FOFs construct a diversified portfolio of generally uncorrelated managers (using upwards of 50 underlying managers). The strategy seeks to generate enhanced returns by providing KRS access to a broad range of investment styles and strategies, and by employing rebalancing strategies. The diversified approach of the FOF limits exposure to any particular style or strategy and reduces individual manager/fund volatility, delivering more consistent return streams across broader market and economic conditions.

Absolute return strategy fund–of–funds simplify and ease the administration, oversight, and monitoring of the investment strategy through the use of the FOF's internal staff's expertise, augmenting and bolstering KRS' resources and capacity for conducting due diligence consistent with industry best practices. The fund–of–funds due diligence process on many of the underlying managers may take up to six (6) months to complete before an initial investment is made. FOF risk management often starts with a dedicated risk management team that conducts up-front due diligence (utilizing private investigators, etc.) and does not invest with any manager/strategy where they do not have a clear understanding of how the returns are generated and what risks exist. FOFs also maintain constant contact with the portfolio managers and whenever possible provide a means for independent pricing of the underlying security positions within the portfolio.

Risks:

Just as with other investment strategies and exposures, absolute return strategies are exposed to various risks. Investment and structural risks are the primary concerns faced by absolute return fund–of–funds. Market, credit, and liquidity are some of the exposures comprising investment risk. Structural risks often entail risks to the organization or the operations of the absolute return strategies. While both risks can be mitigated, they cannot be eliminated. Yet, structural risks can be monitored and controlled by ensuring that extensive due diligence of the manager is conducted. Thorough due diligence may entail the use of private investigator checks on manager/employee's personal information, as well a significant organizational, back office, operational (legal structure, accounting, computer systems), and personnel interviews/due diligence to ensure that sufficient accounting/auditing controls and procedures are in place. Risk can also be managed by adequate transparency of fund holdings (security positions), portfolio characteristics, and the utilization of a separate and dedicated risk management team. The use of statistical attribution models to infer a manager's expected performance assists in managing and understanding the portfolio's risks. Additionally, ongoing communication, questionnaires, on-site visits, and timely (annual) reviews of audited financial statements, etc. go a long way in controlling portfolio/fund risks.

KRS' Approach to Monitoring and Managing Risks:

There are numerous fund–of–funds managers throughout the world; however, most do not have extensive experience and understanding of the requirements to work with institutional clients such as KRS. Historically, most fund–of–funds managers have focused on high–net worth individuals and families, which require a different type of relationship than that required by institutional funds such as KRS. High–net worth individuals are not (generally) as concerned with transparency, reporting, portfolio construction, and operations as much as institutional investors. However, the recent scandal and loss surrounding Bernard Madoff will likely increase the demand for greater risk controls and government regulation. High–net worth individuals and families also tend to move their money around with more frequency and are often seen as "chasing the hot managers." Institutional investors require relationships that conform to more disciplined protocols in order to meet the institutions needs.

In that respect, KRS Investment Staff and RVK have analyzed the following issues and are seeking to establish criteria when evaluating the fund–of–funds managers in order to recommend them as "institutional" quality acceptable for KRS' program:

- **Strategy** – The fund–of–funds should demonstrate that they have a clear strategy that attempts to exploit inefficiencies in the market
- **Capacity** – The fund–of–funds manager should be able to handle a fund of our size, and provide ample diversification across strategies and managers to reduce systematic risk
- **Underlying Manager Selection** – The fund–of–funds manager should demonstrate that they have a methodical quantitative as well as qualitative process for selecting absolute return managers (i.e. the due diligence process)
- **Portfolio Construction** – It should be demonstrated that the portfolio construction is designed to provide risk/return optimization and maximum diversification, while keeping costs in check, and maintaining a basically market neutral portfolio (beta to the S&P 500 around 0.0, to minimize systematic exposure)
- **Risk Controls** – The fund-of-funds should demonstrate that a systematic, well–documented and followed risk control procedure is in place, based on the underlying managers, as well as the portfolio as a whole
- **Monitoring** – The fund-of-funds should demonstrate the types of systems that are used to monitor the underlying managers, not only for performance and positions, but also for how the underlying managers affect the overall portfolio based upon their holdings and liquidity
- **Reporting** – The fund–of–funds should provide KRS with the required reporting and transparency so that we can properly manage a number of relationships with limited internal staff
- **Operations** – The fund–of–funds should be managed on a daily basis and there should be proper staffing checks and balances throughout the operations of the fund–of–funds
- **Experience** – The principals of the fund–of–funds should have extensive experience over various business cycles, and have extensive experience with institutional clients
- **Strategic Partnership** – The fund–of–funds should be willing to assist KRS with implementation, risk monitoring practices, as well as education

Fees:

Finally, while the fees associated with the use of fund–of–funds represent a premium over investing directly with the underlying managers, these costs should be offset by the experience and expertise of the fund–of–funds managers as well as simplifying administration (due diligence, oversight and monitoring) of broadly diversified investments across a wide array of absolute return funds.

Conclusion:

It is expected that an allocation (up to 5.0% of KRS' assets) dedicated to absolute return strategies provides the additional tools in which to preserve Fund capital, lower correlations between investment asset classes, instruments, and strategies. This action is believed to provide further diversification to the portfolio, thus mitigating Plan volatility and thereby delivering more consistent positive absolute returns. Absolute return strategy fund–of–fund implementation is designed to provide KRS with added active return (alpha) while concomitantly seeking to minimize the Fund's risk. The FOF's objective will be to identify and use different combinations of underlying managers and strategies to further broaden the return stream and control the volatility (risk) within specific segments, as well as across the aggregate portfolio exposure.

Recommendation:

It is the recommendation of the KRS Investment Staff and Consultant that the Investment Committee approve an initial allocation of up to 5.0% of the Fund's assets to be invested in absolute return strategy fund–of–funds ("FOF").

ADDENDUM C – MANAGERS INCLUDED IN SEARCH PROCESS

The following is the list of managers originally considered as part of the FoHF search process:

Aetos Capital
Arden Asset Management
Aurora Investment Management*
BAAM*
Crestline Investors*
GAM
Grosvenor*
K2 Advisors
Mesirow Financial
PAAMCO*
Prisma Capital Partners*
Private Advisors
Rock Creek Group*

*Part of the final search process referenced in the RVK memorandum

Additional Notes: Prior to the creation of the final short list other managers were considered but not pursued at this time as their core strengths were more focused on multi-strategy hedge funds or single strategy fund investments.

EXHIBIT 7

-----Original Message-----
From: Pfeffer, Frank
Sent: Wednesday, January 28, 2009 10:14 AM
To: 'adam.tosh@kyret.com'
Subject: Re: Chris Tobe

Sorry- Hedge Fund allocation for your plan...

----- Original Message -----
From: Tosh, Adam (KRS) <adam.tosh@kyret.com>
To: Pfeffer, Frank
Sent: Wed Jan 28 10:09:50 2009
Subject: Re: Chris Tobe

Pushing what?

Sent from my iPhone

On Jan 28, 2009, at 10:05, "Pfeffer, Frank" <FPfeffer@mdsass.com> wrote:

> Sitting here at the GAIM conference listening to Chris say he is
> pushing for a 5% allocation at next week's investment committee
> meeting. Hope to speak with you soon. Best wishes, Frank

EXHIBIT 8

Kentucky Retirement Systems

Investments

To: Investment Committee

From: KRS Investment Staff

Date: September 29, 2009

Subject: KRS Absolute Return Multi-Strategy Fund – Arrowhawk Capital Partners ("ACP")

Recommendation:

It is recommended that the Investment Committee approve an allocation of up to $200 million of the Fund's assets to be invested in an absolute return diversified multi-strategy fund, managed by Arrowhawk Capital Partners ("ACP").

Introduction:

An initiative of the Kentucky Retirement Systems Annual Five-Year Investment Plan calls for exposure to diversified asset classes and strategies (i.e., absolute return strategies). It is believed that this course of action will serve as a long-term driver of Fund performance. Furthermore, this action will seek to enhance the diversification of the investment portfolio through broader instruments and strategies, diminishing the Fund's volatility (risk) and augmenting the Fund's ability to achieve its expected investment return goals.

As discussed at previous Investment Committee Meetings, the Investment Staff and Consultant(s) (R.V. Kuhns & Strategic Investment Solutions) agree that the near-term market and economic conditions are very challenging for investors. However, KRS believes that there are many investment opportunities today, some of which can be accessed via absolute return strategies that have potential to exceed the Plan's actuarial return assumptions and recent returns. In this extremely difficult investment environment, absolute return strategies, i.e., fund-of-funds ("FOF")/ multi-strategy funds ("MSF") may offer an opportunity to add the desired value and mitigate risk to the overall portfolio.

The inclusion of absolute return strategies has the potential to reduce the total portfolio's downside exposure, providing necessary protection with greater flexibility and potential responsiveness to market excesses, while providing broad market, sector, and instrument diversification.

This initial absolute return allocation is intended to position KRS (relative to short- and intermediate-term horizon) to opportunistically take advantage of the tremendous dislocations that exist within the global financial markets while capturing higher risk-adjusted returns. Moreover, it lays a stone in which KRS can build its core absolute return strategy foundation.

Absolute Return Strategies (ARS)

These strategies, otherwise known as "hedge funds", are not considered an "asset class" onto themselves. Instead, they represent a category of investment strategies that allow for greater flexibility of investment, by geography, asset class, sector, and investment vehicle, than "traditional" investment strategies, which tend to be more limited in their scope and can take only long positions in securities.

Conversely, ARS can take long and short positions, use a variety of investment tools such as derivatives, and invest across asset classes and geographies. Rather than seeking to outperform a traditional long-only benchmark such as the S&P 500 or Barclays Aggregate Index, ARS seek to generate positive absolute returns, typically measured as a spread to a financing rate, such as LIBOR (London Inter-Bank Offered Rate). ARS provide a way to access "alpha" (skill) in a more pure form, as opposed to "beta" (passive asset class exposure), which represents the primary driver of returns by most traditional managers.

Multi-Strategy Funds (MSF) and Fund of Funds (FOF)

Consistent with the previously mentioned objectives, KRS is seeking to construct a well diversified overall absolute return portfolio that gives KRS the best opportunity to achieve its risk and return objectives. A combination of a diversified multi-strategy fund with a fund of funds compliments the MSF by providing exposure to managers or strategies otherwise unavailable, achieves this objective with a small number of manager relationships. Not only does this small number of relationships reduce the monitoring burden on KRS Staff, if KRS can be an important client to these managers, they can provide KRS with additional non-management services and advice otherwise unavailable to a fund such as KRS, with limited resources and not located in a major financial center.

A Multi-Strategy Fund sufficiently large to be appropriate for the institutional community is typically owned and managed as an independent entity or, in some cases, by a diversified financial services company or institutional investment firm. What distinguishes a MSF from a FOF is that the MSF employs several investment teams managing distinct strategies under a common organizational umbrella (entity). Conversely, a FOF is a firm that makes investments in multiple, typically nonaffiliated, third-party single-strategy managers. In recent years, FOFs have represented the bulk of new investments made within the absolute return industry by institutional investors, mainly because they provide instant diversification by managers and strategies and employ large teams of investment and operations professionals, resources otherwise unavailable to most plan sponsors.

Relative to single-strategy funds, investors in MSFs benefit from being able to access a variety of less correlated assets (or diversified strategies), similar to a FOF, within a single entity. This configuration gives the MSF the flexibility to anticipate rather than just react, as well as the opportunity to outperform during different economic and market conditions at various points along the investment cycle. Theoretically, this should provide for smoother (less episodic) risk-adjusted returns and the ability to preserve capital during market downturns. The general goal of multi-strategy investing is to find ways to take advantage of investment opportunities, which are complementary within and across the different points in an investment cycle. A single management company (MSF) such as KRS is seeking provides access, through a single absolute return fund, to a diversified range of underlying strategies. This structure gives the manager the flexibility to allocate the fund's capital to the underlying strategies that are believed to offer the greatest investment returns on a forward looking basis. With a multi-strategy approach, capital is spread among the fund's different strategies according to their potential to generate attractive returns. The ability to shift capital between various strategies can be very important since the return streams of different strategies have tended to vary over time. The key to this approach within a MSF is having the talent to allocate successfully across these strategies. Additionally, since the strategies and teams are housed within the same organization, they can provide investors such as KRS with a higher level of transparency regarding their portfolio holdings and the nature of their investment strategies. Managing various strategies within one fund enables a fund manager to add value through its ability to adjust, re-allocating capital in order to take advantage of investment opportunities as they arise. The long-term consistency and performance of multi-strategy funds have been demonstrated, as MSF have generated strong risk-adjusted returns both in absolute and relative terms when compared to equity and fixed income investments.

Like MSFs, FOFs have the same objective—allocate among strategies to maximize long-term absolute returns and preserve capital. Rather than relying on in-house management teams, FOFs sift through the universe of single strategy absolute return managers and select a combination of single-strategy managers that achieves their investment objectives. Capital allocation decisions are made less actively as capital cannot be moved across managers as quickly as is the case with MSFs. This is due to two main issues: (1) FOFs are subject to restrictions on liquidity imposed by the single-strategy managers, limiting their ability to withdraw capital in a timely manner, and (2) to be able to move capital towards managers, FOFs must either have substantial "reserved" capacity with existing managers or be able to identify new managers within an attractive sector that can accept new capital. As a result, it is more difficult for FOFs to generate returns by being nimble through strategy reallocation and must rely more on the alpha generated by their underlying managers. Unfortunately, the ability of the FOFs to pass this alpha through to *their* investors is reduced by the additional layer of fees charged by FOFs. Furthermore, like any investor, FOFs have limited access to information—this lack of transparency can create challenges to investors seeking to actively monitor their investment programs.

Many large state pension plans including Utah, Calpers, New Jersey, Indiana PERF, and South Carolina, and corporate pension plans such as, UPS, IBM, Weyerheuser, and General Motors, utilize a combination of Fund of Funds and Multi-Strategy managers to achieve their absolute return portfolio objectives. While net return targets and realized risk of the fund of funds and multi-strategy managers have been somewhat similar, their return patterns have tended to have relatively lower correlations to one another. It is for this reason that KRS is seeking a complimentary structure, combining active multi-strategies and fund of funds, to create a more diversified absolute return strategies portfolio.

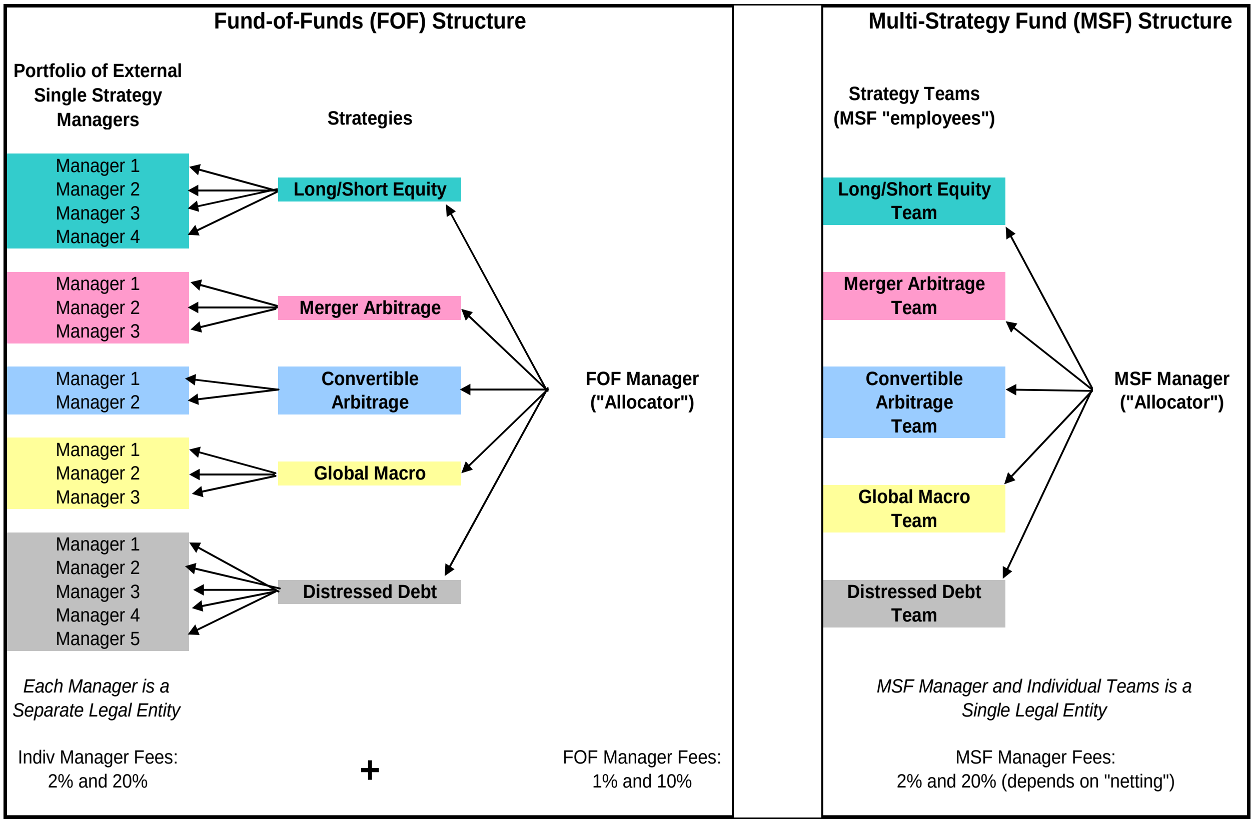
Some large investors have gained access to the absolute return sector primarily through a direct portfolio of single-strategy funds (one recent example is N□ Common, which shifted its program from an 80% FOF weighting towards a 20% FOF weighting, with the remaining 80% invested in MSFs and single-strategy funds).

While there remain many attractive single strategy managers to choose from, the dislocation of the financial markets and the liquidity problems faced by many investors has made it much more difficult for new managers to enter this space, while many existing managers have closed shop due to redemptions. As a result, becoming a single strategy manager is far less attractive to some of the most talented investment professionals and they are choosing to □oin multi-strategy funds. Some MSFs are poised to capitalize on this shift and potentially create a deeper and more stable organization with a larger number of strategies from which to choose. In addition, KRS does not at this time have the resources to effectively identify, fund, and monitor a sufficient number of top-tier single strategy managers to be able to assemble an adequately diversified and competitive absolute return program, even with the involvement of an external consultant.

Concomitantly, fund of funds tend to allow for broad access to many talented small manager organizations (single hedge funds). However, as stated before, this comes with the additional cost of an added layer of management/performance fees and often a lack of transparency of the underlying single managers. Fund of funds have generally migrated to earning a fixed fee and as a result some of these funds are viewed as asset gatherers□being growth oriented □focused on asset under management (□AUM□) and less on performance, though KRS along with our consultants believe that there are a handful of focused fund of fund organizations have demonstrable performance and a long-term orientation toward consistent and skillful outperformance.

Multi-strategy managers are limited to the universe of investment professionals they can attract to their organization but allow for direct access (greater transparency) to securities holdings, risk information, and most importantly strategic asset allocation decision making process. Many organizations present themselves as being multi-strategy but are in reality less diversified than a true multi-strategy manager□ however we along with our consultants have identified organizations which exhibit strong diversification and risk management capabilities. It is critical that the multi□strategy approach be one of a broadly diversified mix.

The following schematic describes the structures of FOFs and MSFs:



Contrasting Strengths & Weaknesses: Multi-Strategy Funds and Fund of Funds

Strengths of Fund of Funds (FOFs):

Diversification – Because most FOFs shoot for consistent, low-volatility returns through the use of multiple managers and multiple strategies, investors can achieve a satisfactory level of diversification by manager and strategy within a single fund. It is not uncommon for a FOFs to employ 35 or more (in some cases upwards of 100) underlying managers within a given fund.

Access – For some single-strategy managers and MSFs, FOFs offer several advantages as an investor; they represent a large amount of capital, allowing the underlying managers to access capital from a single source; they are typically knowledgeable and sophisticated investors; and in some cases represent long-term "patient" capital. For these reasons, many FOFs have successfully negotiated access or reserved capacity to managers otherwise closed to new investors, sometimes at reduced fees. Although, under recent circumstances, new investors have had to be careful not to unwittingly pay full-freight merely to bail out troubled FOFs or their investors seeking liquidity when these interests could more cheaply be accessed via the secondary market.

<u>Reduced Conflicts</u> – Because most FOF managers are independent of the underlying managers they select, they have the ability to pick and choose the best possible managers within a given sector, potentially generating superior returns. In addition, they are better able to negotiate terms on an "arms-length" basis.

<u>Reduced Headline Risk and Risk of Loss</u> – Because of their diversified multi-manager and multi-strategy structure, the blow up of any single manager or strategy may lead to underperformance but typically will not bring down an entire FOF. While some FOFs have been found to have exposure to fraudulent enterprises (such as Bernard Madoff or Bayou Capital) or funds that have taken excessive risk within a given sector, the impact on investors even with the write-off of an entire fund holding, has typically been minimal.

<u>Reduced "Key Man" Risk</u> – FOFs typically have investment committees for allocation and manager selection decisions; FOFs may be better able to deal with the departure of an individual without the loss of continuity.

Weaknesses of Fund of Funds (FOFs):

<u>Additional Layer of Fees</u> – Investors were quite willing to pay a double layer of fees during the turbulent bear market of 2000-2003, when traditional investment strategies suffered and FOFs were generating strong positive returns. Today, however, many if not most FOFs are anticipating modest (single-digit) net returns into the foreseeable future. In this environment, fees have a much greater impact on net returns. In addition, in an environment when investment capital is scarce, and access is more readily gained, and risk management tools are widely available, the services offered by FOFs to justify these fees are more widely available and, thereby, less advantageous.

<u>Lack of Transparency</u> – Many FOFs distinctly lack transparency into the strategies underlying the overall fund. The way around this is to have a separately managed account with each underlying manager so that securities are custodied with the FOF as opposed to being "commingled" and custodied with that single manager. Unfortunately, many attractive managers are unable to conform to this requirement. FOFs usually have access to limited information such as top 10 holdings or exposures to pre-determined risk factors but this may not be sufficient to satisfy transparency requirements by certain institutional investors. In some cases, this mix of managers can represents the "special sauce" the FOF manager is bringing to the table, and so they are reluctant to reveal its ingredients.

<u>Lack of Liquidity</u> – As noted above, FOFs, as external investors into the single-strategy managers, are generally beholden to the same liquidity terms as other investors (these include long redemption notification periods, limited frequency of redemptions, limited amounts that can be redeemed, etc.). While this not only limits the ability of FOFs to shift capital among

managers and strategies, it also means that FOFs must pass along this "illiquidity" to their investors, except for limited amounts of residual cash that may be retained for small redemption requests. Liquidity restrictions may also mean they are unable to exit a sector in decline, thereby destroying value.

Allocation Committees – While this can be an advantage in mitigating "key man" risk, it also is a disadvantage in terms of the FOF being able to make quick, decisive allocation decisions. Seeking consensus slows down the process and runs the risk that the FOF will merely adopt the "conventional wisdom" in allocation decisions, which means they may have missed much of the benefit of moving capital towards an unloved sector.

Inability to Reallocate Largely or Quickly – This comes from the combination of having to adhere to the liquidity terms of the underlying managers, slow decision-making (by committee), and, due to lack of transparency, perhaps not having adequate transparency to identify the need to allocate away from a sector in decline. As a result of these factors, allocation decisions tend to be modest and gradual, unable to react to changing market trends.

Over-Diversification – Some fund of funds may over-diversify by utilizing an excessive number of managers (generally more than 40-50 managers approaches over-diversification). Some FOFs have in excess of 100 managers. And each manager may have anywhere from 10 to 100+ securities within the portfolio. As a result, investors can only hope for diversified beta exposure to the combination of strategies employed, with a high level of fees. Net returns may be expected to be in the mid single digits. These types of FOFs have basically become asset gathering vehicles.

Incentives of Fund of Funds – The incentive of any hedge fund manager is to maximize personal wealth. This requires maintaining strong performance while growing the asset base. Most FOFs manage many billions of dollars and have, over the years, been acquired by large financial services companies. As a result, the primary objective of the parent may be to use the FOF as a vehicle for generating annuity fee income (and for cross-selling other business to the FOF's clients) by generating sufficiently adequate performance so as to retain existing clients but not taking risks that may lead to lost business. But investors must take risks if they are to generate outsized returns.

Accessibility – FOFs offer investment minimums of $100,000-$1 million, so they are accessible to many high-net-worth investors. These individual investors, many of whom reside outside the FOF's home country, tend to not be as stable as institutional investors and can adversely impact the FOFs organizational stability, liquidity with excessive withdrawals, and frequent cash flows.

Strengths of Multi-Strategy Funds (MSFs):

The Potential for Reduced Fees – Because MSFs typically charge only a single layer of fees that covers the cost of the asset allocation professionals, strategy teams, and risk management and operations personnel, there is the potential for an overall reduced fee structure for investors, especially if the fund offers a netting arrangement on performance fees (whereby the gains and losses of the individual teams are netted against each other to arrive at a single MSF profit or loss—non-netting means the fees are charged at the individual strategy level and can end up exceeding the standard 20% level). Albourne Partners (a hedge fund consulting firm), citing research from Prisma Capital Partners (www.prismapartners.com), estimates that netting could save about 16 basis points (0.16 percent) in performance fees for a typical MSF.

Flexibility and Nimbleness – Because the underlying MSF strategy teams are employees of the same organization and capital is centrally controlled, they may have the ability to more quickly allocate investments within the various funds, and may also have more control over the overall investment profile of the MSF. Unlike FOFs, the MSF is not beholden to separate liquidity limitations of the strategy teams (other than prudent trading practices to minimize transactions costs).

Improved Transparency – Because of the centralized ownership structure, MSFs typically will offer better transparency than FOFs regarding the make-up of the strategy portfolios and overall investment strategy employed. They are the custodian of the assets and have daily access to security-level data.

Improved Liquidity – Since MSFs have much greater control over liquidity, as noted above, they are able to provide better liquidity to their investors than FOFs.

High Quality Stable Investor Base – In recent years, as with FOFs, diversified financial services firms have gotten into the MSF business (examples include the purchase of FrontPoint by Morgan Stanley and Highbridge by JP Morgan, and formation of MSFs by Goldman Sachs, Wellington, BGI, etc.). The goal, aside from generating additional fee income, is to be able to offer a diversified MSF to existing institutional investor clients or attract clients otherwise uninterested in the firm's traditional investment offerings. Some firms have set up internal single- and multi-strategy funds simply to stem the outflow of investment talent (though this trend has slowed dramatically during the recent market turmoil).

In addition, other multi-strategy formation is in response to the rapid growth in institutional demand for hedge funds as well as to address the prevalent misalignment of interests that historically have existed. Most of the growth in this area stems from pension plans, endowments, and foundations. These institutional investors likely have a preference for a diversified MSFs ability to maintain and stabilize capital. Due to the stable nature of this burgeoning investor base, MSF are able to secure more favorable financing rates (monetization) and attract investment talent seeking a steadfast pool of capital.

Weaknesses of Multi-Strategy Funds (MSFs):

Increased Business Risk – While MSF investors may achieve one-stop strategy diversification, they are still exposed to the risks inherent in any single organization. The investor is exposed to the risk that the MSF is unable to achieve or maintain profitability. Also, because the underlying strategies are controlled by that firm, weaknesses in the risk control or operations areas can have severe negative consequences for the investor (as was the case recently with Amaranth).

Potential Manager Issues & Conflicts of Interest — Due to its closed architecture, MSF investors are exposed to all of its strategies, whether or not they are competitive. There arises a disincentive and perhaps an inability to fire an underperforming strategy team or exit a strategy altogether due to unattractive return prospects. This may particularly be the case in a "netting" fee arrangement, whereby strong returns from some strategies are used to subsidized weak returns from other strategies. This can undermine the pay-for-performance culture that motivates managers to generate alpha.

Talent Retention — Successful hedge fund managers by nature tend to be idiosyncratic and fiercely independent, and are frequently ex-proprietary traders from large investment houses who struck out on their own to pursue a particular trading strategy or shake free of a corporate environment. Several years ago many top managers may have had reservations with becoming part of an institutionally-owned MSF. However, recently some of these top managers have sought to relieve themselves of the administrative headaches of building and running their own firm (good managers and good administrators tend to require very different skill sets). Today, many managers have found MSFs attractive in their ability to provide risk management and operational/administrative support, allowing the managers to concentrate on investing.

Complimentary Manager Structure:

There is no clear-cut best choice when deciding between a diversified FOF and a diversified MSF—both structures have strengths and weaknesses and both will continue to grow as the institutional demand grows for competitive and accessible absolute return investments. There are benefits of diversification through exposure to both FOFs and MSFs.

However, if KRS is to gain these diversification benefits, it must be careful to seek managers that offer distinct business models, investment philosophies, and investment horizons. For example, MSFs may be better able to capitalize on short-term tactical (offering speed to quickly react and allocate) opportunities, while FOFs may be better structured to benefit from longer-term secular opportunities, as a result of the liquidity, transparency, and organization issues noted above). Furthermore, there should be differentiated approaches within the FOFs and MSF allocations. Within the multi-strategy allocations there should be a different emphasis in terms of approach and multiple teams with dynamic allocation capabilities based on the then prevailing opportunity set. Smaller allocations to "niche" managers offering diversified alpha streams may be used to enhance the returns of the overall absolute return program.

Additionally, KRS seeks to form long-term strategic partnerships with its core managers that can allow KRS to leverage these firms' resources (identification of attractive strategies and managers, asset allocation, risk management, operational due diligence, etc.), enabling KRS to accelerate its absolute return portfolio construction process and improve its overall investment capabilities.

KRS believes that implementing an absolute return approach that combines the broad diversification (low manager correlations) and gradual allocations rebalancing offer by a fund of fund with the more opportunistic and transparent allocation activities of a diversified multi-strategy manager, would diversify KRS' alpha streams. This complimentary structure is also likely to provide broader overall diversification, reducing the potential for underlying manager, geographic, strategy, and position overlap. The end result of this combination should be a smaller number of managers that produce a configuration that better reduces the concentrations of the various risks and provides KRS with a core foundation that stands the best chance for achieving KRS' absolute return investment objectives.

Manager Identification and Selection

The KRS Annual Five-Year Investment Plan calls for exposure to diversified asset classes and strategies (i.e., absolute return strategies) and, at its February 3rd, 2009, meeting, the KRS Investment Committee approved a target allocation of up to 5% of the Total Fund towards absolute return strategies. Based on this commitment, throughout 2009 KRS Staff has been surveying the absolute return investment space, focusing on FOFs and MSFs. This has consisted of meeting with managers, making reference calls to other institutional investor peers that have been active in this space, and using information and advice from the System's Consultants. The objective has been to identify a small number of institutional-quality MSFs and FOFs for potential investment that are most appropriate for KRS's needs.

Within the Private Equity and Real Estate asset classes, the most attractive managers are generally reluctant to devote resources towards marketing or client service activities such as filling out RFPs, questionnaires, etc. and do not always offer capacity to new investors. As a result, KRS has not utilized a formalized search or RFP process to build its investment program. Such a process would lead KRS towards the most mediocre managers, which are otherwise unable to attract capital directly from investors. Instead, KRS has relied on Staff and its Consultants to access these managers proactively and opportunistically. Consistent with this philosophy, Staff and KRS's Consultants believe a similar approach should be used in the absolute return space.

The KRS Investment Staff and Investment Consultants (RV Kuhns & SIS) have independently identified appropriate MSF and FOF manager candidates and have recently conducted comprehensive due diligence on some of these managers. KRS Staff has organized introductory and follow-on due diligence meetings in KRS's offices. KRS' junior-level investment staff participated in certain aspects of due diligence, intended to foster discussion and provide different perspectives, as well as assist with staff training and development. On-site manager meetings have been conducted by Staff, specifically Adam Tosh, CIO, and Consultants. Staff participation at these meetings was limited to the CIO to minimize travel costs and maintain an active investment presence in KRS's offices.

Given that this is KRS's first foray into the Absolute Return space, having both consultants involved in the sourcing and due diligence process (e.g. reviewing the managers' infrastructures, research capabilities, investment philosophies and processes, administrative and operational capabilities, and risk management capabilities), as well as assisting KRS in manager selection, was thought prudent.

It should be noted that due to the economic/market downturn that has persisted throughout the evaluation period and its adverse impact on the absolute return space, Staff thought it wise to allow the markets to settle, in order to better survey the manager landscape as well as to garner more favorable fees, terms, and conditions for a possible initial investment by KRS. Thus, the completion of the first phase of this absolute return development process has taken longer than originally anticipated.

As with other investment strategies and exposures, absolute return strategies are exposed to two broad risks—*investment risks*, comprised of market, credit, liquidity, and other factors that drive the return opportunities available to investors—and *structural risks*, comprised of regulatory, organization/business, and other factors that drive the manager’s ability to profitably capitalize on these opportunities. While both risks can be mitigated, they cannot be eliminated. Yet, structural risks can at least be monitored through operational due diligence, with managers less able to deal with these risks eliminated from consideration. Examples of these operational due diligence steps include background checks on key investment staff; review of compliance procedures; confirmation of the manager’s adherence to administrative and compliance requirements and best practices; quality of risk management systems and personnel; and the existence of adequate controls within the organization. This risk can also be monitored by adequate transparency of fund holdings (security positions), portfolio characteristics, and the utilization of a separate and dedicated risk management team using state-of-the-art risk and trading systems. The use of statistical attribution models to infer a manager’s expected performance assists investors such as KRS in managing and understanding each portfolio’s risk profile. Additionally, ongoing due diligence after the initial investment is key; frequent communication, regular visits with investment and operational personnel, and timely (annual) reviews of audited financial statements go a long way in monitoring these risks and preventing unforeseen (and unfortunate) events from occurring.

There are hundreds of FOFs and MSFs throughout the world; however, most do not have extensive experience and understanding of the requirements to work with institutional clients such as KRS. Historically, most FOFs have focused on high-net worth individuals and families, which require a different type of relationship than that required by institutional investors with fiduciary oversight bodies such as KRS. High-net worth individuals are (generally) not as concerned with transparency, reporting, portfolio construction, and operations as are institutional investors. However, the recent scandal surrounding Bernard Madoff (and numerous similar scandals of lesser magnitude) has increased the demand for greater risk controls and governmental regulation and oversight. High-net worth individuals and families also tend to move their money around with more frequency and are often seen as “chasing the hot managers.” Institutional investors require long-term relationships that conform to more disciplined protocols in order to meet the institution’s needs.

In that respect, Staff has adopted the following criteria when evaluating FOFs and MSFs to determine their appropriateness for KRS's investment program:

- Strategy – The manager should demonstrate that they have a clear strategy that attempts to exploit inefficiencies in the market
- Capacity – The manager should be able to handle a fund of our size, and provide ample diversification across strategies and managers to reduce systematic risk
- Manager/Strategy Selection Capability – The managers should demonstrate that they have a disciplined quantitative as well as qualitative process for selecting absolute return managers and strategy teams investments (i.e. the due diligence process)
- Portfolio Construction – It should be demonstrated that the approach to portfolio construction is designed to provide risk/return optimization and maximum diversification, while keeping costs in check (for example, if the objective is to maintain a market neutral portfolio, that the underlying managers or strategies, in combination, will in fact minimize systematic exposure); marginal manager/strategy additions should improve the risk/return profile
- Risk Controls – The manager should demonstrably adhere to a systematic, well-documented and consistently followed risk control procedures, at the portfolio and Master Fund levels; the Director of Risk Management should not report directly to the CIO to avoid conflicts of interest (whereby the CIO can easily override the risk control process).
- Monitoring – The funds should demonstrate the types of systems that are used to monitor the underlying managers and strategy teams, not only for performance and portfolio holdings, but also for how the underlying managers individually affect the overall portfolio based upon their investment profile, holdings, and liquidity
- Reporting – The manager should provide KRS with the required reporting and transparency so that the System can properly manage its relationships with limited internal and external resources
- Operations – The manager should employ industry best practices in the use of accountants, auditors, prime brokers, administrators, and custodians, as well as demonstrate proper checks and balances within the organization
- Experience – The manager's principals (senior staff) should have extensive experience with investing over various economic/business cycles, and liquidity conditions, have extensive experience serving institutional clients
- Strategic Partnership – For the core manager relationship, the manager should be willing to assist KRS with tasks outside the portfolio itself, including broad absolute return program implementation and oversight, risk monitoring practices, as well as education

Evaluation Process:

While, as stated above, there are hundreds of MSFs and FOFs, there are a limited number of managers that are capable of meeting KRS's objectives from both an investment and relationship perspective. Within the MSF space, this may consist of fewer than a dozen. Note that, for the purposes of this analysis, we have limited our focus to MSF managers□FOFs will be evaluated at a later date.

Based on information obtained through preliminary meetings, reference calls to other institutional investors, and input from KRS Staff and its Consultants, KRS Staff identified a group of five (5) MSFs that Staff believes meet the criteria listed above and that are most appropriate to serve as core managers within the absolute return program. The preference was for firms that have an independent organization structure□extensive experience with institutional investors□an exclusive focus on the absolute return space□utilize a global and opportunistic investment approach that is reasonably transparent and understandable□and are willing and able to offer a strategic partnership to KRS.

Costs were evaluated after these factors were considered, in order to ensure that costs are not biasing the selection (i.e. cheaper is often not better). Costs, however, are an important consideration and are factored into the final analysis as it can have a substantial impact on net returns. The consideration of costs can also impact the timing of KRS□s initial funding□in cases where favorable fees and terms can be gained, Staff sought to speed up the due diligence and review process.

KRS□considered five (5) multi□strategy funds. These five firms include□

Table 1.

Investment Consultant Candidates	
Firm	Location(s)
Arrowhawk Capital Partners	Darien, CT
BlueCrest Capital Management	London, UK
Eton Park Capital Management	Cleveland, OH
FrontPoint Partners LLC	New □ork, N□
Och-Ziff Capital Management Group LLC	New □ork, N□ London, UK Hong Kong

<u>Multi-Strategy Managers Comparisons□</u>

Och□□iff□

Och-Ziff Capital Management Group LLC is a global institutional alternative asset management firm. They are one of the largest alternative asset managers in the world, with approximately $21.7 billion of assets under management for approximately 600 fund investors as of September 1, 2009. Och□Ziff has an investment track record spanning more than 15 years.

The firm was founded in 1994 by Daniel Och, together with the Ziff family. Prior to founding the company, Mr. Och spent over 11 years at Goldman, Sachs & Co.

The firm has a demonstrated global investment platform with over 130 investment professionals in offices in New □ork, London, Hong Kong, Tokyo, Bangalore, and Bei□ing. This presence gives the firm access investment opportunities across the globe.

The firm seeks consistent positive risk-ad□usted returns throughout market cycles, with a strong focus on risk management and capital preservation. Portfolio composition is determined by market opportunities rather than any predetermined commitment to investment discipline or geography. The diversified, multi-strategy approach is based on global investment strategies, including merger arbitrage, convertible arbitrage, equity restructuring, credit, and distressed investments, private investments and real estate.

The firm□s investment philosophy seeks opportunities for long-term value creation through consistent performance with limited use of leverage. They claim their investment processes are designed to incorporate risk management in every investment decision, using both quantitative and qualitative approaches.

The flagship master fund is global in scope and invests in 5 main disciplines□Merger Arbitrage, Other Equity Event-Driven (hard), Credit, Convertible/Capital Structure Arbitrage and Private Investments. OZ is primarily a fundamental, bottom-up manager focused on capital preservation and dynamic capital allocation across both strategies and geographies. Unlike some other multi-strategy funds, OZ has a "one-portfolio, one P&L" mentality so there are no pre-determined allocations and current opportunities drive portfolio composition. This can lead to considerable concentrations.

Och-Ziff is still run by its founder Dan Och who is well regarded in the industry as a sound fundamental investor. Returns of this organization have historically been consistent with those of the KRS ob□ectives. The volatility and correlation characteristics are also within the range of ob□ectives. The OZ Master fund lost 16% in 2008 but since 2004 have been above the multi-strategy index. What has changed for Och-Ziff is that the company had gone public. The stock has dropped from $32 a share to as low as $4 and now trades at $10. The issue is that the firm now has two masters to serve, one being its investors and the other being its shareholders. Recently the firm announced that all of its funds will eliminate its high water marks as of January 1, 2010 regardless of whether the losses have been earned back in the funds. This is a strong indication that shareholder interests were given preference over obligations to the firm□s investors. Key man risk is a hazard KRS may face concerning a departure of Dan Och. Dan has been with OZ since 1994 and may wish to retire from OZ at some point. Another issue relating to Dan is that he has shifted his attention away from the investment function and his primarily focused now on raising new capital for the fund. The firm came under pressure due to losses and redemptions in 2008 as well as the lower publically traded stock price of OZ.

FrontPoint Partners□

FrontPoint Partners LLC was founded in 2000. FrontPoint is an integrated alternatives asset management firm focused on providing single strategy and multi-strategy absolute return investments to institutional investors and their advisors. FrontPoint integrates and supports its portfolio teams through a central infrastructure managed by an experienced business team who provide trading, risk management, compliance, legal, accounting, technology, administrative services, marketing, and back office functions. This structure allows the portfolio teams to spend the majority of their time on investing and generating alpha. As of July 1, 2009, FrontPoint has 14 experienced investment teams, managing approximately $6 billion over 24 strategies. In December 2006, Morgan Stanley acquired FrontPoint. As such, FrontPoint is now a part of Morgan Stanley's Investment Management Division. The ultimate parent of FrontPoint is Morgan Stanley□a New York Stock Exchange quoted company whose shares trade under the ticker symbol MS. As of July 1, 2009, Morgan Stanley employees owned approximately 15%.

MSIM has many affiliates, which are stated below□

United States□Morgan Stanley Investment Management's investment advisory affiliates include Morgan Stanley Investment Management Inc.□Van Kampen Asset Management, Van Kampen Advisors Inc.□Morgan Stanley Investment Advisors Inc.□Morgan Stanley Hedge Fund Partners LP, Morgan Stanley Hedge Fund Partners GP LP□Morgan Stanley Alternative Investment Partners LP, Morgan Stanley AIP GP LP□Private Investment Partners, Inc. ***Europe/Asia:*** Morgan Stanley Investment Management Limited□Morgan Stanley Asset & Investment Trust Management Company Limited□Morgan Stanley Investment Management Company□Morgan Stanley Investment Management Private Limited□FrontPoint Management (Hong Kong) Ltd, FrontPoint Management (UK) LLP□Fundslogic SAS□National Bank of Kuwait Investment Management Limited□Morgan Stanley Capital K.K.□***Private Equity:*** Morgan Stanley Global Emerging Markets, Inc., Morgan Stanley Venture Capital III, Inc, MSDW Venture Partners IV, Inc., MSVP 2002, Inc., Early Adopter Fund Manager, Inc., Morgan Stanley Leveraged Equity Fund II, Inc., Morgan Stanley Capital Partners IV, Inc., Morgan Stanley Private Equity Asia III, Inc., Morgan Stanley Infrastructure Inc., Morgan Stanley Private Equity Asia, Inc.□***Real Estate:*** Morgan Stanley Real Estate Advisor, Inc., Morgan Stanley Real Estate Fund, Inc., Morgan Stanley Real Estate Investment Management, Inc., Morgan Stanley Real Estate Investment Management II, Inc., MS Real Estate Mezzanine Advisor, Inc., MSDW Real Estate Special Situations II Manager, L.L.C., MSREF II, Inc., MSREF III, Inc., MSREF IV, L.L.C., MSREF Real Estate Advisor, Inc., MSREF V, L.L.C., and MSRESS III Manager L.L.C..

The sheer magnitude of Morgan Stanley's direct affiliations calls into questions FrontPoint's true autonomy and whether Morgan Stanley's interest will ultimately be place ahead of KRS□ Just as importantly, Morgan Stanley decimated the Miller, Anderson investment management franchise after acquiring it in 1994.

The FrontPoint's structure provides its investment teams with a level of autonomy, compelling economics, diverse sources of capital, and high quality infrastructure and operational support.

However, KRS does have concerns with FrontPoint's ultimate alignment of interest with KRS. FrontPoint has transparency of holdings, which enables its business team to monitor the investment and operational risk (similar to ACP). FrontPoint's philosophy is stated to be highly transparent and engaging with clients. FrontPoint Risk Management Team produces detailed risk reports which are provided to their clients along with qualitative information from the Portfolio Managers on a monthly basis.

Historically FrontPoint Multi-Strategy had a return profile consistent with the KRS objectives. These returns are 5.5% annually above the HFR Fund of Funds index from 2004 to June, 2009 and 5% above the HFR Multi-Strategy index for the same period. Risk and correlation characteristics are also very low relative to equity and credit sensitive investments. However, the key decision maker on strategic asset allocation has left the organization to found Arrowhawk. That individual's departure coincided with the acquisition of FrontPoint by Morgan Stanley. The problems Morgan Stanley has experienced during the financial crisis have created additional instability for FrontPoint.

Eton Park Capital Management

Eton Park was founded in 2004 by Eric Mindich and is privately-held by 14 active partners. The firm manages one multi-strategy fund, offered in both onshore and offshore structures. Eton Park is headquartered in New York with much smaller satellite offices in London and Hong Kong. The firm employs 154, including 59 investment professionals. The investment team is led by founder Eric Mindich, who previously spent 15 years at Goldman Sachs as head of the equities arbitrage group and later co-head of the entire equities division.

Eton Park Capital Management uses a fundamental, bottom-up approach for their idea generation combined with a top-down overlay used mainly for risk management purposes. The fund is comprised of 5 main strategies: Equity Long/Short, Event-Driven (hard), Distressed Credit, Derivatives Strategies (e.g., volatility & correlation trading, structured securities) and Private Investments (up to 30%).

Eton Park is geographically diversified with investments in the U.S., Europe, and Asia as well as a meaningful allocation to emerging markets. Portfolio construction is bottom-up and determined by specific opportunities with no pre-set targets and no real limits other than the 30% cap on private investments. Top down considerations are incorporated but almost exclusively for purposes of risk management, i.e., in order to avoid undue or unwanted exposure to a given broad risk factor.

Eton Park utilizes a predominantly research-driven, value-oriented investment approach. As a multi-disciplinary and opportunistic firm, Eton Park believes it has the greatest ability to generate attractive returns in complex and/or misunderstood situations that span or fall between traditional investment silos and require application of a diverse set of skills.

Another focus for Eton Park, and a (perhaps negative) differentiating factor versus many other hedge funds, is private investments which can comprise up to 30% of the fund, held within side pockets. This heavy use of private investments, likely reduces the funds ability to raise liquidity during difficult market conditions and may make it more difficult for KRS’ assets to exit from the fund. Additional concentration in private equity may also make this fund less of a diversifying asset than is intended for this investment. Generally, the fund is diversified geographically with 50% of the portfolio focused on the non-U.S. markets, including over 20% in emerging markets.

Eton Park is a firm with very risk controlled returns and a solid organization led by Eric Mindich who did his training at Goldman Sachs. This firm revolves around a focused strategy where they tend take larger positions in select stocks or bonds. The returns are exhibiting a low volatility as many of the positions are hedged though the fund will have higher correlation to equity and credit markets. The return profile is also more episodic and less consistent than the others. This is a good firm with a slightly lower return profile, though still above a fund of funds index. There is more reliance on Eric’s skill set in this organization as he is making many of the securities decisions at the end of the day. The firm does not offer transparency or strategic asset allocation idea sharing to KRS as its business model was developed in a different investment era and under an older regime. Key man risk is another hazard KRS may face regarding a potential departure of Eric Mindich.

Eton Park has labeled themselves as a Multi-Strategy but the organization considers itself to be more of a special situations manager and more concentrated in illiquid debt instruments. They do a great deal of hedging, which is why their returns have been muted. The multi-Strategy label appears to be more about the firm having flexibility to move capital where they want than the consistent diversity of investment approaches within the portfolio on average.

Eton Park’s CFO, Eric Feldstein, has recently resigned. Apparently there appears to have been an issue with Eric Mindich micro-managing his people. This may be a result of a series of high level departures at the firm. Another issue for Eton Park is that they ended up holding a large pool of impaired assets and have been forced to crest an illiquid side-pocket. There appears to be evidence those new (money) investors coming into the fund are inheriting these impaired assets at above market prices. Given the lack of transparency, it is impossible to know the extent of the “bail out” of the impairments taken by new investors.

BlueCrest Capital Management

BlueCrest Capital Management LLP ("BCMLLP") is an alternative asset management company based in London, United Kingdom. The firm manages institutional assets across a number of diversified strategies. BlueCrest was founded in 2000 by Michael Platt and William Reeves, who were both Managing Directors and senior proprietary traders at JP Morgan. They left J.P. Morgan in 2000 to establish BlueCrest. BCMLLP is owned by 60 active principals (75%) and an affiliate of the Man Group plc (25%). The firm offers a multi-strategy fund, structured similarly to a fund of funds, and also offers stand-alone funds for each of the underlying strategies. BlueCrest employs 333, including 180 investment professionals, and is headquartered in London with offices in New York, Boston and Singapore.

The investment team is led by co-founder Michael Platt, who is primarily responsible for capital allocation decisions in addition to running his own book. Before starting BlueCrest Platt worked at JPMorgan for 13 years, most recently as head of relative value proprietary trading. Platt oversees a very large group of investment professionals (180) that are organized by strategy.

AllBlue is structured similarly to a fund of funds in that the distinct strategies are viewed in silos and are actually accessed by investing in the underlying funds themselves (as opposed to an integrated portfolio model). All management and performance fees are charged at the underlying fund level as well, meaning there is no netting of performance for the calculation of incentive fees. AllBlue is comprised of six main underlying funds: Capital International (mixed relative value), Emerging Markets, Multi-Strategy Credit, BlueTrend (systematic global macro), BlueMatrix (equity statistical arbitrage) and Mercantile (trade finance). Three funds additional funds (BlueHaven, BlueMountain and West Harbor) were introduced to the lineup in 2007.

BlueCrest employs a proprietary trading desk model typically seen at large investment banks, where groups are allocated capital and each manages its own portfolio and maintains a separate P&L. Within each group, capital is further divided up among teams and individual traders which results in a very compartmentalized final portfolio. This type of structure is well suited to the firm's investment style, which is mostly short-term and trading-oriented in nature.

Internally BlueCrest is organized by the type of alpha they are attempting to capture: Tradable, Systematic and Structural. Tradable Alpha consists of eight distinct teams that trade highly liquid instruments on a relative value or tactical basis in FX, Equity Derivatives, Bond Relative Value, Commodity Derivatives, Property Derivatives, Rates, Emerging Markets and Credit. Systematic Alpha is managed by one team that follows a very quantitative, model-driven approach in managing a statistical arbitrage strategy as well as a systematic global macro strategy that trades broad equity, rates, currency, and commodity markets on a global basis. This group and the associated strategies appear to be the firm's core competency and have been a key performance driver over the years. Structural Alpha has four distinct teams focused on less liquid strategies such as Direct Lending, Insurance and Operating Assets.

BlueCrest's objective have been to construct a trading infrastructure of investment bank quality, upon which trading teams can be built and new strategies developed. BlueCrest believes in a specialist model. Therefore, it employs teams of various market specialists across disciplines, all operating with proprietary analytical technology. This specialist structure is intended to encourage broader overall portfolios with less concentration of risk and may allow the portfolio managers to focus on smaller, more esoteric anomalies that are often overlooked.

At BlueCrest's current asset under management ("AUM") level it is difficult to know if they can continue to manage money in the same style which they have in the past. More telling is that Man Group plc is a listed company in the UK and has historically been known for raising AUM quickly from European based private banks, investors which tend to be less stable during periods of market stress. Because of their size and trading infrastructure, BlueCrest has really become more of a fixed income trading operation that is similar to an investment bank. While BlueCrest may be good at fixed income trading, it does not really qualify them as a pure MSF. Another major concern with BlueCrest is that this concentration in fixed income will dictate that if bond spreads get much tighter, BlueCrest will need to add leverage to add value (making them much more highly correlated to the equity and credit risk already inherent within KRS' portfolio).

Arrowhawk Capital Partners

Arrowhawk is a core opportunistic global investment firm. The firm seeks to be proactive and forward-looking in it asset allocation. Its investment perspective is across geographies, markets, and asset classes and it seeks to be indifferent to long or short opportunities. Arrowhawk was founded by six members: Michael Litt (Chief Investment Strategist & Multi-Strategy Portfolio Manager, FrontPoint Partners), Olav Refvik (Managing Director of Global Oil Liquids Business, Morgan Stanley), Robert Dahl (Head of Global Healthcare Investing, Carlyle Group), Roy Lennox (Founder and Senior Portfolio Manager, Caxton Associates), along with Senior Advisors F. Scott Tuck (Chief Executive Officer, Montgomery Asset Management), and Steven Wiggins (Founder and Chief Executive Officer, Oxford Health Plus).

ACP's flagship fund is Arrowhawk Durable Alpha, a risk-controlled, global opportunistic investment in liquid commodity, credit, currency and equity markets. Durable Alpha targets 6% annual volatility with low correlation to equity and credit markets. This is a very similar approach to absolute return investing that Mr. Litt successfully employed at his previous firm.

Arrowhawk's multi-strategy fund expects to deploy ten separate strategies within the fund. The investment objective of multi-strategy hedge funds is to deliver consistently positive (absolute) returns regardless of the directional movement in equity, interest rate or currency markets. In general, the risk profile of the multi-strategy classification is lower than equity market risk. By definition, multi-strategy funds engage in a variety of investment strategies. The diversification benefits help to smooth returns, reduce volatility, and decrease asset-class and single-strategy risks. Strategies adopted in a multi-strategy fund may include, but are not limited to, convertible bond arbitrage, equity long/short, statistical arbitrage and merger arbitrage.

As with several of the other multi-strategy funds, KRS would face "key man" risk regarding an absence of Michael Litt. However, as Mr. Litt has invested considerable net wealth into the construction of ACP, KRS would not likely expect to face a voluntary departure of Michael.

<u>Evaluation Rationale</u>

KRS' list of multi-strategy hedge funds was compiled from our knowledge gained from meetings, industry contacts, and past search activity. These multi-strategy funds have longer track records with attractive risk-adjusted performance profiles and are open to new investors. Considering it is a new entity, but with a long track by Litt at FrontPoint and other key professionals with other organizations, the comparison of Arrowhawk to the some other identified multi-strategy hedge funds is not easy. However, Staff is familiar with Michael Litt from his days as FrontPoint's lead asset allocator. The long-term track record for each firm is favorable with Och-Ziff statistically being the most impressive. The annualized returns for Eton Park as of April 30, 2009 has been – 11.6% since inception (Nov. 2004) – Och-Ziff – 14.1% (Apr. 1994). For comparison purposes, FrontPoint during the time that Michael Litt was running their Multi-Strategy hedge fund (Sept. 2002 – Dec. 2007) realized an annualized return of – 18.8%.

Many of these MSF funds posted a negative return during the challenging calendar year 2008. Eton Park was -9.8% and Och-Ziff. To be fair, Litt purposefully sat on the sidelines during 2008 and did not have a record for comparison. Each of these funds have similar return volatility statistics (approximately a 6% average annual standard deviation of returns, which in the case of Arrowhawk is a targeted risk). Eton Park has a standard deviation since inception of 7.7% and Och-Ziff 5.7%. The projected risk-adjusted Sharpe Ratio of 2.0 at Arrowhawk also compares favorably to the realized ratios (April 2004-April 2009) at Eton Park (1.1) and Och-Ziff (1.8).

The level of transparency at any of these funds is not expected to be at the level that Arrowhawk is providing. Eton Park has consistently and historically been guarded in providing a sample reports. BlueCrest provided a standard report with limited detailed allocation information and no additional portfolio characteristics. Och-Ziff appears to provide adequate transparency. It is doubtful that any of these firms will provide the level of detailed positions that Arrowhawk has promised.

In addition these funds are fairly large in size – Eton Park $12 billion and Och-Ziff $20 billion – and KRS is not sure what the level of client service will be. Fees for each of these funds are at the standard 2% base and 20% performance which is also the level of Arrowhawk's stated structure. However, it should be note that KRS will receive a lower management fee of 1% for entering the fund early. It should be noted that there are initial lockups and restriction gates that are standard industry practice at all of these funds.

Through this review process KRS' evaluations eliminated BlueCrest, Eton Park, FrontPoint, and Och-Ziff. BlueCrest was eliminated due to excessive AUM growth and the low quality of assets associated with their partner Man Group plc. Och-Ziff was eliminated due to uncertainty created by its publicly held ownership structure and recent signaling of a need to prioritize its shareholders. FrontPoint was eliminated due to the instability created by Morgan Stanley's ownership and the history of that firm in spoiling asset managers which it acquires such as the Miller, Anderson organization. Eton Park was eliminated due to a series of high level departures and the concentrated nature of the investment process which may not be consistent with KRS's objectives for its absolute return portfolio.

Arrowhawk Capital Partners (ACP)

Absolute return strategies are generally constructed for the preservation of capital and are focused on generating positive earnings (alpha). The Kentucky Retirement Systems is seeking to participate in the Arrowhawk Durable Alpha Fund ("Durable Alpha"). The Durable Alpha Fund would implement an investment strategy that deploys capital across ACP's various managers (hedge funds) within the ACP Fund structure on KRS' behalf.

ACP's Durable Alpha currently consists of six distinct investment strategies that are managed within the portfolio. More teams will be added opportunistically as Arrowhawk fills out the remainder of its desired strategy buckets. Michael Litt, CIO and acting Chief Risk Officer, leads the investment teams and handles capital allocations.

The firm is organized into six (6) separate investment teams that include: Distressed Special Situations, Global Opportunities, Energy (equity long/short), Financial Services (equity & credit long/short), Japan Asia (equity long/short – two PMs) and Commodities. Arrowhawk plans to add sector-specific equity long/short strategies (Consumer, Telecom/Media, and Emerging Markets) and a structured credit strategy in the future whenever the appropriate teams can be sourced.

The Arrowhawk Durable Alpha Fund has been designed as a next generation absolute return investment which addresses the portfolio needs of pension plans. ACP has sought to build a MSF that fills in the perceived deficiencies and misalignment of interests its founding members have experienced with other multi-strategy firms. This structure appears to be successful in attracting some of the best investment professionals from other absolute return managers as well as individuals leaving Goldman Sachs and Morgan Stanley's proprietary trading activities. The keys to this multi-strategy fund are the depth of experience, focus on risk management and a broad collaborative decision making process. The organization views its mission as bringing the more attractive returns the investment banks have been generating for themselves directly to the pension plan community in a risk controlled framework. Arrowhawk will be minority owned by a small group of U.S. and Canadian pension plans who will also sit on its board of managers. There are 22 structural improvements that have been implemented at Arrowhawk a few of which include:

1) **Strategic Research** – Development of a strategic framework driven by internally generated microeconomic insights create a disciplined approach to anticipating the global capital markets environment. Regular communication of these evolving views is at the heart of Arrowhawk's commitment to its institutional investors.

2) **Collaboration** – Investment manager selection emphasizes individuals seeking a collaborative investment culture, where information sharing is viewed as empowering and not devaluing an individual's standing within the organization. The emphasis is on the sharing of information leading to higher efficiency return opportunities.

3) **Investor Composition** – One's investor base represents the capital structure of the partnership. This was not adequately considered in the past by investment managers or investors. There is an increasing view that institutions with longer time horizons can gain an advantage by investing along with others like themselves. The primary objective within

Arrowhawk will be to have a diverse group of longer time horizon investors that do not create non-market driven liquidity risk.

4) **Ris□ Management** □Risk plays an essential role in policing the investment sub-strategies, ensuring compliance with concentration limits, absolute risk levels, and net exposures at both the Portfolio Fund and Durable Alpha levels. Risk management in its worst incarnation becomes a policing activity which traders or portfolio managers attempt to game or is simply a showpiece with no real decision making power. Risk research should identify concentrated factor risks, poorly balanced risk across markets and strategies, correlation dependencies, and event driven risk exposures. It should inform the individual PM□s and CIO as to the migration of their risk profile as well as their risk attribution and concentrations. The risk team and CIO report to the Risk Committee at Arrowhawk.

5) **Organi□ational Imperatives** □An absolute return investment management organization will see its value proposition erode if it views investment strategies as lines of business. The organizational imperative must be for the investment process to evolve as the opportunity set changes, otherwise the organization□s value proposition deteriorates.

To successfully generate absolute returns within Durable Alpha the investment professionals rely on both fundamental and quantitative research. The portfolios utilize both long and short positions in equity, debt, currency and commodity markets globally. This means that the portfolio will not primarily be driven by the markets going up and down but by the securities selection of the manager. Rather than targeting a benchmark the portfolio is constructed to achieve a targeted level of volatility. Should the markets become more volatile Durable Alpha will reduce positions to remain at its targeted level of risk. Durable Alpha□s investment strategy is one that seeks to find numerous idiosyncratic or unrelated investment ideas. These might include factors specific to a given currency or equity or factors impacting an overall market. The key to the investment strategy is a) controlling risk, b) both long and short ideas, c) many ideas which are unrelated to one another, and d) favorable probabilities on each of these unique investments in the portfolio manager□s □udgment. The five current disciplines have been chosen on the basis of the quality of investment management talent available in the market, which is now greater than ever before given the dislocation in the global financial system. ACP screens its potential investment talent very carefully, focusing very much on the potential for idiosyncratic idea generation, a desire to work in an open and collaborative culture, primary fundamental research capabilities and proven success in shorting. This last point deserves special emphasis given the firm□s focus on absolute return and low volatility. As a result of this screening process, Durable Alpha□s current disciplines and portfolio managers are□

Global Opportunities □Roy Lennox
Distressed / Special Situations □Arun Melvani
Japan / Asia □Tony Wong and David Dao
Commodities □Olav Refvik
Energy □Paul Coppola
Financial Services □Michael Cohen

The Financial Services team has been identified and is currently in the process of on-boarding. ACP expects them to be operational late in 4□ 2009. During the August 27 visit there an opportunity to spend time individually with each of the six portfolio teams.

Global Opportunities (“AGO”)

AGO seeks to take advantage of structural imbalances across global asset classes. The investment team will consistently focus on defined levels of discreet portfolio risk and the identification of trades and investments that exhibit asymmetric characteristics to achieve investment and return objectives. The investment team believes that an opportunity’s return-to-risk ratio should be at least three to one. In order to achieve its investment objective, AGO employs both “macro” and “micro” approaches. The “macro” approach refers to top down analysis of international imbalances and fund flows across asset classes and borders that are driven by major economic, behavioral, financial market and political factors. The top down approach will lead not only to identification of major macro driven trades but also seek to help to identify and exploit related opportunities across asset classes and geographic markets.

Distressed and Special Situations (“ADSS”)

ADSS views their market throughout the cycle, not only identifying opportunities for meaningful improvement in asset prices and quality but also those poised to deteriorate. They invest with a research intensive, value-orientation in opportunities in distressed credit, event-driven/special situations equities and directional alpha shorts. They have deep experience in sourcing, advising and investing in bankruptcies, restructurings and event-driven/special situations. Short positions are implemented in anticipation of a company’s business fundamentals deteriorating significantly. This tends to reduce the strategy’s reliance on improving credit conditions. ADSS maintains a significant and proprietary network of well-established relationships in industry, banking, legal and investment communities as a source to identify mispriced opportunities early.

Japan/Asia (“AJA”)

AJA combines global views with extensive research and deep technical expertise of Asian markets. The team invests in public market equities in China, Japan, Korea, Australia, Hong Kong and Taiwan. AJA employs an opportunistic emphasis on risk sizing while actively using short positions as alpha generators within both intrinsic value and relative value approaches. AJA’s portfolio managers bring their combined experiences in long and short investing, fixed income, derivatives, quantitative analysis and private equity into the investment process, with demonstrated skill in managing both market neutral and directional portfolio exposures.

Commodity Strategies (“ACS”)

ACS’s portfolio managers are recognized among the industry’s most successful commodity investors and are known to have been key elements of Morgan Stanley’s most profitable trading division over the past five years prior to joining ACP. ACS invests in energy, metals and agricultural commodities using directional and relative value strategies incorporating both long and short positions. ACS has deep fundamental and technical understandings of their markets, developed over the years managing client and proprietary commodity investments in both liquid markets and physical infrastructure. ACS expected returns will have a low correlation to commodity markets as well as other financial market assets.

Energy Strategies ("AES")

AES invests in the 150 most liquid energy stocks globally, but only 15% of the portfolio invested in non-US stocks in this construct. AES's objective is to generate absolute risk-adjusted returns with low correlations to commodities and energy prices through fundamental portfolio construction and disciplined risk management. The team has extensive research and trading expertise across commodities and public and private energy companies. With portfolio manager is based in Houston and the trader is based in Darien–the Houston presence gives AES the competitive advantage of being located where 80% of energy companies have a presence and being able to interact daily in the trenches of the industry. The Houston office is co-located with JVL Advisors, an energy private equity firm with direct engineering and reservoir experience, which AES uses as inputs into their fundamental research analysis.

Financial Services ("AFS")

AFS was ranked by EuroHedge as the #1 performer of *all* long-short equity strategies in their universe for both the one and three year periods ended December 31, 2008. AFS invests in global financial services and financial services related equity and credit markets, looking for value-oriented long and catalyst-driven short investments through expertise in determining relevant key macro variables and/or company specific valuation drivers. AFS is noted for alpha generation investing long, short or through neutrally positioned portfolios of both credit and equity securities. AFS has a deep understanding of capital structures and the identification of the common and preferred equity as "residuals" in context of leveraged balance sheets being effectively "securitizations". They focus on analysis of the risk factors present in each stock, industry, and sector, with the market's implicit pricing.

Each of the portfolio managers has full discretion for portfolio construction within their discipline. Michael Litt as CIO is responsible for the overall portfolio construction and investment management of Durable Alpha, which includes asset allocation, portfolio manager oversight and risk budgeting.

Risk Management

Arrowhawk's operating platform follows industry "best practices" for operational flexibility, risk management, and transparency of investor positions and exposures. The firm has also implemented rigorous dual signatory cash movement policies, backed up by a robust collateral management system. ACP also maintains portfolio level, individual security level transparency, allowing KRS to better manage our risks and verify the portfolio NAV. It will also allow KRS to verify historical performance, high water mark, and fees. Arrowhawk utilizes uses multiple Prime Brokers for greater completion and flexibility for the portfolio in managing its exposures. They also employ independent, third-party administrator and auditor for calculating the Fund NAV, capital account balances. International Fund Services ("IFS") is utilized as the back/middle office servicer and fund administrator. IFS is independent of Arrowhawk and responsible for the settlement of Arrowhawk's trading activities, as well as reporting the volumes and counterparty exposures. All trades are routed through Bloomberg Portfolio Management Systems ("POMS") directly from the trade counterparties to the Prime Brokers and IFS electronically. POMS is a secure system/database and Arrowhawk personnel do not have access to it. This trading and settlement protocol, along with the system's direct connectivity maintains the separation, independence, and transparency of ACP's platform. It reduces the potential for the manager to be able to manipulate positions or hide exposures that could lead to malfeasance. Arrowhawk has also enlisted Rothstein Kass, an independent accounting firm to perform the auditing services and to provide the year-end audit and preparation of the Fund's Schedule K-1's.

Arrowhawk targets an annual volatility of 6.0% (similar to the volatility of core fixed income). The firm seeks to have a Sharp Ratio that is greater than 2.0 and in keeping its equity and credit beta factors to less than 0.2. It also aims to maintain a volatility measure above -0.2.

Arrowhawk looks to fully integrate risk management within the portfolio construction process through dual risk methodologies. The firm approaches risk information as a research tool that is critical to portfolio construction and the risk management process. ACP utilizes internal and external capabilities in measuring its risk. Algorithmics and RiskMetrics bolster this analysis from an external perspective, while ACP internally calculates and evaluates standard value-at-risk (VaR) methodologies, historical performance, and Monte Carlo stress tests, as well as monitoring the relationships between asset volatilities. This analysis helps ACP generate risk factor dispersions and highlights portfolio risk concentrations or drifts.

<u>Arro□ha□□Rationale□</u>

There are several reasons why KRS finds the opportunity with Arrowhawk Capital Partners attractive. Arrowhawk has assembled a talented team within the multi-strategy fund. The firm has been able to attract teams that have been leaders with broad expertise within their respective asset classes. Michael Litt has stated that the teams assembled at Arrowhawk are as talented or more talented than that which he managed at FrontPoint. Mr. Litt has a demonstrated track record, proving himself to be an astute investment strategist as the lead portfolio manager at FrontPoint. Based upon his forward looking and perhaps unique global asset allocation views as well as his established asset allocation ability, Mr. Litt has launched Arrowhawk as a multi-strategy fund attracting the best-in class investment professionals.

Arrowhawk has the ability to more shift capital from less to more attractive opportunities/allocations among its strategies than do other similar MSF. Part of this is based on economic structure (compensation) within the Fund structure (ACP doesn't pool economics but each strategy or "line item" has its own P&L—part of this design structure is based on Michael's experience and background, since he wasn't tied historically to a single strategy). This presumably allows ACP to be unbiased and reallocate assets across ACP's fund teams without the worry that one group claims that they're "carrying" another group during a particular time period. This is beneficial since it is widely believed that most hedge fund managers are extremely motivated by compensation, so if you structure compensation to reward results, results should theoretically and in practicality, improve. It should also be favorable since ACP will be able to cut loose or reduce exposure to teams not pulling their weight.

Portfolio teams' interests are aligned with ACP (and its investors) and are compensated directly for their performance through a split of the management and base fees after some organizational costs are deducted. The portfolio managers also own equity in Arrowhawk Capital Partners, which allows them to benefit from the growth and profitability of the organization over a longer time horizon. The portfolio managers have also purchased some, as well as, been granted equity within ACP. The interests between Arrowhawk, its fund teams, and its investors (such as KRS) are further aligned as ACP's six founding partners have contributed $25 million of their own capital into the firm, as well as an additional $7 million in operating capital. The investment and ownership structure within ACP, along with the compensation sharing format is designed to combine the near and longer-term incentives of Arrowhawk personnel and align them with the interests of an investor such as KRS.

Arrowhawk has constructed itself to only accept investor within a share class on the same footing. Therefore, there will be no side letters, fees, or liquidity events that would advantage one investor at the expense of another. ACP has targeted high quality institutional investors with a longer-term focus. Thereby, ensuring that KRS is investing with other high quality investors that are stable. Arrowhawk has completed or is in discussions with a handful of other leading investors along with KRS, including Canadian National Rail (invested $200 million), San Joaquin County (invested for $100 million), Florida State Board of Administration (targeting $200 million), General Motors Pension (targeting $200 million), and the New York State Common Fund (targeting $200 million) for the remaining lead investor shares. In addition many other pension plans are in the process or have committed onsite due diligence visits to Arrowhawk and are in the process of consideration. Funds include Oregon PERS, State of Nebraska, Missouri PSRS, British Columbia Pension, Credit Suisse Pension, Korean Teachers Pension, State of Wisconsin, CALPERS, Mass PRIM, and Arizona PERS.

These types of investors can offer Arrowhawk the kind of stability that is important in allowing the Durable Alpha Fund to stay with its investment convictions during difficult economic or market conditions. This stability also is monetizable, as large stable pools of capital are very attractive to highly skilled and experienced portfolio managers as well as in potentially lowering the financing rates that ACP garners in the marketplace. ACP has agreed to place a cap on fund expenses, provide individual investor level accounting, and full transparency of security level holdings. Arrowhawk has outlined how it will go beyond other hedge funds in presenting transparency to clients. ACP will provide weekly P&L estimates along with month-end statements from prime brokers as well as verification of values/positions from the independent administrator.

Another critical component and rationale is that Arrowhawk has integrated its risk with its portfolio construction process. This capability should assist ACP in recognizing when markets are in excess or extremes. This capacity may allow ACP to go against frothy conditions as well as invest when dislocations exist that can be capitalized on. This function can control and mitigate risk. This risk controlled approach to investing can also benefit KRS overall Fund.

The stated investment objectives are a targeted net return of greater than 8% (based on 3% inflation), with a Sharpe Ratio of 2.0, and annualized volatility target (standard deviation) of 6%. These types of risk-adjusted/aware returns have the potential to offer KRS with a source of consistent returns KRS will require in meeting future liabilities.

A strategic partnership can benefit the Fund in several manners. Namely, Arrowhawk's willingness to share information and analysis may allow KRS to allocate its other assets in a way that can have a more opportunistic or strategic benefit. ACP market understanding and insights may allow KRS to take advantage of greater return prospects, while its risk measurement and management may allow KRS to structure/allocate itself more strategically to avoid looming investment threats.

Arrowhawk is a new firm with a new fund which is an opportunity for KRS to be a lead investor and capitalize on proven teams and compelling investment opportunities. As a lead investor, KRS would get a discount in fees and should always be an important client to Arrowhawk (reserving KRS future capacity if needed). Given the past history of many multi-strategy hedge funds and their less than stellar performance and operating results, investing in a new hedge fund should not be viewed as a negative.

Michael Litt's track record at FrontPoint (Sept. 2002 – December 2007)

Year	**Annual Return**	**Annualized Volatility**
2002	□ 7.62%	2.76%
2003	□17.19%	4.91%
2004	□13.73%	4.04%
2005	□12.86%	7.28%
2006	□ 9.34%	6.94%
2007	□41.44%	8.77%

It should be noted that the teams at FrontPoint from Sept. 2002 – December 2007 are entirely different from the teams assembled by Michael at Arrowhawk.

Finally, Arrowhawk is offering its earlier investors a considerable fee concession (please see the fees section below).

Benchmark:

Selecting an appropriate hurdle rate (benchmark) for which KRS utilizes in measuring the performance-based fee component, is critical for assessing the success of the manager and ultimately, KRS' absolute return strategies. It should be pointed out that the vast majority of hedge fund strategies do not have a hurdle rate and thus performance fees are based on an annualized hurdle rate of 0.0%.

Arrowhawk Capital Partners has agreed with KRS Staff to include a hurdle rate at both the Master Fund Level and at the individual team Portfolio Levels. The hurdle rate that has be chosen and agreed to by all parties is the twelve-month LIBOR rate.

LIBOR is the interest rate that banks charge each other for one-month, three-month, six-month, and twelve-month loans. LIBOR is an acronym for London InterBank Offered Rate. This rate is the rate that is charged by London banks, and is then published and used as a commonly charged reference rate all over the world. LIBOR is compiled by the British Bankers Association (BBA), and is published at 11:00 a.m. each day in conjunction with Reuters. It is comprised from a panel of banks representing countries in each currency.

The adoption of the twelve-month LIBOR rate coincides with the annualized period that Arrowhawk's performance-based fees will be calculated (January 1st to December 31st) at both the Master Fund Level and at the individual Portfolio Levels. Thus, the twelve-month LIBOR rate calculated at December 31st will be in place for the following calendar year. For the remained of the 2009 calendar year, a pro-rated share would be calculated. Thus, if a client joined on September 1, 2009, then four months will be realized for the year 2009 and a pro-rata share of the twelve-month LIBOR will be calculated at 33% (4/12).

For a point of reference, the current (September 15, 2009) twelve-month LIBOR rate is 1.26%.

Staff and Consultant believe that the twelve-month LIBOR is appropriate on two levels:

1) Matches the one-year annualized performance period which is used by Arrowhawk to calculate performance-based fees (calendar year basis)

2) LIBOR is an appropriate benchmark as it is the risk-free rate that is reflective of Arrowhawk's cost of capital

Fees:

The typical fund of funds overlays an additional layer of fees on top of the underlying manager fees. The underlying hedge fund managers usually charge a 2% management fee and 20% of the performance. Fund of funds charge an additional 1% management fee for their services (oversight and monitoring) and may seek a 10% performance fee as well. While these fees represent a premium over investing directly with the underlying hedge fund managers, these costs should be offset by the experience and expertise of the fund-of-funds managers as well as simplifying administration of a broadly diversified investment structure across a wide array of absolute return funds.

Comparatively, the typical multi-strategy fund chares a management fee of 2% with a 20% performance fee. There is no additional layer of fee, as with the FOF. Multi-strategy funds may also offer a netting feature, whereby the performance of all the underlying funds are netted before the calculation of the total excess performance fee, which can save KRS money if one or more of the underlying funds underperforms in a given year. FOF are not able to follow this same process.

Arrowhawk Capital Partners' fee structure is as follows:

Fees & Terms					
Mgmt Fee	**Performance Fee**	**Initial Lockup**	**Redemptions**	**Gate**	**Transparency**
Class A: 2%	20%	Class A: 3 year GP Stake	Annual w/ 60 days notice	None	Full position-level transparency with NDA
Class B: 2%	20%	Class B: 1 years	Annual w/ 60 days notice	None	Full position-level transparency with NDA
Class C: 1%	20%	Class C: 3 years	Annual w/ 60 days notice	None	Full position-level transparency with NDA

Arrowhawk Capital Partners has asked that KRS be one of their lead investors in their Durable Alpha Fund. Arrowhawk will give KRS a fee break by being a lead investor in their "C" Class of shares and will also provide full transparency. The standard base fee of 2% will be reduced to 1% payable on a quarterly basis of the net assets. Arrowhawk will agree to waive the Base Management Fee (1.0%) with respect to Class C Shares as follows: (a) for four consecutive quarters if the Master Fund reaches $3 billion in assets at any fiscal year end, and (b) for four additional consecutive calendar quarters if the Master Fund reaches $6 billion in assets any fiscal year end. KRS will still be responsible for the performance fee component at 20%. If ACP is successful and KRS is a lead investor, this has the potential of being a sizeable concession to KRS.

Conclusion:

Consistent with KRS' annual Five-Year Investment Plan, KRS is seeking to diversify its asset classes and strategies through absolute return strategies. The objective of the absolute return strategy is to preserve capital and deliver positive (absolute) returns under most market conditions. It is anticipated that the returns from this program should largely be uncorrelated to market movements (systematic risk) and primarily based on manager skill. It is intended that KRS' program be structured so that risk should be specific to each manager, not to the systematic risk of the markets. The active risk of the aggregate absolute return managers (before equitization) should be similar or even less than that of many bond managers, with the beneficial expectation of enhanced returns over time. The absolute return strategy's implementation is designed to provide added active return (alpha) with minimal additional risk.

The fund-of-fund and multi-strategy funds both offer a way to accomplish these goals. However, the combined benefit of these different approaches is likely to enable KRS to gain exposure to distinct business models and investment philosophies/focuses which have differentiated time-horizons and reaction speed with which to allocate to investment opportunities. KRS believes that implementing a complimentary approach of diversified alpha streams which combines the advantages of the broad diversification (low manager correlations) and gradual allocations rebalancing of fund of funds with that of the more opportunistic and transparent allocation activities of a diversified multi-strategy manager, provides KRS with a core foundation that stands the best chance for meeting KRS' absolute return program objectives.

KRS' investment objectives for a multi-strategy fund are to deliver consistently positive (absolute) returns regardless of the directional movements in equity, interest rate, or currency markets under a diversified risk-controlled profile that is consistent with that of bond-like exposures.

Consistent with the absolute return characteristics, Arrowhawk Capital Partners is multi-strategy fund that seeks to identify extreme valuations in the financial markets and invest in a variety of investment strategies that target an overall return of the risk-free-rate (12 month LIBOR) plus 500 basis points per annum. ACP is also targeting a Sharpe Ratio of 2.0, and annualized volatility target (standard deviation) of 6%. These types of favorable risk-adjusted returns potentially offer KRS a source of consistent (alpha) returns in meeting future liabilities and preserving principal during down market environments.

In addition to the stated expected returns, Arrowhawk has attracted and assembled a talented investment team with a breath and depth of expertise in the various strategies as well as Michael Litt's demonstrated track record that bodes well that Arrowhawk will likely achieve these stated objectives. Mr. Litt has proven to be an astute investment strategist/portfolio manager and the ACP platform integrating risk management into the portfolio construction process provides ACP with the capability to shift assets to more attractive opportunities while mitigating risks from extreme market conditions, thus providing KRS with a greater degree of principal protection.

ACO has structured its compensation format to align the interests of their various teams with that of the entire ACP firm. The compensation format, sharing equity across and within ACP fund teams, in addition the $32 million in founding partners' capital further aligns the portfolio managers and founding partners with the near- and long-term interests of Arrowhawk's investor base (i.e., KRS).

Furthermore, ACP has targeted high quality institutional investors with a longer-term focus, ensuring that KRS is investing alongside similarly focused high quality/stable investors. This is approach is important to KRS a investors in the same share class will be treated identically and no side letters, fees arrangements, or liquidity events will disadvantage KRS for the benefit of another same share class investor. This structure also stabilizes the fund and allows ACP to stay with their investment convictions moreover monetize this stability for the benefit of the investors.

Finally, Arrowhawk is offering its earlier investors a considerable annual fee concession, discounting the management fee by 50%.

Recommendation:

It is recommended that the Investment Committee approve an allocation of up to $200 million of the Fund's assets to be invested in an absolute return diversified multi-strategy fund, managed by Arrowhawk Capital Partners ("ACP").

Appendix□

The following are several of the strategies that are utilized by absolute return fund□of□ fund/multi□strategy managers□

Convertible Arbitrage□Investment strategy that is long convertible securities and short the underlying equities
Distressed Securities□ Invests long (and some short) securities of companies that are in reorganizations, bankruptcies, or some other corporate restructuring
Emerging Mar□ets□ Investment in securities of companies in developing or "emerging" countries - primarily long
Gro□th Funds□Investment in a portfolio or "core" holdings in growth stocks. Many of these portfolios are hedged by shorting and utilizing options
Macro Funds□The investment philosophy is based on shifts in global economies. Derivatives are often used to speculate on currency and interest rate moves
Mar□et Neutral□Strategy that attempts to lockout or "neutralize" market risk
Mar□et Timing□Allocation of assets among investments primarily switching between mutual funds and money markets
Merger Arbitrage□Invests in event-driven situations of corporations, such as leveraged buy-outs, mergers, and hostile takeovers. Managers purchase stock in the firm being taken over and, in some situations, sell short the stock of the acquiring company
Multi□Strategy Fund□ Specific portions are utilized for separate strategies, e.g., growth, convertible arbitrage, and market neutral
Opportunistic□Investment theme is dominated by events that are seen as special situations or opportunities to capitalize from price fluctuations or imbalances
Sector Funds□Invest in companies in sectors of the economy, e.g., financial institutions or bio-technologies. These funds invest in both long and short securities and will utilize options
Short Selling□Short selling of securities
Derivative Funds□These funds invest in derivative instruments such as futures and options with the aim of achieving high returns
Commodity Funds□These funds invest in shares of companies that operate in commodity related industries or hold physical commodities such as bullion
CTA□A fund that is a Commodity Trading Advisor's account where the trades are generally focused in commodity futures, options, and foreign exchange with a high degree of leverage
Short □ias□A fund that consistently maintains a net short position to the overall market

EXHIBIT 9

To: Tony Johnson[Tony.Johnson@rvkuhns.com]
From: Burnside, Mike (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=MIKE.BURNSIDE]
Sent: Thur 12/3/2009 4:26:53 PM (UTC-05:00)
Subject: RE: USM Arrowhawk

Thanks for the quick response. I will call tomorrow if we have any more questions.

Have a safe trip back!

Mike

Mike Burnside
Executive Director
Kentucky Retirement Systems
502-696-8800
Fax 502-696-8801

From: Tony Johnson [mailto:Tony.Johnson@rvkuhns.com]
Sent: Thursday, December 03, 2009 4:07 PM
To: Burnside, Mike (KRS)
Cc: Vince Lang; Tosh, Adam (KRS); KRS Team
Subject: RE: USM Arrowhawk

Mike,

SIS conducted a much more thorough analysis of Arrowhawk, and they took the lead on this due diligence. Adam asked us to take a general look at Arrowhawk, which we did. I believe he called it a “belts and suspenders” approach by asking RVK to conducting due diligence on Arrowhawk. However, we sit as a second chair consultant to SIS on this analysis.

We stand by our memo, and our general comments about a possible structure for the KRS hedge fund portfolio. Unfortunately, we did not spend enough time with each Arrowhawk strategy team nor with their back office operations team in order to provide a clear recommendation. We simply provided some of the merits and challenges we identified with the Arrowhawk organization and proposed strategy.

I hope the more thorough report and comments made by SIS during the meeting will provide the Trustee with the insight requested.

Although I am traveling today on business, I am available for a discussion by cell phone [redacted]). I will be back in my office tomorrow if that time suits you better.

Best regards,
Tony

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From: Burnside, Mike (KRS) [mailto:mike.burnside@kyret.ky.gov]
Sent: Thursday, December 03, 2009 3:30 PM
To: Tony Johnson
Cc: Vince Lang; Tosh, Adam (KRS)
Subject: USM Arrowhawk

Tony,

I need to ask your assistance on an issue that has come up regarding our selection of Arrowhawk. As you are probably aware, one of our trustees who did not attend the Sep 29 Investment Committee has raised questions about the hiring process for Arrowhawk, and I am contacting you on behalf of Vince to ask for some information.

As you and I have discussed before, RVK provided an analysis that was not intended to be a recommendation for action to either our staff or to the Investment Committee. After the Sep 29 discussion on Arrowhawk, you responded to a question from Board Chairman Randy Overstreet about whether Arrowhawk appeared to be a good fit for our portfolio. In listening to the recording of that meeting, your response was that fund-of-funds and multi-strategy funds are complementary strategies that fit well with our portfolio. You stated that you had been asked by Adam to bring forward a report on fund of funds, and the MSF selection would work well with the fund of funds to benefit the portfolio.

Brent contacted you yesterday to see if we could get, in your words, the essence of that exchange. You sent the following to him:

" RVK believes that it makes sense that KRS creates a hedge fund portfolio that includes traditional fund of funds managers complemented by direct strategies (Core/Satellite approach). We acknowledged that we visited with Arrowhawk for a few hours in their offices and could only develop general pros/cons about the firm. We further acknowledged that that we do not normally analyze multi-strat hedge fund managers. Therefore, we could not provide an opinion."

In an email to Vince, the trustee questioning the selection has stated the following:

"This particular situation and my concerns can be remedied easily without a formal meeting with a short letter from RV Kuhns that says the following that Vince you can easily request.

RV Kuhns has thoroughly reviewed Arrowhawk and we are comfortable recommending it for KRS and our other clients. We think that the systems initial $200 million hedge fund investment in a start up, stand alone firm like Arrowhawk is appropriate in this case because…….."

I would like to get a written response from you that either addresses the request from the trustee above or that expands on your original response to Brent. My goal is to provide your input to the trustee so that they can determine whether their concerns have been addressed. Your response should reflect the position of RVK without any influence from KRS staff or trustees.

As always, I appreciate your support for KRS. Please let me know if you have any questions—I can be reached at 502-696-8455 (direct) or 502-382-8388 (cell).

Thanks again,
Mike

Mike Burnside
Executive Director
Kentucky Retirement Systems
502-696-8800
Fax 502-696-8801

EXHIBIT 10

Absolute Return Review & Agenda

February 5th, 2013

Annual Review Outline

•Calendar Year 2012 Performance Review

•KRS Absolute Return Activity Year in Review

•Forward Looking Plans

Absolute Return Strategies - Annual Review Summary

Why KRS Invests in Absolute Return Strategies ?

•Broadly, KRS pursues Absolute Return Strategies due to favorable risk adjusted returns, broadened exposure to different investment strategies and instruments, and for overall portfolio diversification.

•Per IPS the guidelines for the Absolute Return Strategies are to :

1) Achieve a rate of return that exceeds the appropriate benchmark annually over a complete market cycle (historically 3-5 years), net of all investment management fees.

2) Achieve a positive risk/reward trade-off when compared to similar FoF Investment Managers.

• RVK's long term capital market expectations for absolute return strategies is to have an expected return of 7.50% and expected standard deviation of 9.0%. This is comparable to RVK's long term projections in terms of the risk-return trade-off to core fixed income (4.5% expected return and 5.5% expected standard deviation) and favorable to the risk-return trade-off of global equity (8.45% expected return and 17.85% expected standard deviation).

Absolute Return Strategies Defined

Absolute Return Strategies, by definition, are not necessarily a separate asset class, but broaden the opportunity set within existing asset classes such as stocks, bonds, currencies and commodities by going both long and short, employing derivatives and leverage, and shortening and extending investment horizons, amongst others.

This may include hedge funds utilizing strategies such as convertible arbitrage, fixed income arbitrage, credit/distressed, long/short equity and global macro. However, unconstrained mutual funds and ETFs can pursue absolute return strategies as well.

The key differentiator is a focus on absolute returns, largely uncorrelated to systematic market factors, such as equities or credit.

Calendar Year 2012 Review

Allocations: Pension plans are broadly in-line with 10% targets, but we note insurance plans have become slightly underweight, with the notable exception of KERSH. Staff is currently rebalancing all plans back to 10% targets.

Individual manager allocations are in table below. Absolute Return is roughly equally weighted across all three FoF managers in both the Pension and Insurance Funds.

Table 1 – Plan Summaries

	Absolute Return	Plan Value	Percent
KERS	$307,770,459	$2,889,332,747	10.7%
KERSH	$49,762,086	$496,571,554	10.0%
CERS	$559,086,148	$5,539,705,676	10.1%
CERSH	$174,656,196	$1,749,066,595	10.0%
SPRS	$32,009,209	$251,237,814	12.7%
Pension	**$1,123,284,098**	**$10,925,914,386**	**10.3%**
KERS	$42,019,789	$430,902,110	9.8%
KERSH	$40,258,059	$349,383,353	11.5%
CERS	$146,335,607	$1,500,956,305	9.7%
CERSH	$79,496,688	$828,598,991	9.6%
SPRS	$12,647,132	$131,323,014	9.6%
Insurance	**$320,757,274**	**$3,241,163,772**	**9.9%**
Sum Total	**$1,444,041,372**	**$14,167,078,159**	**10.2%**

Table 2 – Manager Summaries

	Pension	Insurance	System
Blackstone Henry Clay LP	$379,928,558	$107,966,281	$487,894,839
PAAMCO Newport Colonels LLC	$372,654,754	$105,753,107	$478,407,861
Prisma Daniel Boone LLC	$370,700,786	$107,037,886	$477,738,672
Absolute Return	**$1,123,284,098**	**$320,757,274**	**$1,444,041,372**

Calendar Year 2012 Review

Chart 1. Strategy Allocation

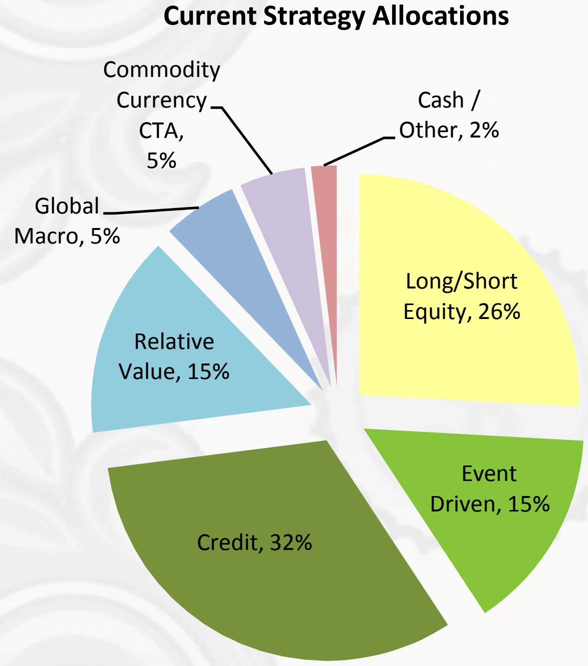


Table 3. Largest manager look-through concentration

Manager	Position	% of portfolio	% of system assets
BSOF LP Feeder	$44,943,528	3.1%	0.31%
LibreMax	$44,532,605	3.1%	0.31%
DE Shaw	$41,953,586	2.9%	0.29%
Mariner/Tricadia	$28,473,480	2.0%	0.20%
BlueCrest	$27,176,597	1.9%	0.19%

Calendar Year 2012 Performance Review

The Pension fund Absolute Return portfolio gained 7.06% in calendar year 2012, while the Insurance fund added 7.16%, both significantly outpacing the HFRI Diversified FoF Index which yielded 3.32% (lagged one month).

All 3 FoF managers generated positive excess returns versus their benchmarks. Staff notes that Blackstone and Prisma were the strongest performers on the year.

Table 4 - Performance Summary

Calendar Year 2012	Pension	Insurance
KRS Absolute Return Portfolio	7.06%	7.16%
HFRI Diversified FoF (lagged)	3.32%	3.32%
Relative Performance	3.74%	3.84%

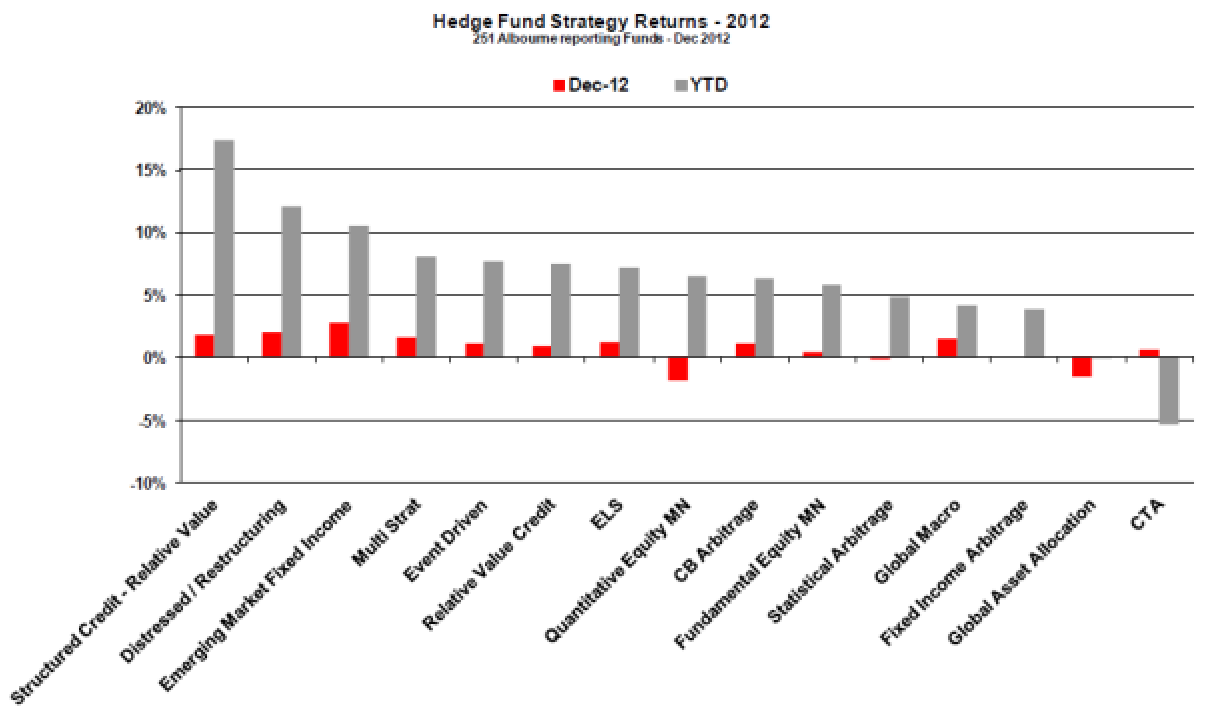
We note the Absolute Return portfolio began on September 2011, hence three and five year performance periods are not yet available.

Pension	2012 Lagged Performance	2012 Lagged Benchmark	Excess Return
Blackstone Henry Clay LP	7.87%	3.32%	4.55%
PAAMCO Newport Colonels LLC	6.00%	3.32%	2.68%
Prisma Daniel Boone LLC	7.77%	3.32%	4.45%

Pension	2012 Actual Performance	2012 Actual Benchmark	Excess Return
Blackstone Henry Clay LP	9.11%	4.30%	4.81%
PAAMCO Newport Colonels LLC	7.09%	4.30%	2.79%
Prisma Daniel Boone LLC	9.18%	4.30%	4.88%

Calendar Year 2012 Market Review

2012 was a solid year for risky assets, as equities and credit posted solid double-digit gains, roughly 16% each. Within Absolute Return, managers across long bias credit, credit relative value, and fixed income arbitrage performed well, posting returns in the 10% to 15% range. Long-short equity managers did well as equity correlations came down, up about 8% after a poor showing in 2011. Macro and CTAs struggled, with macro up 4.5% and CTAs down for the year. However, it should be noted that these averages masked extremely wide dispersions in these sectors, as manager selection was key for 2012.



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Absolute Return Activity Year in Review

2012 Investment Activity:

Staff spent significant time researching absolute return managers and strategy mixes, as well as continuing to proactively source new ideas including:

- 46 unique calls
- 68 separate meetings
- database of 424 absolute return managers

Albourne Partners – Staff began an RFI process for ARRA Consultant in June 2012
– IC approved hiring of Albourne Partners on September 19, 2012
– Contract successfully executed on November 5, 2012

Investments:

No investments were proposed during the year. However, Staff managed the wind-down of the Arrowhawk investment, recovering 100.1% of invested capital and reinvested this redemption into the fund of funds portfolio. (Arrowhawk was roughly flat for the year.)

Absolute Return Forward Looking Plans

2013 Investment Activity:

Objectives:

• First, to introduce direct hedge funds into the portfolio to complement and enhance the existing portfolio of fund of funds.

• Second, to adjust aggregate strategy exposure mix to provide more accurately calibrated risk/return profile and equity correlation characteristics given KRS-specific portfolio considerations.

• Recommend formal changes to the Investment Policy Statement regarding allocation targets, allowable ranges, and benchmark changes.

Directs vs. Fund of Fund

Arguments for a Direct Portfolio:

• Fees: First, reducing allocations to Funds of Funds can lower the total fees an institutional investor pays on the underlying portfolio and subsequently, and most importantly, increase the net return on investment by removing this added layer of fee drag. (Average FoF fee structure of 0.65% management fee and 10.0% of performance)

• Idiosyncratic risk: If the argument for manager selection in absolute return is to pick those that generate alpha, or above average returns, then the larger the number of managers in a portfolio, the more the return on the portfolio must regress to the mean. That is, alpha is a zero sum game. By concentrating a portfolio of higher conviction, top-quartile managers, an investor may be able to generate higher net returns with no incremental increase in systematic risk.

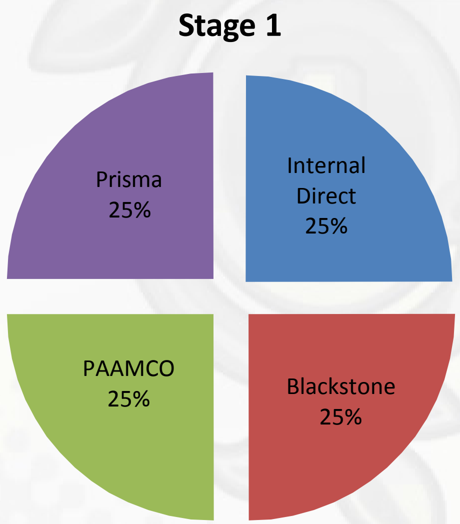
• Systematic risk: Staff believes the current strategy allocation, while certainly diversified, is overly reliant on broad corporate/credit risk. Nearly 73% of the underlying hedge fund assets are in funds that in one way or the other invest in either equities or credit instruments, or some combination of both. This results in a higher equity correlation that could be lowered with different strategy mix.

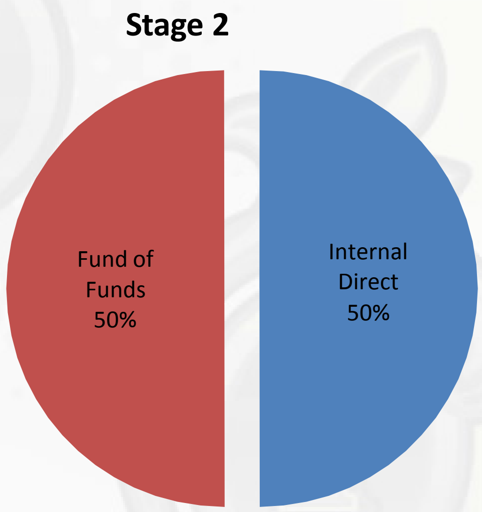
Target Portfolio Objective
Direct Portfolio

Intermediate objective:
Stage 1: 2-3 year plan = 75% FoF / 25% Direct

Long term objective:
Stage 2: 5 year plan = 50% FoF / 50% Direct

		Fund of Fund	Direct	Abs Ret
	Q3 2011	$1,350	$100	$1,450
	Q3 2012	$1,450	$0	$1,450
	Q3 2013	?	?	$1,450
Stage 1	**Q3 2014**	$1,100	$375	$1,475
	Q3 2015	?	?	$1,500
Stage 2	**Q3 2016**	$750	$750	$1,500





Target Portfolio Objective
Strategy Allocations

First, a comment on hedge fund strategy allocations. Hedge funds are a notoriously heterogeneous group of strategies. They are difficult to benchmark and categorize. Further, a key component of the success of hedge funds in outperforming static passive market indices over time is their ability to move across asset classes. Also, within any category, some managers may be more consistently long-biased and some may be more variable in their approach, in fact running net short at times, which results in wide dispersion in correlations and returns across managers within the same category.

While these characteristics must be understood and monitored, they make strategy allocation decisions relatively less meaningful than in traditional asset classes. This necessitates broader allowable ranges. Finally, because manager selection is so critical, portfolio construction is truly an integrated process of strategy allocation and manager selection decisions. Given the primary objective is to identify true alpha generators, manager selection is key.

Target Portfolio Objective
Strategy Allocations

Assuming a 25% allocation to direct hedge funds ($375 million), a strategy mix in Chart 2 might be recommended. Such an allocation for the direct portfolio would have the effect of reducing the overall Absolute Return portfolio's exposure to equity and credit, as demonstrated in Chart 3.

Chart 2. Direct Portfolio Strategy Allocations

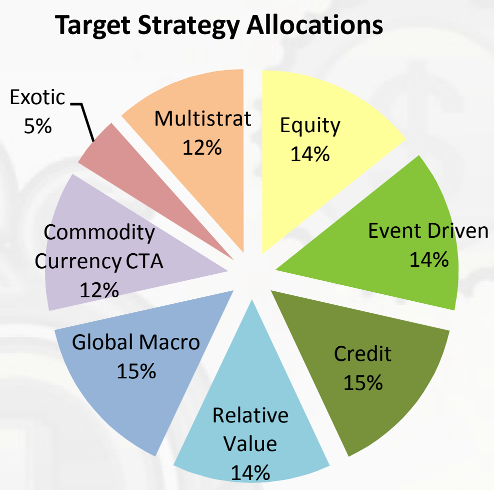
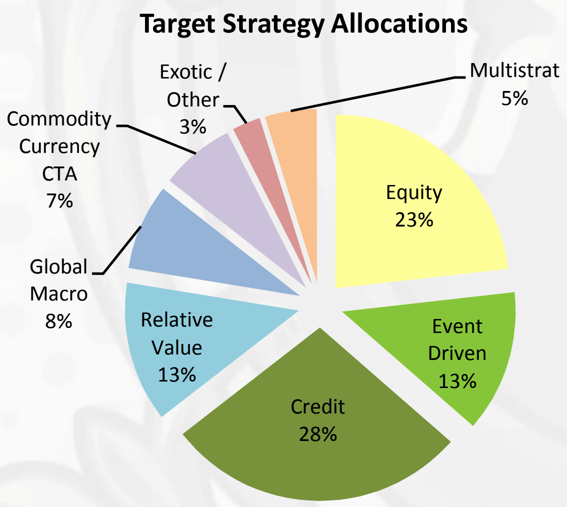


Chart 3. Absolute Return Strategy Allocations



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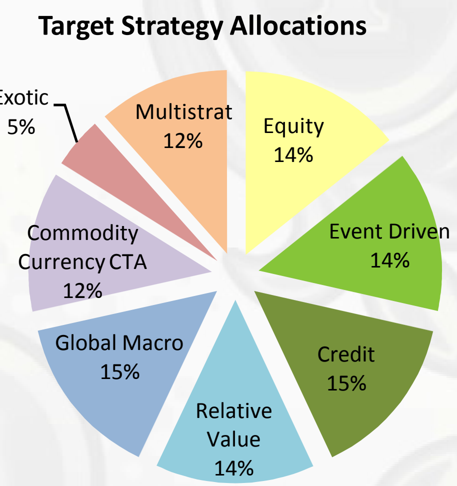
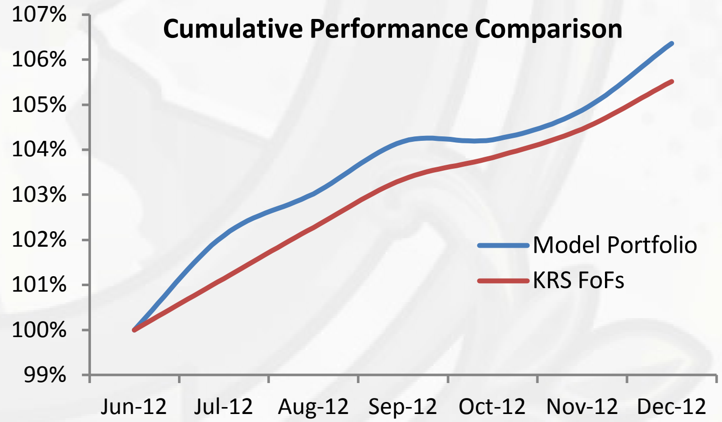
Target Portfolio Objective
Strategy Allocations

Staff has spent considerable efforts researching* hedge fund strategy allocations and portfolio construction approaches, as well as vetting managers in each strategy. As mentioned, portfolio construction is an integrated process of choosing managers and strategies simultaneously, rather than picking pie slices first and then filling them in later. Such an allocation frames the starting point of the discussion with Albourne.

Chart 2. Direct Portfolio Strategy Allocations





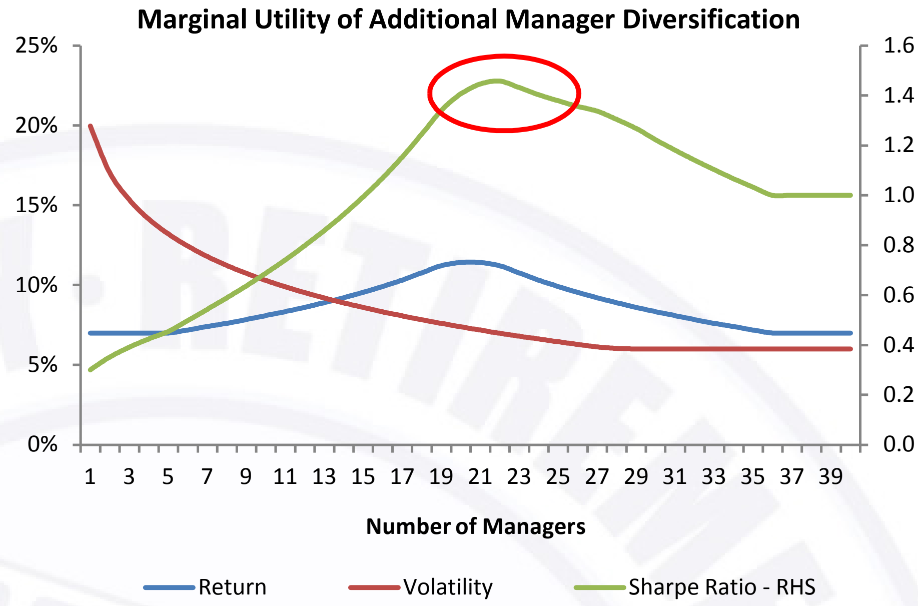
Similar to Consultant Albourne, Staff has built a model portfolio of direct hedge funds. However, this model has not been back tested; rather, this was built in July 2012 and has been monitored since. Performance has solidly outpaced the Fund of Funds over the last six months, gaining 6.4% versus 5.5%, (or annualizing at 13.1% versus 11.3% for KRS' FoFs).

Target Portfolio Objective

Manager Selection

The appropriate number of managers in a hedge fund portfolio represents a trade-off between diversification and concentration. Staff has researched manager concentration extensively* and believes an appropriate range is somewhere between 20 to 30.

Further, a $375 million direct target allows individual position sizes of $17 million for a portfolio of 22 managers. These tickets are large enough to be meaningful, but small enough to be prudent.



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Road Map

Which way to go?

Road Map 1 – Diversified Portfolio

Two Step Process:

Recommend: 1) Portfolio of 10 managers in 2013
2) Portfolio of 10 managers in 2014

Pros:
1) Quick implementation, hit deadlines exactly
2) Integrated, holistic portfolio construction immediately
3) Better diversification early, less tracking error
4) Longer monitoring period and easier Stage 2 implementation

Cons:
1) Either stresses Investment Committee manager approval process,
2) Or individual managers do not present / Albourne proposes portfolio

Stage1

Stage2

Plan 1		Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Approval	Roadmap			10 Managers			10 Managers			1 Manager			1 Manager		Upsize		
	Total			10			20			21			22		22		
	$ (million)			$170			$170			$15			$20		$375		
	Total $ (M)			$170			$340			$355			$375		$750		

End of 2014
75% FoF/
25% HF

End of
2016
50% FoF/
50% HF

Road Map 2 – Incremental Approach

Ongoing Process:
Recommend: 1) 1 to 2 managers every quarter

Pros: 1) Measured approach
2) Does not stress IC manager approval process

Cons: 1) Creates significant potential for strategy/style bets early on (tracking error)
2) Potential for individual manager risk, insufficient manager diversification
3) Portfolio construction may be sub-optimal, as process is not integrated
4) Stage 1 delayed
5) Shorter monitoring period before Stage 2 implementation

Stage1 Stage2

Plan 1	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Approval	Roadmap	2 Managers	1 Manager	2 Managers	2 Managers	2 Managers	1 Manager	2 Managers	2 Managers	1 Manager	2 Managers	2 Managers	1 Manager			Upsize
	Total	2	3	5	7	9	10	12	14	15	17	19	20			20
	$ (million)	$35	$18	$30	$35	$30	$35	$30	$35	$15	$35	$30	$18			$365
	Total $ (M)	$35	$53	$83	$118	$148	$183	$213	$248	$263	$298	$328	$345	$345	$345	$710

End of 2015
75% FoF/
25% HF

End of 2016
50% FoF/
50% HF

Road Map 3 – Hybrid Approach

Four Step Process:

Recommend: 1) 2 Portfolios of 5 managers in 2013
2) 2 Portfolios of 5 managers in 2014

Pros:

1) Fairly quick implementation, hit deadlines
2) Compromise: measured approach and integrated portfolio construction
3) Limited tracking error and limited individual manager risk
4) Does not overly stress IC manager approval process, or Albourne can propose
5) Substantial evaluation period prior to Stage 2 implementation

Cons:

1) Perhaps none

Stage1 (Q3 2014 – Q4 2014) · Stage2 (Q3 2016 – Q4 2016)

Plan 1	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Approval	Roadmap	5 Managers		5 Managers		5 Managers		5 Managers			1 Manager			Upsize		1 Manager
	Total	5		10		15		20			21			21		22
	$ (million)	$75		$85		$75		$85			$18			$350		$30
	Total $ (M)	$75		$160		$235		$320			$338			$688		$718

End of 2014
75% FoF/
25% HF

End of
2016
50% FoF/
50% HF

EXHIBIT 11

To: Burnside, Mike (KRS)[mike.burnside@kyret.ky.gov]
From: Tosh, Adam (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=ADAM.TOSH]
Sent: Fri 3/19/2010 9:16:52 AM (UTC-04:00)
Subject: Re: KRS ALM Update

On Mar 19, 2010, at 9:15, "Burnside, Mike (KRS)" mike.burnside kyret.ky.gov wrote

Call me on this when you get a chance.

Thanks!

Mike Burnside

Executive Director

Kentucky Retirement Systems

502-696-8800

Fax 502-696-8801

From: Tony Johnson [mailto:Tony.Johnson@rvkuhns.com]
Sent: Friday, March 19, 2010 8:03 AM
To: Tosh, Adam (KRS); Burnside, Mike (KRS)
Cc: KRS Team; AL Study Team
Subject: RE: KRS ALM Update

Adam and Mike,

I know you both are receiving outside pressure to present the results of our asset/liability study. I assure you that we are working as quickly as possible to provide the four comprehensive and customized studies on your KERS plans. As you know, your plans face many challenges, including limited contributions to help improve declining funded ratios. We want to present studies that will give you and your Committees enough detailed information to make what could be difficult but necessary decisions in order to meet your liquidity demands for as long as possible into the foreseeable future.

We are still committed to completing the four A/L studies by the end of the 8 week period from the point that we received the data. The attached chart details the completion dates for key stages of each study, which shows the KERS Retirement Studies delivered to you by 4/2/10 and the KERS Insurance Studies delivered by 4/9/10. As you will see, we have a short turnaround time from the day we receive the data until we expect to deliver the results to you.

Adam, I know you mentioned you need results before the end of March. We are still working to as fast as we can to beat these deadlines, but the chart shows realistic dates. You also mentioned needing the studies to complete your annual investment plans and to schedule new investments. Our recommendation is to halt new investments until we can complete this study. The results will have an impact on the allocations to different asset classes and the types of investments KRS should make going forward within the different plans under KERS. We are not far from our completion date, so current searches (all cap equity and diversified absolute return strategies) should continue forward without making commitments to the funding amounts. Also, let me know if you have any deadlines to sign private equity documents by the end of April. Any such allocations may be affected by the studies. We are aware of the staged commitment to Arrowhawk, which the Committee approved.

Adam and Mike, if you have questions or comments, please call me. Although I am traveling on business today, I should be available this afternoon.

Best regards,

Tony

Anthony K. Johnson

Principal, Senior Consultant

R.V. Kuhns & Associates, Inc.

One Penn Plaza, Suite 2128

New York, NY 10119

646-805-7080 Direct

646-805-7980 Facsimile

646-805-7075 Main

Tony.Johnson@rvkuhns.com

www.rvkuhns.com

From: Tony Johnson
Sent: Tuesday, February 02, 2010 2:14 PM
To: Tosh, Adam (KRS); Burnside, Mike (KRS)
Cc: KRS Team; AL Study Team
Subject: KRS ALM Update

Adam,

Our actuary sent us the data for the first study (KERS Pension) last Friday. Once we receive the data, several factors will determine how quickly we can complete the study. Below is an outline of events and our estimated completion time. Also, we have to factor in modeling two contribution scenarios (actuarial assumption and reduced contribution), which could extend the timeframe closer to the longer end of the range.

- Program ProVal and scrub data
- Preliminary Report generation (internal)
- A/L Team peer review
- Client team review
- Finalizing the report and present to KRS Staff

We estimate 6 to 8 weeks to completion, but will push for much sooner.

Best regards,

Tony

Anthony K. Johnson

Principal, Senior Consultant

R.V. Kuhns & Associates, Inc.

One Penn Plaza, Suite 2128

New York, NY 10119

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Tony.Johnson@rvkuhns.com

www.rvkuhns.com

2010 KRS Asset Liability Schedule.pdf

EXHIBIT 12

To: Tosh, Adam (KRS)[adam.tosh@kyret.ky.gov]
Cc: KRS Team[Team.KRS@rvkuhns.com]; Todd Shupp[Todd.Shupp@rvkuhns.com]
From: Tony Johnson[Tony.Johnson@rvkuhns.com]
Sent: Tue 1/5/2010 11:59:31 AM (UTC-05:00)
Subject: Hedge Fund of Funds - candidates

Adam,

Please let me know if you have any firms you want us to pre-screen before we put together our HFOF candidate evaluation report. We can schedule a call with you to discuss the candidates we plan to present to you and your Committee and discuss any firms on which you want us to discuss our opinion and comments during a conference call.

We'd like to target mid-January to receive your names so that we can first discuss them and then put together a report by mid February (inclusive of 4Q09 data). If our timing works out well, we can present a viable list of HFOF candidates (no formal report) to the Investment Committee at the February meeting. Following a review of the report with you, we can narrow the candidates down to a few to conduct interviews and develop a KRS/RVK recommendation for the Committee at a future Investment Committee meeting.

Let me know if you agree with this process.

Best regards,

Tony

Anthony K. Johnson
Principal, Senior Consultant
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New York, NY 10119
646-805-7080 Direct
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646-805-7075 Main
Tony.Johnson@rvkuhns.com
www.rvkuhns.com

EXHIBIT 13

To: Tosh, Adam (KRS)[adam.tosh@kyret.com]
From: Sobczak, Iliana[Iliana.Sobczak@Blackstone.com]
Sent: Mon 1/11/2010 10:03:41 AM (UTC-05:00)
Subject: Greetings from Blackstone

Hi Adam,

Happy New Year! I hope you had a great time with your family around the holidays.

I wanted to send you a quick note that I have settled in Blackstone (hopefully you won't ignore this message due to my new last name) to see how things are going on your end.

My colleagues and I just finalized our investor (both existing and prospective) and consultant coverage internally and as a result, I will be covering the state of KY as I did while at FrontPoint. I know that you had interacted with my colleague Brian Schwartz in the past and that he visited you last summer.

If appropriate, I'd be interested in catching up with you on the progress of your hedge fund initiatives when you have a free minute. I'd also be happy to provide an update on BAAM, our flagship products as well as introduce you to our more niche and unique HF strategies that may also be of interest including Strategic Alliance Fund II that we're currently raising - it's our hedge fund seeding platform that invests in emerging HF managers and the investors partake in their revenue sharing in addition to the performance generated by the managers - set up in a PE structure.

I look forward to hearing from you.

Best regards - Iliana

Iliana Nikolova Sobczak, CFA
Vice President
Blackstone Alternative Asset Management L.P.
345 Park Avenue, 28th Floor
New York, NY 10154
Ph: (212) 390-2421
iliana.sobczak@blackstone.com

EXHIBIT 14

Executive Summary
Fund of Hedge Funds Search
August 15th, 2011

OVERVIEW

The KRS search to fill the remaining Fund of Hedge Funds ("FoHF") allocation conducted over the course of 2010 and 2011 was initially presented to the Investment Committee on August 2, 2011. This memorandum addresses follow-up questions the Committee posed in that meeting (please see attachment A for a copy of the Staff prepared August 2nd memorandum). Specifically, the Investment Committee requested that Staff provide additional information regarding the following topics: 1) Why three firms were recommended as opposed to a different quantity and why specific firms that were ultimately recommended were selected over other options – this is addressed in Section 1; 2) Management fees – this is addressed in Section 2; 3) Concerns over the percentage of assets under management ("AUM") KRS may represent for the recommended firms – this is addressed in Section 3; and 4) Organizational backgrounds of the recommended firms – this is addressed in Section 4.

SECTION 1 - SEARCH PROCESS

The August 2nd Investment Committee Meeting resulted in the request for Staff to provide more detail into the FoHF search process. Two main questions arose out of the meeting: 1) why three managers were hired as opposed to a different quantity; and 2) why BAAM, PAAMCO, and Prisma were selected over other investment options. Staff will address these questions by expanding on the text provided in the August 2nd memorandum, discussing in detail the considerations taken by Staff throughout the search process in assessing managers individually and in constructing the recommended portfolio. The following section is divided into four sub-sections: Sub-section 1.1 – "Manager Due Diligence: Desirable Qualities" discusses those stand-alone qualities Staff looked for in the managers being analyzed; Sub-section 1.2 – "Search Process Description" walks through the various stages in the process contextualizing sub-section 1.1 as an input into the decision making process; Sub-section 1.3 – "Portfolio Construction Considerations" discusses how managers were selected to be put together into a larger group given those materials presented in both sub-sections 1.1 and 1.2; Sub-section 1.4 provides a brief summary of conclusions resulting from the analysis described in the previous sub-sections.

It is worth noting through the reading of Section 1 that Staff views the investment decision making process as neither wholly science nor art. Investment analysis requires a blending of both quantitative and qualitative data that results in a well thought out and documented recommendation based on our best judgment of the multitude of data points available. The following text tries to bridge this gap by explaining inflection points in the decision making process for individual firms and in the portfolio context by describing the relevant aspects of each FoHF candidate's process that were viewed as desirable or undesirable.

1.1 - Manager Due Diligence: Desirable Qualities

In order to begin describing the FoHF search process in depth, it is important to understand the Staff's views with respect to what qualities were deemed desirable of potential FoHF managers. In order to weed candidates out of the search process Staff made assessments of each FoHF organization based on the areas Staff felt were most important to the due diligence process. The August 2 memorandum contained the following excerpt:

> "Through the due diligence process, topics Staff wished to assess most in depth included firm structure, portfolio construction, manager selection, operational due diligence, risk management, client service, and strategic partnering capacities."

In addition Staff discussed the aspects of the due diligence process and the qualities in managers which Staff determined were most desirable. The following further describes Staff's thought processes in the context of that conversation and how that information was used to reduce the search universe at various stages in the search process. Please refer to the August 2nd memorandum which describes these capacities in some depth for each of the three managers recommended.

<u>1.1.1 - Firm Structure</u>

The structure of prospective FoHF firms was a consideration in the search process. Similar to RVK, Staff favored firms that had FoHF dedicated business models. Among the seven ultimate finalists, all candidates, with the exception of BAAM, were firms dedicated to FoHFs. A discussion of the considerations of BAAM's business model is available under sub-heading "Firm Structure" on page 4 of Staff's August 2nd memorandum to the Investment Committee along with how we gained comfort in their situation.

<u>1.1.2- Portfolio Construction</u>

In the August 2nd meeting, Staff discussed that within the portfolio construction process the implementation of a top-down view in the strategy selection process was important. The previous memorandum mentioned that all FoHF managers also attempt to add value through strategy selection. While the implementation of a top-down view is not necessarily a unique characteristic to any of the firms involved in the search process, Staff observed a spectrum of perceived portfolio construction strength among the finalist FoHF managers.

BAAM, as indicated in the memorandum and as described briefly by the BAAM representatives at the previous Committee meeting, applies a formulaic approach to top-down strategy selection through the use of strategy roadmaps. BAAM's ability to communicate this process, its unique ability to gather information through the broader Blackstone platform, and its relative willingness to swap fundamental for technical/trading investment approaches in certain market environments is largely what continued to carry BAAM through the process. At Prisma, while the formation and implementation of macro views into strategy selection is not as formal a process as it is at BAAM, a founder and advisor to the firm is responsible for formulating macro views on a quarterly basis. These views are then used to construct strategy and geography heat maps that are used to formulate strategy selection decisions. PAAMCO also employs a strategy allocation approach but has a unique micro perspective due to its requirement for position level transparency. This micro information is aggregated and plays a role in determining strategy outlooks.

The following paragraph briefly describes strategy allocation processes employed by firms ultimately not recommended by Staff. Aurora highlights the use of Bayesian processes in portfolio optimization in order to determine strategy and manager selection weights. Crestline employs a process by which macroeconomic views are a consideration in how attractive given strategies are at any point in time; strategies are ranked, then given relative rankings, and ultimately strategy allocations are formulated out of this process. This aspect of Crestline's process was viewed as repeatable and well communicated to Staff and was largely a reason that Crestline was among the final four managers. Grosvenor follows a fundamental approach to strategy selection looking for proven performance histories in varied markets. Rock Creek Group formulates a global macroeconomic outlook from information gleaned from economists and central banks, and implements these views into strategy allocations.

To summarize portfolio construction parameters, it was Staff's view that BAAM provided the most value-add on this front. PAAMCO, Prisma and Crestline were viewed as being the group that provided the next most value-add on the strategy selection front.

1.1.3 - Manager Selection

FoHF managers generally organize investment teams in one of two ways: 1) the specialist approach whereby professionals focus on managers within their given area of expertise; or 2) a generalist approach whereby professionals select managers across a wide range of strategies. Staff believes the specialist approach to manager selection is a desirable characteristic. Staff further believes in the notion that the greater focus employed by the specialist approach can lead to better pure manager selection decisions. The alternative, a generalist approach, was in Staff's view a sub-optimal form of FoHF organization due to the notion that individuals cannot separate strategy and manager selection decisions as easily. In a specialist approach, an investment professional is solely responsible for finding best of breed managers within their realm of expertise, with ultimate allocation to that manager being a function of the portfolio construction process. While there is still the risk that individuals will have hubris driven battles for implementation of "their managers" into the portfolio in a specialist approach, it is Staff's view that a formal strategy allocation set outside the realm of relative value decisions at the manager level serves as an adequate check to this problem in the investment process. A generalist approach potentially makes individuals jointly responsible for manager selection and strategy selection, or at least makes this separation of responsibilities more difficult. This exposes investors to greater enterprise risks associated with senior professionals being able to "sell" their ideas effectively as concentration in a given underlying hedge fund manager may not be limited to the manager selection decision but can extend to the strategy selection decision and communications abilities as well.

BAAM, PAAMCO, and Prisma all communicated their processes as being driven by specialist portfolio managers. Prisma, using senior professionals in all instances to lead due diligence efforts within strategies and with individual managers was seen as somewhat of a unique characteristic amongst the finalist managers and helped continue to carry them through the various stages of the process. PAAMCO's focus on emerging managers tends to lead to unique manager choices and also helped carry them through various stages of the process. All finalist managers, at least on some level, tended to communicate a specialist approach to organization, with Aurora being the one exception. Aurora organizes themselves as generalists, rationalizing this organizational prerogative as a means to train all individuals across the strategy spectrum.

To summarize manager selection decisions, it was Staff's view that Prisma and PAAMCO added the most value on this front.

1.1.4 - Risk Management & Operational Due Diligence

Staff required that FoHF candidates had endowed both operational and risk management teams with veto power in the investment process. All finalist candidates had these qualities and so relative assessments of this aspect of the process were largely based on the perceived quality of the individuals working in these spaces and the processes employed. Within the risk management spectrum, BAAM, Prisma and PAAMCO all employ PhD's as their heads of risk management. This was a unique characteristic as none of the firms not recommended by Staff employ PhDs as their Risk Management heads. Additionally, PAAMCO, through the requirement for position level transparency communicated a unique ability to see through their portfolio managers and be able to question individual trades, beyond the level of portfolio level questions that are generally more accessible to risk management teams. This additional aspect of PAAMCO's process played a large role in carrying them through the process. BAAM and Prisma also communicated their depth on the academic side of risk management and applications in the portfolio construction process beyond that of the other firms in the finalist search process. The operational side of due diligence was admittedly more difficult in ferreting out differentiated candidates as many processes are applied in similar manners across firms. While the processes were not viewed by Staff as highly differentiated, the communication of the processes used and how that information has been used to make decisions at the FoHFs was more available and readily understood for those managers that were continued to be carried through the process for the other aspects of their respective investment process.

To summarize risk management, it was Staff's view that given the unique position level transparency process PAAMCO applies in its risk management process, they provided the most value. The academic credentials of BAAM and Prisma also set them apart from the rest of the field. The operational due diligence front, while not providing an area of major differentiation between managers, was seen as an area where there was no apparent weakness among any of the three managers recommended by Staff.

1.1.5 - Strategic Partnering & Client Service

Staff verbally noted in the August 2nd meeting that it was looking for strategic partnering capabilities which included tools, education, access to investment professionals and eventual access to hedge fund managers directly. These aspects of strategic partnering were valued by Staff on the notion that FoHF hires are a means to eventually develop in-house expertise to invest directly in hedge funds. Determining those firms most uniquely capable and willing to aid in a development program was thus an important consideration. "Strategic Partner" was a buzz word Staff repeatedly heard throughout the investment process and all firms in the finalist pool stated some level of willingness or ability to provide Staff with this service.

As noted in the previous Staff memorandum, BAAM extended KRS the offer to place "Hedge Hog", BAAM's proprietary software platform on Staff's desktops as a means to help track the BAAM portfolio. This platform also has risk management and portfolio aggregation utilities beyond that of a prospective BAAM portfolio and was viewed by Staff as the most impressive risk software platform available to investors among the managers interviewed. BAAM also provides annual educational conferences for investors which was unique among the finalist managers. Prisma's unique capacity to serve KRS as a strategic partner is due to the smaller organizational structure. This will allow Staff better access to senior professionals than would be likely at other larger organizations. PAAMCO's ability to serve as a strategic partner was best documented in its roots as a solution provider to institutional investors and the fact that their process and focus on early stage managers can help give Staff a unique perspective. All three selected managers have indicated they would be willing to provide KRS direct access to hedge fund managers down the line. All three recommended managers also provide the capacity for KRS to receive custom reporting, however, client service was a secondary consideration to strategic partnering capabilities.

The following paragraph briefly describes strategic partnering capabilities of the firms ultimately not recommended by Staff. Aurora, while offering customized solutions, repeatedly suggested entering the firm's diversified commingled product as the best option; Staff had ultimately determined a separate account was the best form of implementation for a FoHF mandate. Crestline did well to indicate its strategic partnering capacities through the search process, documenting items such as staff education which it had performed for clients in the past. Grosvenor, as a large organization, emphasized its size and staffing levels as the best form of documentation of its strategic partnering capacities. Rock Creek demonstrated analyses from their risk management system that they had performed in the past for clients.

Ultimately, the software and education platforms provided by BAAM, the smaller organization of Prisma that allows for access to professionals, and PAAMCO's unique approach to hedge fund investing were seen as the most value-additive strategic partnering capabilities among the finalist managers. Crestline and Grosvenor also communicated their abilities to be strategic partners well and would have been considered in the top five in this respect. However, it is Staff's opinion that no unique strategic partnering capacities are being left on the table by not selecting one of the other managers.

1.1.6 - Summary

As sub-sections 1.1.1 to 1.1.5 were largely based on qualitative assessments, the decision making process that fell out of this aspect of the process was admittedly somewhat subjective. Most prominently, portfolio construction, manager selection, risk management, and strategic partnering were aspects of the process that Staff perceived the most differentiation to be among potential FoHF candidates. As should be apparent from the preceding sections, BAAM, PAAMCO, and Prisma consistently rose to the top of the pool in many of the important aspects of due diligence mentioned. BAAM rose to the top in terms of portfolio construction and strategic partnering. PAAMCO and Prisma rose to the top in terms of manager selection and risk management.

1.2 - Search Process Description

In order to expand on the information provided to the Investment Committee previously, excerpts from the original FoHF memorandum have been provided with subsequent expansions on the text. The following excerpt from the August 2nd memorandum briefly discusses the search process employed:

> "Staff and [R.V. Kuhns & Associates] formally commenced the FoHF managers search process in the summer of 2010. As part of that process, RVK provided Staff with a list of 13 of its most highly regarded managers (see addendum C for the complete list of managers included in the search process). Using that list of 13 managers as part of the formal search process, Staff and RVK conducted conference calls with nine fund managers, had meetings in Kentucky with seven managers, and conducted on-site due diligence meetings with four managers. In addition, since 2009, Investment Staff has had meetings and/or conference calls with 16 additional managers. A summary of interactions with prospects shall be made available to the Investment Committee upon request."

As discussed, RVK provided Staff with a list of twelve of its most highly regarded managers in the summer of 2010 (see Attachment B for a listing of these firms and high level details about each; see discussion that follows for the thirteenth firm that was referenced in the August 2nd memorandum). Included in Investment Committee materials for the August 2nd meeting was an RVK prepared memorandum detailing factors that had gone into paring the entire universe of FoHF managers down for the purposes of beginning the KRS search process.

Staff relied on RVK to provide a preliminary list of investable managers in order to begin the search process. However, input from Staff at various junctures in the search process questioned the final list provided by RVK and decisions previously made by RVK and Staff that had eliminated managers from contention in the search process. In one instance these questions led to a firm being added to the search process at a later date due to Staff's lack of comfort with why a manager was excluded by RVK; Staff requested that Rock Creek Group (the aforementioned thirteenth firm) be added to formal search process formally on April 27, 2011. In another instance, after RVK and Staff initially eliminated Blackstone Alternative Asset Management ("BAAM") due to its large organizational platform, after a positive meeting with the firm in Frankfort in April of 2011, Staff asked that BAAM be added back to the formal search process (also occurring on April 27, 2011). In addition, meetings had been held with 16 managers not formally included as part of RVK search books provided to Staff (see Attachment C for a complete listing of FoHF manager meetings held by KRS Staff since 2009).

While some of the finer points of what Staff determined were desirable in FoHF candidates (see sub-section 1.1) were formulated through the process after hearing many presentations from FoHF manager candidates, a focused effort on running an unbiased process and making fair considerations in eliminating candidates from contention at various stages was carried out. The remainder of this subsection will walk through the stages of the investment process and when and why certain candidates were eliminated from contention.

Step 1: The initial twelve manager list manager list was trimmed to seven based on a conference call held with RVK on July 22, 2010. The list was culled based principally on perceived organizational strengths/weaknesses and views concerning the product fit for a diversified FoHF Mandate (see Attachment D for the first search book provided to Staff by RVK in the summer of 2010). Managers that remained in the search after this conference call were: Aurora, Crestline, GAM, Grosvenor, Mesirow, PAAMCO, and Prisma. Firms removed from consideration at this stage were Aetos, Arden, BAAM, K2, and Private Advisors. Aetos, an extremely low volatility manager, was eliminated at this juncture do to the perceived advantages of Crestline in this space. Arden was eliminated due to organizational concerns surrounding the purchase and implementation a new team in the spring of 2010. BAAM was removed from consideration at this point due to considerations about its firm structure. K2 was eliminated at this juncture due to its focus on strategies exposed to significant market beta that Staff did not feel was conducive with a diversified FoHF mandate. Private Advisors, due to KRS' unfamiliarity with the firm (Private Advisors was the only firm with which Staff did not meet at any point; see Attachment C for a complete list of manager meetings held by Staff since 2009), was eliminated in an effort to trim the list of finalist managers due to RVK's indication that KRS would not be missing anything by not investing with Private Advisors.

Step 2: KRS proceeded to conduct a round of conference calls in August of 2010 with the managers remaining on the list after Step 1. Based on the information garnered from the conference calls held in August of 2010, Investment Staff culled the list to 5 managers. Managers included in the search after this round of conference calls were: Aurora, Crestline, Grosvenor, PAAMCO, and Prisma. Mesirow was eliminated principally due to the conference call failing to provide an adequate communication of the investment process employed. GAM was removed from consideration at this point due to the firm's heavy use of global macro and managed futures strategies (20%-40% of GAM's portfolios typically); similar to the elimination of K2, this was not viewed as strategically cohesive with the diversified FoHF mandate being sought by KRS.

Step 3: After reflection on all factors involved to this point in the process, an on-site due-diligence meeting with Crestline was completed on November 10, 2010. Internal discussions about the FoHF search process were held with TJ Carlson after his start date on November 30th, 2010. The conclusions of these discussions were to postpone the search process until refreshed attention could be paid to it in 2011.

Step 4: The search process was picked back up in earnest after the completion of asset liability model approvals at the February 1, 2011 Investment Committee meeting. After discussions internally and with RVK the search process was recommenced by convening a series of conference calls with seven managers in May of 2011. The manager list included the five managers invited to present to KRS in Frankfort previously (i.e. Step 2) in addition to the Rock Creek Group and BAAM, who had both in the interim presented to KRS in Frankfort (see attachment E for search book provided to Staff by RVK at this juncture in the search process). The conference calls were used principally as a refresher to each manager's process. Using the same list of value of individual qualitative manager considerations from before and synthesizing these with quantitative analysis and portfolio combination considerations, Staff again began attempting to cull the list with the ultimate intention of performing on-site due diligence meetings with those firms that Staff considered to offer the most value-add. At this juncture the firms Staff felt were most able to provide value for the KRS investment program were BAAM, Crestline, PAAMCO and Prisma. These are the four firms presented in the RVK memorandum given to the Investment Committee on August 2, 2011. Aurora, Grosvenor, and Rock Creek were eliminated at this juncture principally as a result of relative value decisions made by Staff from data gathered from the qualities of managers described in sub-section 1.1 and the compilation of communications conducted throughout the process.

Step 5: On-site due diligence meetings were carried out with BAAM, Prisma and PAAMCO in June of 2011. Staff relied on the November 2010 on-site meeting with Crestline as the qualifying meeting under the KRS Investment Transactions Procedures Policy – Addendum: Limited Partnerships in the event the firm was ultimately selected for Staff recommendation. Given the many touches Staff has had with Crestline through the process, including CIO TJ Carlson's exposure to the firm subsequent to his hire, Staff felt comfortable previously conducted due diligence on Crestline was adequate for the purposes of comparison to the other three managers still involved in the process. Similar to elimination decisions utilized in step 4, the elimination of Crestline at this juncture was largely a big picture perspective assessing the qualitative aspects of a manager's process and synthesizing that with quantitative analysis and portfolio construction considerations. A discussion of portfolio construction considerations and quantitative inputs involved is discussed in the following section.

1.3 - Portfolio Construction Considerations

Staff's August 2nd presentation to the Investment Committee discussed the portfolio construction considerations that played to most prominent roles in terms of deciding how many and which specific managers to pursue. Four principal areas of consideration were discussed in the memorandum: process complementarities, strategy allocations, sizes of underlying hedge fund managers being pursued, and the total number of underlying hedge fund managers. The format of this section will seek to further detail the consideration Staff gave in these areas.

1.3.1 - Process Complementarities

With respect to how the selected managers' processes were viewed by Staff as complementary, the following was presented in the previous memorandum

> "*Process Complementarities* – Fund of hedge funds attempt to add value through strategy allocation and manager selection. While all hedge fund of fund managers employ tactics to add value through both of these mechanisms, Staff was most impressed by BAAM's formulaic implementation of top down views into its strategy selection parameters, PAAMCO's detailed implementation of its risk management process through position level transparency into its top-down and bottom-up decision making processes, and Prisma's experienced and specialist approach to making alpha-generating bottom-up manager selection decisions."

In terms of process complementarities, Staff wanted to ensure that value was being added to the portfolio in a variety of ways. By having a portfolio of FoHF managers whose investment processes are dissimilar from each other, KRS is less likely to have FoHF managers making the same decisions or same types of decisions that can compound risk exposures or simply dilute the active management decisions being made. Staff felt the processes being implemented by the three recommended managers were different in such a way that value would be added to the portfolio. An extension of the discussion of each recommended manager (similar information is also available in the August 2nd memorandum for each of the three recommended managers) and a brief description of unique aspects to each of the managers ultimately not selected follows :

BAAM - Among all of the managers Staff felt most convicted in BAAM's implementation of its macro views into its portfolios due to conviction it its team from face to face meetings, a communicable and formulaic process by which those views are expressed into its portfolios, and its access to the broad Blackstone platform that allows for a deeper reach into capital markets. Presented by the BAAM's team at the August 2nd meeting, was a snapshot of this macro view implementation when they presented the charts concerning strategy rotation through different phases of the business cycle (see pages 12 & 13 of the BAAM slide deck provided to the Committee).

PAAMCO – Among all of the managers, Staff felt most convicted by the implementation of its risk management processes into the decision making process. PAAMCO requires that all managers provide position level transparency; no other firm which KRS interviewed during the process required this of their managers. This requirement allows for portfolio managers to formulate trade ideas through knowledge of individual positions and for an understanding of the processes of the mangers they hire better.

Prisma – Among all of the managers, Staff felt most convicted by Prisma's relatively narrow specialization and senior team member approach to conducting investment due diligence. While neither of these characteristics was completely unique to Prisma, the specialization approach to firm organization used by Prisma has lead to decisions to invest in managers with highly specialized approaches themselves. This was viewed as a unique outcome to the process employed by Prisma in comparison to other managers. While this is addressed further in a discussion of strategy allocations below, when combined with the fact that senior professionals lead all due diligence efforts from the outset, Staff felt that raw manager selection ability was a demonstrated edge held by Prisma.

Among the firms not selected: Aurora presented the firm's process as a generalist approach to manager selection. Crestline presented the firm's process as balanced in terms of strategy selection and manager selection ability that led to very stable return streams. Grosvenor presented the firm's process as having a broad diversification mandate in both strategy selection and manager selection enable by its size as an organization. Rock Creek presented the firm's process as taking a top-down view of the world first, with manager selection as the secondary concern in return generation.

In addition to process uniqueness, all managers were also considered in the context of the volatility profile their respective investment processes led to. All seven finalist firms were considered within volatility sub-groups: PAAMCO and Aurora were compared within a higher volatility context; Prisma, Grosvenor and Rock Creek were considered in a medium volatility bucket; and BAAM and Crestline were considered in a lower volatility bucket. Discussion carried out at the August 2nd Investment Committee meeting points out the relative volatility buckets that each of the recommended managers were included in. While Staff did not draw hard lines in the sand that one manager from each of these groups would be selected, managers didn't necessarily fall neatly into one of these three categorizations either. In fact, the low and medium volatility buckets were not viewed as being significantly different from each other and any of those managers was directly comparable to one another. However, due to internal conversations and the discussion of the potential strengths and weaknesses of various combinations, one manager from each of the volatility buckets was recommended for portfolio inclusion. A discussion of considerations for each volatility bucket briefly follows.

High Volatility: PAAMCO & Aurora – PAAMCO and Aurora assumed similar 5 year standard deviations of 7.6% and 7.4% respectively. However, PAAMCO achieved this end with a lower Beta to the S&P 500 over the same period (.2 for PAAMCO compared to .3 for Aurora) and the same Beta for the Barclay's aggregate bond index. Respective Sharpe ratios for the two firms were .3 and .2 respectively over the same 5 year measurement horizon.

Medium Volatility: Prisma, Grosvenor, Rock Creek – Prisma exhibited a dominant Sharpe ratio over the other two firms over a 5 year investment horizon (.5 for Prisma; .1 for Grosvenor; .2 for Rock Creek) while maintaining similar volatility measures over the same period (6.5% standard deviation for Prisma; 6.1% for Grosvenor; 6.8% for Rock Creek).

Low Volatility: BAAM, Crestline – BAAM exhibited a dominant Sharpe ratio over Crestline for a 5 year investment horizon (.5 for BAAM; .1 for Crestline) and exhibited the same volatility over the period (5.2% standard deviation for both firms). Irrespective of historical performance, the low volatility consideration was an overriding factor in selecting BAAM over Crestline in the end. In the proposed custom portfolio statistics provided to KRS, BAAM's backward looking 5 year pro-forma volatility was 6.0%; this would admittedly be skewed upward due to the somewhat volatile period that has been the last 5 years. While comparing apples to oranges in some contexts, Crestline's proposed target volatility is to be less than 4%. Throughout the search process Staff carried the same concern over meeting target returns that Mr. Tobe voiced in the August 2nd Investment Committee meeting. Staff, given BAAM's willingness and skill at running higher volatility portfolios as indicated by the proposed custom portfolio, along with their significant platform on which to customize a higher volatility solution, became more comfortable with choosing BAAM as a means to meet the KRS' return hurdle. Crestline has since offered to run a higher volatility portfolio as well for KRS, but it is Staff's opinion that they are less comfortable in doing so. While it is not Staff's intention to negotiate investment guidelines that would direct BAAM to utilize a higher volatility target than their investment process would normally pursue, Staff considered the flexibility to do so in the future very important. Staff's perception of BAAM's edge over Crestline in this respect was the largest head to head factor in choosing BAAM over Crestline.

Ultimately, through a combination of a qualitative assessment of the investment processes employed and a quantitative assessment of the return streams that each firms' respective investment processes led to, Staff came to the conclusion that the three manager portfolio recommended provided the most value. The quantitative aspects are discussed more in depth in section 1.3.4.

1.3.2 - Strategy Allocations

With respect to how the selected managers' strategy allocations were viewed as complementary, the following was presented in the August 2nd memorandum:

> *Strategy Allocations* – BAAM, PAAMCO, and Prisma take complementary approaches in their strategy allocation biases. BAAM tends to be heavily weighted, compared to its peers, in commodities and its willingness to overweight trading strategies in certain market environments. PAAMCO heavily emphasizes directionally based strategies; directionally based in this context does not mean long-biased necessarily, but given PAAMCO's organizational structure tends to lead to large positions in long/short credit and long-short equity strategies. Prisma looks at a wide universe of managers, seeking highly specialized managers such as those that may have sector or geographic orientations.

This consideration of strategy allocations is in many respects linked to "process complementarities" previously discussed as differing investment processes will lead to different biases in how specific strategies are allocated to and ultimately affects the overall diversification to the KRS portfolio. A more thorough discussion of strategy allocations by BAAM, PAAMCO and Prisma is provided in the August 2nd memorandum under individual manager write-ups sub-heading "Portfolio Construction". A brief discussion of the strategy allocations used by managers that were not ultimately selected is presented in the paragraph that follows.

Aurora tends to emphasize L/S Credit, L/S Equity and Event driven strategies that in aggregate comprised roughly 70% of the firm's multi-strategy composite as of April 1, 2011. Crestline emphasized absolute return, relative value arbitrage, and event driven strategies with biases away from managed futures, macro and equity L/S strategies. Grosvenor utilizes a broad diversification mandate with most strategy allocations falling within credit, equity and other relative value strategies. Rock Creek emphasizes its use of using varying geographic exposures in it selection of a diversified swath of managers. Broadly speaking, Staff valued firms that kept all investment strategies in their playbooks and had some unique characteristics to their strategy selections. Staff's opinion is that BAAM has an assessable advantage in being dynamic in its strategy selection platform through its implementation of macro views, that PAAMCO's process, by virtue of some of its unique aspects of position level transparency and emphasis on newer managers, will find more unique strategies and trading opportunities than its peers, and that Prisma's emphasis on specialization will find and opportunistically allocate to managers in more narrow niches than its competitors.

1.3.3 - Sizes of Underlying Hedge Fund Managers being Pursued

With respect to the sizes of underlying hedge fund managers being pursued, the following was presented in the August 2nd memorandum:

> *"Sizes of Underlying Hedge Fund Managers being Pursued* – Evident through the due diligence process was the need to diversify across stages of underlying hedge fund manager development. PAAMCO seeks the smallest managers and are day one investors with many funds, thus capturing the potential for early outperformance and negotiating significant fee discounts. Prisma also focuses on early stage managers seeking to benefit from early outperformance, but not to the extreme PAAMCO does. BAAM tends to focus on a wide range of manager sizes, neither neglecting the small end nor large end. All three FoHF managers invest in a wide range of hedge fund sizes, but the proposed portfolio is, in Staff's opinion, balanced in such a way that the potential for manager overlap is minimized and diversification optimized. In fact, in the current composite proposed portfolio, there is no underlying manager overlap."

The consideration of the sizes of underlying managers being pursued is similar to that for process complementarities and strategy allocations in the sense that to get the best diversification at the KRS portfolio level FoHF managers that are hired should ideally not be making the same decisions. PAAMCO uniquely seeks out small and emerging managers as part of its process and as a result is highly value additive in this respect to any portfolio Staff could have put together. Prisma likes to focus on earlier stage managers, with the focus of their investment activity directed toward managers that may have AUM of $2 billion or less; in fact, 75% of Prisma's underlying hedge funds manage less than $2 billion at the time of investment. BAAM invests in a wide range of manager sizes, but despite its size as an organization, has put together a portfolio which is 60% invested in managers with less than $2 billion in AUM. Crestline was somewhat comparable to BAAM in terms of its investment in varying hedge fund manager sizes investing 60% in managers with less than $2.5 billion in capital, but had a higher skew toward managers with over $5 billion in capital (24% for Crestline compared to 18% for BAAM). Aurora indicated approximately 44% of funds were invested in managers with less than $2 billion in capital. Grosvenor and Rock Creek did not present these figures as part of their marketing materials. Staff, as previously disclosed in the presentation to the Investment Committee, views an emphasis on smaller managers as a value-add proposition due to the empirical evidence suggesting that focusing on smaller managers can lead to better returns. The three managers recommended by Staff are most consistent with this notion.

1.3.4 - Total Number of Underlying Hedge Fund Managers

With respect to the total underlying number of hedge fund managers, the following was presented in the August 2, 2011 memorandum:

> *Total Number of Underlying Hedge Fund Managers* – The total number of underlying hedge fund managers was a factor to consider in how many funds of hedge funds to hire. The proposed FoHF managers all tend to maintain portfolios of approximately 30-40 managers. Thus, at the KRS portfolio level, by hiring three managers, KRS is ultimately investing in approximately 90-120 underlying managers. When contextualized with other diversification considerations such as potential for manager overlap and risk-return optimization, Staff and Consultant determined the hiring of three FoHFs was the appropriate course of action.

The total number of FoHF managers is linked to the total number of underlying hedge fund managers, and both of these are intuitively linked to modern portfolio theory through risk-return optimization. To assess the quantitative aspects of risk return optimization, KRS constructed various combinations of portfolios with the finalist candidates in a software program trial provided by vendor PSN. Using common period performance data for all of the funds (data was available for all firms simultaneously since April of 2005) a variety of trials were run in both constrained and unconstrained optimization iterations. Unconstrained iterations were skewed by BAAM's recent outstanding performance both in terms of higher returns and lower volatility and thus without constraints as to the maximum amount to be allocated to a given manager, the optimizer chose to allocate almost all capital to BAAM. When constrained to 34% maximum allocations to individual managers, the software provided an efficient frontier (a discussion of equal weighting in the context of the shortcomings of historically based risk-return optimizations is presented below); Prisma, who has also had very good recent performance, was consistently chosen by the optimizer as the second choice. Staff looked at low volatility, medium volatility, and higher volatility portfolios along the efficient frontier. The low volatility portfolio was given as BAAM, Prisma and Grosvenor. The medium volatility portfolio was given as BAAM, Prisma and Crestline. The highest volatility portfolio was given as BAAM, Prisma and PAAMCO. Combinations of four managers were never returned as optimal by the optimizer under this series of constrains. A 50% maximum allocation portfolio combination was also run through the optimizer and returned a combination of Blackstone and Crestline in its most attractive risk adjusted form, albeit at lower return and Sharpe's measures across all periods than either the high or medium volatility three manager portfolios. Please see Attachment F for a copy of the PSN optimization output.

The combination of BAAM, PAAMCO and Prisma provided for the highest return of all three portfolios on a 1, 2, 3, 4, and 5 year basis and highest Sharpe ratio on a 3, 4, and 5 year basis (Sharpe's measures were not provided for shorter periods as they tend to be of little value for extremely short measurement periods). Irrespective of the return and risk adjusted return measures, intuitively Staff sought to reach for the maximum returns achievable under the constraints of an implicit risk budget given in RVK's asset liability models. The return assumption of 7.5% and a standard deviation assumption of 9.0% given by RVK for 2011 implied that given 5 year volatility estimates of only 6.24% for the high volatility portfolio are still well short of the risk budget theoretically allowable under the current ALMs. It is worth acknowledging that a shortcoming of optimization as means to create portfolios is that they are heavily dependent on inputs, especially expected returns which are often based on historical returns that tend to be highly non-stationary. Thus utilizing a portfolio simply because its historical returns are closest to a return expectation is highly inappropriate. However, empirical evidence does suggest greater persistence in volatility measures through time, and thus, irrespective of historical risk-adjusted return superiority of the aforementioned high volatility portfolio, utilizing a portfolio with volatility closest to the underlying target may be a justifiable use of quantitative data. This quantitative analysis further supports the recommendation of these three managers.

To put the preceding discussion in the context of the equal weighting scheme proposed by Staff, if historical returns cannot be utilized to form performance expectations, and returns are an inherently unstable moment in return distributions, two choices arise as to portfolio construction: 1) Naïve diversification (i.e. equal weighting); or

2) Risk Budgeting. Extending the discussion of this choice of diversification methods to the thesis of investing in smaller managers, risk budgeting will result in a capitalization weighted portfolio. That is, BAAM, given it has the lowest volatility, would receive the largest allocation in a risk budgeting scheme. This overweight to BAAM, who invests in the largest (by AUM) sub-set of managers, will skew the portfolio toward larger managers. This process in turn, given acknowledgement of an inability to form stable return expectations for managers on an individual basis, is counterintuitive to the thesis that investing in smaller managers has the potential to provide outperformance. Pursuing Naïve diversification allows for a weighting scheme that will allow for the greatest exposure to smaller managers without taking on higher levels of risk. The discussion becomes circular at this juncture given an argument could be made that one would want to overweight the managers with a skew toward smaller underlying hedge fund managers in an effort to eke out additional return. This is partly where investment analysis blends art and science. Given this consideration, Staff valued the data gathered from optimizations as a lynchpin on which to base the equal weighting decision, admitting that though optimization is based on historical performance, determining the marginal quantitative value of investing in FoHF managers focusing on smaller underlying hedge funds is a task subject to equal or greater pitfalls.

A secondary consideration in the total number of underlying managers is minimizing the risk of manager overlap. The proposed BAAM portfolio has 38 managers, the Prisma portfolio has 31 managers, and the proposed PAAMCO portfolio has 54 managers (PAAMCO is more broadly diversified due to its emphasis on emerging managers), for a total of 125 fund managers. Staff felt the differing processes used by the three FoHF managers recommended would not lead to much if any manager overlap, and thus, a qualitative move to two FoHF managers to further reduce this risk was not felt to be appropriate, especially when contextualized within the output of the risk-return optimizer. Staff emphasized in the August 2nd meeting that each underlying hedge fund manager would average approximately $10-$15 million in allocation (at $1.4 billion and 125 managers, the average exposure would be $11.2 million). This was presented to emphasize the fact that while an allocation to a FoHF manager at $400-500 million is large in absolute terms, the amount being assumed through exposure to any one underlying manager is small. As of June 30, 2011, KRS has 5 external managers and 3 internally managed accounts with in excess of $400 million in AUM (Pimco, Nisa, Pyramis, Boston Company, Weaver Barksdale, Internal S&P 500, Internal Mid-Cap, and Internal TIPS).

1.4 – Summary

To summarize, while most of the due diligence process centered around understanding qualitative aspects of the investment processes managers used, an effort to synthesize this information with quantitative data was viewed by Staff as important. As Staff feels the processes employed by the three recommended firms generally rose to the top in most aspects of consideration and quantitative analysis confirmed qualitative views, Staff reaffirms the notion that the three manager recommended portfolio is most consistent with the diligence conducted.

SECTION 2 – MANAGEMENT FEES

The August 2nd Investment Committee included discussions about management fees. The following materials will address the questions posed by discussing Staff's approach to management fees in the due diligence process.

Fees are generally not considered at early stages in the investment due diligence process for several well founded, industry standard, reasons. Among those are that 1) fees have no bearing on the product needs for an investor, in this case a large diversified FoHF mandate; and 2) it can reasonably be assumed that prospective managers will receptively negotiate their fee down as it becomes more and more likely they may ultimately be selected by an institutional investor. Regarding the former, were all due-diligence and firm interview findings to come out exactly equal between two firms, the obvious choice is to select the manager with the lower fee. From the preceding discussions of the search process for FoHF managers, it should be apparent that this was not the case and thus fees were a secondary concern once manager selection decisions had been made. The latter topic is related to conversations the Investment Committee directed toward Investment Staff with respect to ensuring fees are being negotiated aggressively. The following three tables and comments summarize the stages of fee proposals garnered by Staff.

Table 1: Commingled Product Fees (Per RVK 3/31/2011 Search Book)

	Annual Management Fee	Incentive Fee
Aurora	100bps	10.00%
BAAM	130bps	0.00%
Crestline	130bps	0.00%
Grovenor*	68bps	0.00%
PAAMCO	100bps	5.00%
Prisma	100bps	5.00%
Rock Creek	80bps	7.50%

*Blended fee assuming $460 million mandate
Note: 100 bps = 1.00% annually

Table 1 represents fees associated with commingled accounts as disclosed in search books provided by RVK (see Attachments D&E). KRS ultimately determined that a separate account mandate was the best structure to pursue given the control KRS would be able to exhibit over assets and the mitigation of risks associated with having co-investors as one would in a commingled vehicle. As mentioned previously, fees at this stage of the due diligence process were not under primary consideration, and given the account structure KRS ultimately decided to pursue, an incomplete reflection of actual potential fee structures.

Table 2 shows the fees offers extended to KRS subsequent to a request for this information after Step 4 conference calls in May of 2011. Those firms still seriously under consideration at this juncture of the investment process had fees requested of them; ultimately Aurora was not taken to Step 5 of the process.

Table 2: May 2011 Fee Offers for Separate Account Mandates

	Flat	Flat and Incentive	Hurdle Rate
BAAM	100bps	60bps + 10%	3 mo. LIBOR
PAAMCO	100bps	75bps + 5%	None
Prisma	80bps	70bps + 5%	13 week T-Bills
Crestline	85bps	75bps + 10%	LIBOR + 100bps
Aurora	150bps	50bps +10%	None

Table 3 indicates the fees KRS was ultimately able to negotiate in the weeks leading up to the August 2nd Investment Committee meeting. As mentioned previously, these fee structures result in total fees of approximately 85-90 bps at expected levels of performance. Staff ultimately settled on incentive fee structures due to alignment of interests perceived to be gained with the manager by pursuing this structure as opposed to a flat fee structure. Note that KRS was able to negotiate a 10 basis point discount from BAAM and a hurdle rate inclusion from PAAMCO. The fee offered by Prisma is subject to Most Favored Nations clauses in contracts with other clients and thus KRS was unable to negotiate any further fee discounts.

Table 3: Final Negotiated Fees (Disclosed in August 2, 2011 Memorandum)		
	Flat + Incentive	Hurdle
BAAM	50bps + 10%	3 mo. LIBOR
PAAMCO	75bps + 5%	3 mo. LIBOR
Prisma	70bps + 5%	13 wk. T-Bills

A secondary aspect of the fee debate is the extent to which the FoHF managers are able to negotiate fee discounts from the underlying managers in which they invest. Typical fee structures in the hedge fund world are 2% management fee and 20% incentive fee ("2/20" fee structure). As disclosed in the August 2nd memorandum, all three managers selected have been able to negotiate significant fee discounts that flow straight through to the investor's account. Compensating for PAAMCO's higher fee when compared to the two other managers recommended by Staff is its stated ability to have negotiated underlying fees down from 2/20 to a 1.20/14.7 fee structure on average with its underlying managers. BAAM and Prisma had been able to negotiate to 1.62/19.8 and 1.82/19.7 respectively. This ability to negotiate fee discounts was seen as a strength for each of the firms recommended, especially PAAMCO.

SECTION 3 – FIRM ASSETS UNDER MANAGEMENT

An additional topic of discussion at the August 2nd Investment Committee meeting was potential concern over the percentage of AUM KRS would be at Prisma Capital Partners. Prisma discloses its AUM as roughly $6 billion. At the $460 million potential account size indicated in the August 2nd memorandum, KRS' prospective account would be approximately 7.1% of Prisma's assets. This is well within the guidelines set in the KRS Transactions Procedures Policy for public market investment managers: the policy states total assets to a selected firm shall not exceed 25% of the firm's total AUM or 40% of assets within a given strategy. PAAMCO discloses $10.2 billion in assets. KRS would represent approximately 4% of firm assets under the $460 million account size scenario. Finally, at over $30 billion in AUM, concentration at BAAM is also not an issue.

SECTION 4 – ORGANIZATIONAL BACKGROUNDS

At the August 2, 2011 Investment Committee Mr. Longmeyer requested that Staff provide more information about the Blackstone organization with respect to regulatory proceedings. The following is the official response provided by Head of Legal at BAAM:

> "To the best of our knowledge, there have been no regulatory investigations of, or enforcement actions against, The Blackstone Group LP or any of its affiliates in the past 5 years. Please note that this representation does not cover companies owned (in whole or in part) by Blackstone funds (i.e., portfolio companies). Please also note that, for the purpose of this representation, we do not consider a request for information from a regulatory body to constitute an investigation."

Additionally, more information was requested concerning Aegon's ownership stake in Prisma. Currently 43% of the organization is owned by Prisma employees with the remainder owned by Aegon. There are long-run earn-outs allowing Prisma employees to gain an additional stake in the firm. At the on-site due diligence meeting carried out on June 16, 2011 by Staff, Prisma disclosed that it was estimated that at year-end 2011, employees would own approximately 50% of the firm, with anticipated increases in subsequent years.

Attachment A

Fund of Hedge Funds Investment Committee Memorandum
August 2, 2011

KENTUCKY RETIREMENT SYSTEMS

Investments

Executive Summary

Fund of Hedge Funds Search

August 2nd, 2011

OVERVIEW & RECOMMENDATION

Overview

The KRS Investment Committee, as part of its approval of asset liability models in 2010 and 2011, approved 10-12% allocations to absolute return strategies in the underlying KRS pension and insurance plans (see Addendum A for plan targets). Through discussions with KRS general consultant R.V. Kuhns & Associates ("RVK") it was agreed that KRS would initially hire fund of hedge fund managers ("FoHFs") to gain exposure to absolute return strategies and then reduce those over time by investing in other diversifying absolute return strategies. The hiring of these FoHFs will also serve a role in helping develop KRS Staff's ability to invest directly in hedge funds, thus, ultimately saving KRS money by enabling investment in lower fee structure vehicles. All recommended FoHF managers have agreed that the underlying hedge fund capacity received by KRS through our FoHF investments will belong to KRS and not the FoHF manager.

RVK initially recommended that KRS hire FoHF managers as a first step to gain broader exposure to absolute return strategies within limited partnership (or similar) structures, placing the risk centers of allocation, selection/de-selection, and individual strategy monitoring responsibilities on external investment management teams dedicated to the hedge fund industry. The search process sought to understand the risks being taken by the FoHF managers in these areas and create an optimal risk/return generating portfolio around portfolio construction considerations and individual manager assessments. The materials that follow, in aggregate, discuss Staff's process and primary considerations in ensuring that investment risks associated with a diversified fund of hedge funds mandate have been mitigated to the extent possible and that investment recommendations have a diligent, reasonable basis. Additional analysis of fund of hedge funds and the risks involved was provided to the Investment Committee on February 3, 2009; please see Addendum B for a copy of this memorandum. The outline of the search process that follows was carried out in-line with the KRS Statement of Investment Policy and Investment Transaction Procedures Policy: Addendum A – Limited Partnerships.

KRS is pursuing absolute return strategies principally as a result of favorable risk-adjusted returns and the diversification benefits of broadening KRS' exposure to different investment strategies and instruments. Absolute return strategies, by definition, are not necessarily a separate asset class, but broaden the opportunity set within existing asset classes by going both long and short, employing derivatives, and shortening and extending investment horizons, amongst others. By focusing on the idiosyncratic risks of security selection and often attempting to minimize systematic market risks through hedging activities, absolute return managers can make investment decisions unconstrained by restrictive relative benchmarks such as the S&P 500 or Barclay's Aggregate Bond Index and add value to portfolios by achieving favorable risk adjusted returns in most market environments. The absolute return opportunity set is generally considered to include hedge funds and other strategies attempting to achieve positive returns without heavy reliance on the assumption of traditional systematic risk factors. RVK's long term capital market expectations for absolute return strategies is to have an expected return of 7.50% and expected standard deviation of 9.0%. This is comparable to RVK's long term projections in terms of the risk-return trade-off to core fixed income (4.5% expected return and 5.5% expected standard deviation) and favorable to the risk-return trade-off of global equity (8.45% expected return and 17.85% expected standard deviation).

Recommendation

Having completed an extensive search process, KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to 100% of the unfilled pension plan and insurance plan absolute return allocations into three FoHFs: Blackstone Alternative Asset Management ("BAAM"), Pacific Alternative Asset Management Company ("PAAMCO"), and Prisma Capital Partners. As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is approximately up to $1.4 billion (see addendum A for plan allocation scheme). KRS Investment Staff intends to allocate this capital equally amongst the three FoHF managers.

SEARCH PROCESS

Consultant Role & Selection Criteria

RVK was instrumental to the FoHF search process by providing Staff with preliminary manager lists, supplying search books and due diligence questionnaires with detailed performance, process, and organizational assessments of prospect firms, and as a sounding board to Staff generated ideas. Through the due diligence process, topics Staff wished to assess most in depth included firm structure, portfolio construction, manager selection, operational due diligence, risk management, client service, and strategic partnering capacities. An assessment of the recommended managers' competencies in these areas is presented as part of the manage write-ups that follow. The list of criteria employed by RVK in their analysis is provided in an attached RVK prepared memorandum.

Research Process & Timeline

Staff and RVK formally commenced the FoHF managers search process in the summer of 2010. As part of that process, RVK provided Staff with a list of 13 of its most highly regarded managers (see addendum C for the complete list of managers included in the search process). Using that list of 13 managers as part of the formal search process, Staff and RVK conducted conference calls with nine fund managers, had meetings in Kentucky with seven managers, and conducted on-site due diligence meetings with four managers. In addition, since 2009, Investment Staff has had meetings and/or conference calls with 16 additional managers. A summary of interactions with prospects shall be made available to the Investment Committee upon request.

PORTFOLIO CONSTRUCTION CONSIDERATIONS

Throughout the FoHF search process, portfolio construction and how individual managers would be pieced together was an active thought process for KRS Investment Staff. Major factors considered by Staff in the context of portfolio aggregation included process complementarities, strategy allocations, the sizes of underlying hedge fund managers being pursued, and the total number of underlying hedge fund managers. A brief assessment of each of the four factors mentioned is presented is as follows:

Process Complementarities – Fund of hedge funds attempt to add value through strategy allocation and manager selection. While all hedge fund of fund managers employ tactics to add value through both of these mechanisms, Staff was most impressed by BAAM's formulaic implementation of top down views into its strategy selection parameters, PAAMCO's detailed implementation of its risk management process through position level transparency into its top-down and bottom-up decision making processes, and Prisma's experienced and specialist approach to making alpha-generating bottom-up manager selection decisions.

Strategy Allocations – BAAM, PAAMCO, and Prisma take complementary approaches in their strategy allocation biases. BAAM tends to be heavily weighted, compared to its peers, in commodities and its willingness to overweight trading strategies in certain market environments. PAAMCO heavily emphasizes directionally based strategies; directionally based in this context does not mean long-biased necessarily, but given PAAMCO's organizational structure tends to lead to large positions in long/short credit and long-short equity strategies. Prisma looks at a wide universe of managers, seeking highly specialized managers such as those that may have sector or geographic orientations.

Sizes of Underlying Hedge Fund Managers being Pursued – Evident through the due diligence process was the need to diversify across stages of underlying hedge fund manager development. PAAMCO seeks the smallest managers and are day one investors with many funds, thus capturing the potential for early outperformance and negotiating significant fee discounts. Prisma also focuses on early stage managers seeking to benefit from early outperformance, but not to the extreme PAAMCO does. BAAM tends to focus on a wide range of manager sizes, neither neglecting the small end nor large end. All three FoHF managers invest in a wide range of hedge fund sizes, but the proposed portfolio is, in Staff's opinion, balanced in such a way that the potential for manager overlap is minimized and diversification optimized. In fact, in the current composite proposed portfolio, there is no underlying manager overlap.

Total Number of Underlying Hedge Fund Managers – The total number of underlying hedge fund managers was a factor to consider in how many funds of hedge funds to hire. The proposed FoHF managers all tend to maintain portfolios of approximately 30-40 managers. Thus, at the KRS portfolio level, by hiring three managers, KRS is ultimately investing in approximately 90-120 underlying managers. When contextualized with other diversification considerations such as potential for manager overlap and risk-return optimization, Staff and Consultant determined the hiring of three FoHFs was the appropriate course of action.

With these portfolio construction considerations taken into account, in addition to individual manager assessments as presented in the materials that follow, Staff has concluded that a combination of investments in BAAM, PAAMCO and Prisma is the optimal portfolio of absolute return investments to pursue at this time.

BAAM
Fund of Hedge Funds Search
August 2nd, 2011

RECOMMENDATION & EVALUATION

Recommendation

KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to one third of 100% of the unfilled pension plan and insurance plan absolute return allocations to Blackstone Alternative Asset Management ("BAAM"). As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is up to approximately $460 million (see addendum A for plan allocation scheme).

Firm Overview

Blackstone Alternative Asset Management L.P. ("BAAM"), the marketable alternative investments division of Blackstone, was founded in 1990 to manage the internal assets of the firm by creating a diversified portfolio of hedge fund investments to offset the equity exposure of the firm's other businesses. BAAM has developed into a leading institutional fund of hedge funds with approximately $32.9 billion in assets under management as of December 31, 2010, of which 92% is institutional capital and 4% is Blackstone/Blackstone employee capital. Approximately 50% of BAAM's total assets come from pension plans. With offices in New York, London and Hong Kong, BAAM's team of 144 experienced professionals is led by J. Tomilson Hill, President& CEO, and Vice Chairman of The Blackstone Group.

Blackstone's other businesses lines include the management of private equity funds, real estate funds, credit-oriented funds, collateralized loan obligation vehicles (CLOs) and closed-end mutual funds. The Blackstone Group also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. KRS is currently invested in Blackstone Capital Partners V (2005 vintage, $60 million commitment) and Blackstone Capital Partners VI (2011 vintage, $100 million commitment), Blackstone's two most recent private equity fund vintages.

Evaluation

Through the due diligence process, topics Staff wished to assess most in depth included firm structure, portfolio construction, operational due diligence, risk management, client service, and strategic partnering capacities.

Firm Structure – BAAM, as a business within the broader Blackstone platform, is not the sole focus of the parent company. Potential concerns that may arise from being the client of a multi-business organization are lack of adequate resources or attention being paid to the BAAM business line, diluted client service, and conflicts of interests between product lines. Comfort in the Blackstone business model is gained from the fact that BAAM operates with its own dedicated and ample staff that is also currently in the middle of a hiring initiative, has an institutional focus on client service, and has information barriers and policies and procedures to resolve conflicts of interest (see description of hedge fund seeding platform below for an example). In addition, the broad platform of investment products provides the Blackstone firm with broad and deep knowledge of financial markets that can be leveraged across product lines.

BAAM also manages a hedge fund seeding platform. BAAM, in its portfolio construction process, considers its seeding platform funds for inclusion in the portfolios of clients to the degree the seeded fund's business is scalable to larger account sizes and appropriate for those accounts in the context of its risk-reward profile. BAAM has a history of allocating emerging managers to its custom account portfolios; the model portfolio presented to KRS included two funds to have emerged from its seeding platform. To mitigate conflicts of interest associated with the seeding platform, any revenues received by Blackstone from seeded funds in which KRS would invest through its account are 100% offset against management fees.

Portfolio Construction – BAAM heavily emphasizes top-down macro views as a means to select a strategy mix that optimizes the risk return profiles of its portfolios. Dedicated staff formulate economic views and map the current environment to stages in the business cycle. BAAM has formulated a strategy playbook based on its perceptions of the economy. The ability to forecast, according to BAAM, is aided by the Blackstone Group's broad reach into capital markets that allows it to develop deeper views than other firms. BAAM broadly categorizes its strategy buckets as Equity, Fixed Income / Relative Value, and Arbitrage / Credit / Event strategies; the proposed initial KRS portfolio has 26%, 24% and 50% in the respective strategy groupings. A distinguishing feature of the BAAM investment philosophy is a heavy gearing towards the commodities space and global opportunities which is driven by its emphasis on top-down views.

As the strategies that are deemed optimal for the current environment have been selected, the bottom-up focus of the manager selection process fills the optimal portfolio allocations. Identified managers may be core managers which BAAM considers to be long-term relationships that are "best of breed", tactical managers that seek to exploit cyclical exposure to attractive opportunity sets, managers tied to dynamic risk mitigation, or custom vehicles utilized to capture niche sources of alpha.

Operational Due Diligence – BAAM's operational due diligence process is highlighted by its requirement to re-underwrite the operational capacities of the hedge funds in which it invests on an annual basis. This requires annual on-sites and other periodic reviews. The process focuses on the hedge fund manager's relationship with prime brokers/custodians, auditors, and administrators in addition to the hedge fund's own internal controls. A sample of internal controls that the BAAM team seto understand includes valuation policies, compliance policies, and cash management policies. BAAM also runs background checks and independent reviews of service providers used by underlying hedge funds.

Deleted: eks

Risk Management –The goal of the risk management process at BAAM is to understand and embrace reasonable risk, not avoid it. As a means to achieve this end the risk management team seeks to determine if the managers in which they invest have an understanding of the risks they are taking and if expected returns are commensurate with those risks assumed. At the portfolio level, the risk management process seeks to understand the incremental impacts of each manager, the impacts and potential impacts of market events, and whether or not strategy allocation decisions are consistent with top-down views. The risk management platform has been aided by the recent Blackstone development of a proprietary software platform called "Hedge Hog". The platform neatly helps to aggregate portfolio attributes and enable modeling such that PMs and the risk management team can begin to answer the questions posed by the risk management process.

Client Service & Strategic Partnering – BAAM touts itself as a "solutions provider" and not simply a fund of hedge funds platform. By solutions provider the firm aims to relay the message that it is in the business of customizing portfolios to clients' needs, providing a range of products from which clients can choose to invest, and providing tools for clients to manage their investments. The client service platform offers week in review reports, detailed monthly statements and market reports with additional detail provided at quarter ends, an annual conference and educational workshops. In addition, Hedge Hog, the proprietary Blackstone software platform is available to strategic clients and has been offered to KRS in conjunction with its potential investment.

Performance

Performance Analysis - BAAM

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
6.4%	3.2%	5.1%	5.9%	5.9%
2010	**2009**	**2008**	**2007**	**2006**
7.4%	15.6%	-15.5%	12.6%	11.7%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
5.7%	0.5	72.2%	0.2	0.2
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
5.2%	0.5	75.0%	0.2	0.1

*Data as of March 31, 2011; Batting Average is defined as % of months with positive returns

Summary of Key Investment Personnel

J. Tomilson Hill, *President & CEO of BAAM, Vice Chairman of Blackstone* – Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group at Blackstone before assuming his role in BAAM. In his current capacity, Mr. Hill has been responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. He also serves as a member of Blackstone's Management and Executive Committees. Mr. Hill is a graduate of Harvard College and the Harvard Business School.

Steve Sullens, *Head of Portfolio Management for BAAM* – Mr. Sullens oversees portfolio management for all of BAAM's multi-manager programs. He is responsible for directing the manager research team in hedge fund manager selection and monitoring. Before joining Blackstone in 2001, Mr. Sullens served as a Director with Citi Alternative Investment Strategies, Citigroup's hedge fund investment center. In that role, he was responsible for manager selection and monitoring, as well as portfolio management. Previously, Mr. Sullens served as Manager of Alternative Investments for The Walt Disney Company, where he directed the company's alternative investment program, including investments in private equity, real estate, venture capital and hedge funds. Mr. Sullens received both an MS in Industrial Engineering and a BA in Economics from Stanford University. He has earned the right to use the Chartered Financial Analyst designation.

Brian Gavin, *COO for BAAM* – Mr. Gavin leads a cross-functional team charged with evaluating the operational and business risks of BAAM's underlying hedge fund managers. He is responsible for business management, administration, technology, operations and finance of BAAM, and for helping determine the strategic direction and growth of BAAM. He also serves on BAAM's Investment Committee. Before joining Blackstone in 2002, Mr. Gavin was a Partner in Arthur Andersen's Hedge Fund Advisory and Capital Markets group. Mr. Gavin received a BS in Accounting from New York University. He is a Certified Public Accountant.

Gideon Berger, *Head of Risk Management for BAAM* – Mr. Berger is responsible for hedge fund manager risk analysis, as well as risk monitoring and analysis of the BAAM funds. He serves on BAAM's Investment Committee. Before joining Blackstone in 2002, Mr. Berger was a founder and President of Ez-Ways, Incorporated, a technology startup, where he also served on the Board of Directors. Prior to that, Mr. Berger was a founder and Principal of a consulting firm specializing in the design and implementation of database and enterprise solutions. Mr. Berger received a BA in Mathematics and Physics from Vassar College, an MS in Applied Physics from Columbia University and a PhD in Computer Science from the Courant Institute of Mathematical Sciences at New York University.

Scott Soussa, *Co-Head of Operational Due Diligence of BAAM* – Since joining Blackstone, Mr. Soussa has been involved in performing operational due diligence and monitoring procedures on BAAM's underlying managers from a business/financial perspective. He also serves on BAAM's Investment Committee. Before joining Blackstone in 2003, Mr. Soussa was Controller of Lava Trading Inc., a securities trading technology company. Prior to that, he worked in Arthur Andersen's Hedge Fund Advisory and Capital Markets Group. Mr. Soussa received a BS in Accounting from Binghamton University, where he graduated summa cum laude and was elected to Beta Gamma Sigma. He is a Certified Public Accountant.

Patrick McKeon, *Co-Head of Operational Due Diligence of BAAM* – Mr. McKeon is involved in performing operational due diligence and monitoring procedures on BAAM's underlying hedge fund managers from a business/financial perspective. He also serves on BAAM's Investment Committee. Prior to joining Blackstone in 2003, Mr. McKeon worked in the financial services division of Arthur Andersen and also in the Investment Management Funds group of KPMG. Mr. McKeon received his BA in Economics and Accounting from the College of the Holy Cross and is a Certified Public Accountant.

FUND TERMS

1. Management Fee	.50% annually
2. Incentive Fee	10% of profits with 3M USD LIBOR hurdle
3. Liquidity Terms	Separate account mandate will have liquidity pass though to the underlying investments.
4. Expense Ratio	.05%-.06% estimated annually

*BAAM estimates an average management fee rate of 1.62% and average incentive fee of 19.78% on the underlying managers in its proposed KRS model portfolio.

OTHER ITEMS

Placement Agents – BAAM did not utilize the services of a placement agent in seeking investment capital from Kentucky Retirement Systems.

Investment Manager Involvement in Regulatory Proceedings – BAAM principals have not been involved in any regulatory proceedings.

Conflicts of Interest – There are no known conflicts of interest to exist between KRS and BAAM, BAAM principals, or BAAM's parent company The Blackstone Group.

*BAAM's signed representation of these statements is attached to the back of this memorandum.

SUMMARY OF STAFF INTERACTION WITH THE INVESTMENT MANAGER

Formal due diligence meetings carried out by Staff post FoHF search commencement were as follows:

April 6, 2011 – Frankfort, KY
KRS Attendees: TJ Carlson, David Peden, Bo Cracraft, Tom Masthay
Investment Manager Attendees: Brian Gavin, Pat Cronin, Iliana Sobczak

May 12, 2011 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Steve Sullens, Brian Gavin, Iliana Sobczak

June 15, 2011 – On-Site, NYC
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
R.V. Kuhns Attendees: Tony Johnson, Matt Griffith
Investment Manager Attendees: J. Tomilson Hill, Investment, Operational, and Risk Management Teams

June 22, 2011 – Conference Call
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
Investment Manager Attendees: Steve Sullens, Brian Gavin, Iliana Sobczak

PAAMCO
Fund of Hedge Funds Search
August 2nd, 2011

RECOMMENDATION & EVALUATION

Recommendation

KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to one third of 100% of the unfilled pension plan and insurance plan absolute return allocations to Pacific Alternative Asset Management Company ("PAAMCO"). As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is up to approximately $460 million (see addendum A for plan allocation scheme).

Firm Overview

Founded in March 2000, Pacific Alternative Asset Management Company, LLC, ("PAAMCO") is an independent investment advisory firm. PAAMCO was formed by four Founding Partners (Jim Berens, Jane Buchan, Bill Knight, and Judy Posnikoff) who had previously worked together at Collins Associates, another institutional fund of funds manager. In 2003, the four founding partners contributed their membership interests in PAAMCO to a new company called PAAMCO Founders Co., LLC to focus on being an institutionally focused fund of hedge funds platform. Currently the firm has approximately $10.2 billion in assets under management of which 97% are attributable to institutional clients and .15% is attributable to PAAMCO employees. PAAMCO maintains its headquarters in Irvine, CA with satellite offices in London and Singapore, employing a total of 133 individuals.

Evaluation

Through the due diligence process, topics Staff wished to assess most in depth included firm structure, portfolio construction, operational due diligence, risk management, client service, and strategic partnering capacities.

Firm Structure – PAAMCO is set up solely as a fund of hedge funds platform. The firm does not seed emerging hedge fund managers but rather focuses on them as part of the PAAMCO investment process. In lieu of taking revenue shares PAAMCO instead negotiates other contractual provisions generally related to management fees and incentive fees as compensation for being an early investor; these benefits flow straight through to the ultimate PAAMCO investors like KRS.

Portfolio Construction – The PAAMCO investment process begins with hedge fund manager identification, due diligence, and selection. This process is initiated through sector specialist led teams that are broadly cut along the lines of directional strategies, opportunistic investments, and relative value strategies; the proposed initial KRS portfolio contains approximately 76%, 3% and 21% to the respective strategy groupings. Prospective managers are put through the rigors of an extensive bottoms-up analysis; the managers ultimately selected are filtered up to strategy selection outlooks and weighted accordingly in order to create a diversified portfolio.

A unique aspect to the PAAMCO investment process lies in the requirement that their underlying managers provide full position level transparency. This has implications for the ongoing monitoring of fund investments and the risk management process. PAAMCO uses position level transparency to do bottoms-up analysis that can aid in the assessment of a hedge fund manager's adherence to their stated strategy, and enables analysis of potential upside and downside outcomes at both the underlying investment level and the PAAMCO portfolio level, and thus allows for an understanding of aggregate portfolio level exposures.

Another differentiating factor to the PAAMCO investment process is the gravitation to smaller newer managers where empirical evidence has suggested there are superior returns to be earned. Additional advantages to this aspect of the process are the previously mentioned ability to negotiate fee discounts by being an early and significant investor and also the notion that PAAMCO can add more value to a young firm by helping ensure the business and operations of the prospective hedge fund investment are set up appropriately to warrant institutional investment.

Operational Due Diligence – PAAMCO's operational due diligence process is highlighted by its requirement to conduct extensive review on an annual basis of all of its hedge fund investments. The process focuses on the hedge fund manager's relationship with prime brokers/custodians, auditors, and administrators in addition to the hedge fund's own internal controls. A sample of internal controls that the PAAMCO team seeks to understand includes valuation policies, compliance policies, and cash management policies. PAAMCO also runs background checks and independent reviews of service providers used by underlying hedge funds. Additionally, the operational due diligence team adds value to the investment process of small managers by being able to provide valuable insights and suggestions about their business operations.

Risk Management – The PAAMCO risk management platform is highlighted by its requirement for position level transparency. Using this data PAAMCO tackles risk both defensively and offensively using both traditional and behavioral tools. Defensive checks include independent assessment of pricing and understanding in detail how managers are likely to trade and behave. Offensive checks include the analysis of positions for unseen alpha opportunities and the search for new instruments and markets. The overall guiding philosophy of the risk management process is that position transparency is not enough – the data must lead decisions. Examples of decisions that flow out of the risk management process include asset allocation, beta hedging, and manager termination decisions.

Client Service & Strategic Partnering – PAAMCO emphasizes the notion of creating customized portfolio solutions for institutional investors seeking to develop or enhance their hedge fund programs. Client service includes detailed monthly reporting packages, with additional detail in "PAAMCO Viewpoint" reports on a quarterly basis. Monthly client calls with senior portfolio managers, access to published and pre-published research, hands-on day-to-day support for investors' in-house staff, and the opportunity to meet underlying hedge fund managers are all services available to investors with PAAMCO.

Performance

Performance Analysis - PAAMCO

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
5.9%	1.1%	4.5%	5.1%	-
2010	**2009**	**2008**	**2007**	**2006**
6.1%	18.4%	-21.8%	17.4%	10.8%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
8.7%	0.1	75.0%	0.2	0.4
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
7.6%	0.3	73.3%	0.2	0.2

*Data as of March 31, 2011; Batting Average is defined as % of months with positive returns

Summary of Key Investment Personnel

Jane Buchan, *CEO & Sector Specialist* – Jane is responsible for overall business strategy and firm direction. In addition, she is a Sector Specialist responsible for the evaluation and management of fixed income relative value hedge funds in the various PAAMCO portfolios. Jane is also a member of the Investment Management, Risk Management and Account Management Committees. Prior to forming PAAMCO, Jane held various positions ranging from Director of Quantitative Analysis to CIO of non-directional strategies at Collins Associates, an institutional fund of funds and consulting firm. She also currently sits on the Board of the Chartered Alternative Investment Analyst Association (CAIA). Jane graduated from Yale University with a B.A. in Economics and received both her M.A. and Ph.D. in Business Economics (Finance) from Harvard University. Jane has twenty-four years of experience.

James Berens, *Managing Director & Sector Specialist* – James is a Managing Director and the Sector Specialist responsible for the evaluation and management of the distressed debt and long/short credit hedge funds in the various PAAMCO portfolios. Jim is also the Portfolio Manager for the PAAMCO commingled funds. Jim serves on the Investment Management and Risk Management Committees. Prior to forming PAAMCO, Jim was Co-Managing Partner at Collins Associates, an institutional fund of funds and consulting firm, with responsibilities for directional hedge fund strategies. Jim graduated from the University of Redlands with a B.A. in Economics and Political Science, received his M.A. from the University of California, Riverside in Financial Economics and received his Ph.D. in Administration (concentration in Finance) from the University of California, Irvine. Jim has seventeen years of experience in investment management and portfolio construction with institutional investors.

Judith Posnikoff, *Managing Director & Sector Specialist* – Judith is a Managing Director and the Sector Specialist responsible for the evaluation and management of equity market neutral hedge funds in the various PAAMCO portfolios. Judith serves on the Investment Management Committee and Account Management Committees. Prior to forming PAAMCO, Judy was Assistant Portfolio Manager/Research Associate at Collins Associates, an institutional fund of funds and consulting firm, where she focused on market neutral strategies in addition to directing large-scale quantitative research projects focusing on alternative strategies. Judy graduated from the University of California, Riverside with a B.S. in Administrative Studies where she also received her M.B.A. and M.A. in Financial Economics and her Ph.D. in Financial and Managerial Economics. Judy has fifteen years of experience in investment management and portfolio construction with institutional investors.

Bill Knight, *Managing Director & Sector Specialist* – Bill is a Managing Director and the Sector Specialist responsible for the evaluation and management of the event-driven equity hedge funds in the various PAAMCO portfolios. Bill serves as Chair of Investment Management Committee and PAAMCO Board of Directors. Prior to forming PAAMCO, Bill was Senior Portfolio Manager at Collins Associates, an institutional fund of funds and consulting firm, for two long-only domestic equity funds, two low-beta funds, and a short-biased equity fund. Bill graduated from Vanguard University with a B.A. in Social Sciences (History), received his M.A. from California State University, Fullerton in Social Sciences (Sociology and Psychology), and received his Ph.D. in Education (concentration in Management) from the University of California, Riverside. Bill has twenty-eight years of experience in investment management and portfolio construction with institutional investors.

Phillipe Jorion, *Managing Director, Risk Management Group* – Philippe Jorion is a Managing Director in the Risk Management Group and is responsible for developing and implementing PAAMCO's offensively directed risk management concepts. He also oversees the PAAMCO infrastructure employed in evaluating individual hedge funds from a position level perspective, risk at the level of the various sectors as well as the risk structure of the overall PAAMCO portfolio. Philippe is a member of the Risk Management and Strategy Allocation Committees. He also serves as the Chancellor's Professor of Finance at the Paul Merage School of Business at the University of California at Irvine. Philippe holds an M.B.A. and a Ph.D. from the University of Chicago and a degree in engineering from the University of Brussels. Philippe has twenty-seven years of experience in risk management and international finance.

Kevin Williams, *Managing Director, Investment Operations* – Kevin Williams is the Head of Investment Operations and Chief Compliance Officer, responsible for overseeing operational due diligence, legal and regulatory due diligence, fund accounting and administration, the PAAMCO managed account platform, and compliance. In addition, Kevin has select institutional account management responsibilities and serves on the board of several funds. He is also a member of the firm's Investment Management and Account Management Committees. Prior to joining PAAMCO, Kevin worked for McGladrey and Pullen LLP, a national public accounting and consulting firm, where he audited several financial services clients. He also served as a controller for a technology company. Kevin graduated from the University of California, Los Angeles with a B.A. in Economics, and received his M.B.A. with a concentration in Investment Finance from the Marshall School of Business at the University of Southern California. Kevin has nine years of experience in the financial services sector

FUND TERMS

1. Management Fee	.75% annually
2. Incentive Fee	5% of profits with 3M USD LIBOR hurdle
3. Liquidity Terms	Separate account mandate will have liquidity pass though to the underlying investments.
4. Expense Ratio	.05% capped annually

*PAAMCO estimates an average management fee rate of 1.2% and average incentive fee of 14.7% on the underlying managers in its proposed KRS model portfolio.

OTHER ITEMS

Placement Agents – PAAMCO did not utilize the services of a placement agent in seeking investment capital from Kentucky Retirement Systems.

Investment Manager Involvement in Regulatory Proceedings – PAAMCO principals have not been involved in any regulatory proceedings.

Conflicts of Interest – There are no known conflicts of interest to exist between KRS and PAAMCO.

*PAAMCO's signed representation of these statements is attached to the back of this memorandum.

SUMMARY OF STAFF INTERACTION WITH THE INVESTMENT MANAGER

Formal due diligence meetings carried out by Staff post-FoHF search commencement were as follows:

August 24, 2010 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Jane Buchan, Sam Foster

September 28, 2010 – Frankfort, KY
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Jim Berens, Kevin Williams, Carl Ludwigson, Sam Foster

May 18, 2011 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Jim Berens, Sam Dietrich, Kevin Williams

June 29, 2011 – On-Site, Irvine, CA
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
R.V. Kuhns Attendees: Todd Schupp
Investment Manager Attendees: Jane Buchan, Jim Berens, Investment, Operational, and Risk Management Teams

PRISMA
Fund of Hedge Funds Search
August 2nd, 2011

RECOMMENDATION & EVALUATION

Recommendation
KRS Investment Staff, in conjunction with RVK, is recommending an investment of up to one third of 100% of the unfilled pension plan and insurance plan absolute return allocations to Prisma Capital Partners. As of May 31, 2011 KRS portfolio balances the aggregate amount sought for approval is up to approximately $460 million (see addendum A for plan allocation scheme).

Firm Overview
Prisma was founded in 2004 by Girish Reddy, Thomas Healey and Gavyn Davies on the notion that the caliber of rigorous portfolio management, monitoring, due diligence and risk controls demanded by institutional investors in most traditional asset classes was lacking in the hedge fund arena. As such, they set out to create a firm that would address the investment requirements of institutions systematically with experienced individuals and institutional quality disciplines. In May 2004, Prisma acquired the portfolio management team of Aegon USA Investment Management ("AUIM") and the $1.2 billion proprietary hedge fund portfolio that they managed in exchange for an equity interest in Prisma; today Prisma employees own more than 40% of the firm with contractual provisions to allow Prisma to continue to buy back equity interest. As part of this acquisition, Prisma took over the management of AUIM's portfolio (the "Zero Beta Account"), which began in 1997 and was managed to a zero beta constraint against equity, fixed income and high yield indices. Today, Prisma manages more than $6 billion in assets, over 94% of which are managed on behalf of institutional clients and 1.3% of which are Prisma employees' capital. Prisma maintains its headquarters in New York, NY with satellite offices in Louisville, KY and London, employing a total of 55 individuals.

Evaluation
Through the due diligence process, topics Staff wished to assess most in depth included: firm structure, portfolio construction, operational due diligence, risk management, client service, and strategic partnering capacities.

Firm Structure – Prisma is set up solely as a fund of hedge funds platform. The firm principally manages separate accounts for clients, but also has a commingled product and a platform emerging L/S equity manager program.. The emerging manager platform is not an extensive line of business for Prisma, but managers who were established through the seeding platform are eligible to graduate to the customized account level and flagship commingled fund if deemed appropriate by Prisma management.

Portfolio Construction – Prisma's investment process combines a top-down strategy allocation process with bottom-up manager selection to arrive at what Prisma believes is an optimal portfolio given a client's risk and return objectives. From a strategy selection standpoint, economic forecasts generated by Prisma are blended with a quantitative framework aimed at incorporating bottom-up portfolio managers' views to determine strategy allocations; the proposed initial KRS portfolio contains 26% in event driven strategies, 24% in relative value strategies, 24% in L/S Equity Strategies, 12% in distressed credit strategies, 8% in global macro strategies and 6% in other strategies/cash. The manager selection process is keyed by Prisma's utilization of staff organized by strategy specialty and the extensive implementation of risk management into hiring decisions.

A unique aspect to the Prisma process is that no junior personnel are front-lining due diligence efforts. The Prisma team is unusually experienced, averaging 24 years of experience across the senior investment professional team. Using a specialist approach, each of the seven strategy specific senior investment professionals has a clearly defined space in which to provide their expertise and guide manager selection decisions. When this expertise in manager selection is combined with the capacities of the risk management team, a cohesive formulation of a portfolio within the confines of top-down strategy allocations can be achieved with optimal risk-return characteristics.

Another unique aspect to the Prisma process is its focus on mangers with smaller amounts of assets under management. Three quarters of Prisma's underlying hedge funds managed less than $2 billion in assets at the time of investment. As a $6 billion fund of funds, Prisma believes it is in the position to be able to access specialized and nimble managers who may be more dynamic across market environments.

Operational Due Diligence – Prisma's operational due diligence process is highlighted by its requirement to conduct extensive on-site reviews on an annual basis of all of its hedge fund investments. This procedure involves working with hedge fund managers to resolve issues in areas of concern noted in the previous monitoring/analysis of the fund. The process focuses on the hedge fund manager's relationship with prime brokers/custodians, auditors, and administrators in addition to the hedge fund's own internal controls. The operational team also surveys managers with respect to market events to understand how operational items have unfolded during periods of market dislocations. The operations team stays focused on providing ongoing periodic monitoring of all of its investments and doing ad hoc reviews as necessary.

Risk Management – Prisma's risk management process is focused on the philosophy that risk management must be actionable at every step. In the strategy allocation process, this is aimed at avoiding strategies that have undue risk; at the manger selection level this involves only selecting managers with returns commensurate with risk; in portfolio construction, risk management aims to blend strategies and managers that produce stable low volatility returns; and monitoring aims to avoid risk concentrations over time. Risk measures are aggregated into Prisma's proprietary software platform; this aggregation of data allows for both risk management and investment professionals to form bases for asking insightful questions of the underlying hedge fund managers about the implementation of their strategies.

Client Service & Strategic Partnering – Prisma is heavily experienced in providing customized solutions for clients as over 70% of the firm's assets are managed in separate vehicle structures where the clients have formulated the investment guidelines. As part of its strategic partnering program, Prisma's software platform will be available to clients in the near future, opportunities to visit hedge fund managers with Prisma personnel are available, each client has a dedicated portfolio manager for account reviews, and a limited number of large institutional clients firm-wide enables regular client interaction with senior Prisma professionals. The reporting platform offers detailed monthly statements and market reports with additional detail provided at quarter-ends and audited annual financial statements.

Performance

Performance Analysis - Prisma

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
6.9%	3.0%	5.2%	-	-
2010	**2009**	**2008**	**2007**	**2006**
7.6%	17.3%	-16.5%	13.4%	8.4%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
7.3%	0.3	75.0%	0.2	0.3
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
6.5%	0.5	73.3%	0.2	0.1

*Data as of March 31, 2011; Batting Average is defined as % of months with positive returns

Summary of Key Investment Personnel

Girish Reddy, *Managing Partner* – Mr. Reddy is a former partner of Goldman, Sachs & Co., where he was a co-head of equity derivatives. Prior to Goldman, he was the CIO of LOR Associates, a hedging and strategy advising firm based in Los Angeles, developing strategic alliances with other established asset managers like Wells Fargo and Aetna Insurance. Earlier in his career, he was a senior vice president of portfolio construction and asset allocation, at Travelers Investment Management Company, where he specialized in various overlay strategies for the firm using listed futures and options.

Bill Cook, *Senior Portfolio Manager* – Prior to joining Prisma, Mr. Cook was the head of the capital market strategies group at AEGON USA Investment Management, LLC. He was focusing on alternative investments, SBA loans, and special opportunities. Also at AEGON USA, Mr. Cook was the head of the derivatives group which was spun out of the public fixed income group. Prior, and also at AEGON USA, Mr. Cook was the head of public fixed income group where he led teams of six portfolio managers and a group of 15 employees.

Eric Wolfe, *Senior Portfolio Manager* – Prior to joining Prisma, Mr. Wolfe was a vice president and leading portfolio manager of the hedge fund of funds group at Safra National Bank of New York. He managed the accounts group, and headed the research process to source hedge fund investments for fund-of-funds. Previously, he was the chief financial officer for Buyroad.com, where he co-managed a 20 employee web design team from pre-launch to a revenue producing entity serving the small/medium business market. Earlier, Mr. Wolfe was a vice president and global balanced portfolio manager at J.P. Morgan Investment Management, serving as portfolio manager of over $16 billion in global balanced assets. Also at J.P. Morgan, he was an analyst in the structured derivatives group of the asset management company.

Emanuel Derman, *Co-Head of Risk Management* – Prior to joining Prisma, Professor Derman was the managing director of firm-wide risk at Goldman, Sachs & Co. Concurrent with his employment with Prisma, he is the director of the MS program in financial engineering of Columbia University. Previously, he was the columnist for Risk Magazine and also a member of the editorial board for the Applied Mathematical Finance Journal. Additionally, he was an associate editor of The Journal of Derivatives and Journal of Risk. He was the IAFE/Sungard Financial Engineer of the Year 2000, and included in the Risk Magazine hall of fame 2002.

Shankar Nagarajan, *Co-Head of Risk Management* – Prior to joining Prisma, Mr. Nagarajan was the managing partner of Risk Capital, LLC, where he was responsible for advising major companies on strategic and tactical risk management issues. He was formerly an adjunct professor of economics and finance of Columbia University. Previously, he was the senior manager & head of the valuation group at Deloitte & Touche. He was named Euromoney's Best Risk Advisor 2004.

Mark DeGaetano, *Head of Operational Due-Diligence* – Prior to joining Prisma, Mr. DeGaetano was a head of operations for the single manager and fund of funds platforms at Deutsche Bank in absolute return strategies where he had global responsibility for operational due diligence. Previously, he was a vice president at Cross Mar a technology subsidiary of Citicorp, responsible for the building and successful implementation of a new B2B Trade Finance Solution. Prior, he was a vice president at Citibank Capital Markets LLC, providing management within a structured finance operations environment.

FUND TERMS

1. Management Fee	.70% annually
2. Incentive Fee	5% of profits with 13 week US T-Bill Rate Hurdle
3. Liquidity Terms	Separate account mandate will have liquidity pass though to the underlying investments.
4. Expense Ratio	.05% capped annually

*Prisma estimates an average management fee rate of 1.82% and average incentive fee of 19.71% on the underlying managers in its proposed KRS model portfolio.

OTHER ITEMS

Placement Agents – PAAMCO did not utilize the services of a placement agent in seeking investment capital from Kentucky Retirement Systems.

Investment Manager Involvement in Regulatory Proceedings – Prisma principals have not been involved in any regulatory proceedings.

Conflicts of Interest – There are three known relationships between KRS Trustees/employees and Prisma Capital Partners: 1) KRS Board of Trustees Chair Jennifer Elliott's employer, Stites & Harbison, PLLC (but not Ms. Elliott), has provided legal work for Prisma co-owner Aegon Group; 2) KRS Board of Trustees member Chris Tobe was previously employed by Prisma co-owner Aegon Group; and 3) KRS Fixed Income Director David Peden was previously employed by both Aegon Group and Prisma Capital Partners.

*Prisma's signed representation of these statements is attached to the back of this memorandum.

SUMMARY OF STAFF INTERACTION WITH THE INVESTMENT MANAGER

Formal due diligence meetings carried out by Staff post-FoHF search commencement were as follows:

*June 17, 2010 – On-Site, Louisville, KY**
KRS Attendees: David Peden, Bo Cracraft, Brent Aldridge, Adam Tosh, Joe Gilbert, Tom Masthay
Investment Manager Attendees: Girish Reddy, Eric Wolfe

August 25, 2010 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Girish Reddy, Eric Wolfe

May 19, 2011 – Conference Call
KRS Attendees: Investment Team
R.V. Kuhns Attendees: Todd Schupp, Tony Johnson
Investment Manager Attendees: Girish Reddy, Eric Wolfe, Helenmarie Rodgers

June 16, 2011 – On-Site, NYC
KRS Attendees: TJ Carlson, David Peden, Tom Masthay
R.V. Kuhns Attendees: Tony Johnson, Matt Griffith
Investment Manager Attendees: Girish Reddy, Eric Wolfe, Investment, Operational, and Risk Management Teams

*Meeting held prior to formal start of search process

ADDENDUM A – ALLOCATION SCHEMES

The following discussion outlines KRS Investment Staff's sizing recommendation and how fund of hedge fund allocations amongst the underlying plans will be pursued. Strategic asset allocations as approved by the KRS Investment Committee are shown in Table A-1.

Table A-1□Absolute Return Allocations

	Pension	Insurance
KERS	10%	10%
KERS□	10%	12%
CERS	10%	10%
CERS□	10%	10%
SPRS	12%	10%

KRS currently has one investment classified as an absolute return strategy: Arrowhawk Durable Alpha, LP. In seeking approval for an investment in FoHFs, Arrowhawk has been taken into consideration by deducting the Arrowhawk exposures from target plan balances available to be funded by investments in FoHFs. As of May 31, 2011 month end allocations, available exposure to absolute return strategies as determined by strategic targets set forth as described in Table A-1 above was $1,386,900,000. See Table A-2 for plan breakdown of this total as of May 31, 2011:

Table A-2□Fo□F Plan Allocations

	Pension	Insurance
KERS	$ 337,100,000	$ 38,700,000
KERS□	48,300,000	35,200,000
CERS	521,600,000	128,700,000
CERS□	165,100,000	68,700,000
SPRS	31,900,000	11,600,000
Total by System	**□ 1□10□000□000**	**□ 282□□00□000**
Total KRS		**□1□38□□□00□000**

*As of May 31, 2011

The figures presented in table A-2 are subject to change based on portfolio movements between May 31, 2011 and the ultimate funding dates. For each plan, the maximum allocations approximated by Table A-2 above will be initially allocated equally amongst managers in the three manager portfolio being presented by Staff for prospective approval by the Investment Committee.

ADDENDUM B – FUND OF HEDGE FUND MEMORANDUM – FEBRUARY 3, 2009

To: Investment Committee

From: KRS Investment Staff

Date: February 3, 2009

Subject: KRS Absolute Return Strategy Allocation

Recommendation:

It is the recommendation of the KRS Investment Staff and Consultant that the Investment Committee approve an initial allocation of up to 5.0% of the Fund's assets to be invested in absolute return strategy fund–of–funds ("FOF").

Introduction:

An initiative of the Kentucky Retirement Systems 2008-2009 Annual Five–Year Investment Plan calls for exposure to diversified asset classes and strategies (i.e., absolute return strategies). It is believed that this course of action will serve as a long-term driver of Fund performance. Furthermore, this action will seek to enhance the diversification of the investment portfolio through broader instruments and strategies, diminishing Fund volatility/risk and augmenting the Fund's ability to achieve its investment goals.

As discussed at previous Investment Committee Meetings, the Investment Staff and Consultant (R.V. Kuhns) agree that the near–term market and economic conditions are very challenging for investors. However, the expected long–term returns of many investment opportunities today have tremendous potential to exceed the Plan's actuarial return assumptions and historical returns. In this extremely difficult investment environment, absolute return strategy fund–of–funds may offer an opportunity to add value and mitigate risk to the overall portfolio.

The inclusion of absolute return strategies has the potential to reduce the total portfolio's overall risk through broader market, sector, and instrument diversification, as well as the added expected benefit of higher risk-adjusted and absolute returns. As a long-term investor, KRS is well positioned (relative to short- and intermediate-term horizon investors) to opportunistically take advantage of the tremendous dislocations that exist within the current markets and economic conditions.

Background:

The objective of the absolute return strategy is to preserve capital and deliver positive (absolute) returns under most market conditions. It is anticipated that the returns from this program should largely be uncorrelated to market movements (systematic risk) and primarily based on manager skill. It is intended that this program be structured so that risk should be specific to each manager, not to the systematic risk of the markets. Therefore, manager returns can be thought of as "alpha" that can potentially be "transported" back to the Plan's strategic asset allocation through the use of derivatives.

The fund–of–funds approach combines different investment strategies and asset classes to achieve a more predictable long–term return from the mix of mostly uncorrelated underlying funds. Absolute return strategy fund–of–funds will be identified that use different combinations of underlying managers and strategies to further diversify the return stream and control the volatility (risk) of the aggregate exposures. The active risk of the aggregate absolute return fund–of–funds managers before equitization should be similar or even less than that of many bond managers.

The absolute return strategy's implementation is designed to provide added active return (alpha) with minimal additional risk. The following are several of the strategies that are utilized by absolute return fund–of–funds:

- **Convertible Arbitrage:** Investment strategy that is long convertible securities and short the underlying equities
- **Distressed Securities:** Invests long (and some short) securities of companies that are in reorganizations, bankruptcies, or some other corporate restructuring
- **Emerging Markets:** Investment in securities of companies in developing or "emerging" countries - primarily long
- **Growth Funds:** Investment in a portfolio or "core" holdings in growth stocks. Many of these portfolios are hedged by shorting and utilizing options
- **Macro Funds:** The investment philosophy is based on shifts in global economies. Derivatives are often used to speculate on currency and interest rate moves
- **Market Neutral:** Strategy that attempts to lockout or "neutralize" market risk
- **Market Timing:** Allocation of assets among investments primarily switching between mutual funds and money markets
- **Merger Arbitrage:** Invests in event-driven situations of corporations, such as leveraged buy-outs, mergers, and hostile takeovers. Managers purchase stock in the firm being taken over and, in some situations, sell short the stock of the acquiring company
- **Multistrategies:** Specific portions are utilized for separate strategies, e.g., growth, convertible arbitrage, and market neutral
- **Opportunistic:** Investment theme is dominated by events that are seen as special situations or opportunities to capitalize from price fluctuations or imbalances
- **Sector Funds:** Invest in companies in sectors of the economy, e.g., financial institutions or bio-technologies. These funds invest in both long and short securities and will utilize options
- **Short Selling:** Short selling of securities
- **Derivative Funds:** These funds invest in derivative instruments such as futures and options with the aim of achieving high returns
- **Commodity Funds:** These funds invest in shares of companies that operate in commodity related industries or hold physical commodities such as bullion
- **CTA:** A fund that is a Commodity Trading Advisor's account where the trades are generally focused in commodity futures, options, and foreign exchange with a high degree of leverage
- **Short Bias:** A fund that consistently maintains a net short position to the overall market

Desirability of Absolute Return Strategies:

Absolute return strategies are generally constructed for the preservation of capital and are focused on generating positive earnings. An investor such as KRS would enter into a limited partnership (LP agreement similar to KRS private equity structure) with an absolute return fund–of–fund (FOF). The FOF would then select and manage underlying managers (hedge funds) on KRS' behalf. The FOF's General Partners often invest their own net worth alongside investors such as KRS, better aligning the interests of the FOF with that of the investors.

Absolute return strategies have tended to attract a larger amount of industry talent, allowing them to focus on what are believed to be the best investment ideas. Absolute return FOFs construct a diversified portfolio of generally uncorrelated managers (using upwards of 50 underlying managers). The strategy seeks to generate enhanced returns by providing KRS access to a broad range of investment styles and strategies, and by employing rebalancing strategies. The diversified approach of the FOF limits exposure to any particular style or strategy and reduces individual manager/fund volatility, delivering more consistent return streams across broader market and economic conditions.

Absolute return strategy fund–of–funds simplify and ease the administration, oversight, and monitoring of the investment strategy through the use of the FOF's internal staff's expertise, augmenting and bolstering KRS' resources and capacity for conducting due diligence consistent with industry best practices. The fund–of–funds due diligence process on many of the underlying managers may take up to six (6) months to complete before an initial investment is made. FOF risk management often starts with a dedicated risk management team that conducts up-front due diligence (utilizing private investigators, etc.) and does not invest with any manager/strategy where they do not have a clear understanding of how the returns are generated and what risks exist. FOFs also maintain constant contact with the portfolio managers and whenever possible provide a means for independent pricing of the underlying security positions within the portfolio.

Risks:

Just as with other investment strategies and exposures, absolute return strategies are exposed to various risks. Investment and structural risks are the primary concerns faced by absolute return fund–of–funds. Market, credit, and liquidity are some of the exposures comprising investment risk. Structural risks often entail risks to the organization or the operations of the absolute return strategies. While both risks can be mitigated, they cannot be eliminated. Yet, structural risks can be monitored and controlled by ensuring that extensive due diligence of the manager is conducted. Thorough due diligence may entail the use of private investigator checks on manager/employee's personal information, as well a significant organizational, back office, operational (legal structure, accounting, computer systems), and personnel interviews/due diligence to ensure that sufficient accounting/auditing controls and procedures are in place. Risk can also be managed by adequate transparency of fund holdings (security positions), portfolio characteristics, and the utilization of a separate and dedicated risk management team. The use of statistical attribution models to infer a manager's expected performance assists in managing and understanding the portfolio's risks. Additionally, ongoing communication, questionnaires, on-site visits, and timely (annual) reviews of audited financial statements, etc. go a long way in controlling portfolio/fund risks.

KRS' Approach to Monitoring and Managing Risks:

There are numerous fund–of–funds managers throughout the world; however, most do not have extensive experience and understanding of the requirements to work with institutional clients such as KRS. Historically, most fund–of–funds managers have focused on high–net worth individuals and families, which require a different type of relationship than that required by institutional funds such as KRS. High–net worth individuals are not (generally) as concerned with transparency, reporting, portfolio construction, and operations as much as institutional investors. However, the recent scandal and loss surrounding Bernard Madoff will likely increase the demand for greater risk controls and government regulation. High–net worth individuals and families also tend to move their money around with more frequency and are often seen as “chasing the hot managers.” Institutional investors require relationships that conform to more disciplined protocols in order to meet the institutions needs.

In that respect, KRS Investment Staff and RVK have analyzed the following issues and are seeking to establish criteria when evaluating the fund–of–funds managers in order to recommend them as “institutional” quality acceptable for KRS’ program:

- **Strategy** – The fund–of–funds should demonstrate that they have a clear strategy that attempts to exploit inefficiencies in the market
- **Capacity** – The fund–of–funds manager should be able to handle a fund of our size, and provide ample diversification across strategies and managers to reduce systematic risk
- **Underlying Manager Selection** – The fund–of–funds manager should demonstrate that they have a methodical quantitative as well as qualitative process for selecting absolute return managers (i.e. the due diligence process)
- **Portfolio Construction** – It should be demonstrated that the portfolio construction is designed to provide risk/return optimization and maximum diversification, while keeping costs in check, and maintaining a basically market neutral portfolio (beta to the S&P 500 around 0.0, to minimize systematic exposure)
- **Risk Controls** – The fund-of-funds should demonstrate that a systematic, well–documented and followed risk control procedure is in place, based on the underlying managers, as well as the portfolio as a whole
- **Monitoring** – The fund-of-funds should demonstrate the types of systems that are used to monitor the underlying managers, not only for performance and positions, but also for how the underlying managers affect the overall portfolio based upon their holdings and liquidity
- **Reporting** – The fund–of–funds should provide KRS with the required reporting and transparency so that we can properly manage a number of relationships with limited internal staff
- **Operations** – The fund–of–funds should be managed on a daily basis and there should be proper staffing checks and balances throughout the operations of the fund–of–funds
- **Experience** – The principals of the fund–of–funds should have extensive experience over various business cycles, and have extensive experience with institutional clients
- **Strategic Partnership** – The fund–of–funds should be willing to assist KRS with implementation, risk monitoring practices, as well as education

Fees:

Finally, while the fees associated with the use of fund–of–funds represent a premium over investing directly with the underlying managers, these costs should be offset by the experience and expertise of the fund–of–funds managers as well as simplifying administration (due diligence, oversight and monitoring) of broadly diversified investments across a wide array of absolute return funds.

Conclusion:

It is expected that an allocation (up to 5.0% of KRS’ assets) dedicated to absolute return strategies provides the additional tools in which to preserve Fund capital, lower correlations between investment asset classes, instruments, and strategies. This action is believed to provide further diversification to the portfolio, thus mitigating Plan volatility and thereby delivering more consistent positive absolute returns. Absolute return strategy fund–of–fund implementation is designed to provide KRS with added active return (alpha) while concomitantly seeking to minimize the Fund's risk. The FOF's objective will be to identify and use different combinations of underlying managers and strategies to further broaden the return stream and control the volatility (risk) within specific segments, as well as across the aggregate portfolio exposure.

Recommendation:

It is the recommendation of the KRS Investment Staff and Consultant that the Investment Committee approve an initial allocation of up to 5.0% of the Fund's assets to be invested in absolute return strategy fund–of–funds ("FOF").

ADDENDUM C – MANAGERS INCLUDED IN SEARCH PROCESS

The following is the list of managers originally considered as part of the FoHF search process:

Aetos Capital
Arden Asset Management
Aurora Investment Management*
BAAM*
Crestline Investors*
GAM
Grosvenor*
K2 Advisors
Mesirow Financial
PAAMCO*
Prisma Capital Partners*
Private Advisors
Rock Creek Group*

*Part of the final search process referenced in the RVK memorandum

Additional Notes: Prior to the creation of the final short list other managers were considered but not pursued at this time as their core strengths were more focused on multi-strategy hedge funds or single strategy fund investments.

Attachment B

R.V. Kuhns Preliminary Manager List

Aetos

- $5 billion in AUM, headquartered in NYC
- Substantial assets in separately managed accounts (approx. 50%)
- CIO from Stanford Management Co. where she spent 10 years managing their hedge fund portfolio
- The firm has demonstrated willingness to customize client portfolios and train public fund staff on how to take hedge fund program direct

Arden

- $8.3 billion in AUM, headquartered in NYC
- 100% employee-owned, an attractive and increasingly rare attribute
- Emphasis on relative value and event-driven strategies as opposed to directional long/short equity
- We view the firm's head of research as a key strength, but have some concerns surrounding instability at the investment committee level

Aurora

- $9.5 billion in AUM, headquartered in Chicago, IL
- Long (22-year) track record with demonstrated ability to make critical decisions in a timely manner
- Portfolio management team is top-tier, and they are heavily involved throughout the due diligence process
- Commingled vehicles only; Aurora will not manage separate accounts regardless of mandate size

Blackstone

- $27.1 billion in AUM, headquartered in NYC
- Firm has managed funds of hedge funds back to 1990, clearly experienced in managing custom accounts
- We have been impressed with the structure and depth of the investment and operational teams, but have concerns regarding recent departures including CIO Bruce Amlicke
- All else equal, R.V. Kuhns prefers managers focused solely on funds of hedge funds

Crestline

- $5.9 billion in AUM, headquartered in Fort Worth, TX
- Over half of the firm's assets from public funds

- Co-PM's Doug Bratton and Catherine Cooley have direct hedge fund management experience, a key positive
- Top-down process identifies areas for analyst research, this is in contrast to many FoHF's that are bottom-up driven
- Flagship low volatility multi strategy fund has much smaller exposure to hedged equity than most competitors

GAM

- $15 billion in FoHF AUM, headquartered in London
- Deep investment research team with strategy-focused PM's reporting to CIO David Smith
- Well-defined investment process places major emphasis on setting up-front expectations for each hedge fund manager
- Differentiators include exposure to macro/CTA strategies as well as non-US managers
- We have historically viewed the firm's other lines of business as a negative; all else equal we prefer firms focused on FoHF management

Grosvenor

- $22.5 billion in AUM, headquartered in Chicago, IL
- Founded in 1971, Grosvenor is among the most experienced firms in the industry and has successfully navigated a variety of challenging market environments
- The depth and breadth of resources in operational and investment due diligence is impressive
- Three senior PM's comprise the investment committee; CEO has veto power but doesn't participate in day-to-day manager due diligence
- Firm broadly categorizes strategies into Arbitrage and Equities, with dedicated research teams for each sleeve

K2 Advisors

- $8.1 billion in AUM, headquartered in Stamford, CT
- Well-structured investment process with clearly-defined responsibilities from investment/operational due diligence to risk management and legal review
- PM and co-founder David Saunders has direct hedge fund management experience and is a key asset of the firm
- They require managers to provide full position-level transparency to MeasureRisk which is used in a variety of ways to aggregate and monitor risk exposures over time
- In the past we have had some concerns regarding team stability, but we haven't observed departures of key team members in the recent past

Mesirow

- $12.1 billion in AUM, headquartered in Chicago, IL
- Firm has shown a willingness and ability to manage customized portfolios for large public clients
- Multi strategy products employ low volatility approach, potentially a good fit as a core manager for clients that prefer widely diversified portfolios
- Team as been stable at the top, but we have observed some departures in senior research roles
- Head of Operational Due Diligence Eric Siegel is a key strength of their team

Pacific Alternative Asset Management Co. (PAAMCO)

- $9.5 billion in AUM, headquartered in Irvine, CA
- 100% employee-owned
- Demonstrated experience in managing large separate accounts for institutional clients; 73% of assets are from public fund clients
- Strategy specialist structure: eight senior sector specialists lead the research process in their respective areas and are charged with hire/fire decisions
- PAAMCO requires full position-level transparency from each of its managers, providing valuable insight in manager monitoring
- The firm generally is focused on newer or emerging managers, which they define as those with less than a two year track-record. Investing early often allows them to negotiate favorable terms that benefit clients

Prisma

- $4 billion in AUM, headquartered in NYC
- Substantial assets (70%) in custom accounts
- Flagship “zero beta” strategy has been managed by senior PM Bill Cook since inception in 1997 when he was at AEGON
- AEGON previously was a majority owner, their stake has been reduced substantially in recent years
- Differentiators include senior team involvement in initial due diligence as well as annual manager onsites by risk team

Private Advisors

- $3.7 billion in AUM, headquartered in Richmond, VA
- 100% employee-owned, and a key positive is that the number of owners has grown steadily over time

- Experienced investment team: founder Lou Moelchert's HF experience dates to the 1980's, and co-heads of the team have previously held roles at hedge funds
- Flagship low volatility multi strategy fund is fairly conservative (avoids long/short equity) and has a track record back to June 1998; a moderate vol strategy is also offered which includes hedged equity
- Portfolios offer exposure to broad array of strategies; in addition to hedged equity, relative value, and event driven, the firm invests in macro and niche strategies including asset-based lending

Attachment C

Fund of Hedge Fund Manager Meeting List

Appointment with Fund of Hedge funds

Aetos	KRS on-site	March 23, 2009	Investment Team
Aetos	KRS on-site	December 9, 2009	Investment Team
Aetos	phone call	January 13, 2010	David
Aetos	Phone Call	February 5, 2010	David
Aetos	Fund on-site	March 1, 2010	David
Arden	Fund on-site	March 1, 2010	David
Arrowhawk	Fund on-site	August 27, 2009	Adam
Aurora	Fund on-site	April 21, 2010	David
Aurora	phone call	August 24, 2010	Investment Team
Aurora	KRS on-site	September 28, 2010	Investment Team
Aurora	phone call	May 12, 2011	Investment Team
Benchmark	Phone Call	April 15, 2010	David
Blackstone	Fund on-site	March 1, 2010	David
Blackstone	KRS on-site	June 9, 2010	Investment Team
Blackstone	KRS on-site	April 6, 2011	Investment Team
Blackstone	phone call	May 12, 2011	Investment Team
Blackstone	Fund on-site	June 15, 2011	Tom, TJ, David, and RVK
Common Sense	KRS on-site	March 31, 2009	Investment Team
Crestline	Fund on-site	April 9, 2010	David
Crestline	KRS on-site	June 17, 2010	David
Crestline	phone call	August 25, 2010	Investment Team
Crestline	KRS on-site	September 29, 2010	Investment Team
Crestline	Fund on-site	November 10, 2010	Bo, David, and RVK
Crestline	KRS on-site	January 12, 2011	David
Crestline	phone call	May 12, 2011	Investment Team
CSFB	KRS on-site	March 25, 2009	Investment Team
Cube Capital	KRS on-site	April 8, 2011	Investment Team
Dorchester	KRS on-site	February 17, 2010	Adam
Dorchester	KRS on-site	April 16, 2010	David
Entrust Capital	KRS on-site	June 1, 2010	Investment Team
Entrust Capital	KRS on-site	November 5, 2010	Bo and Brent
Front point	KRS on-site	June 18, 2009	Investment Team
Front Point	Phone call	July 15, 2009	David
GAM	Fund on-site	May 10, 2010	Adam
GAM	KRS on-site	July 13, 2010	Brent and Adam
GAM	phone call	August 26, 2010	Investment Team
Goldman Sachs	KRS on-site	January 26, 2011	Investment Team
Grosvenor	unknown	October 27, 2009	Adam
Grosvenor	Phone call	March 31, 2010	David
Grosvenor	Fund on-site	April 21, 2010	David
Grosvenor	phone call	August 24, 2010	Investment Team
Grosvenor	KRS on-site	September 29, 2010	Investment Team
Grosvenor	phone call	May 18, 2011	Investment Team
K2	Fund on-site	March 4, 2010	David and Brent
Mesirow	phone call	August 25, 2010	Investment Team
Morgan Creek	KRS on-site	March 31, 2009	Investment Team
Morgan Creek	Phone Call	June 19, 2009	David
Morgan Creek	KRS on-site	September 12, 2009	David and Adam
Morgan Creek	KRS on-site	November 12, 2009	David and Adam
Neuberger Berman FOF	phone call	March 18, 2009	David
Neuberger Berman FOF	KRS on-site	April 13, 2009	David and Joe

PAAMCO	Fund on-site	January 26, 2010	Adam
PAAMCO	Fund on-site	March 22, 2010	David
PAAMCO	Phone call	July 23, 2010	David
PAAMCO	phone call	August 24, 2010	Investment Team
PAAMCO	KRS on-site	September 28, 2010	Investment Team
PAAMCO	phone call	May 18, 2011	Investment Team
PAAMCO	Fund on-site	June 29, 2011	Tom, TJ, David, and RVK
Permal	KRS on-site	March 27, 2009	Investment Team
Prisma	KRS on-site	April 9, 2009	Investment Team
Prisma	phone call	April 14, 2009	David
Prisma	Fund on-site	June 17, 2010	Investment Team
Prisma	phone call	August 25, 2010	Investment Team
Prisma	phone call	May 19, 2011	Investment Team
Prisma	Fund on-site	June 16, 2011	Tom, TJ, David, and RVK
Rock Creek	phone call	March 15, 2011	David
Rock Creek	KRS on-site	April 20, 2011	Investment Team
Rock Creek	phone call	May 19, 2011	Investment Team
SCS	KRS on-site	March 4, 2009	Investment Team
Tower Capital	KRS on-site	March 9, 2009	Investment Team

Attachment D

R.V. Kuhns Fund of Hedge Funds Search Book
June 30, 2010

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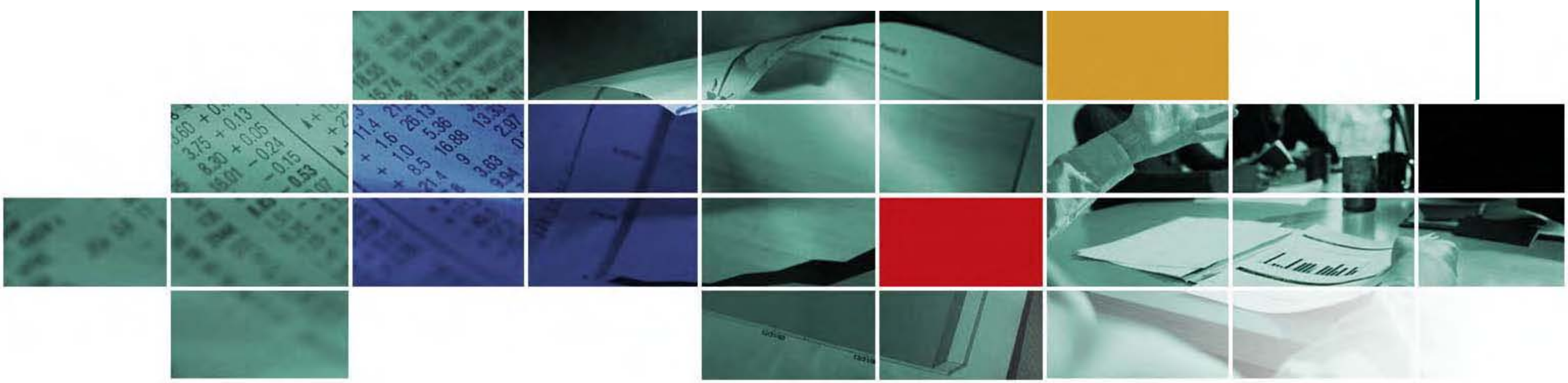
Kentucky Retirement Systems

Investment Manager Search

Absolute Return Strategies

Performance Data as of June 30, 2010



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Pages 51 - □0	**Grosvenor Institutional Partners□L□P□**
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Pages 8□- 11□	**Prisma Spectrum Fund Ltd**

General Information

Strategy Name	Year Firm Established	Year First Fund of Hedge Funds Launched	Firm AUM ($mil)	Fund AUM ($mil)	Percentage Employee Owned	RIA Status
Aurora Offshore Fund Ltd. II	1988	1988	$9,651	$2,000	0%	Yes
Crestline Offshore Fund	1997	1997	$5,500	$491	100%	Yes
GAM Diversity	1983	1989	$15,000	$3,265	0%	Yes
Grosvenor Institutional Partners, L.P.	1971	1971	$22,935	$5,895	70%	Yes
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	1990	1990	$12,416	$1,137	92%	Yes
Pacific Hedged Strategies, LLC	2000	2000	$9,650	$543	100%	Yes
Prisma Spectrum Fund Ltd	2004	2005	$4,500	$666	43%	Yes

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Personnel / Number of Investment Professionals

Strategy Name	Total Employees	Portfolio Managers	Research Analysts	Other Investment Professionals	Fund Team	Average □of Years Portfolio Managers □ave □ or□ed Together
Aurora Offshore Fund Ltd. II	87	3	10	74	Anne Marie Morley□David E. Kuenzi□Gregory D. Schneiderman□Patrick C. Sheedy□Peter S. Hamet□Justin D. Sheperd□Scott C. Schweighauser□Roxanne M. Martino□	14
Crestline Offshore Fund	61	2	23	36	John Cochran□Caroline Cooley□Doug Bratton□	20
GAM Diversity	86	11	15	60	Arvin Soh□Jeffrey Rose□Amir Madden□Chi Keong Lee□Andrew Hutson□Jennifer Drake□Catherine Cripps□Kier Boley□David Smith□	6
Grosvenor Institutional Partners, L.P.	219	4	31	184	Brian A. Wolf, CFA□David S. Richter□David B. Small□Michael J. Sacks□	17
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	100	7	30	63	Mark Kulpins□Eric Siegel□Tom Macina□Brian Cornell□Howard Rossman□Steve Vogt□Marty Kaplan□	5
Pacific Hedged Strategies, LLC	135	12	23	100	Neale Safaty□Judith Posnikoff□Kemmy Koh□Bill Knight□Alper Ince□Jane Buchan□Charles Armendarez□James Berens□	8
Prisma Spectrum Fund Ltd	44	7	6	31	James Welch□Peter Zakowich□Dan Lawee□Michael Rudzik□Donna Heitzman□Eric Wolfe□William Cook□	6

Fund of Hedge Fund Assets Under Management (Millions)

Strategy Name	Total	Corporate	Public	Taft-Hartley	Endowment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other
Aurora Offshore Fund Ltd. II	$9,651	$2,220	$2,702	$290	$772	$2,316	$0	$1,351
Crestline Offshore Fund	$5,500	$1,265	$1,485	$825	$165	$385	$55	$1,320
GAM Diversity	$15,000	$1,155	$1,110	$0	$90	$0	$1,380	$11,265
Grosvenor Institutional Partners, L.P.	$22,935	$4,082	$4,105	$3,761	$1,353	$1,674	$5,390	$2,569
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	$12,416	$2,483	$2,483	$1,490	$869	$869	$1,987	$2,235
Pacific Hedged Strategies, LLC	$9,650	$2,413	$4,922	$97	$676	$386	$290	$869
Prisma Spectrum Fund Ltd	$4,500	$671	$221	$0	$18	$212	$2,534	$846

* GAM's "Other" column consists of assets invested directly in their mutual funds.

Specific Fund Assets Under Management (Millions)

Strategy Name	Total	Corporate	Public	Taft-Hartley	Endowment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other
Aurora Offshore Fund Ltd. II	$2,000	$600	$700	$100	$400	$200	$0	$0
Crestline Offshore Fund	$491	$76	$201	$31	$94	$1	$0	$89
GAM Diversity	$3,265	$330	$686	$0	$147	$0	$40	$2,062
Grosvenor Institutional Partners, L.P.	$5,895	$965	$1,175	$2,683	$337	$115	$0	$620
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	$1,137	$175	$40	$808	$37	$12	$41	$25
Pacific Hedged Strategies, LLC	$543	$0	$210	$0	$248	$0	$0	$85
Prisma Spectrum Fund Ltd	$666	$153	$54	$0	$56	$2	$317	$84

* GAM's "Other" column consists of assets invested directly in their mutual fund.

Underlying Investment Manager Information

Strategy Name	Amount Invested by General Partners ($mil)	Current Number of Underlying Managers	Range of # of Underlying Managers	Maximum Weighting of any Manager*	Frequency of Communication with Underlying Managers	Manager Turnover	Ratio of Current Managers to Research Analysts
Aurora Offshore Fund Ltd. II	$100	45	40 - 50	10.0%	Regular/Constant	18%	7:1
Crestline Offshore Fund	$23	44	50 - 60	10.0%	Monthly	17%	5:1
GAM Diversity	$0	47	40 - 70	7.0%	Constant	15%	3.4:1
Grosvenor Institutional Partners, L.P.	$304	41	21 - 67	10.0%	Monthly	13%	2.5:1
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	$398	56	25 - 90	5.0%	Monthly	15%	2:1
Pacific Hedged Strategies, LLC	$15	57	45 - 65	5.0%	Monthly	20%	1.7:1
Prisma Spectrum Fund Ltd	$71	43	21 - 48	3.9%	Monthly	17%	14:1

* Mesirow's figure of 5% is not an absolute maximum but represents their general target for largest manager allocations.

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Current Allocation by Strategy

Strategy Name	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other*
Aurora Offshore Fund Ltd. II	37%	13%	0%	0%	19%	0%	0%	0%	14%	17%
Crestline Offshore Fund	24%	0%	2%	5%	8%	3%	0%	2%	2%	53%
GAM Diversity	32%	0%	35%	0%	1%	0%	0%	2%	0%	30%
Grosvenor Institutional Partners, L.P.	33%	2%	0%	0%	0%	1%	0%	0%	3%	61%
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	27%	5%	0%	0%	27%	2%	0%	0%	2%	37%
Pacific Hedged Strategies, LLC	29%	0%	0%	6%	10%	11%	4%	9%	0%	31%
Prisma Spectrum Fund Ltd	33%	2%	6%	4%	25%	2%	0%	11%	15%	3%

* Aurora's "Other" column consists of their Multi-Strategy Opportunistic strategy.
* Crestline's "Other" column consists of allocations to Credit Arbitrage, Origination, Multiple Strategy, Bank Loans and Cash.
* GAM's "Other" column consists of allocations to Long/Short Credit, ABS, Relative Value and Event Driven.
* Grosvenor's "Other" column consists of allocations to Long/Short Credit, Directional Credit, Event Driven, Relative Value, Multi-Strategy and Cash.
* Pacific's "Other" consists of allocations to Long/Short Credit and a cash balance that ranges from 1-8%.

Allocation by Region

Strategy Name	U.S.	Developed Europe	Japan	Emerging Mkts	Other
Aurora Offshore Fund Ltd. II	54%	21%	3%	7%	15%
Crestline Offshore Fund	66%	23%	1%	5%	4%
GAM Diversity	43%	28%	8%	9%	12%
Grosvenor Institutional Partners, L.P.	65%	16%	3%	4%	12%
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	79%	10%	3%	2%	7%
Pacific Hedged Strategies, LLC	71%	16%	4%	4%	6%
Prisma Spectrum Fund Ltd	59%	20%	13%	4%	5%

* Aurora's "Other" column consists of Global allocations.
* GAM's "Other" columns consists of allocations to Asia Pacific.
* Grosvenor's "Other" column consists of allocations to Australia, Hong Kong, New Zealand and Singapore.
* Mesirow's "Other" column consists of allocations to Asia ex-Japan.

General Product Information

Strategy Name	Inception Date	Onshore/Offshore	Is U□TI Li□ely□	3□C□1 or 3□C□□	Accepting ERISA Clients□	□istorical Leverage Range □loo□-through□
Aurora Offshore Fund Ltd. II	7/1/2002	Offshore	No	3c7	□es	1x - 2.6x
Crestline Offshore Fund	11/1/2001	Offshore	No	3c7	□es	1x - 1.2x
GAM Diversity	12/31/1989	Offshore	No	3c7	□es	1x - 3x
Grosvenor Institutional Partners, L.P.	1/1/2000	Onshore	No	3c7	□es	1.09x - 2.8x
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	4/1/2004	Onshore	No	3c7	□es	1.27x - 2.33x
Pacific Hedged Strategies, LLC	1/1/2002	Onshore	No	3c7	No	0.93x - 1.66x
Prisma Spectrum Fund Ltd	5/1/2005	Offshore	No	3c7	□es	1x - 3.5x

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Minimum and Fee Information

Strategy Name	Subscription Frequency	Lock-Up Period	Redemption Frequency	Notice Period	Minimum Investment (millions)	Annual Management Fee*	Performance Fee	Hurdle Rate	High Water Mark
Aurora Offshore Fund Ltd. II	Monthly	No	Quarterly	95 Days	$1	1.0%	10.0%	No	Yes
Crestline Offshore Fund	Monthly	12 Months	Quarterly	95 Days	$1	1.3%	0.0%	No	No
GAM Diversity	Weekly	No	Quarterly	95 Days	$3	1.1%	0.0%	No	No
Grosvenor Institutional Partners, L.P.	Monthly	No	Quarterly	70 Days	$5	First $10 Million: 1.4% Next $15 Million: 1.2% Next $25 Million: 1.0% Next $50 Million: 0.8% Over $100 Million: 0.6%	0.0%	No	No
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	Monthly	No	Quarterly	95 Days	$5	1.0%	10.0%	5.0%	Yes
Pacific Hedged Strategies, LLC	Monthly	12 Months	Quarterly	90 Days	$5	1.0%	5.0%	No	Yes
Prisma Spectrum Fund Ltd	Monthly	12 Months	Quarterly	65 Days	$1	1.0%	5.0%	13 Wk US T-Bill	Yes

* Mesirow also offers the following fee structure options for the following mandate sizes:
Less than $50mm: 100 bps mgmt fee, 10% performance fee over a 5% hurdle rate or 115 bps flat.
$50-100mm: 90 bps mgmt fee, 10% performance fee over a 5% hurdle or 105 bps flat
$100-200mm: 80 bps mgmt fee, 10% performance over a 5% hurdle or 95 bps flat
Greater than $200mm: 70 bps mgmt fee, 10% performance fee over a 5% hurdle or 85 bps flat.

Investment Performance - Trailing as of June 30, 2010 (Net)

Firm/Product	Current Quarter	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Aurora - Aurora Offshore II	-2.5	0.5	10.5	-0.7	4.2	4.9	NA
Aurora - Aurora LP*	-2.4	0.6	9.8	0.0	5.1	6.5	7.6
Crestline Offshore Fund, Ltd.	-0.8	1.7	8.1	-2.5	3.3	4.1	NA
GAM Diversity	-5.7	-5.1	-0.7	-5.2	2.7	3.5	4.7
Grosvenor - Inst. Partners L.P.	-2.0	0.3	9.6	-2.6	2.8	4.0	5.1
Mesirow - Inst. Multi-Strategy Fund, LP	-2.2	0.1	9.7	0.1	4.4	NA	NA
Mesirow - Multi-Strategy Comp.*	-2.1	-0.1	7.3	-1.3	3.8	4.7	5.6
PAAMCO - Pacific Hedged Strategies	-1.6	0.5	9.2	0.2	5.0	5.3	NA
PAAMCO - Mod Multi Strat Comp.*	-1.5	0.7	9.7	0.2	5.0	5.2	NA
Prisma Spectrum Fund, Ltd.	-2.3	0.1	9.5	1.1	4.8	NA	NA
S&P 500 Index	*-11.4*	*-6.7*	*14.4*	*-9.8*	*-0.8*	*2.8*	*-1.6*
BC Aggregate Bond	*3.5*	*5.3*	*9.5*	*7.5*	*5.5*	*5.0*	*6.5*
Merrill Lynch - T-Bills +5%	*1.3*	*2.5*	*5.2*	*6.6*	*7.9*	*7.5*	*7.8*
HFN FoF Multi-Strategy Average	*-2.7*	*-1.4*	*3.7*	*-4.2*	*1.9*	*3.3*	*4.2*

* Aurora LP, Mesirow Multi-Strategy Composite and PAAMCO Multi-Strategy Composite are included for long term performance comparison only.

Investment Performance - Calendar Year (Net)

Firm/Product	2009	2008	2007	2006	2005	2004	2003
Aurora - Aurora Offshore II	20.6	-22.5	13.3	9.1	9.5	6.5	9.5
Aurora - Aurora LP*	18.1	-20.5	14.9	11.0	9.5	9.5	15.1
Crestline Offshore Fund, Ltd.	11.0	-19.6	9.5	12.2	6.0	6.5	12.3
GAM Diversity	5.9	-15.0	6.4	15.3	9.1	4.8	13.2
Grosvenor - Inst. Partners L.P.	13.9	-20.9	10.7	9.4	6.8	6.9	11.0
Mesirow - Inst. Multi-Strategy Fund, LP	18.3	-15.7	8.7	9.8	5.3	NA	NA
Mesirow - Multi-Strategy Comp.*	14.1	-16.2	9.1	10.4	6.0	7.9	10.4
PAAMCO - Pacific Hedged Strategies	18.4	-21.8	17.4	10.8	5.1	6.0	14.3
PAAMCO - Mod Multi Strat Comp.*	18.4	-21.8	17.1	11.0	5.0	6.6	13.3
Prisma Spectrum Fund, Ltd.	17.3	-16.5	13.4	8.4	NA	NA	NA
S&P 500 Index	*26.5*	*-37.0*	*5.5*	*15.8*	*4.9*	*10.9*	*28.7*
BC Aggregate Bond	*5.9*	*5.2*	*7.0*	*4.3*	*2.4*	*4.3*	*4.1*
Merrill Lynch - T-Bills +5%	*5.2*	*7.2*	*10.3*	*10.1*	*8.2*	*6.4*	*6.2*
HFN FoF Multi-Strategy Average	*9.7*	*-20.6*	*9.9*	*9.8*	*6.8*	*6.8*	*11.9*

Five Year Risk Analysis - as of June 30, 2010

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - Aurora Offshore II	4.2	7.5	0.2	5.0	-8.3	42.0	18.0
Crestline Offshore Fund, Ltd.	3.3	5.4	0.1	2.3	-5.4	43.0	17.0
GAM Diversity	2.7	6.3	0.0	3.8	-4.7	36.0	24.0
Grosvenor - Inst. Partners L.P.	2.8	6.2	0.0	2.7	-6.9	43.0	17.0
Mesirow - Inst. Multi-Strategy Fund, LP	4.4	5.5	0.3	3.8	-6.3	40.0	20.0
PAAMCO - Pacific Hedged Strategies	5.0	7.7	0.3	5.1	-8.6	43.0	17.0
Prisma Spectrum Fund, Ltd.	4.8	6.5	0.3	4.4	-7.8	42.0	18.0
S&P 500 Index	-0.8	16.8	-0.2	9.6	-16.8	38.0	22.0
BC Aggregate Bond	5.5	3.7	0.7	3.7	-2.4	40.0	20.0
HFN FoF Multi-Strategy Average	1.9	6.6	-0.1	3.1	-6.6	38.0	22.0

MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora Offshore II	2.6	0.3	48.4	43.1	10.3	27.6	-5.5
Crestline Offshore Fund, Ltd.	1.1	0.2	33.0	27.0	6.5	15.1	-3.0
GAM Diversity	0.6	0.2	24.4	30.6	7.3	21.5	-4.3
Grosvenor - Inst. Partners L.P.	0.8	0.2	36.6	30.4	7.3	20.9	-4.2
Mesirow - Inst. Multi-Strategy Fund, LP	2.3	0.2	32.9	33.2	8.0	16.6	-3.3
PAAMCO - Pacific Hedged Strategies	3.2	0.3	33.5	39.6	9.5	20.5	-4.1
Prisma Spectrum Fund, Ltd.	2.7	0.2	26.1	33.9	8.1	15.3	-3.1
S&P 500 Index	0.0	1.0	100.0	100.0	23.9	100.0	-20.0
BC Aggregate Bond	2.9	0.0	3.7	15.2	3.6	-9.2	1.8
HFN FoF Multi-Strategy Average	0.1	0.3	44.4	32.9	7.9	27.6	-5.5

MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora Offshore II	0.9	0.2	1.0	56.9	4.8	20.0	-0.5
Crestline Offshore Fund, Ltd.	0.7	-0.1	0.4	34.0	2.9	-14.2	0.4
GAM Diversity	0.2	-0.1	0.3	26.8	2.3	-16.3	0.4
Grosvenor - Inst. Partners L.P.	-0.1	0.0	0.1	37.4	3.2	12.4	-0.3
Mesirow - Inst. Multi-Strategy Fund, LP	1.3	0.1	0.6	48.8	4.1	-9.6	0.3
PAAMCO - Pacific Hedged Strategies	1.8	0.1	0.5	56.8	4.8	-7.5	0.2
Prisma Spectrum Fund, Ltd.	1.8	0.1	0.4	51.3	4.3	-17.2	0.5
S&P 500 Index	-5.9	0.9	3.7	79.8	6.7	264.4	-7.0
BC Aggregate Bond	0.0	1.0	100.0	100.0	8.4	100.0	-2.7
HFN FoF Multi-Strategy Average	-1.1	0.1	0.2	28.7	2.4	18.4	-0.5

Seven Year Risk Analysis - as of June 30, 2010

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - Aurora LP*	6.5	6.2	0.7	4.7	-8.1	62.0	22.0
Crestline Offshore Fund, Ltd.	4.1	4.7	0.4	2.3	-5.4	61.0	23.0
GAM Diversity	3.5	5.8	0.2	3.8	-4.7	52.0	32.0
Grosvenor - Inst. Partners L.P.	4.0	5.4	0.3	2.7	-6.9	63.0	21.0
Mesirow - Multi-Strategy Comp.*	4.7	4.6	0.5	3.2	-6.4	58.0	25.0
PAAMCO - Mod Multi Strat Comp.*	5.2	6.6	0.4	5.0	-8.5	61.0	23.0
S&P 500 Index	2.8	14.9	0.0	9.6	-16.8	55.0	29.0
BC Aggregate Bond	5.0	3.9	0.6	3.7	-3.4	57.0	27.0
HFN FoF Multi-Strategy Average	3.3	5.9	0.1	3.1	-6.6	57.0	27.0

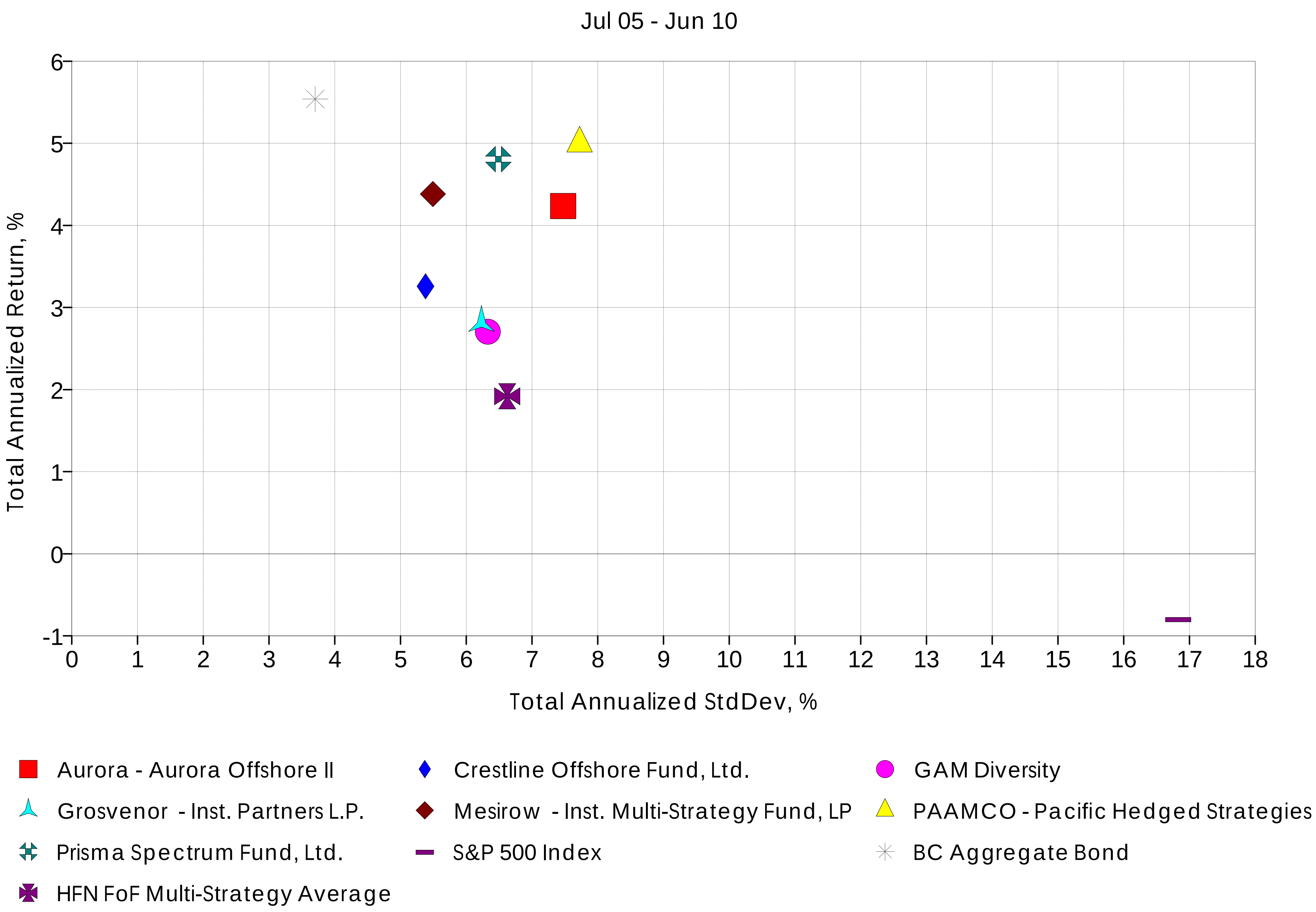
MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora LP*	3.9	0.3	46.0	43.2	9.9	19.2	-3.1
Crestline Offshore Fund, Ltd.	1.6	0.2	33.3	27.4	6.3	12.6	-2.1
GAM Diversity	1.0	0.2	25.5	30.7	7.0	20.3	-3.3
Grosvenor - Inst. Partners L.P.	1.5	0.2	37.7	31.5	7.2	18.4	-3.0
Mesirow - Multi-Strategy Comp.*	2.2	0.2	32.9	31.1	7.1	13.8	-2.3
PAAMCO - Mod Multi Strat Comp.*	2.7	0.3	33.7	37.4	8.6	18.8	-3.1
S&P 500 Index	0.0	1.0	100.0	100.0	23.0	100.0	-16.4
BC Aggregate Bond	2.5	0.0	1.4	13.7	3.1	-10.8	1.8
HFN FoF Multi-Strategy Average	0.8	0.3	44.8	33.9	7.8	25.5	-4.2

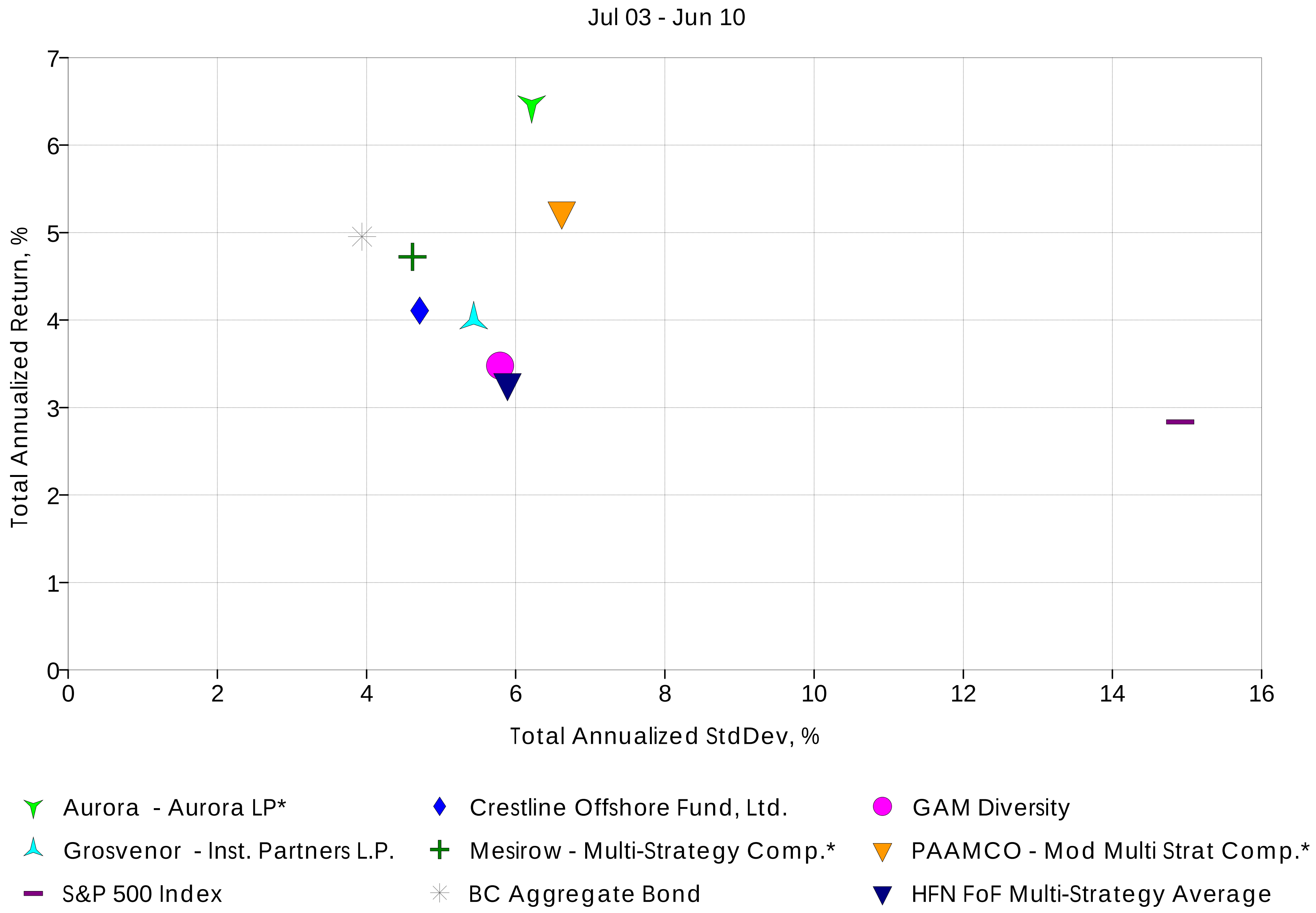
MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora LP*	3.6	0.2	1.4	71.8	6.1	-12.0	0.4
Crestline Offshore Fund, Ltd.	1.8	0.0	0.1	40.2	3.4	-21.6	0.7
GAM Diversity	1.2	-0.1	0.1	33.1	2.8	-20.8	0.7
Grosvenor - Inst. Partners L.P.	1.6	0.0	0.0	42.8	3.6	-11.9	0.4
Mesirow - Multi-Strategy Comp.*	2.2	0.0	0.1	47.9	4.0	-20.6	0.7
PAAMCO - Mod Multi Strat Comp.*	2.6	0.1	0.3	54.6	4.6	-19.0	0.6
S&P 500 Index	-0.7	0.4	1.4	78.5	6.6	110.5	-3.5
BC Aggregate Bond	0.0	1.0	100.0	100.0	8.4	100.0	-3.2
HFN FoF Multi-Strategy Average	0.7	0.1	0.3	37.8	3.2	-2.9	0.1

Return vs. Risk (last 5 years)

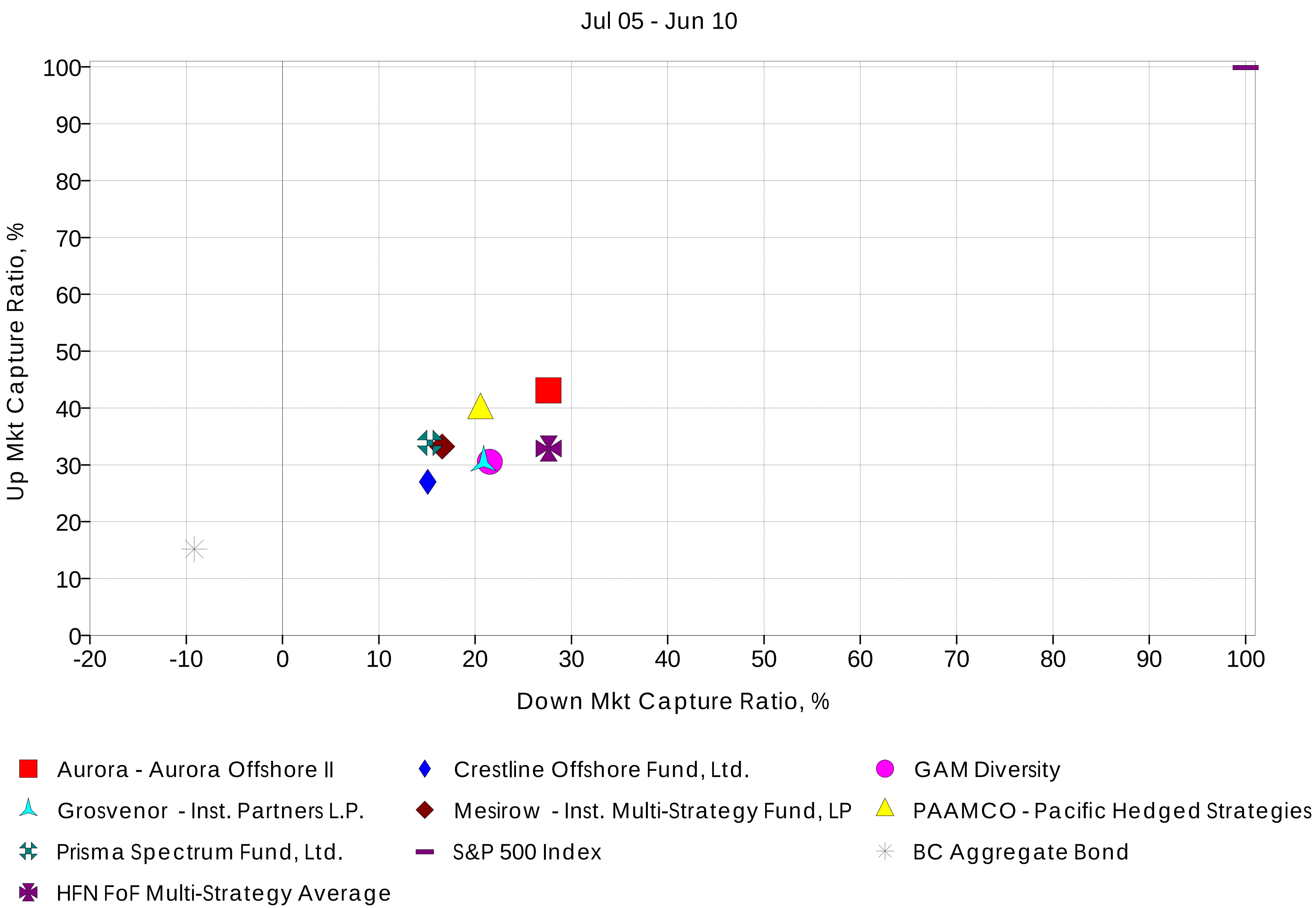


Return vs. Risk (last 7 years)

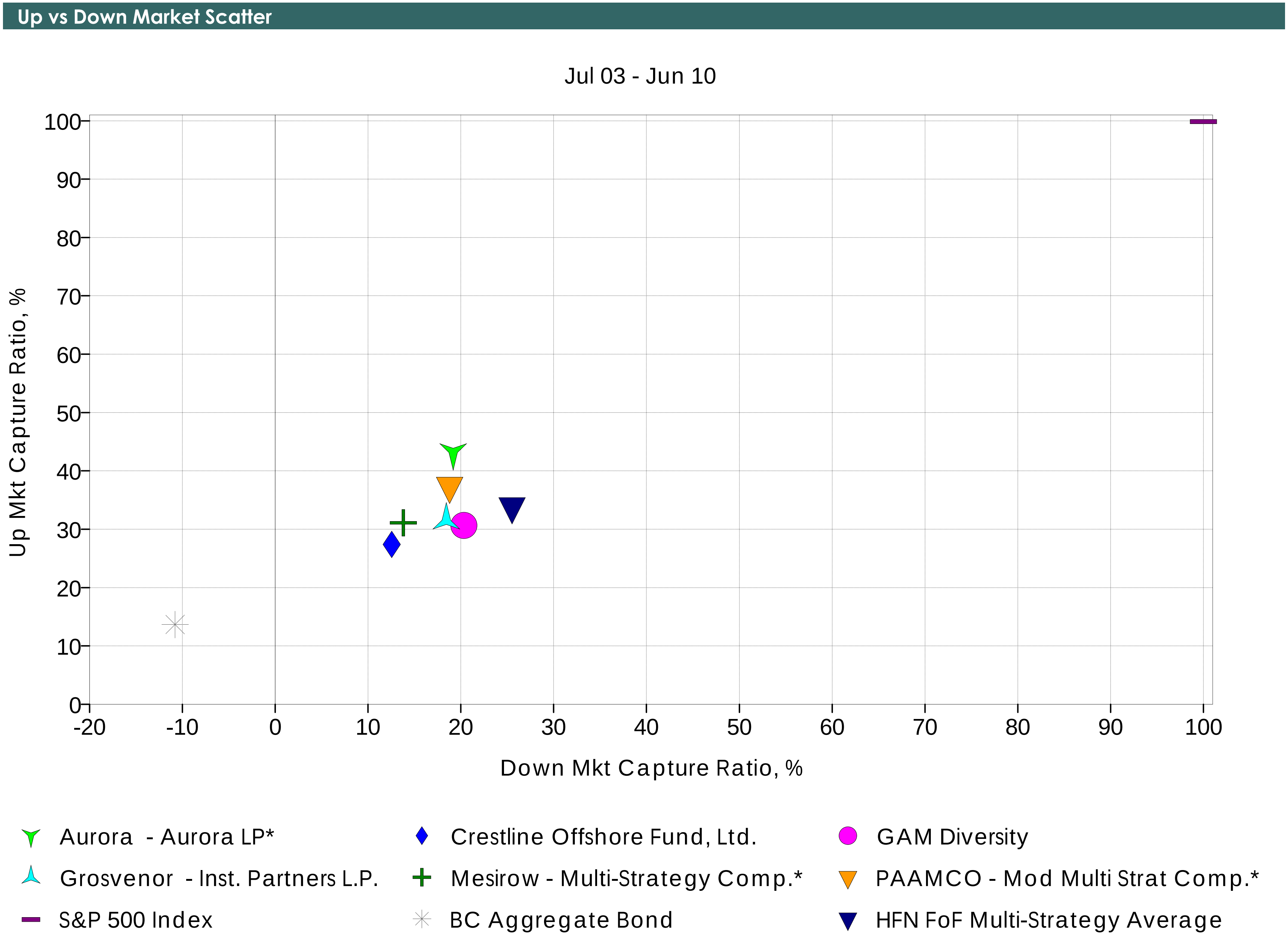


Upside vs. Downside Market Capture (last 5 years)

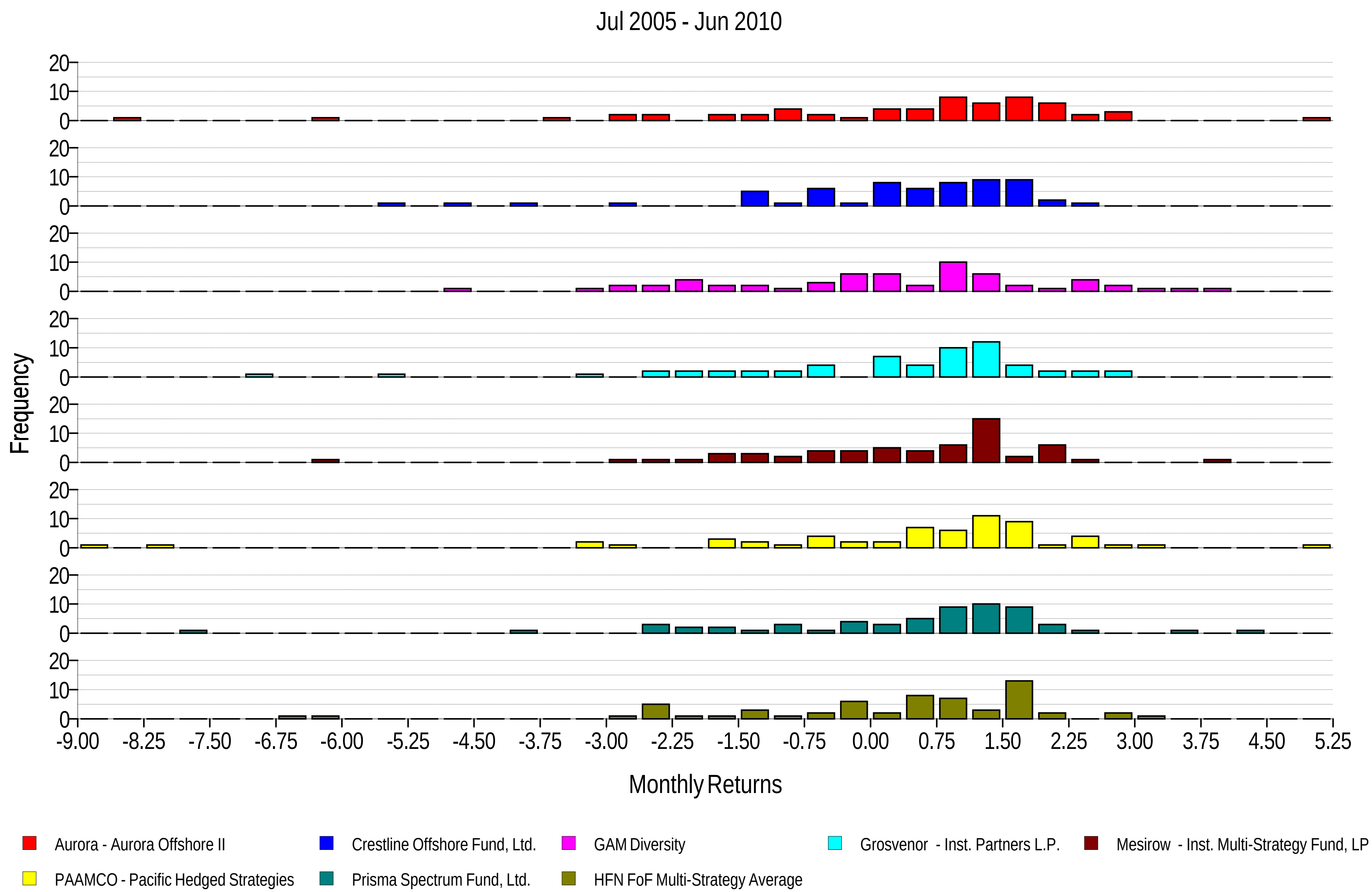
Up vs Down Market Scatter



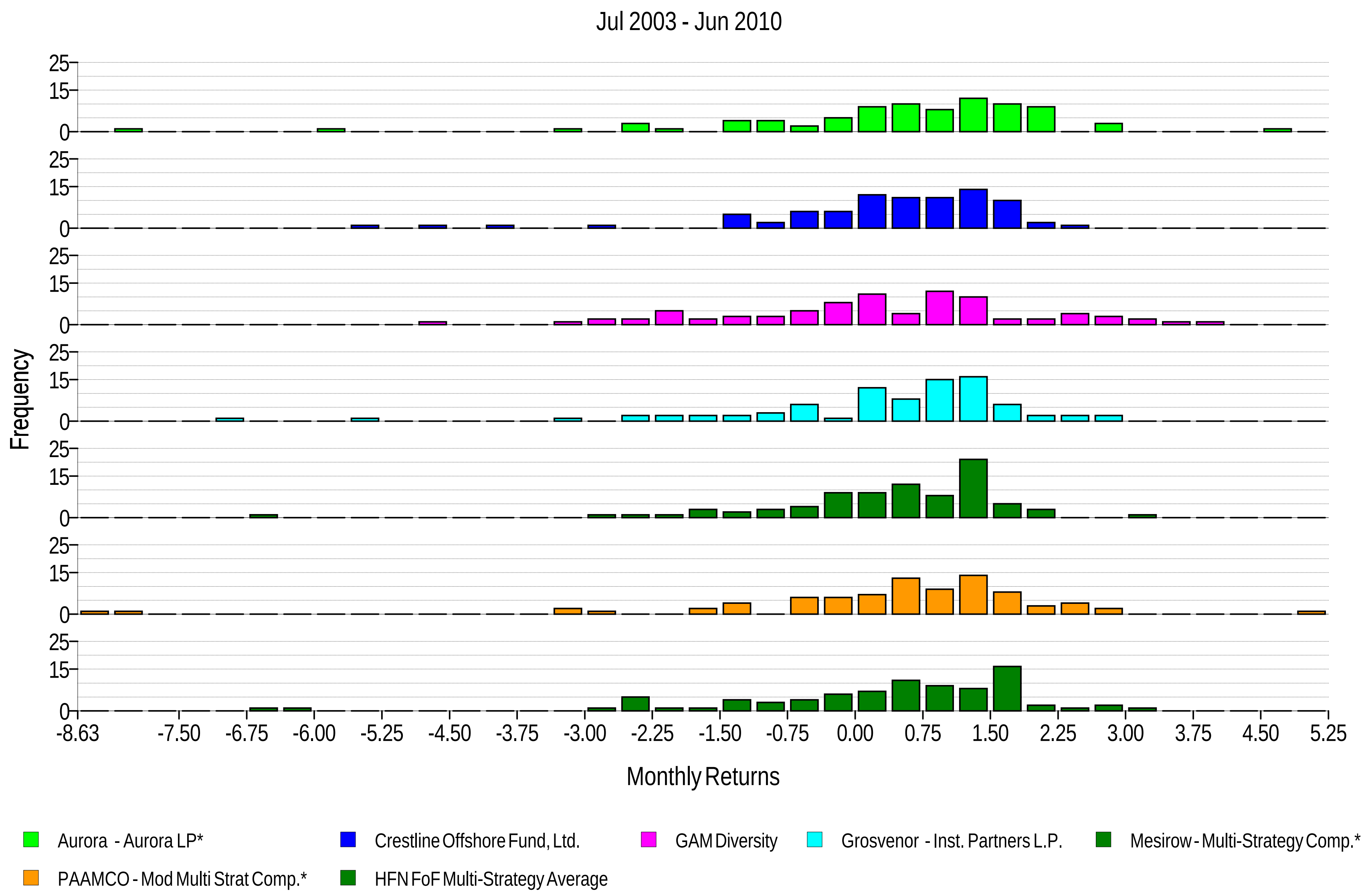
Upside vs. Downside Market Capture (last 7 years)



Distribution of Returns (last 5 years)



Distribution of Returns (last 7 years)



Correlation Of Returns - 5 Year Trailing

Direct Correlations

Correlation: Jul 2005 - Jun 2010	Aurora - Aurora Offshore II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Inst. Multi-Strategy Fund, LP	PAAMCO - Pacific Hedged Strategies	Prisma Spectrum Fund, Ltd.	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora Offshore II	1.00	0.90	0.78	0.96	0.94	0.93	0.93	0.70	0.08
Crestline Offshore Fund, Ltd.	0.90	1.00	0.78	0.95	0.89	0.90	0.89	0.57	-0.07
GAM Diversity	0.78	0.78	1.00	0.80	0.79	0.72	0.78	0.49	-0.05
Grosvenor - Inst. Partners L.P.	0.96	0.95	0.80	1.00	0.95	0.94	0.95	0.61	0.01
Mesirow - Inst. Multi-Strategy Fund, LP	0.94	0.89	0.79	0.95	1.00	0.88	0.93	0.58	0.04
PAAMCO - Pacific Hedged Strategies	0.93	0.90	0.72	0.94	0.88	1.00	0.93	0.58	0.06
Prisma Spectrum Fund, Ltd.	0.93	0.89	0.78	0.95	0.93	0.93	1.00	0.51	0.03
S&P 500 Index	0.70	0.57	0.49	0.61	0.58	0.58	0.51	1.00	0.19
BC Aggregate Bond	0.08	-0.07	-0.05	0.01	0.04	0.06	0.03	0.19	1.00
HFN FoF Multi-Strategy Average	0.96	0.91	0.85	0.96	0.91	0.94	0.93	0.67	0.04

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Jul 2005 - Jun 2010	Aurora - Aurora Offshore II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Inst. Multi-Strategy Fund, LP	PAAMCO - Pacific Hedged Strategies	Prisma Spectrum Fund, Ltd.	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora Offshore II	1.00	-0.02	-0.37	0.30	0.29	0.33	0.26	0.34	-0.15
Crestline Offshore Fund, Ltd.	-0.02	1.00	0.24	0.70	0.59	0.11	0.37	-0.29	0.44
GAM Diversity	-0.37	0.24	1.00	0.02	0.25	-0.46	0.06	-0.29	0.23
Grosvenor - Inst. Partners L.P.	0.30	0.70	0.02	1.00	0.72	0.34	0.63	-0.25	0.26
Mesirow - Inst. Multi-Strategy Fund, LP	0.29	0.59	0.25	0.72	1.00	0.04	0.60	-0.28	0.52
PAAMCO - Pacific Hedged Strategies	0.33	0.11	-0.46	0.34	0.04	1.00	0.37	-0.08	-0.16
Prisma Spectrum Fund, Ltd.	0.26	0.37	0.06	0.63	0.60	0.37	1.00	-0.42	0.21
S&P 500 Index	0.34	-0.29	-0.29	-0.25	-0.28	-0.08	-0.42	1.00	-0.19
BC Aggregate Bond	-0.15	0.44	0.23	0.26	0.52	-0.16	0.21	-0.19	1.00

Correlation Of Returns - 7 Year Trailing

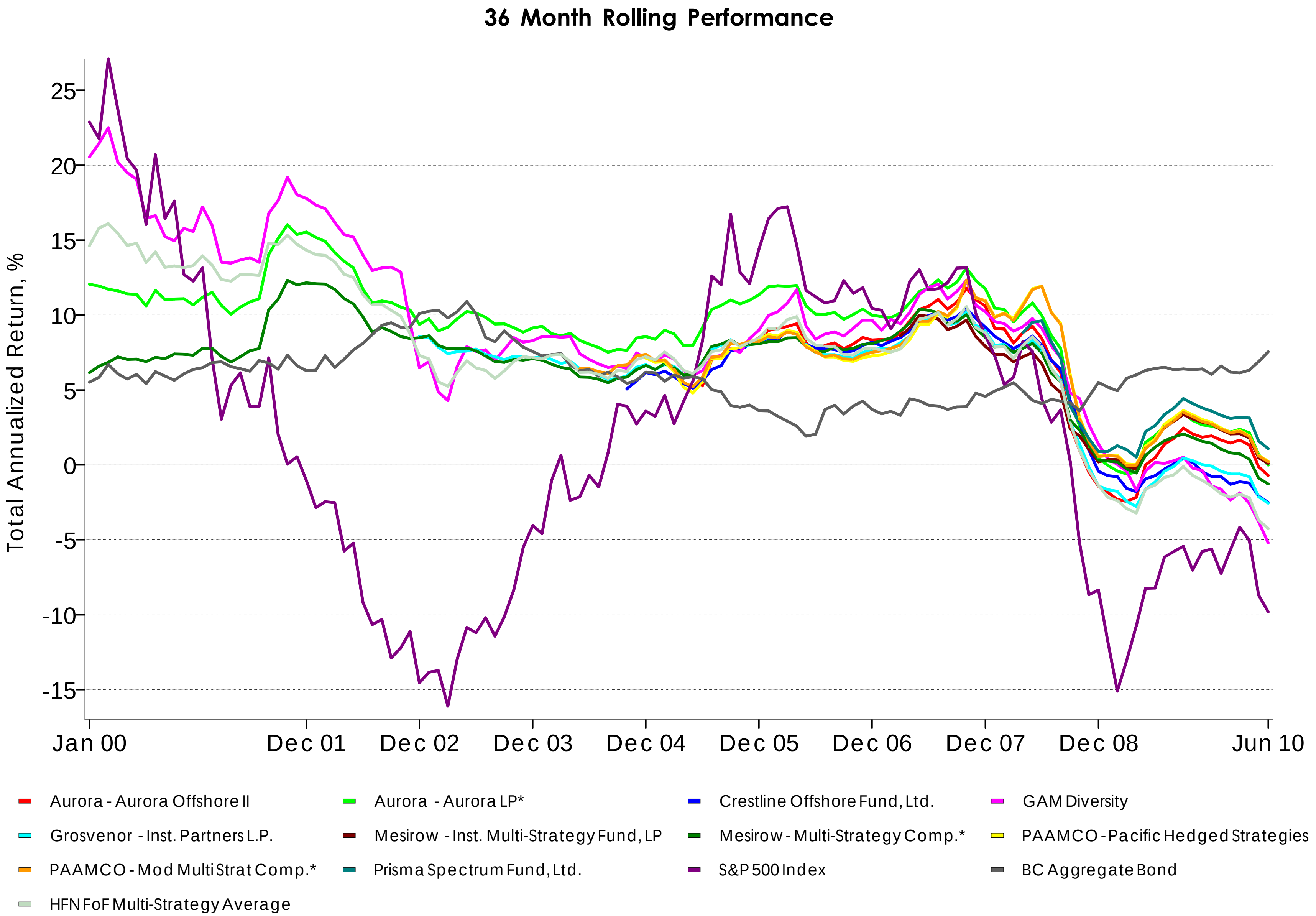
Direct Correlations

Correlation: Jul 2003 - Jun 2010	Aurora - Aurora LP*	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Multi-Strategy Comp.*	PAAMCO - Mod Multi Strat Comp.*	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora LP*	1.00	0.90	0.79	0.95	0.94	0.92	0.68	0.10
Crestline Offshore Fund, Ltd.	0.90	1.00	0.78	0.95	0.91	0.90	0.57	-0.04
GAM Diversity	0.79	0.78	1.00	0.80	0.80	0.72	0.50	-0.04
Grosvenor - Inst. Partners L.P.	0.95	0.95	0.80	1.00	0.96	0.94	0.61	-0.01
Mesirow - Multi-Strategy Comp.*	0.94	0.91	0.80	0.96	1.00	0.90	0.57	0.02
PAAMCO - Mod Multi Strat Comp.*	0.92	0.90	0.72	0.94	0.90	1.00	0.58	0.04
S&P 500 Index	0.68	0.57	0.50	0.61	0.57	0.58	1.00	0.11
BC Aggregate Bond	0.10	-0.04	-0.04	-0.01	0.02	0.04	0.11	1.00
HFN FoF Multi-Strategy Average	0.96	0.91	0.85	0.96	0.92	0.93	0.67	0.04

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Jul 2003 - Jun 2010	Aurora - Aurora LP*	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Multi-Strategy Comp.*	PAAMCO - Mod Multi Strat Comp.*	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora LP*	1.00	0.15	-0.16	0.34	0.35	0.31	0.18	0.09
Crestline Offshore Fund, Ltd.	0.15	1.00	0.21	0.71	0.68	0.20	-0.30	0.43
GAM Diversity	-0.16	0.21	1.00	0.01	0.23	-0.40	-0.26	0.17
Grosvenor - Inst. Partners L.P.	0.34	0.71	0.01	1.00	0.75	0.40	-0.24	0.24
Mesirow - Multi-Strategy Comp.*	0.35	0.68	0.23	0.75	1.00	0.15	-0.33	0.53
PAAMCO - Mod Multi Strat Comp.*	0.31	0.20	-0.40	0.40	0.15	1.00	-0.10	-0.08
S&P 500 Index	0.18	-0.30	-0.26	-0.24	-0.33	-0.10	1.00	-0.22
BC Aggregate Bond	0.09	0.43	0.17	0.24	0.53	-0.08	-0.22	1.00

Rolling Returns



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Year Firm Established	1988
Year First Fund of Funds Launched	1988
Location	Chicago, IL
Number of Investment Professionals	69
Percentage Employee Owned	0%
Total AUM (millions)	$9,542

Investment Philosophy

Please see response below:

Investment Process

The Firm's mission statement is: "Aurora Investment Management L.L.C. is committed to being a premier investment firm focused on delivering consistently superior investment results within a collegial environment that encourages a culture of excellence, respect, teamwork and integrity."

In order to deliver consistently superior investment results, the Firm adheres to a disciplined investment process guided by experienced portfolio managers who manage funds of hedge funds that offer consistent long-term capital appreciation with low volatility and little correlation with equities and bonds. Believing that the most important factors guiding the selection of hedge fund managers are qualitative, not quantitative, the Firm performs thorough and wide-ranging analyses, comparisons and reviews, ultimately relying on the sound judgment that our portfolio management team has developed over the last 22 years. The key element of our investment process that differentiates us from others is our retention of critical judgments (i.e., inclusion/termination of a manager and on-site due diligence of managers) at the most senior level. In both the initial and ongoing due diligence process, we believe that the direct contact between our own Portfolio Management Team and the principals of the underlying managers results in the most accurate and timely assessment possible and allows for the establishment of a unique long-term peer-to-peer relationship. When managers consistently interact with the same senior decision-makers, we can be assured that important information will not be misinterpreted or overlooked. Moreover, we will not invest with any manager until each of our Portfolio Managers has met with the underlying manager and reached a unanimous decision to invest.

Another unique aspect of our investment process is that each Portfolio Manager is a generalist. This generalist perspective allows each Portfolio Manager to seek the best investment opportunities objectively and make logical, well-informed decisions in a consensus-driven manner. This process is in contrast to a "sector specialist" approach, wherein the Portfolio Manager might tend to promote inclusion of his/her own sector in the portfolio – regardless of whether that recommendation may generate the best investment outcome for the portfolio as a whole. This consensus-driven approach makes each Portfolio Manager an owner of each investment decision.

Our investment process also leverages our technology platform. We have developed extensive and sophisticated proprietary databases that house our entire manager due diligence, quantitative, and qualitative analyses, and serves as the centerpiece for all decisions. Each Portfolio Manager travels with the entire database on his/her laptop, creating a virtual office environment, synchronizing wirelessly, allowing for seamless and continuous communication.

The qualitative nature of our work also differentiates us from our peers. For Aurora, the most important factors guiding the final decision of selecting external investment managers is qualitative, not quantitative. While we perform thorough and wide-ranging quantitative analyses, comparisons, and reviews, when it comes to deciding who will receive an allocation of capital, we rely on the sound judgment that our team has developed over the last 21+ years. The accompanying document entitled "The Due Diligence Process" by Roxanne Martino elaborates on the qualitative aspects of our investment process.

Employees

Roxanne M. Martino

Title

Partner, President, Chief Executive Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1977

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Accounting (University of Notre Dame, 1977), MBA (University of Chicago, 1988)
Certified Public Accountant (1977)
Formerly a General Partner with Grosvenor Partners (1984-1990); and a Senior Manager with Coopers & Lybrand (1977-1984)
Thirty-two years industry experience
Joined Aurora Investment Management in 1990

Compensation Structure

N/A

Employees

Scott C. Schweighauser

Title

Partner, Chief Investment Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Mathematics (Williams College, 1983), MBA (University of Chicago, 1989)
Formerly Vice President for derivatives and interest rate product trading with ABN AMRO Bank (1993-1994); a Vice President and Managing Director with Continental Bank's Risk Management Trading Group (1986-1993); and Associate in Corporate Finance at Bankers Trust Co. (1983-1986)
Twenty-seven years industry experience
Joined Aurora Investment Management in 1994

Compensation Structure

N/A

Employees

Justin D. Sheperd

Title

Partner and Portfolio Manager

Location

Chicago

Industry Start Year:

1995

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Business Administration, Finance and Accounting (Miami University, 1994), MBA (University of Chicago, 2003)
Formerly Client Database Services Assistant with Information Resources Inc. (1995-1996)
CFA Charterholder
Fourteen years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Employees

Peter S. Hamet

Title

Head of Research

Location

Chicago

Industry Start Year:

1998

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Finance and Accounting (Western Michigan University, 1998)
Formerly Business Director of Hotel Zelai in Spain (2000-2001); and an Analyst for CIBC Oppenheimer, Alternative Investments Group (1998-2000)
CFA Charterholder
Ten years industry experience
Joined Aurora Investment Management in 2002

Compensation Structure

N/A

Employees

Patrick C. Sheedy

Title

Strategy Head

Location

Chicago

Industry Start Year:

2001

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Government and International Relations (University of Notre Dame, 2001)
Formerly Associate Consultant and Head of Hedge Fund Research at Stratford Advisory Group (2001-2005)
Nine years industry experience
Joined Aurora Investment Management in 2005

Compensation Structure

N/A

Employees

Gregory D. Schneiderman

Title

Strategy Head

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Finance and Accounting (Washington University, 1999)
Formerly Director – Head of Absolute Return Manager Research, and Vice President – Senior Research Analyst at Guggenheim Wealth Management (2006-2008); Vice President – Senior Research Analyst and Senior Associate at Morgan Stanley Alternative Investment Partners (2002-2006); and Investment Banking Analyst at A.G. Edwards and Sons, Inc. (1999-2002)
CFA Charterholder
Eleven years industry experience
Joined Aurora Investment Management in 2008

Compensation Structure

N/A

Employees

David E. Kuenzi

Title

Director of Quantitative Research

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2009

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA (Western Michigan University, 1988), MFA (University of Iowa, 1990), MBA (University of Chicago, 2001), MS (University of Chicago, 2004)
Formerly Head of Risk Management and Quantitative Research with Man Investments USA Corp. (Glenwood Capital) (2003-2008); Vice President, Research, Development, and Risk Management with Nuveen Investments (1996-2003); Securities Analyst with Perritt Capital Management (1994-1995); and Adjunct Professor at Grand Valley State University (1991-1993)
CFA Charterholder
Sixteen years industry experience
Joined Aurora Investment Management in 2009

Compensation Structure

N/A

Employees

Anne Marie Morley

Title

Partner, Chief Financial Officer, and Treasurer

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Accounting (DePaul University, 1991), MS in Taxation (DePaul University, 2006)
Formerly a Senior Accountant with Grosvenor Partners (1988-1994); Chief Financial Officer of LaSalle Portfolio Management (1994-1995); and Assistant Controller with Edelman Public Relations (1995-1996)
Twenty-two years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Additional Manager Detail

Firm: Aurora Investment Management L.L.C.
Product Name: Aurora Offshore Fund Ltd. II

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	37.0%	11.0%	0.0%	0.0%	23.0%	0.0%	0.0%	0.0%	12.0%	17.0%
12/31/2008	42.0%	12.0%	0.0%	0.0%	15.0%	0.0%	0.0%	0.0%	14.0%	17.0%
12/31/2007	45.0%	11.0%	0.0%	0.0%	11.0%	0.0%	0.0%	0.0%	12.0%	21.0%
12/31/2006	48.0%	10.0%	0.0%	0.0%	14.0%	0.0%	0.0%	0.0%	12.0%	16.0%
12/31/2005	46.0%	10.0%	0.0%	0.0%	12.0%	0.0%	0.0%	0.0%	15.0%	17.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$1,900	$7,200	$9,542	$9,542	204	230
12/31/2008	$1,800	$6,268	$9,053	$9,053	259	137
12/31/2007	$2,900	$9,068	$13,128	$13,128	194	69
12/31/2006	$2,400	$7,175	$9,624	$9,624	168	110
12/31/2005	$1,300	$5,562	$7,154	$7,154	124	112

Crestline Investors [illegible]

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Organization

Year Firm Established	1997
Year First Fund of Funds Launched	1997
Location	Fort Worth, Texas
Number of Investment Professionals	61
Percentage Employee Owned	100%
Total AUM (millions)	$5,500

Investment Philosophy

Crestline's investment philosophy is that:
• Market inefficiencies exist.
• Harnessing these market inefficiencies can produce attractive returns with low net market exposure.
• Successful investing requires a forward-looking approach, not reliance on prior years' returns.
• Risk management is paramount to long-term performance.

There are three features to our investment approach which we believe are our edge and contribute most to alpha generation:

1. The first is our top-down, forward-looking approach to strategy selection. In an environment where large amounts of capital are attracted to the strategies that performed well last year, we believe the ability to understand the drivers of return going forward enables us to achieve better risk-adjusted returns.

2. The second is manager selection. Sourcing high quality managers is the way we implement our strategy views.

3. The third is our risk management process. Risk management is integral to our investment process and leads us to a well-diversified portfolio of absolute return strategies. Protecting the downside enables the portfolio to grow and compound over time.

Investment Process

Our first step in the investment process is to evaluate the prospects for each of the hedge fund strategies. Our research team is comprised of strategy specialists who are responsible for identifying the opportunities within their strategy, quantifying the projected risk/reward and ranking the strategy. In constructing our portfolios, we draw heavily from strategies that we believe tend to have lower volatility and a demonstrated alpha.

The first step in the evaluation of a fund is a high level "Quick Look" analysis which will provide basic information on the fund including returns, strategy description, manager background and basic risk statistics.

The fund then moves to the Research stage and the analyst team will gather marketing materials, set up a call or an office meeting with the manager, begin reference checking, and perform a quantitative analysis of returns (conducted by Crestline's risk team).

When we move a manager into the due diligence process, we have done enough preliminary work to know whether we like the basic fundamentals of the manager, the strategy, the returns and the risk profile. Based on that information, the goal of our due diligence process is to find a reason not to invest with the manager.

Employees

Doug Bratton

Title

President / CIO

Location

Fort Worth

Industry Start Year:

1984

Firm Start Year:

1997

Firm End Date:

N/A

Email

dbratton@crestlineinc.com

Office Phone:

817-390-8796

Cell Phone

N/A

Bio

Mr. Bratton is founder and majority owner of Crestline Investors, Inc., the general partner of Crestline Management, L.P. & Crestline Associates, L.P., the investment manager and general partner, respectively, of the Crestline fund of funds products. He is the Chair of the Investment and Executive Committees. Mr. Bratton has been an investment professional with organizations utilizing alternative asset strategies since 1983. He has extensive experience in hedge fund management, multi-strategy portfolio construction, private equity and venture capital. Mr. Bratton has specific expertise in absolute return arbitrage strategies, having started his career in this business and later managed arbitrage groups. Since 1989, Mr. Bratton has managed portfolios using these alternative asset strategies on behalf of organizations associated with the Bass family. During this period, he has also negotiated hedge fund related joint ventures for Bass entities. These include: lift-outs of proprietary trading groups in merger arbitrage and convertible arbitrage ultimately employing $500 mm in capital; a collateralized loan obligation group managing $3 billion in bank loans; and an experienced distressed securities group. In addition, Mr. Bratton negotiated a $1 billion active investing joint venture. Since 1997, he has been President of Crestline Investors, Inc. Prior to founding Crestline Investors, he spent six years with Taylor & Company, an investment organization associated with members of the Bass family. From 1989 to 1991, Mr. Bratton was a partner of the Airlie Group, L.P. where he managed the merger arbitrage and special situation portfolio. From 1988 to 1989, Mr. Bratton was employed by Investment, L.P. (the predecessor firm of the Airlie Group) as a partner in the Merger Arbitrage group. From 1984 to 1988, Mr. Bratton served as Vice President in the Merger Arbitrage group for Smith Barney Harris Upham and Company. Mr. Bratton received a B.S. from North Carolina State University in 1981 and a Masters of Business Administration with Honors from Duke University in 1984.

Compensation Structure

Salary, fixed bonus and profits interest

Employees

Caroline Cooley

Title

Senior Portfolio Manager

Location

Fort Worth

Industry Start Year:

1985

Firm Start Year:

1998

Firm End Date:

N/A

Email

ccooley@crestlineinc.com

Office Phone:

817-339-7377

Cell Phone

N/A

Bio

Ms. Cooley is the senior portfolio manager in charge of our low volatility funds and leads the portfolio management team. She is a member of the Executive Committee. Ms. Cooley has over 25 years of experience in the investment industry, focusing almost exclusively in the absolute return arena. She has significant experience in proprietary trading as well as hedge fund risk management. Prior to joining the firm in April 1998, Ms. Cooley was a Managing Director for Culmen Group, L.P., an investment firm based in Fort Worth. From 1986 to 1997 she was an investment professional with Taylor & Company where she was active in equity derivatives and fixed income arbitrage. She has experience trading securities in both the U.S. and international markets. In addition, Ms. Cooley was responsible for the risk management of the various absolute return strategies employed by Taylor & Company, including monitoring and hedging equity, currency and interest rate exposure. Ms. Cooley began her career in the investment industry at Manufacturers Hanover Trust Company in New York and Chicago after receiving her B.A. in Economics from The College of William and Mary in 1983.

Compensation Structure

Salary, discretionary bonus and profits interest

Employees

John Cochran

Title

Chief Administrative Officer

Location

Fort Worth

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

jcochran@crestlineinc.com

Office Phone:

817-339-7379

Cell Phone

N/A

Bio

Mr. Cochran serves as the Chief Financial Officer/Chief Administrative Officer and manager of the firm's operational due diligence efforts for Crestline's fund of funds products. He is a member of the Executive Committee. Mr. Cochran has 22 years experience in various segments of the investment industry including private equity, venture capital and hedge funds. Prior to joining the firm in October 1998, he spent 10 years with KPMG L.L.P. ("KPMG"). During his employment at KPMG, Mr. Cochran received extensive industry experience through his position as an auditor and focus in the Merger and Acquisition area. During his tenure at KPMG, a majority of his time was spent working with various hedge funds, investment companies, private equity firms, venture capital groups and broker dealers. Mr. Cochran is a CPA and received a B.B.A. in Accounting from Texas Christian University in 1987.

Compensation Structure

Salary, discretionary bonus and profits interest

Additional Manager Detail

Firm: Crestline Investors, Inc.
Product Name: Crestline Offshore Fund

Allocation by Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	19.5%	0.0%	1.8%	2.6%	6.2%	4.6%	0.0%	3.4%	3.5%	58.5%
12/31/2008	19.3%	0.0%	1.9%	2.0%	6.5%	6.2%	0.0%	1.3%	4.1%	58.5%
12/31/2007	19.6%	0.0%	1.6%	4.1%	11.3%	5.4%	0.0%	1.4%	6.2%	50.4%
12/31/2006	17.1%	0.0%	0.9%	3.4%	10.5%	5.1%	0.0%	3.1%	11.1%	48.7%
12/31/2005	12.5%	0.0%	2.9%	3.4%	9.5%	4.2%	0.0%	4.4%	8.9%	54.2%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$499	$3,239	$5,500	$5,500	18	78
12/31/2008	$550	$2,520	$3,600	$3,600	93	13
12/31/2007	$585	$2,950	$4,300	$4,300	82	11
12/31/2006	$370	$1,950	$2,500	$2,500	49	20
12/31/2005	$260	$920	$1,500	$1,500	47	5

G[illegible]

[illegible]

Organization

Year Firm Established	1983
Year First Fund of Funds Launched	1983
Location	New York, NY
Number of Investment Professionals	86
Percentage Employee Owned	0%
Total AUM (millions)	$15,000

Investment Philosophy

We believe that constructing hedge fund portfolios that consistently deliver attractive risk adjusted returns requires deep manager research and a multi-layered approach to risk management. Deep manager research is essential to identifying alpha, while an integrated approach to risk management is needed to control downside risk.

In terms of research, we believe that a global sourcing process is needed to identify hedge fund talent. Much of the growth in the hedge fund industry and, furthermore, most of the opportunity is now occurring outside the U.S. Additionally, investing in non-U.S. managers and markets can reduce the correlation of a hedge fund portfolio to traditional stock and bond indices. We also believe that research must be focused on “discovery” rather than “access”.

As to risk, we believe a comprehensive approach to risk management is needed in fund of hedge fund management. This belief has impacted our investment approach and process in several ways. First, GAM separates investment analysis from operational due diligence, employing a dedicated 6-person team to conduct this analysis. This team reports to the Chief Operating Officer and may “veto” an investment opportunity for operational reasons. Other examples include setting clear return, volatility, and correlation targets for every manager prior to investment and requiring weekly NAV’s from all of managers. Failure to provide the latter will exclude a manager from consideration. Finally, in terms of transparency, we have a strong bias toward strategies which are marked-to-market and require from all of our managers a high degree of holdings transparency. Specifically, for equity managers we require position-level detail, while for trading and arbitrage managers we have developed special templates which seek to isolate the risks specific to a given hedge fund strategy. Again, failure to provide such data will exclude a manager from consideration.

Investment Process

GAM’s investment process provides discipline and risk control, which enables us to identify talented managers on a consistent basis.

We set clear return, risk and correlation objectives for each strategy and sub-strategy. These drive the strategy weights and tactical allocation ranges for our portfolios, thereby ensuring consistent decision-making throughout the process. We select managers using a highly discerning research process which includes mapping the global hedge fund universe, then evaluating the investment approach, operational integrity and performance expectations of the most talented managers. We combine those managers that we believe have a sustainable competitive edge into portfolios using bottom-up, qualitative conviction in tandem with forward-looking modeling tools and our previously defined portfolio weights and objectives. Risk control is threaded throughout this entire process to maximize the predictability of our results.

Our investment process proceeds through five stages: 1. Establish Objectives and Weights; 2. Identification of Talent; 3. Manager Evaluation; 4. Portfolio Construction; and 5. Risk Management & Monitoring. GAM believes that manager selection is most important when building a fund of hedge fund and assesses opportunities with this mind set and thus takes a bottom mentality.

Employees

David Smith

Title

Chief Investment Director

Location

London

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

David Smith (20 years' investment experience) is Chief Investment Director for GAM Multi-Manager. He is responsible for GAM' Diversity and co-manages several single strategy portfolios. Prior to joining GAM in April 1998, Mr. Smith was head of investment research and management at Buck Consultants. He joined Buck in 1992 from the actuarial investment consultancy division of a leading firm of consultants. Mr. Smith holds a BA (Hons) in Economics and has associate qualifications from IIMR and the Securities Institute. He is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Kier Boley

Title

Investment Manager

Location

London

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Kier Boley (14 years' investment experience) is an Investment Manager in GAM's Multi-Manager team. He is responsible for GAM's Emerging Markets and Asian Multi-Manager investments, as well as managing a commodities-focused fund of hedge funds. Prior to joining GAM in April 2000, Mr. Boley spent six years with City of London Investment Management where, as a director, he was responsible for its London investment team dealing in non-US traded emerging market and Asian funds. Prior to this, Mr. Boley worked in Asia for two years. He holds a BA (Hons) in Economics from Portsmouth University and an MSc in Economics from Southampton University and is a member of SIP. He is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

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Employees

Catherine Cripps

Title

Investment Manager

Location

London

Industry Start Year:

1992

Firm Start Year:

2006

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Catherine Cripps (18 years' investment experience) is an Investment Manager responsible for GAM's multi-manager investments in environmental and European strategies. She is also Head of Research for GAM's Multi-Manager team. Ms Cripps joined GAM in July 2006 from a multi-strategy fund of hedge fund manager, Aida Capital Limited, where she was CEO. Prior to joining Aida Capital, Ms Cripps held various positions in equity derivatives trading, risk management and product control at Credit Suisse, Chase Manhattan, ING Barings and Bankers Trust. Ms Cripps holds an MA in Physics from Oxford University and is a qualified Chartered Accountant. She is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

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Employees

Jennifer Drake

Title

Investment Manager

Location

New York

Industry Start Year:

1997

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Jennifer Drake (11 years' investment experience) is an Investment Manager in GAM's Multi-Manager team and co-manages an arbitrage fund of hedge funds. Prior to joining GAM in September 2004, she worked at Nomura Securities, New York, where she was head analyst and portfolio manager of its proprietary convertible bond portfolios. Ms Drake started her career at Goldman Sachs, New York, as an analyst in mergers and acquisitions. She holds a BA (Hons) in Physics from Williams College, Williamstown, Massachusetts. She is based in New York.

Compensation Structure

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From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Andrew Hutson

Title

Investment Manager

Location

Hong Kong

Industry Start Year:

2000

Firm Start Year:

2000

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Andrew Hutson (8 years' investment experience) is an Investment Manager in GAM's Multi-Manager team, with a specific focus on hedge funds investing in Japan. Prior to joining GAM in November 2000, Mr. Hutson spent three years with Limehouse & Co. as an auditor, and prior to this worked in retail banking at Barclays. He holds a BA in Accounting, a BSc in Financial Services. Mr. Hutson is a Fellow of the Association of Chartered Certified Accountants and an Associate of the Charted Institute of Bankers. He is based in Hong Kong.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants

Employees

Chi Keong Lee

Title

Risk Manager

Location

London

Industry Start Year:

1995

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Chi Keong Lee (14 years' investment experience) is a Risk Manager for GAM Multi-Manager. He is responsible for monitoring investments, coordinating the risk process and developing the Multi-Manager risk systems. Prior to joining GAM in January 2008, Chi originated and structured credit derivatives at Morgan Stanley and before that was head of quantitative research at an Asian fund of funds (now part of LGT Capital). He started his career in 1995 in financial risk management consulting with Andersen and has also implemented a successful automated statistical arbitrage trading strategy for a family office. Chi holds an MBA in Finance from the Wharton School and a BA in Computer Science from Cambridge University.

Compensation Structure

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From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Amir Madden

Title

Investment Manager

Location

New York

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Amir Madden (8 years' investment experience) is an Investment Manager in GAM's Multi-Manager team, responsible for GAM's event driven multi-manager investments. He also co-manages a North American multi-manager fund. Prior to joining GAM in August 2002, he spent two years at JP Morgan Private Bank in the multi-manager investment advisory group as a due diligence specialist, having previously worked at Jennison Associates LLC. Mr. Madden holds an MBA in Banking and Finance from Hofstra University and a BBA in International Finance and Marketing from the University of Miami. He is based in New York.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Jeffrey Rose

Title

Investment Manager

Location

New York

Industry Start Year:

2000

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Jeffrey Rose (8 years' investment experience) is an Investment Manager in GAM's Multi-Manager team. Prior to joining GAM in March 2008, Mr. Rose was a partner at US-based fund of hedge funds boutique, Condor Capital, having co-manager responsibility for the fund of hedge funds. Prior to Condor Capital's split from Conquest Capital in 2007, he was a co-manager of the fund of hedge funds portfolio. Mr. Rose is a CFA charterholder and holds an MBA in Finance from Columbia Business School, a JD from NYU School of Law, and a BA in Political Science and Legal/Political Communication from Queens College. Prior to obtaining his MBA, Mr. Rose spent seven years as a lawyer, including three years with Schulte Roth & Zabel LLP, where he advised hedge funds and investment advisers on legal issues. He is based in New York.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

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From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Arvin Soh

Title

Investment Manager

Location

New York

Industry Start Year:

1994

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Arvin Soh (14 years' investment experience) is an Investment Manager in GAM's Multi-Manager team focusing on macro and managed futures strategies. Prior to joining GAM in February 2005, he was a manager at Pfizer with primary responsibility for manager selection in international equity, global macro and currency funds. Prior to this Mr. Soh was an assistant portfolio manager with a hedge fund and a vice president with Bankers Trust. He holds a BA in Economics from Cornell University and an MBA from the Wharton School of the University of Pennsylvania. He is based in New York.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Additional Manager Detail

Firm□GAM
Product Name□GAM Diversity□LP

Allocation □y Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	32.0%	0.0%	33.1%	0.0%	2.2%	0.0%	1.5%	4.5%	0.0%	26.7%
12/31/2008	16.5%	0.0%	50.5%	0.0%	4.2%	0.7%	6.6%	6.0%	0.0%	15.5%
12/31/2007	47.9%	0.0%	26.4%	0.0%	3.3%	0.0%	7.3%	3.7%	0.0%	11.4%
12/31/2006	47.3%	0.0%	28.2%	0.0%	3.9%	3.0%	5.5%	0.0%	0.0%	12.1%
12/31/2005	48.2%	0.0%	27.8%	0.0%	3.6%	2.9%	5.0%	0.0%	0.0%	12.5%

□istorical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$4,638	$5,459	$15,000	$40,696	49	36
12/31/2008	$5,814	$7,907	$15,688	$30,465	23	41
12/31/2007	$9,001	$13,251	$26,060	$57,314	65	26
12/31/2006	$5,388	$10,455	$20,365	$50,838	53	22
12/31/2005	$3,949	$8,171	$17,092	$40,434	27	28

Grosvenor Institutional Partners
Information [illegible]

Organization

Year Firm Established	1971
Year First Fund of Funds Launched	1971
Location	Chicago, IL
Number of Investment Professionals	220
Percentage Employee Owned	70%
Total AUM (millions)	$22,635

Investment Philosophy

Grosvenor believes a properly constructed portfolio of proven alternative investment strategies, implemented by a carefully selected combination of talented investment managers, can produce competitive absolute returns and superior risk-adjusted returns with limited correlation to traditional equity and fixed income markets. Grosvenor implements this philosophy by: investing in absolute return strategies; allocating capital to superior investment managers; and systematically diversificating of portfolios.

Investment Process

Grosvenor begins by establishing an investment policy and target strategy weightings for every portfolio. The Portfolio Managers select managers from an approved list, with selection driven by style, correlation, liquidity considerations and capacity. Typically, more than one manager is included for each strategy to take advantage of style differences, mitigate manager risk, and provide for future capacity.

The portfolio is statistically measured on both a historical and forward-looking basis. The historical simulation uses actual returns over a specific time period. The forward-looking analysis evaluates expected return, standard deviation, Severe Case Loss (SCL), and beta to S&P 500 of the portfolio.

The resulting portfolio is compared to its formal investment policy to ensure compliance. While Grosvenor does not attempt to "time" the market, but portfolios are frequently adjusted as new investment opportunities present themselves, as capital flows into or out of the portfolio or as managers are terminated.

Employees

Michael J. Sacks

Title

Chief Executive Officer, Managing Director

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1990

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sacks joined the firm in 1990 and is the firm's Chief Executive Officer. In addition to his management responsibilities, Mr. Sacks shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1988 through 1990, Mr. Sacks was associated with Harris Associates, L.P. Mr. Sacks graduated with his Bachelor of Arts in Economics from Tulane University in 1984 and received two degrees from Northwestern University in 1988: his Masters of Business Administration from the J.L. Kellogg Graduate School of Management and his Juris Doctorate from the School of Law. He is a member of the Illinois Bar.

Compensation Structure

Confidential.

Employees

David B. Small

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1987

Firm Start Year:

1994

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Small was a Consultant to Grosvenor from 1987 to 1993 and joined the firm full-time in 1994. He shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. Prior to joining Grosvenor, Mr. Small was the Founder and Chief Executive Officer of David Bruce & Co., a software firm specializing in the development of risk management systems for derivatives trading firms, from 1987 through 1994. From 1979 to 1982, Mr. Small was associated with Philadelphia Insurance Research Group, and from 1978 to 1979, he was associated with Rapidata. Mr. Small received his Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania in 1978 and his Masters of Business Administration in Finance and Econometrics from the University of Chicago's Graduate School of Business in 1985.

Compensation Structure

Confidential.

Employees

David S. Richter

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1994

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Richter has been affiliated with Grosvenor since 1994 and joined the firm full-time in 2003. Mr. Richter is a member of the Firm's Investment Committee, a Portfolio Manager, and Director of Research. Mr. Richter supervises the Team Leaders within the Investments Department and shares responsibility for evaluation, selection, and monitoring of various investment strategies and managers. From 1994 to 2003, he was the Founder and Managing Partner of Chicago-based Waveland Capital Management, L.P., a U.S. long-short equity hedge fund. From 1988 to 1994, Mr. Richter was a Vice President of JMB Realty Corporation in the Corporate Acquisitions Group. Prior to 1988, Mr. Richter was a Manager of KPMG Peat Marwick. He graduated summa cum laude with his Bachelor of Science in Accountancy from the University of Illinois in 1983. Mr. Richter is a Certified Public Accountant and received the national AICPA Elijah Watt Sells Award from the American Institute of CPA's for his scores on the Uniform CPA Examination.

Compensation Structure

Confidential.

Employees

Brian A. Wolf, CFA

Title
Managing Director - Investments, Investment Committee Member

Location
Chicago

Industry Start Year:
1993

Firm Start Year:
1995

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
Mr. Wolf joined the firm in 1995 and shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1993 to 1995, he was an Analyst and Trader for M&M Financial, a Chicago-based money management firm. He graduated summa cum laude with his Bachelor of Science in Finance from Bradley University in 1992 and earned his Masters of Business Administration magna cum laude from the University of Notre Dame in 1993. Mr. Wolf is a Chartered Financial Analyst and a member of the CFA Society of Chicago. Mr. Wolf is also the author of a chapter on hedged equity funds in the publication "Hedge Funds: Definitive Strategies and Techniques".

Compensation Structure
Confidential.

Employees

Paul Meister

Title

Chief Operating Officer, Member of the Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1991

Firm Start Year:

1991

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Meister joined the firm in 1991 and is the firm's Chief Operating Officer. In addition, Mr. Meister serves as Chair of the firm's Operations Committee. From 1987 to 1991, Mr. Meister was with the law firm of Barack, Ferrazzano, Kirschbaum & Perlman, except for a 12 month period from 1990 to 1991, when he managed the real estate operations for Sportmart, a Chicago-based retailer. He received his Bachelor of Science in Accounting from the University of Illinois in 1984 and his Juris Doctorate cum laude from Northwestern University School of Law in 1987, where he was a member of the Law Review and Order of the Coif. Mr. Meister is a Certified Public Accountant and a member of the Illinois Bar. Since 2000, Mr. Meister has served on the Law Board of Northwestern University School of Law and is currently a Vice Chair of its Executive Committee.

Compensation Structure

Confidential.

Employees

Eric Felton, CFA

Title

Chief Financial Officer, Member of Operations Committe, Managing Director

Location

Chicago

Industry Start Year:

1986

Firm Start Year:

2004

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Felton joined the firm in 2004 and is the firm's Chief Financial Officer. From 2002 to 2004, Mr. Felton was a Partner in the Financial Services Industry Practice for Ernst & Young, L.L.P. in their Chicago office. From 1986 to 2002, he was a Partner with Arthur Andersen, L.L.P. in their Chicago office. He graduated with High Distinction from Valparaiso University with his Bachelor of Science in Accounting in 1986, and earned his Masters of Business Administration with Honors from the University of Chicago in 1992. Mr. Felton is a Certified Public Accountant and a Chartered Financial Analyst. He is a member of the American Institute of Certified Public Accountants, The Illinois CPA Society, the CFA Institute, and the CFA Society of Chicago.

Compensation Structure

Confidential.

Employees

Joseph H. Nesler

Title

General Counsel, Chief Compliance Officer, Member of Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1982

Firm Start Year:

2004

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Nesler joined the firm in 2004 and serves as Grosvenor's General Counsel and Chief Compliance Officer. Prior to joining Grosvenor, Mr. Nesler practiced at Gardner, Carton & Douglass for two years. From 1996 to 2002, he served as a Partner in the Investment Products and Derivatives Group at Sidley Austin Brown & Wood, L.L.P. Between 1986 and 1996, Mr. Nesler practiced with Schiff Hardin & Waite in Chicago. From 1982 to 1986, he was an Associate with Gardner, Carton & Douglas. Mr. Nesler graduated magna cum laude from Amherst College in 1978 and received his Juris Doctorate from Yale University in 1982. He is a member of the Chicago Bar Association and former Co-Chairman of the subcommittee of its securities law committee on investment company regulation.

Compensation Structure

Confidential.

Employees

Joseph Gutman

Title

Managing Director - Client Group

Location

Chicago

Industry Start Year:

1981

Firm Start Year:

2005

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Gutman joined the firm in 2005 and is responsible for overseeing its client services operations. From 1981 to 2003, Mr. Gutman was associated with Goldman Sachs in various capacities. From 1996 to 2002, Mr. Gutman was a Partner of Goldman, and from 1998 to 2002, he was a Managing Director. From 1997 to 2002, Mr. Gutman was Co-Head of Goldman's Chicago office. Before holding that title, Mr. Gutman was Head of Goldman's Institutional Equities Business in the Midwest for five years and shared responsibility on the Leadership Team of Goldman's US Shares Business. From 1981 to 1984, Mr. Gutman spent time in Goldman's Private Client Business, and from 1984 to 1990, he spent time in Goldman's Institutional Equities Business, serving as Co-Head from 1990 to 1994. Mr. Gutman received his Bachelor of Science in Accounting from the University of Illinois in 1979 and his Masters of Business Administration in Finance from J.L. Kellogg Graduate School of Management at Northwestern University in 1981. Mr. Gutman is a Certified Public Accountant.

Compensation Structure

Confidential.

Additional Manager Detail

Firm: Grosvenor Capital Management, L.P.
Product Name: Grosvenor Institutional Partners, L.P.

Allocation by Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	35.3%	2.4%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	61.1%
12/31/2008	25.1%	5.9%	0.0%	0.0%	0.0%	2.5%	0.0%	0.0%	0.0%	66.5%
12/31/2007	37.9%	6.2%	0.0%	0.0%	0.0%	3.2%	0.0%	0.0%	0.0%	52.7%
12/31/2006	39.4%	3.1%	0.0%	0.0%	0.0%	3.8%	2.4%	0.0%	0.0%	51.3%
12/31/2005	43.4%	2.2%	0.0%	0.0%	0.0%	1.1%	2.8%	0.0%	0.0%	50.6%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$5,619	$19,914	$22,635	$22,635	58	35
12/31/2008	$4,660	$18,675	$20,474	$20,474	120	38
12/31/2007	$5,039	$23,642	$25,322	$25,322	118	30
12/31/2006	$3,089	$17,595	$18,840	$18,840	86	37
12/31/2005	$2,549	$14,610	$15,580	$15,580	81	12

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[illegible]

Organization

Year Firm Established	1990
Year First Fund of Funds Launched	1990
Location	Chicago, IL
Number of Investment Professionals	95
Percentage Employee Owned	92%
Total AUM (millions)	$11,961

Investment Philosophy

We believe: (1) Investment management and risk management are inseparable endeavors, (2) Differentiating skill from luck is the foundation for sustainable value-added investment results, (3) Our independent verification processes are paramount to successful hedge fund investing, (4) Investment opportunities ebb and flow across geographies, strategies and sectors requiring dynamic allocation of capital, and (5) Incentive alignment is critical to investment and organizational success

Investment Process

Prospective managers undergo detailed due diligence by our qualitative, quantitative, and operational due diligence professionals. We research managers across a number of areas including organizational structure, investment process, portfolio construction, and risk management. Our Investment Committee makes final decisions relating to manager hiring/redemption.

Portfolio construction is a combination of qualitative and quantitative tools. Our quantitative approach involves three steps: first, we model portfolios based on strategy and style characteristics. Second, we allocate to managers within the strategy groups. Finally, we apply qualitative analysis to this process, which focuses on identifying other characteristics to potentially modify asset allocation.

In regard to risk controls, we have developed various proprietary quantitative systems and would be happy to discuss these with you. We monitor a variety of exposures (individual manager and fund level) including gross/net, sector, market capitalization, regional, and exposure by asset class. We closely monitor aggregate leverage and liquidity as well.

Employees

Marty Kaplan

Title

Chief Executive Officer

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Marty Kaplan is the chief executive officer of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. He is responsible for developing and implementing key strategic initiatives for the business, including client service, new product development and building the operational infrastructure. In addition, he focuses on developing and implementing key strategic initiatives for Mesirow Advanced Strategies, Inc. Since 1995, he has helped coordinate the group's management and strategic initiatives and has been active in leading the research function. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Kaplan was an attorney with the law firm of Katten Muchin & Zavis, where he specialized in matters involving securities, mergers and acquisitions, venture capital and sports law. Mr. Kaplan received a B.B.A. in finance and real estate from the University of Texas at Austin and a J.D. from George Washington University - National Law Center. He was admitted to the Illinois Bar in 1993.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Steve Vogt

Title

Chief Investment Officer

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

1999

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Stephen Vogt is the chief investment officer of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. He is responsible for overseeing all aspects of research including portfolio management, risk management, manager due diligence and manager monitoring. He is also active in managing the day to day operations of Mesirow Advanced Strategies, Inc. Prior to joining Mesirow Advanced Strategies, Inc., Dr. Vogt was an associate professor of finance at DePaul University. His research focused on empirical tests of financial theories and has been published in both academic and trade journals. Dr. Vogt received a B.A. in economics and mathematics from Bemidji State University, and M.A. and Ph.D. degrees in economics from Washington University-St. Louis.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Howard Rossman

Title

Chairman

Location

Chicago

Industry Start Year:

1980

Firm Start Year:

1985

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Howard Rossman is the chairman and founder of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings, Inc.'s executive committee and board of directors and is a vice chairman of the parent company. He is responsible for developing and overseeing the strategic direction of the company with regard to research, asset allocation and client management. Since 1983, he has been responsible for providing institutional consulting and advisory services in the area of non-traditional investments and has developed funds utilizing alternative strategies. As the author of many articles on alternative strategies, Dr. Rossman has spoken at conferences on non-traditional investing and asset allocation. Dr. Rossman received an A.B. in sociology from Princeton University, an M.A. from the University of Oregon and a Ph.D. from The California Institute of Integral Studies.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Brian Cornell

Title

Senior Managing Director, Office of the Chairman

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1998

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Brian Cornell is a senior managing director of Mesirow Advanced Strategies, Inc. and is a member of the investment, executive and management committees. He is responsible for strategic planning for the business and coordinating special research projects for the CEO and CIO as well as actively participating in strategic business development efforts. In addition, he contributes to all aspects of fund management and product development. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Cornell developed fixed income arbitrage models, managed his own investment firm and built research departments at several organizations in the hedge fund of funds industry. Mr. Cornell received a B.A. in government/economics from Clark University and studied international economics and finance at the Patterson School, University of Kentucky.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Tom Macina

Title
President

Location
Chicago

Industry Start Year:
1992

Firm Start Year:
2003

Email
N/A

Office Phone:
312-595-7300

Cell Phone
N/A

Bio

Tom Macina is president of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. He is responsible for manager due diligence, strategy analysis and manager monitoring. Previously, Mr. Macina was with a multi-strategy hedge fund, where he was responsible for investments in a variety of sectors. Prior to joining the hedge fund industry, Mr. Macina worked in strategy consulting with Bain & Company and in investment banking with Houlihan, Lokey, Howard and Zukin, Inc. Mr. Macina received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the J.L. Kellogg Graduate School of Management at Northwestern University. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Eric Siegel

Title

Senior Managing Director, Chief Operating Officer

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

2001

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Eric Siegel is a senior managing director and Chief Operating Officer of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. He is responsible for overseeing the implementation of business ideas and improvements within the various operating groups of Mesirow Advanced Strategies, Inc. He also is responsible for the operational due diligence reviews of managers and participates in portfolio analysis and ongoing manager monitoring. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Siegel was the Chief Financial Officer of two different Chicago based hedge funds. Previously, he worked in the audit department of Ernst & Young LLP focusing on hedge funds, mutual funds and derivative trading companies. Mr. Siegel received a B.S. cum laude in accounting from Syracuse University. In addition, he is a Certified Public Accountant (CPA) and CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Karl Frey

Title
Senior Managing Director

Location
Chicago

Industry Start Year:
1994

Firm Start Year:
2003

Email
N/A

Office Phone:
312-595-7300

Cell Phone
N/A

Bio
Karl Frey is a senior managing director of Mesirow Advanced Strategies, Inc and is a member of its management committee. He is responsible for the firm's client management activities, including business development and client service functions. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Frey had senior marketing and business development responsibilities within the capital markets group of ABN AMRO Incorporated. Mr. Frey received a B.S.B.A. in accounting from Ohio State University and an M.B.A. from the Anderson School at UCLA. In addition, he is a Certified Public Accountant (CPA) and CFA charterholder.

Compensation Structure
We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Carolyn Burke

Title

Managing Director, Chief Financial Officer

Location

Chicago

Industry Start Year:

1989

Firm Start Year:

2009

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Carolyn Burke is a managing director and chief financial officer of Mesirow Advanced Strategies, Inc. and is a member of its management committee. In this capacity, Carolyn manages and oversees all aspects of the firm's accounting and internal fund management activities. Prior to joining Mesirow Advanced Strategies, Inc., Ms. Burke was a managing director and Chief Administrative Officer with UBS Global Asset Management where she was responsible for managing the business operations for the Global Fixed Income team. Previously, she was a director with Brinson Partners. Ms. Burke received a B.A. in accounting from the University of Notre Dame and an M.B.A. from the University of Chicago. In addition, she is a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Greg Robbins

Title

Senior Managing Director, General Counsel

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Greg Robbins is the General Counsel and a senior managing director of Mesirow Advanced Strategies, Inc. He is responsible for the legal affairs of Mesirow Advanced Strategies, Inc., including providing legal advice with respect to all aspects of its business, directing relationships with external counsel, and assisting in maintaining its operations in compliance with relevant legal and regulatory requirements. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Robbins was a partner in the Investment Funds, Advisers and Derivatives group at Sidley Austin LLP, where he specialized in providing legal advice to hedge fund managers and participants in the derivatives industry with respect to all aspects of their business and operations. Just after law school, and prior to joining Sidley, Mr. Robbins clerked for the Honorable Robert H. Henry on the U.S. Tenth Circuit Court of Appeals, and before law school he worked as a legislative assistant for U.S. Senator David L. Boren. Mr. Robbins received his B.A. from Yale University in 1991 and his J.D. (cum laude, Order of the Coif) from the University of Wisconsin in 1997.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Heather Wilken Byers

Title

Vice President

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

2007

Email

hbyers@mesirowfinancial.com

Office Phone:

312-595-7982

Cell Phone

773-677-2049

Bio

Heather Wilken Byers is a vice president for Mesirow Advanced Strategies, Inc. and a member of its management committee. She assists in the firm's marketing efforts, client service and business development. Prior to joining Mesirow Advanced Strategies, Inc., Ms. Byers was a senior investment relationship manager with Northern Trust Global Investments where she was responsible for business development and client service. Ms. Byers received a B.A. in finance from the University of Illinois at Urbana-Champaign. In addition, she is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Additional Manager Detail

Firm: Mesirow Advanced Strategies, Inc.
Product Name: Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	34.4%	5.0%	0.0%	0.0%	25.0%	2.6%	0.0%	0.0%	0.0%	33.0%
12/31/2008	30.9%	8.7%	0.0%	0.0%	21.9%	0.0%	0.0%	0.0%	0.0%	38.5%
12/31/2007	36.4%	5.7%	0.0%	0.0%	17.7%	0.0%	0.0%	0.0%	0.0%	40.2%
12/31/2006	33.1%	3.9%	0.0%	0.0%	13.5%	2.6%	0.0%	0.0%	0.0%	46.9%
12/31/2005	39.4%	3.0%	0.0%	0.0%	17.5%	2.0%	0.0%	0.0%	0.0%	38.2%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$1,034	$6,793	$11,961	$11,961	30	56
12/31/2008	$724	$8,692	$11,982	$11,982	28	46
12/31/2007	$672	$10,912	$16,046	$16,046	35	18
12/31/2006	$468	$8,519	$12,426	$12,426	32	31
12/31/2005	$245	$6,791	$9,735	$9,735	36	15

[illegible]

[illegible]

Organization

Year Firm Established	199
Year First Fund of Funds Launched	1990
Location	Irvine, CA
Number of Investment Professionals	133
Percentage Employee Owned	100%
Total AUM (millions)	$9,830

Investment Philosophy

We are active managers and believe in active investment management.

We focus on returns which are expected/targeted to be independent of traditional markets and we build portfolios which aim to diversify sources of idiosyncratic returns.

We believe we must be open to new investment ideas—many new markets, managers, and securities offer attractive alpha opportunities.

We believe we need to be flexible and creative to outperform; experienced individuals, held accountable for their results, make better investment decisions than committees.

We believe investment decisions should be based on independent, fundamental assessments—position-level transparency gives us a solid base for our understanding.

We believe investment costs should be aggressively managed. We attempt to avoid conflicts and maintain the highest ethical standards in evaluating investment opportunities.

Investment Process

PAAMCO's investment process for each of the eight sectors in which it invests is driven by a senior Sector Specialist and team with extensive investment and academic experience in the sector. The team is charged with identifying hedge fund managers in their sector, conducting due diligence, negotiating terms and then monitoring the managers on an ongoing basis.

PAAMCO's portfolio construction process integrates bottom-up manager selection with top-down strategy allocation and risk monitoring. The Strategy Allocation Committee (SAC) is responsible for providing allocation recommendations to the Investment Management Committee (IMC). PAAMCO's IMC ultimately determines the portfolio's strategy allocation which is formally reviewed quarterly. The lead Account Manager for a fund may tailor the strategy and/or manager allocations to reflect a client's specific risk/return objective.

PAAMCO's risk management process relies on position-level transparency and encompasses both traditional statistical models and proprietary behavioral models.

Employees

Charles Armendarez

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Irvine

Industry Start Year:

1998

Firm Start Year:

2000

Firm End Date:

N/A

Email

carmendarez@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Charles Armendarez, MBA, CFA is a Managing Director and a Sector Specialist responsible for evaluating hedge fund managers that focus on long/short equity and other opportunistic strategies in the various PAAMCO portfolios. In addition, he is responsible for overall management and supervision of the PAAMCO investment process. Charlie is a member of the Investment Management Committee. In addition, he directs the firm's Investment Associate and Summer Associate Programs and is responsible for firm's Associate recruiting efforts. Prior to joining PAAMCO, Charlie was a Portfolio Manager and Research Associate at Collins Associates, an institutional fund of hedge funds and consulting firm, where he performed research and due diligence on investment managers utilizing alternative investment strategies. At Collins, his focus was on evaluating managers employing the following strategies: directional long/short, distressed debt, merger arbitrage, convertible arbitrage, fixed income arbitrage, equal dollar-weighted long/short and emerging market equities. Charlie graduated from the University of Southern California with a B.A. in Economics and received his M.B.A. from the Amos Tuck School at Dartmouth. Charlie has fifteen years of investment management experience with institutional investors.

Compensation Structure

N/A

Employees

James Berens

Title

Managing Director, Sector Specialist Distressed Debt and Long/Short Credit

Location

Irvine

Industry Start Year:

1993

Firm Start Year:

2000

Firm End Date:

N/A

Email

jberens@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

James Berens, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the distressed debt and long/short credit hedge funds in the various PAAMCO portfolios. Jim is also the Portfolio Manager for the commingled funds including Pacific Select Opportunities Fund, a customized fund of hedge funds for institutional investors designed to achieve higher absolute returns by targeting more inefficient sectors and utilizing less liquid investments. As a member of the Investment Management Committee, he is involved in all stages of the investment process. In addition, Jim is responsible for managing relationships with certain institutional investors. Jim also serves on the Risk Management Committee. Prior to forming PAAMCO, Jim was Co-Managing Partner at Collins Associates, an institutional fund of funds and consulting firm, with responsibilities for directional hedge fund strategies. He has written and published extensively on hedge funds and their applications for institutional investors; is a frequent guest speaker and panelist at investment conferences throughout the United States; and has taught investment management courses at the Graduate School of Management at the University of California, Irvine. Jim graduated from the University of Redlands with a B.A. in Economics and Political Science, received his M.A. from the University of California, Riverside in Financial Economics and received his Ph.D. in Administration (concentration in Finance) from the University of California, Irvine. Jim has seventeen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Jane Buchan

Title

Managing Director, Chief Executive Officer, Sector Specialist Convertible Bond Hedging and Fixed Income Realtive Value

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

jbuchan@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Jane Buchan, MA, PhD, CAIA is a Managing Director and the firm's Chief Executive Officer. As CEO, Jane is responsible for overall business strategy and firm direction. In addition, she is a Sector Specialist responsible for the evaluation and management of convertible bond hedging and fixed income relative value hedge funds in the various PAAMCO portfolios. Jane is also a member of the Investment Management, Risk Management and Account Management Committees. Prior to forming PAAMCO, Jane held various positions ranging from Director of Quantitative Analysis to CIO of non-directional strategies at Collins Associates, an institutional fund of funds and consulting firm. She began her career at J.P. Morgan Investment Management in the Capital Markets Group and has numerous professional publications in the field of market neutral and alternative investments strategies. She was an Assistant Professor of Finance at the Amos Tuck School of Business at Dartmouth. She currently sits on the Board of the Chartered Alternative Investment Analyst Association (CAIA). Jane graduated from Yale University with a B.A. in Economics and received both her M.A. and Ph.D. in Business Economics (Finance) from Harvard University. Jane has twenty-four years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Alper Ince

Title

Managing Director, Sector Specialist Long/Short Equity (Europe)

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

aince@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Alper Ince, MBA, CFA is a Managing Director and the Sector Specialist responsible for the coverage of long/short equity hedge fund managers in the various PAAMCO portfolios. He is also a member of the Investment Management and Strategy Allocation Committees where he focuses on establishing and assessing overall asset allocation and accompanying risk at both the sector and overall portfolio levels. Prior to joining PAAMCO, Alper was an Associate Director at BARRA RogersCasey, a major pension-consulting firm, where he led the firm's hedge fund investment and manager research efforts. Alper graduated from METU Ankara (Turkey) with a B.S. in Economics and received his M.B.A. in Finance from the University of Hartford. Alper has thirteen years of investment management and consulting experience with institutional investors.

Compensation Structure

N/A

Employees

Bill Knight

Title

Managing Director, Sector Specialist Event-Driven Equity

Location

Irvine

Industry Start Year:

1982

Firm Start Year:

2000

Firm End Date:

N/A

Email

bknight@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Bill Knight, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the event-driven equity hedge funds in the various PAAMCO portfolios. As chair of the firm's Investment Management Committee, Bill is involved in all stages of the investment process. In addition, he chairs the firm's Board of Director meetings. Prior to forming PAAMCO, Bill was Senior Portfolio Manager at Collins Associates, an institutional fund of funds and consulting firm, for two long-only domestic equity funds, two low-beta funds, and a short-biased equity fund. In addition, he has held the position of adjunct faculty member at several universities. Bill graduated from Vanguard University with a B.A. in Social Sciences (History), received his M.A. from California State University, Fullerton in Social Sciences (Sociology and Psychology), and received his Ph.D. in Education (concentration in Management) from the University of California, Riverside. Bill has twenty-eight years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Kemmy Koh

Title

Managing Director, Sector Specialist Long/Short Equity (Asia)

Location

Singapore

Industry Start Year:

2001

Firm Start Year:

2001

Firm End Date:

N/A

Email

kkoh@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

Kemmy Koh, MBA, CFA is a Managing Director and the Sector Specialist responsible for the evaluation and management of Asian long/short equity hedge funds in the various PAAMCO portfolios. Kemmy is also a Director of Pacific Alternative Asset Management Company Asia Pte Ltd. (Singapore). She is a member of the Investment Management and Risk Management Committees and previously served as the firm's Research Manager. She spent the summer of 2000 at the firm as a summer intern and joined PAAMCO full time in the summer of 2001. Prior to joining PAAMCO, Kemmy was a credit analyst for Banque Nationale de Paris (Singapore) and Development Bank of Singapore (Singapore) where she developed an extensive background in security and portfolio analysis. Kemmy graduated from the National University of Singapore with a Bachelor of Business Administration and received her M.B.A. from the University of California, Irvine. Kemmy has nine years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Maarten Nederlof

Title

Managing Director and Head of Portfolio Solutions

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2009

Firm End Date:

N/A

Email

mnederlof@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Maarten Nederlof is a Managing Director and Head of Portfolio Solutions at PAAMCO. He is a member of the Investment Management, Risk Management and Account Management Committees. Prior to joining PAAMCO, Maarten held various positions at Deutsche Bank Securities, Inc. and Deutsche Asset Management, including Managing Director and Global Co-Head of the Hedge Fund Capital Group and Global Head of the Pension Strategies Group. In addition, he was a Managing Director and Portfolio Manager at K2 Advisors, LLC, as well as Director and Head of Investor Risk Management at Capital Market Risk Advisors. Maarten began his career as a quantitative strategist at Salomon Brothers, Inc. He has twenty-four years of experience in investment management and portfolio construction with institutional investors. Maarten is a member of the Investment Committee of The John D. and Catherine T. MacArthur Foundation, as well as the Investor Risk Committee of the International Association of Financial Engineers (IAFE). He is a frequent lecturer and featured speaker at business schools, seminars and industry conferences.

Compensation Structure

N/A

Employees

Judith Posnikoff

Title

Managing Director, Sector Specialist Equity Market Neutral

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2000

Firm End Date:

N/A

Email

jposnikoff@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Judith Posnikoff, MBA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of equity market neutral hedge funds in the various PAAMCO portfolios. As a member of the Investment Management Committee, she is involved in all stages of the investment process. In addition, Judy specifically focuses on the complex customized portfolios of the firm's Asia/Pacific institutional accounts. She is also a member of the Account Management Committee. Prior to forming PAAMCO, Judy was Assistant Portfolio Manager/Research Associate at Collins Associates, an institutional fund of funds and consulting firm, where she focused on market neutral strategies in addition to directing large-scale quantitative research projects focusing on alternative strategies. She has numerous publications in the area of alternative investments and has taught at the University of California, Riverside, at California State University, Fullerton and most recently at the University of California, Irvine, where she held the position of adjunct faculty member at the Graduate School of Management. Judy graduated from the University of California, Riverside with a B.S. in Administrative Studies where she also received her M.B.A. and M.A. in Financial Economics and her Ph.D. in Financial and Managerial Economics. Judy has fifteen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2009

Employees

Neale Safaty

Title

Managing Director, Sector Specialist Convertible Bond Hedging

Location

London

Industry Start Year:

1983

Firm Start Year:

2010

Firm End Date:

N/A

Email

nsafaty@paamco.com

Office Phone:

+44 (0)207 593 5360

Cell Phone

N/A

Bio

Neale Safaty is a Managing Director and the Sector Specialist for Convertible Bond Hedging in PAAMCO's Portfolio Management Group. Based in the firm's London office, Neale is also responsible for Pan Asia Alpha Strategies' business and client relationships. Before joining PAAMCO, he was Chief Investment Officer at KBC Alpha Asset Management, the Asian-focused fund of funds business of KBC Group. Prior to establishing KBC Alpha Asset Management in 2001, Neale was a Director and Head of Japanese Convertible Sales to UK and European clients at KBC Financial Products (formerly the investment banking subsidiary of D.E. Shaw & Co., a leading specialist in convertible securities and equity derivatives products). Before joining D.E. Shaw & Co., he was a Director at BZW responsible for Asian convertible and warrant sales to institutional clients. Neale began his career at Cresvale in 1983 where he initially focused on trading Japanese equity warrants and was London Head of Sales of Convertibles. He has a BSc (Hons) Business Studies degree from City University and holds the Association of International Bond Dealers Diploma (forerunner to ISMA).

Compensation Structure

N/A

Employees

Peter Stein

Title

Managing Director, Sector Specialist Less Liquid Strategies (PSO)

Location

Irvine

Industry Start Year:

1985

Firm Start Year:

2009

Firm End Date:

N/A

Email

pstein@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Peter Stein, CFA is a Managing Director and the Sector Specialist responsible for managing the less liquid strategies within PAAMCO's portfolio, including Pacific Strategic Opportunities (PSO) in conjunction with Jim Berens. In addition, as Chair of the Strategy Allocation Committee and a member of the Investment Management Committee, he is involved in all stages of the investment process. Prior to joining PAAMCO, Peter was the CIO of the University of Chicago, responsible for management of the University's $5 billion endowment, along with pension, self-insurance and other financial assets. He graduated from Brown University with an AB in Mathematics and began his professional career trading convertible bonds and warrants. Peter has twenty-five years of experience managing the portfolios of institutional investors.

Compensation Structure

N/A

Employees

Mayer Cherem

Title

Director, Sector Specialist Opportunistic Investments

Location

Irvine

Industry Start Year:

2004

Firm Start Year:

2004

Firm End Date:

N/A

Email

mcherem@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Mayer Cherem, MBS, CFA, CQF is a Director and the Sector Specialist responsible for the evaluation and management of opportunistic investments and offensive risk management initiatives. Mayer focuses on identifying new, uncorrelated sources of alpha through fundamental analysis and their optimal integration into client portfolios. He is also a member of the firm's Strategy Allocation Committee where he focuses on assessing the impact of asset allocation on overall portfolio risk and performance. As a member of the Risk Committee, Mayer is involved in the ongoing development of the firm's risk criteria and quantitative aspects of portfolio construction. Mayer graduated from the Universidad Simon Bolivar with a B.S. in Production Engineering and received an M.B.A. from Columbia Business School.

Compensation Structure

N/A

Employees

David Walter

Title

Director, Sector Specialist Pan Asia Portfolio Solutions

Location

Singapore

Industry Start Year:

1987

Firm Start Year:

2010

Firm End Date:

N/A

Email

dwalter@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

David Walter, MA is a Director in PAAMCO's Portfolio Management Group based in the firm's Singapore office. He is responsible for Asian focused investments and acts as Head of Research for Asia and the Pan Asia Portfolio Solutions' funds. Prior to joining PAAMCO, David performed a similar role for KBC Alpha Asset Management. Before KBC, he co-founded Arbiter Fund Managers where he established and managed a dedicated Japanese long/short equity fund. Previously, David worked at London and Oxford Capital Markets establishing and running a Japan-focused multi-strategy fund. Prior to that he was Head of Japanese Equity Product at Sanwa International Securities. David began his professional career in 1987 at Barings Far East Securities where he was employed as a Japanese convertible and warrant trader. He has twenty-four years of investment management experience. David graduated from Christ Church, Oxford with an MA (Hons) degree in Modern History.

Compensation Structure

N/A

Employees

Philippe Jorion

Title

Managing Director, Risk Management

Location

Irvine

Industry Start Year:

1983

Firm Start Year:

2006

Firm End Date:

N/A

Email

pjorion@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Philippe Jorion, MBA, PhD is a Managing Director in the Risk Management Group and is responsible for developing and implementing PAAMCO's offensively directed risk management concepts. He also oversees the PAAMCO infrastructure employed in evaluating individual hedge funds from a position level perspective, risk at the level of the various sectors as well as the risk structure of the overall PAAMCO portfolio. Philippe's work also includes developing approaches to evaluating new securities and new markets. Philippe is a member of the Risk Management and Strategy Allocation Committees. He also serves as the Chancellor's Professor of Finance at the Paul Merage School of Business at the University of California at Irvine. He is a frequent speaker at academic and professional conferences; and is on the editorial boards of a number of finance journals. Philippe has authored more than 90 publications on the topic of risk management and international finance. Some of his most notable work includes the Financial Risk Manager Handbook (Wiley 5th ed. 2009), which provides the core body of quantitative methods and tools for financial risk managers; Big Bets Gone Bad: Derivatives and Bankruptcy in Orange County (Academic Press 1995), the first account of the largest municipal failure in U.S. history; and Value at Risk: The New Benchmark for Managing Financial Risk (McGraw-Hill 3rd ed. 2006), the first definitive book on VAR. Philippe holds an M.B.A. and a Ph.D. from the University of Chicago and a degree in engineering from the University of Brussels. Philippe has twenty-seven years of experience in risk management and international finance.

Compensation Structure

N/A

Employees

Erik Bernhardt

Title

Associate Director, Portfolio Manager – Commingled Funds

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2003

Firm End Date:

N/A

Email

ebernhardt@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Erik Bernhardt, MBA, CFA is an Associate Director working in both Portfolio Management and Account Management. He serves as the Portfolio Manager for the firm's commingled funds, supervising overall portfolio construction as well as supporting the funds' clients. He is also a member of the firm's Strategy Allocation Committee which focuses on assessing the impact of asset allocation and accompanying risk at the hedge fund and overall portfolio levels. From October 2005 until February 2008, Erik was located in the firm's London office where he researched managers within the European credit space. He also was responsible for developing relationships with prospective clients and co-managing the firm's European institutional investor base. Prior to joining PAAMCO, Erik was a Senior Consulting Associate at Cambridge Associates, an investment-consulting firm, where he conducted in-depth studies on asset allocation and portfolio construction. Erik graduated with highest honors from Principia College in St. Louis with a B.A. in Business Administration and History and received his M.B.A. from the Anderson School of Business at the University of California, Los Angeles.

Compensation Structure

N/A

Additional Manager Detail

Firm□Pacific Alternative Asset Management Company□LLC
Product Name□Pacific □edged Strategies□LLC

Allocation □y Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	27.0%	1.0%	0.0%	4.0%	9.0%	12.0%	5.0%	8.0%	0.0%	34.0%
12/31/2008	35.0%	3.0%	0.0%	5.0%	5.0%	10.0%	7.0%	5.0%	0.0%	30.0%
12/31/2007	36.0%	3.0%	0.0%	4.0%	6.0%	12.0%	6.0%	5.0%	0.0%	28.0%
12/31/2006	38.0%	3.0%	0.0%	5.0%	6.0%	15.0%	4.0%	2.0%	0.0%	27.0%
12/31/2005	36.0%	3.0%	0.0%	2.0%	4.0%	21.0%	5.0%	2.0%	0.0%	27.0%

□istorical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$535	$8,169	$9,830	$9,830	16	11
12/31/2008	$440	$7,944	$8,640	$8,640	23	2
12/31/2007	$413	$8,371	$9,393	$9,393	16	4
12/31/2006	$236	$6,685	$7,949	$7,949	10	10
12/31/2005	$147	$5,275	$7,303	$7,303	7	6

Prisma Spectrum Fund

Information [illegible]

Organization

Year Firm Established	2004
Year First Fund of Funds Launched	2004
Location	New York, NY
Number of Investment Professionals	44
Percentage Employee Owned	43%
Total AUM (millions)	$4,500

Investment Philosophy

Prisma's investment philosophy is based on 5 main tenets:

Transparency: We believe in transparency and will not invest in any manager that does not provide what we consider to be sufficient transparency into its investment process, risk exposures, position sizes, and overall business. Similarly, we are committed to meeting the transparency requirements of our clients.

Investment Specialists: We believe that identifying and understanding the opportunities and risks inherent in complex hedge fund strategies requires dedicated investment "specialists" with significant asset management, trading, capital markets, risk, and operations experience.

Strategy Allocation: We believe that top-down strategy allocation can add significant value to the performance of our funds. Led by Gavyn Davies, former Chief Economist at Goldman Sachs, we analyze macroeconomic trends and allocate capital to what we believe are the most favorable hedge fund strategies.

Specialist Managers: We believe that specialist (single strategy or even sub-strategy) hedge fund managers can generate significant alpha, and have conducted research that shows that substantial value can be added by investing in earlier stage managers.

Three Separate Due Diligence Teams: We believe that proper manager due diligence should comprise independent assessments by separate teams: 1) investments, 2) risk management, and 3) operations, with each team having the ability to veto a potential investment.

Investment Process

Prisma's investment process combines a top-down strategy allocation process with bottom-up manager selection to arrive at what Prisma believes is an optimal portfolio given a client's risk and return objectives. Risk management is closely integrated into each step of the investment process.

Our process begins with strategy allocation. Led by Mr. Davies, strategy allocation incorporates Prisma's top down economic views and forecasts for underlying hedge fund strategies to arrive at target allocations by hedge fund sector. Our manager selection process involves three separate layers of due diligence: 1) investment, 2) risk and 3) operations. Professionals from the investment, risk, and operations teams each conduct due diligence (including onsite visits) to produce a comprehensive evaluation of managers, with each team having a full veto right over any investment. Finally, portfolio construction uses optimization to integrate quantitatively the strategy allocation mix with the approved list of managers in an attempt to achieve the client's desired beta, volatility and liquidity constraints. Prisma's investment process also includes rigorous monthly portfolio monitoring.

Employees

Girish Reddy

Title

Managing Partner

Location

New York

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

greddy@prismapartners.com

Office Phone:

212-590-0801

Cell Phone

N/A

Bio

Mr. Reddy is a former partner of Goldman, Sachs & Co., where he was a co-head of equity derivatives. Prior to Goldman, he was the CIO of LOR Associates, a hedging and strategy advising firm based in Los Angeles, developing strategic alliances with other established asset managers like Wells Fargo and Aetna Insurance. Earlier in his career, he was a senior vice president of portfolio construction and asset allocation, at Travelers Investment Management Company, where he specialized in various overlay strategies for the firm using listed futures and options. Mr. Reddy is an elected member of and serves on the executive board of the Indian School of Business. He is also a former board member of Barra Inc.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Thomas Healey

Title

Advisory Partner

Location

New York

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

thealey@Prismapartners.com

Office Phone:

212-590-0800

Cell Phone

N/A

Bio

Thomas Healey is co-founder of Prisma Capital Partners LP. Mr. Healey is a former partner and head of pension services group of Goldman, Sachs & Co. While at Goldman Sachs & Co., he was a co-chairman of the Goldman Sachs retirement committee, with oversight of more than $3 billion in defined contribution plan assets, and also a co-chief investment officer of the $10 billion Central States Teamsters Pension Fund, managed by Goldman Sachs & Co. Mr. Healey is the chair of the investment committee of the Rockefeller Foundation and a board member of other charitable institutions. Earlier, he served as former assistant secretary of the Treasury under President Reagan. Mr. Healey was a senior fellow and is an adjunct lecturer at Harvard University's John F. Kennedy School of Government.

Compensation Structure

Prisma’s compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual’s commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma’s funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Gavyn Davies

Title

Advisory Partner

Location

London

Industry Start Year:

1981

Firm Start Year:

2004

Firm End Date:

N/A

Email

gxdavies@prismapartners.com

Office Phone:

N/A

Cell Phone

N/A

Bio

Garyn Davies is co-founder and chief economist at Primsa Capital Partners LP. Mr. Davies is a former partner and chief economist of Goldman, Sachs & Co. Prior to Goldman, he was the chairman of the British Broadcasting Corporation. Mr. Davies served as a member of H.M. Treasury's independent forecasting panel, and as an economic adviser to the House of Commons Select Committee on the Treasury and a visiting professor at the London School of Economics. He was appointed a fellow of The University of Wales, Aberystwyth and received a fellowship of Imperial College Faculty of Medicine.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

William Cook

Title

Senior Portfolio Manager

Location

London

Industry Start Year:

1981

Firm Start Year:

2004

Firm End Date:

N/A

Email

bscook@prismapartners.com

Office Phone:

212-590-0804

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Cook was the head of the capital market strategies group at AEGON USA Investment Management LLC. He was focusing on alternative investments, SBA loans, and special opportunities. Also at AEGON USA, Mr. Cook was the head of the derivatives group which was spun out of the public fixed income group. Prior, and also at AEGON USA, Mr. Cook was the head of public fixed income group where he led teams of six portfolio managers and a group of 15 employees. Previously, he was a partner at Cleveland Management, where he was a generalist with a specialty in fixed income for the high net worth oriented asset management firm. Earlier in his career, Mr. Cook was the director of fixed income at United Capital Management.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Eric Wolfe

Title

Senior Portfolio Manager

Location

New York

Industry Start Year:

1992

Firm Start Year:

2004

Firm End Date:

N/A

Email

ewolfe@prismapartners.com

Office Phone:

212-590-0802

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Wolfe was a vice president and leading portfolio manager of the hedge fund of funds group at Safra National Bank of New York. He managed the accounts group, and headed the research process to source hedge fund investments for fund-of-funds. Previously, he was the chief financial officer for Buyroad.com, where he co-managed a 20 employee web design team from pre-launch to a revenue producing entity serving the small/medium business market. Earlier, Mr. Wolfe was a vice president and global balanced portfolio manager at J.P. Morgan Investment Management, serving as portfolio manager of over $16 billion in global balanced assets. Also at J.P. Morgan, he was an analyst in the structured derivatives group of the asset management company.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Donna Heitzman

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

dheitzman@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Ms. Heitzman was a portfolio manager at AEGON USA Investment Management LLC; facilitating the portfolio's significant growth and broad diversification across all hedge fund strategies with a specialty in researching and implementing new strategies. She was also the director of private placements at AEGON USA Investment Management LLC. Prior, also at AEGON USA, she was the director of the financial division, where she was responsible for investment portfolio analysis. Previously, she was an audit supervisor at Coopers and Lybrand, specializing in the manufacturing and financial institution sectors of both publicly held and privately owned clients.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Michael Rudzik

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1987

Firm Start Year:

2004

Firm End Date:

N/A

Email

mrudzik@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Rudzik was a Portfolio Manager at AEGON USA Investment Management LLC, where he was responsible for hedge fund manager due diligence, selection, and monitoring with primary strategy focus on long/short equity, event-driven, multi-strategy arbitrage and private equity. Previously, he was the chief operating officer at Aeon Capital Management LLC, where he collaborated in the formation of a $50 million emerging markets hedge fund start-up for a European investment group. Earlier, he was a general partner at Tiedemann Investment Group, where he served as the head of the trading desk and in a portfolio management capacity. Earlier in his career, Mr. Rudzik was a financial analyst at Morgan Stanley.

Compensation Structure

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Employees

Dan Lawee

Title

Portfolio Manager

Location

New York

Industry Start Year:

1994

Firm Start Year:

2008

Firm End Date:

N/A

Email

dlawee@prismapartners.com

Office Phone:

212-590-0841

Cell Phone

N/A

Bio

Aug 02 - Sept 08: Portfolio Manager - Northwater Capital Management Inc
Responsible for asset-backed and mortgage-backed securities arbitrage, fixed income arbitrage, reinsurance, and volatility arbitrage hedge fund strategies across Northwater's $4 billion in fund of hedge funds portfolios

Aug 87 - July 02: Vice President, Corporate Foreign Exchange Desk - TD Canada Trust

Aug 83 - April 95: Account Executive - Mortgage Department, Republic National Bank of New York

Compensation Structure

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Employees

Peter Zakowich

Title

Portfolio Manager

Location

London

Industry Start Year:

1999

Firm Start Year:

2006

Firm End Date:

N/A

Email

pzakowich@prismapartners.com

Office Phone:

20 7016-6495

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Zakowich was an associate portfolio manager at J.P. Morgan Alternative Investments, where he was responsible for investment selection, position sizing, and exposure monitoring. Previously, he was a media analyst at Edge Capital, a long/short equity hedge fund focusing in the media and entertainment sectors. Earlier, Mr. Zakowich was an investment associate in equity research at Putnam Investments where he provided global coverage of the media, advertising, and related technology sectors; and the automotive industry.

Compensation Structure

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Employees

James Welch

Title

Managing Director - Portfolio Manager

Location

New York

Industry Start Year:

1980

Firm Start Year:

2010

Firm End Date:

N/A

Email

jwelch@prismapartners.com

Office Phone:

212-590-0829

Cell Phone

N/A

Bio

Prior to Prisma, Mr Welch was a Managing Member of Kettle Cove Investors, LLC, a fund of hedge funds vehicle established for members of Mr. Welch's immediate family
CEO and Executive Director of Kisco Management Corporation, a financial services firm that was exclusively dedicated to serving a prominent U.S. high net worth family
Managing Director and Co-Head of Research and Portfolio Management at J.P. Morgan Alternative Asset Management, Inc., which is J.P. Morgan's fund of hedge funds investment firm
Held various positions of increasing responsibility within J.P. Morgan, primarily in the capital markets area, including roles in derivatives origination, structuring, and training

Compensation Structure

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Employees

Francis Conroy

Title

Chief Operating Officer

Location

New York

Industry Start Year:

1982

Firm Start Year:

2004

Firm End Date:

N/A

Email

fconroy@prismapartners.com

Office Phone:

212-590-0808

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Conroy was the chief financial officer at Mezzacappa Management, LLC, where he was responsible for all financial, accounting, compliance, personnel, and operational activities of a Registered Investment Adviser managing nine funds of hedge funds. Previously, he was a director and senior vice-president at Lazard Fr□es & Co. LLC, responsible for tax planning and compliance for their international investment bank with affiliates in 16 countries. Earlier, Mr. Conroy was the director of taxes at McKinsey & Company, Inc., responsible for global tax planning and compliance for the multinational consulting company with offices in 23 countries, and chief operating officer at Catalyst Energy Corporation, managing operations of two resource recovery facilities. He began his career at Arthur Andersen & Co., providing tax planning advice and overseeing tax compliance for broad range of high net worth individual, partnership, and corporate clients.

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Employees

Mark DeGaetano

Title

Head of Operational Due Diligence

Location

New York

Industry Start Year:

1982

Firm Start Year:

2004

Firm End Date:

N/A

Email

mdegaetano@prismapartners.com

Office Phone:

212-590-0815

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. DeGaetano was a head of operations for the single manager and fund of funds platforms at Deutsche Bank in absolute return strategies, where he had global responsibility for operational due diligence. Previously, he was a vice president at Cross Mar a technology subsidiary of Citicorp, responsible for the building and successful implementation of a new B2B Trade Finance Solution. Prior, he was a vice president at Citibank Capital Markets LLC, providing management within a structured finance operations environment. Earlier in his career, Mr. DeGaetano was the head of business support in trading and capital markets at Skandinaviska Enskilda Banken, where he was responsible for middle office and trade support functions that processed the entire spectrum of financial products.

Compensation Structure

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Employees

Queenie Chang

Title

Operational Due Diligence Senior Associate

Location

New York

Industry Start Year:

1993

Firm Start Year:

2009

Firm End Date:

N/A

Email

qchang@prismapartners.com

Office Phone:

212-590-0849

Cell Phone

N/A

Bio

Prior to Prisma, Queenie was a Vice President at DB Advisors Fund of Funds and Assistant Vice President at Julius Baer Investment Management LLC, responsible for global Operational Due Diligence

Accounting manager at SAGEN Asset Management, LLC, performed attribution analysis and performance reports for the family office

Senior Portfolio Accountant at The Bank of Bermuda (New York) Limited, provided portfolio valuations and financial statements for hedge funds

Credit Control Officer at The Bank of Bermuda Limited, Hong Kong Branch, assessed and monitored loan proposals for collective investment schemes, corporations, and individuals
Semi-Senior Auditor at Deloitte Touche Tohmatsu, Hong Kong

Compensation Structure

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Employees

Emanuel Derman

Title

Head of Risk Management

Location

New York

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

ederman@Prismapartners.com

Office Phone:

212-590-0800

Cell Phone

N/A

Bio

Prior to joining Prisma, Professor Derman was the managing director of firm-wide risk Goldman, Sachs & Co. Concurrently; he is the director of the MS program in financial engineering of Columbia University. Previously, he was the columnist for Risk Magazine and also a member of the editorial board for the Applied Mathematical Finance Journal. Additionally, he was an associate editor of The Journal of Derivatives and Journal of Risk. Professor Derman is an active member of the Courant Institute of Mathematical Sciences and he is a mathematical finance advisory board member for the Society of Quantitative Analysts. He was appointed the 'Global Finance Magazine Derivatives Superstar' in 1995 and 1996, and was profiled in the Global Finance December 1995 issue titled, "Portrait of a Rocket Scientist". He was the IAFE/Sungard Financial Engineer of the Year 2000, and included in the Risk Magazine hall of fame 2002.

Compensation Structure

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Employees

Shankar Nagarajan

Title

Director of Risk Management

Location

New York

Industry Start Year:

1988

Firm Start Year:

2005

Firm End Date:

N/A

Email

snagarajan@Prismapartners.com

Office Phone:

212-590-0812

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Nagarajan was the managing partner of Risk Capital, LLC, where he was responsible for advising major companies on strategic and tactical risk management issues. He was formerly an adjunct professor of economics and finance of Columbia University. Previously, he was the senior manager & head of the valuation group at Deloitte & Touche. Earlier, he was a vice president of Bankers Trust Company where he advised clients on strategic and tactical risk management. Formerly, he was an associate professor of finance at McGill University in Montreal, Canada. Mr. Nagarajan was a consultant to the Federal Reserve and various other central banks. He was named Euromoney's Best Risk Advisor 2004.

Compensation Structure

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Employees

Kartik Patel

Title

Sr. Risk Associate

Location

New York

Industry Start Year:

1998

Firm Start Year:

2005

Firm End Date:

N/A

Email

kpatel@Prismapartners.com

Office Phone:

212-590-0823

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Patel completed an internship at Wooster Asset Management where he was implementing currency trading strategies and Applied Mean Variance Optimization to enhance the portfolio. Previously, he was a Signal Processing Consultant at Symbol Technologies. Earlier, Mr. Patel was a Software Engineer for AT&T Wireless Services.

Compensation Structure

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Employees

Anne Wynne

Title

General Counsel

Location

New York

Industry Start Year:

2001

Firm Start Year:

2010

Firm End Date:

N/A

Email

awynne@prismapartners.com

Office Phone:

212-590-

Cell Phone

N/A

Bio

Prior to Prisma, Ms. Wynne was a Senior Counsel & Vice President of Ivy Asset Management LLC, a registered investment advisor to funds of hedge funds and customized accounts

Associate at Seward & Kissel LLP, providing advice to clients including registered and unregistered investment advisors on a variety of issues related to general corporate and securities matters

Associate at Stroock & Stroock & Lavan LLP, providing advice to clients on general corporate and securities matters

Compensation Structure

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Employees

Ken Eagle

Title

Controller

Location

New York

Industry Start Year:

1999

Firm Start Year:

2005

Firm End Date:

N/A

Email

keagle@prismapartners.com

Office Phone:

212-590-0826

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Eagle was a manager at Rothstein, Kass & Company, where he provided audit and tax services to a variety of clients within the private investment industry. His responsibilities included valuation testing of portfolios, tax planning and tax return preparation.

Compensation Structure

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Employees

Helenmarie Rodgers

Title
Managing Director of Client Management

Location
New York

Industry Start Year:
1980

Firm Start Year:
2004

Firm End Date:
N/A

Email
hmrodgers@prismapartners.com

Office Phone:
212-590-0808

Cell Phone
N/A

Bio
Prior to joining Prisma, Ms. Rodgers was a managing director of institutional client management, at J.P. Morgan Alternative Asset Management, a $6 billion hedge fund of funds manager. Previously, she was the managing director and head of worldwide marketing and product development for Chase Alternative Asset Management, the predecessor firm to JPMAAM. Earlier, she was a portfolio specialist for several hedge funds of funds and feeder funds at Union Bancaire Privee, a large Swiss investor in hedge funds. Ms. Rodgers was also a senior vice president for the World Gold Council in Geneva, Switzerland.

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Employees

John Stimpson

Title

Managing Director

Location

New York

Industry Start Year:

1993

Firm Start Year:

2009

Firm End Date:

N/A

Email

jstimpson@prismapartners.com

Office Phone:

212-590-0820

Cell Phone

N/A

Bio

Prior to Prisma, Mr. Stimpson was a Executive Director, Institutional Sales Group, UBP Asset Management (UBPAM), a fund of hedge funds; responsible for sales and marketing to public sector pension plans and other institutions in North America.

Vice President of Institutional Sales, Absolute Return Strategies Group of Deutsche Bank AG; responsible for consultant relations and direct sales of fund of hedge funds and single manager hedge funds to institutions.
Vice President of Sales and Client Service, The Torrey Funds, a long/short equity fund of hedge funds based in New York.

Associate, Public Finance Group, UBS Financial Services; provided investment banking services to state and local governments in the U.S.
Deputy Executive Director, Massachusetts Office of International Trade and Investment
Assistant to Massachusetts Governors William F. Weld and Paul Cellucci
Analyst, Massachusetts State Legislature

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Employees

Paul Roberts

Title

Managing Director

Location

London

Industry Start Year:

1985

Firm Start Year:

2005

Firm End Date:

N/A

Email

proberts@prismapartners.com

Office Phone:

44 20 70166485

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Roberts was a Managing Director and Co-Head of European Shares at Goldman Sachs. He also worked in the Equity Derivatives Group advising institutions on portfolio restructuring and hedging strategies. Mr. Roberts was the Head of Derivative Sales at SG Warburg and was responsible for the distribution of all listed and OTC products.

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Employees

James Walsh

Title

Managing Director

Location

New York

Industry Start Year:

1976

Firm Start Year:

2005

Firm End Date:

N/A

Email

jwalsh@prismapartners.com

Office Phone:

212-590-0825

Cell Phone

N/A

Bio

Co-founder of Walsh Advisors, LLC an advisory firm marketing alternative investment solutions to institutions and providing strategic financial advice to technology companies
Co-head of the European Banking Business Development Center at Zurich Financial Services, an initiative to establish European private banking and asset management business

COO Soci□t□□G□n□rale Securities Corporation; managed SG Cowen division that included private client, asset management and execution services business units.

Senior Vice President & Asia Pacific Regional Director of Prudential Securities Incorporated based in Tokyo overseeing capital markets and private client business throughout the region

Managing Director, The First Boston Corporation and Credit Suisse First Boston Limited, based in New York, London and Tokyo in various senior management positions in capital markets, investment management and distribution

Trustee of Stevens Institute of Technology and co-chair of the Finance & Investment Committee; Member of the Board of Directors, Foreign Policy Association

Compensation Structure

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Employees

Anthony Pennetti

Title

Managing Director

Location

New York

Industry Start Year:

1983

Firm Start Year:

2010

Firm End Date:

N/A

Email

apennetti@prismapartners.com

Office Phone:

212-590-0809

Cell Phone

N/A

Bio

Prior to Prisma, Mr. Pennetti was a Managing Director, Meridian Capital Partners, a fund of hedge funds; responsible for the firm's financial intermediary sales business

Director of Marketing, Deerfield Capital Management; responsible for sales and marketing of the firm's hedge fund strategies

Director, Marketing & Client Service, Lehman Brothers Alternative Investment Management
Managing Director, Donaldson, Lufkin & Jenrette; managed team responsible for placement of alternative investment solutions for the firm's asset management subsidiary
Vice President, JPMorgan, advising private clients in the bank's wealth management division

Compensation Structure

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Employees

Mark Faulkenberg

Title

Operational Due Diligence

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2004

Firm End Date:

7/1/2006

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

N/A

Compensation Structure

N/A

Additional Manager Detail

Firm: Prisma Capital Partners LP
Product Name: Prisma Spectrum Fund Ltd

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	35.9%	2.7%	6.2%	2.0%	19.4%	3.3%	0.0%	11.9%	14.8%	3.8%
12/31/2008	33.3%	7.5%	1.4%	2.0%	18.1%	5.5%	0.0%	8.1%	17.9%	6.2%
12/31/2007	36.7%	7.3%	0.0%	1.9%	22.8%	4.6%	0.0%	5.0%	14.3%	7.6%
12/31/2006	39.9%	5.2%	0.0%	1.0%	16.9%	6.7%	0.0%	5.3%	16.5%	8.5%
12/31/2005	40.1%	3.1%	0.0%	0.7%	24.4%	5.3%	0.0%	6.9%	18.0%	1.4%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$504	$2,938	$4,500	$4,500	10	30
12/31/2008	$547	$3,095	$4,200	$4,200	3	8
12/31/2007	$377	$3,498	$4,427	$4,427	1	17
12/31/2006	$156	$2,498	$3,227	$3,227	1	7
12/31/2005	$103	$1,861	$2,559	$2,559	0	39

Attachment E

R.V. Kuhns Fund of Hedge Funds Search Book
March 31, 2011

RVKuhns
& ASSOCIATES, INC.

Kentucky Retirement Systems

Investment Manager Search

Absolute Return Strategies

Performance Data as of: March 2011

Performance Format: Net of Fees

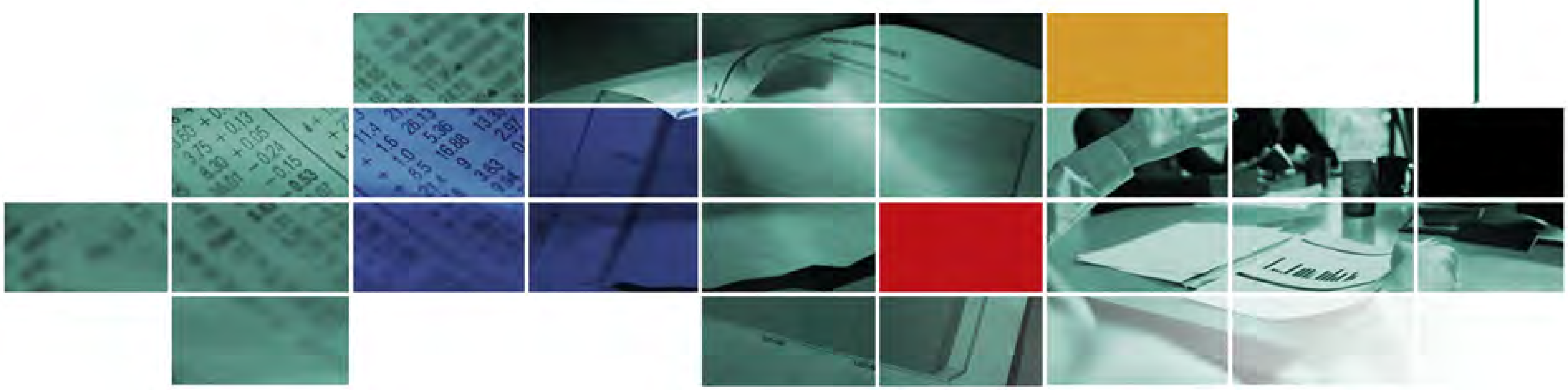

Table of Contents

Section 1 ....Summary of Investment Managers

Section 2 ....Investment Manager Profiles

- Aurora - AOFL II
- Blackstone Partners Offshore, Ltd.
- Crestline Offshore Fund, Ltd.
- Grosvenor - GIP, L.P.
- Mesirow - MIMSF, LP
- PAAMCO - PHS
- Prisma Spectrum Fund, Ltd.
- Rock Creek Diversified 1

General Information

Strategy Name	Year Firm Established	Year First Fund of □edge Funds Launched	Firm AUM □□mil□	Fund AUM □□mil□	Percentage Employee O□ned	RIA Status
Aurora Offshore Fund Ltd□II	1□88	1□88	□10□□8	□2□100	0□	Yes
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	1□□0	1□□0	□32□□23	□5□□82	□□□	Yes
Crestline Offshore Fund□Ltd□	1□□□	1□□□	□5□800	□52□	□0□	Yes
Grosvenor Institutional Partners□L□P□	1□□1	1□□1	□2□□0□5	□□312	□0□	Yes
Mesiro□ Institutional Multi-Strategy Fund□L□P□□MIMSF□	1□□0	1□□0	□13□□5□	□1□2□□	□3□	Yes
PAAMCO Pacific □edged Strategies□LLC	2000	2000	□□8□□	□□02	□3□	Yes
Prisma Spectrum Fund Ltd	200□	2005	□5□□00	□□□2	□3□	Yes
Roc□Cree□Diversified 1	2003	2003	□□000	□□250	100□	Yes

Personnel / Number of Investment Professionals

Strategy Name	Total Employees	Portfolio Managers	Research Analysts	Other Professionals	Fund Team	Average □of Years Portfolio Managers □ave □ or□ed Together
Aurora Offshore Fund Ltd□II	□5	3	13	□□	Anne Marie Morley□David E□Kuen□i□Gregory D□ Schneiderman□Patric□C□Sheedy□Peter S□□amet□□ustin D□ Sheperd□Scott C□Sch□eighauser□Roxanne M□Martino□	15
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	1□□	30	0	11□	Stephen Sullens□	N/A
Crestline Offshore Fund□Ltd□	□3	□	18	□1	□ohn Cochran□Caroline Cooley□Doug □ratton□	20
Grosvenor Institutional Partners□L□P□	23□	□	33	1□2	Andre□ T□Preda□□rad □□Meyers□CPA□David S□Richter□ CPA□Michael □□Sac□s□Esq□□	12
Mesiro□ Institutional Multi-Strategy Fund□L□P□□MIMSF□	105	□	30	□8	Mar□Kulpins□Eric Siegel□Tom Macina□□rian Cornell□ □o□ard Rossman□Steve □ogt□Marty Kaplan□	5
PAAMCO Pacific □edged Strategies□LLC	131	10	1□	102	Eri□ □ernhardt□Mayer Cherem□Neale Safaty□□udith Posni□off□Kemmy Koh□□ill Knight□Alper Ince□□ane □uchan□Charles Armendare□□□ames □erens□	8
Prisma Spectrum Fund Ltd	□8	8	□	3□	□ames □ elch□Peter □a□o□ich□Dan La□ee□Michael Rud□i□□ Donna □eit□man□Eric □ olfe□□ illiam Coo□□	□
Roc□Cree□Diversified 1	3□	5	12	20	Ronald □□P□van der □ ouden□Alifia Dori□ala□Kenneth G□ Lay□Sudhir Krishnamurthi□Afsaneh □eschloss□	20

RVKuhns & ASSOCIATES, INC.

Fund of □edge Fund Assets Under Management (□Mil□

Strategy Name	Total	Corporate	Public	Taft-□artley	Endo□ment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other□
Aurora Offshore Fund Ltd□II	□10□□8	□2□512	□2□82□	□31□	□□2	□2□□08	□0	□1□□□
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	□32□□23	□12□511	□□8□□	□□58	□1□□□□	□2□305	□□280	□1□□□□
Crestline Offshore Fund□Ltd□	□5□800	□1□33□	□2□□00	□□8□	□11□	□□0□	□58	□0
Grosvenor Institutional Partners□L□P□	□2□□0□5	□3□□1□	□□328	□□13□	□1□□□□	□1□□35	□5□□□5	□2□885
Mesiro□ Institutional Multi-Strategy Fund□L□P□□MIMSF□	□13□□5□	□3□□88	□2□□5□	□1□□□□	□□83	□□83	□2□322	□2□0□□
PAAMCO Pacific □edged Strategies□LLC	□□8□□	□2□□□3	□□□3□	□□□	□□□0	□2□□	□2□□	□888
Prisma Spectrum Fund Ltd	□5□□00	□□□□	□□13	□0	□1□□	□5□□0	□2□□□3	□1□003
Roc□Cree□Diversified 1	□□000	□1□200	□3□300	□300	□□00	□0	□0	□300

* Aurora's allocation to "Other" represents separate accounts.
* Blackstone's allocation to "Other" represents healthcare clients.
* Grosvenor's allocation to "Other" represents hospital/health care and non-pension government entities.
* Mesirow's allocation to "Other" represents sovereign entities and third party feeder funds/accounts.
* PAAMCO's allocation to "Other" represents offshore pension, other pension and employees.
* Prisma's allocation to "Other" represents Prisma employees and other non-US pension plans.
* Rock Creek's allocation to "Other" represents sovereign wealth funds.

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Specific Fund Assets Under Management □Mil□

Strategy Name	Total	Corporate	Public	Taft-□artley	Endo□ment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other□
Aurora Offshore Fund Ltd□II	□2□100	□□00	□□00	□100	□□00	□200	□0	□0
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	□5□□82	□3□□51	□0	□0	□□□□	□205	□□5□	□□08
Crestline Offshore Fund□Ltd□	□52□	□80	□1□5	□35	□80	□1	□0	□135
Grosvenor Institutional Partners□L□P□	□□312	□1□050	□1□315	□2□□□0	□2□3	□13□	□0	□□30
Mesiro□ Institutional Multi-Strategy Fund□L□P□□MIMSF□	□1□2□□	□228	□3	□□2□	□38	□11	□□3	□2□
PAAMCO Pacific □edged Strategies□LLC	□□02	□0	□235	□0	□285	□0	□0	□82
Prisma Spectrum Fund Ltd	□□□2	□212	□□5	□0	□138	□3	□□20	□10□
Roc□Cree□Diversified 1	□□250	□1□050	□2□250	□300	□□50	□0	□0	□0

* Blackstone's allocation to "Other" represents Blackstone Capital and employees, government institutions and distribution.
* Crestline's allocation to "Other" includes inter-fund investments.
* Grosvenor's allocation to "Other" represents hospital/health care and non-pension government entities.
* Mesirow's allocation to "Other" represents other pensions and pensions managed on behalf of hospitals.
* PAAMCO's allocation to "Other" represents religious organization pension plans.
* Prisma's allocation to "Other" represents Prisma employees and other non-US pension plans.

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Underlying Investment Manager Information

Strategy Name	Amount Invested by General Partners □□mil□	Current Number of Underlying Managers	Range of Underlying Managers	Maximum □ eighting of any Manager	Frequency of Communication □ith Underlying Managers	Manager Turnover	Ratio of Current Managers to Research Analysts
Aurora Offshore Fund Ltd□II	□100	□3	□0 - 50	10□0□	Regular/Constant	1□□	□□1
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	□1 □□1 □	□3	□2 - 103	□□□□	Monthly	8□	3□1
Crestline Offshore Fund□Ltd□	□31	□□	□2 - □0	10□0□	Monthly/quarterly □ith annual on-site visits	20□	5□1
Grosvenor Institutional Partners□L□P□	□31□	□3	21 - □□	10□0□	Monthly at a minimum□	1□□	2□1
Mesiro□ Institutional Multi-Strategy Fund□L□P□□MIMSF□	□□1□	5□	25 - □0	N/A	Monthly	15□	2□1
PAAMCO Pacific □edged Strategies□LLC	□15	53	□5 - □5	5□0□	Monthly	20□	2□1
Prisma Spectrum Fund Ltd	□80	□8	21 - □8	3□□□	Monthly	1□□	1□□1
Roc□Cree□Diversified 1	□10	50	25 - 50	□0□	At least monthly	15□	10□1

* Mesirow does not have specific limits on manager weightings. However, in many funds they strive to maintain a 5% allocation on any underlying fund position at time of purchase. Please note that this may fluctuate after time of purchase and is a general guideline.

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Current Allocation by Strategy

Strategy Name	L/S Equity	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other□
Aurora Offshore Fund Ltd□II	3□□	12□	0□	0□	21□	0□	0□	0□	15□	18□
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	22□	0□	23□	□□	1□	0□	0□	3□	□□	38□
Crestline Offshore Fund□Ltd□	23□	0□	2□	5□	□□	2□	0□	□□	2□	53□
Grosvenor Institutional Partners□L□P□	3□□	2□	0□	0□	0□	1□	0□	0□	5□	5□□
Mesiro□ Institutional Multi-Strategy Fund□L□P□MIMSF□	23□	□□	0□	0□	31□	2□	0□	0□	3□	38□
PAAMCO Pacific □edged Strategies□LLC	28□	0□	0□	□□	11□	□□	□□	□□	0□	32□
Prisma Spectrum Fund Ltd	2□□	2□	□□	2□	3□□	5□	0□	10□	13□	3□
Roc□Cree□Diversified 1	38□	0□	0□	11□	23□	0□	0□	0□	15□	13□

* Aurora's allocation to "Other" represents their multi-strategy opportunistic strategy.
* Blackstone's allocation to "Other" represents multistrategy, credit–opportunistic, credit–mortgage, credit–structured/ABS, emerging markets, direct origination, credit – relative value, leveraged loans, and reinsurance.
* Crestline's allocation to "Other" represents credit arbitrage, origination, multiple strategy, bank loans, cash and other assets.
* Grosvenor's allocation to "Other" represents L/S credit, directional credit, event driven, relative value, multi-strategy and cash.
* Mesirow's allocation to "Other" represents event, relative value, multi-strategy, redeeming managers and cash.
* PAAMCO's allocation to "Other" represents Long/Short credit, opportunistic and a cash balance that ranges from 1-8%.
* Rock Creek's allocation to "Other" represents multi-strategy.

Allocation by Region

Strategy Name	U□S□	Developed Europe	□apan	Emerging M□ts	Other□
Aurora Offshore Fund Ltd□II	5□□	1□□	5□	8□	1□□
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	58□	23□	0□	13□	□□
Crestline Offshore Fund□Ltd□	□5□	22□	□□	2□	5□
Grosvenor Institutional Partners□L□P□	□□□	1□□	3□	5□	10□
Mesiro□ Institutional Multi-Strategy Fund□L□P□□MIMSF□	□8□	11□	2□	2□	□□
PAAMCO Pacific □edged Strategies□LLC	□□□	1□□	3□	□□	10□
Prisma Spectrum Fund Ltd	58□	21□	13□	2□	□□
Roc□Cree□Diversified 1	□0□	10□	5□	15□	0□

* Aurora's allocation to "Other" represents global allocations.
* Blackstone's allocation to "Other" represents Asia ex-Japan.
* Crestline's allocation to "Other" represents global allocations.
* Grosvenor's allocation to "Other" represents allocations to Australia, Hong Kong, New Zealand, Singapore and cash.
* Mesirow's allocation to "Other" represents Asia ex-Japan.
* PAAMCO's allocation to "Other" represents Canada, Hong Kong, Australia and Bermuda.
* Prisma's allocation to "Other" represents commodities and foreign exchange exposure.

General Product Information

Strategy Name	Inception Date	Onshore/Offshore	Is U□TI Li□ely□	3c1 or 3c□□	Accepting ERISA Clients□	□istorical Leverage Range □loo□-through□
Aurora Offshore Fund Ltd□II	□/1/2002	Offshore	No	3c□	Yes	1□0x - 2□□x
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	□/1/1□□□	Offshore	No	3c□	No	1□0x - 3□5x
Crestline Offshore Fund□Ltd□	11/1/2001	Offshore	No	3c□	Yes	1□0x - 1□2x
Grosvenor Institutional Partners□L□P□	1/1/2000	Onshore	No	3c□	Yes	1□1x - 2□8x
Mesiro□ Institutional Multi-Strategy Fund□L□P□MIMSF□	□/1/200□	Onshore	No	3c□	Yes	1□3x - 2□□x
PAAMCO Pacific □edged Strategies□LLC	1/1/2002	Onshore	No	3c□	No	1□0x - 1□□x
Prisma Spectrum Fund Ltd	5/1/2005	Offshore	No	3c□	Yes	1□5x
Roc□Cree□Diversified 1	□/1/2003	Offshore	No	3c□	Yes	1□2x - 2□□x

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Minimum and Fee Information

Strategy Name	Subscription Frequency	Loc□-Up Period	Redemption Frequency	Notice Period	Minimum Investment □□mil□	Annual Management Fee□	Performance Fee	□urdle Rate	□igh □ ater Mar□□
Aurora Offshore Fund Ltd□II	Monthly	No	□uarterly	□5 Days	□1	1□0□	10□0□	No	Yes
□lac□stone Partners Offshore Fund Ltd□ □□Partners OS□□	Monthly	No	Annually	□5 Days	□5	1□3□	0□0□	No	No
Crestline Offshore Fund□Ltd□	Monthly	12 Months	□uarterly	□5 Days	□1	1□3□	0□0□	No	No
Grosvenor Institutional Partners□L□P□	Monthly	No	□uarterly	□0 Days	□5	□□	0□0□	No	No
Mesiro□ Institutional Multi-Strategy Fund□L□P□□MIMSF□	Monthly	No	□uarterly	□5 Days	□5	1□0□	10□0□	5□0□	Yes
PAAMCO Pacific □edged Strategies□LLC	Monthly	12 Months	□uarterly	□0 Days	□5	1□0□	5□0□	No	Yes
Prisma Spectrum Fund Ltd	Monthly	12 Months	□uarterly	□5 Days	□1	1□0□	5□0□	Yes□□□	Yes
Roc□Cree□Diversified 1	Monthly	12 Months	□uarterly	□0 Days	□5	0□8□	□5□	Yes	Yes

* Fees are often negotiable for custom mandates in excess of $100M.
** Grosvenor fee schedule: first $10 Million: 1.4%, next $15 Million: 1.2%, next $25 Million: 1.0%, next $50 Million: 0.8%, over $100 Million: 0.6%. Effective July 1, 2011 Grosvenor fee schedule will change to first $25 Million: 1.25%, next $25 Million: 1.0%, next $50 Million: 0.8%, over $100 Million: 0.6%. Grosvenor has a minimum fee of 0.75%.
*** Prisma's hurdle rate is the performance of 13 Week US T-Bill.

Trailing Period Returns

RVKuhns & ASSOCIATES, INC.

As of March 2011

Firm/Product	Current Quarter	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Aurora - AOFL II	1.2	1.2	4.9	2.1	3.7	5.1	---
Blackstone Partners Offshore, Ltd.	1.7	1.7	6.4	3.2	5.1	5.9	5.9
Crestline Offshore Fund, Ltd.	2.2	2.2	5.8	0.0	2.6	3.9	---
Grosvenor - GIP, L.P.	1.8	1.8	5.8	0.2	2.6	4.0	4.8
Mesirow - MIMSF, LP	2.3	2.3	5.0	3.2	4.5	5.3	---
PAAMCO - PHS	2.0	2.0	5.9	1.1	4.5	5.1	---
Prisma Spectrum Fund, Ltd.	1.7	1.7	6.9	3.0	5.2	---	---
Rock Creek Diversified 1	1.1	1.1	6.3	3.1	3.4	5.0	---
HFN FoF Multi-Strategy Average	*0.7*	*0.7*	*4.1*	*-1.5*	*1.1*	*3.0*	*4.3*
BofA ML 3 Month T-Bill Index + 5%	*1.3*	*1.3*	*5.2*	*5.5*	*7.3*	*7.4*	*7.3*
BC Aggregate Bond Index	*0.4*	*0.4*	*5.1*	*5.3*	*6.0*	*4.8*	*5.6*
S&P 500 Index	*5.9*	*5.9*	*15.6*	*2.4*	*2.6*	*4.5*	*3.3*

Performance is Net of Fees

Calendar Year Returns

RVKuhns & ASSOCIATES, INC.

As of March 2011

	Calendar Year						
Firm/Product	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Aurora - AOFL II	6.9	20.6	-22.5	13.3	9.1	9.5	6.5
Blackstone Partners Offshore, Ltd.	7.4	15.6	-15.5	12.6	11.7	7.0	6.0
Crestline Offshore Fund, Ltd.	6.1	11.0	-19.6	9.5	12.2	6.0	6.5
Grosvenor - GIP, L.P.	6.5	13.9	-20.9	10.7	9.4	6.8	6.9
Mesirow - MIMSF, LP	5.0	18.3	-15.7	8.8	9.8	5.3	---
PAAMCO - PHS	6.1	18.4	-21.8	17.4	10.8	5.1	6.0
Prisma Spectrum Fund, Ltd.	7.6	17.3	-16.5	13.4	8.4	---	---
Rock Creek Diversified 1	8.8	16.6	-18.2	8.7	9.3	8.2	8.4
HFN FoF Multi-Strategy Average	*4.8*	*9.7*	*-20.6*	*9.9*	*9.8*	*6.8*	*6.8*
BofA ML 3 Month T-Bill Index + 5%	*5.1*	*5.2*	*7.2*	*10.3*	*10.1*	*8.2*	*6.4*
BC Aggregate Bond Index	*6.5*	*5.9*	*5.2*	*7.0*	*4.3*	*2.4*	*4.3*
S&P 500 Index	*15.1*	*26.5*	*-37.0*	*5.5*	*15.8*	*4.9*	*10.9*

Performance is Net of Fees

Three Year Risk Analysis

RVKuhns & ASSOCIATES, INC.

As of March 2011

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - AOFL II	2.1	8.5	0.2	5.0	-8.3	23.0	13.0
Blackstone Partners Offshore, Ltd.	3.2	5.7	0.5	3.3	-4.9	26.0	10.0
Crestline Offshore Fund, Ltd.	0.0	6.0	-0.1	1.9	-5.4	26.0	10.0
Grosvenor - GIP, L.P.	0.2	7.0	0.0	2.7	-6.9	25.0	11.0
Mesirow - MIMSF, LP	3.2	6.1	0.4	3.8	-6.3	25.0	11.0
PAAMCO - PHS	1.1	8.7	0.1	3.2	-8.6	27.0	9.0
Prisma Spectrum Fund, Ltd.	3.0	7.3	0.3	3.5	-7.8	27.0	9.0
Rock Creek Diversified 1	3.1	7.0	0.4	2.8	-6.8	25.0	11.0
S&P 500 Index	2.4	21.9	0.1	9.6	-16.8	24.0	12.0
BC Aggregate Bond Index	5.3	4.2	1.1	3.7	-2.4	24.0	12.0
HFN FoF Multi-Strategy Average	-1.5	7.0	-0.3	3.0	-6.6	21.0	15.0

MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	1.0	0.3	54.2	28.0	10.5	30.0	-7.7
Blackstone Partners Offshore, Ltd.	2.4	0.2	46.3	20.4	7.7	16.2	-4.1
Crestline Offshore Fund, Ltd.	-0.8	0.2	35.2	13.0	4.9	18.3	-4.7
Grosvenor - GIP, L.P.	-0.7	0.2	41.1	17.5	6.6	23.4	-6.0
Mesirow - MIMSF, LP	2.4	0.2	31.6	20.1	7.6	15.9	-4.1
PAAMCO - PHS	0.2	0.2	34.5	21.7	8.1	25.3	-6.5
Prisma Spectrum Fund, Ltd.	2.1	0.2	30.1	21.5	8.1	18.5	-4.7
Rock Creek Diversified 1	2.1	0.2	56.0	26.6	10.0	24.5	-6.3
S&P 500 Index	0.0	1.0	100.0	100.0	37.6	100.0	-25.6
BC Aggregate Bond Index	4.7	0.0	6.3	10.6	4.0	-4.9	1.2
HFN FoF Multi-Strategy Average	-2.5	0.2	54.7	16.8	6.3	28.7	-7.3

MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	-0.4	0.4	4.0	58.4	5.1	92.2	-2.9
Blackstone Partners Offshore, Ltd.	1.7	0.2	2.2	52.9	4.6	42.7	-1.3
Crestline Offshore Fund, Ltd.	-0.7	0.0	0.0	20.4	1.8	56.1	-1.7
Grosvenor - GIP, L.P.	-1.4	0.2	1.8	33.2	2.9	84.0	-2.6
Mesirow - MIMSF, LP	1.4	0.3	3.1	58.3	5.1	57.1	-1.8
PAAMCO - PHS	-1.2	0.4	3.4	43.1	3.7	80.6	-2.5
Prisma Spectrum Fund, Ltd.	1.2	0.3	2.1	49.1	4.3	40.1	-1.2
Rock Creek Diversified 1	0.9	0.3	4.2	59.1	5.1	62.2	-1.9
S&P 500 Index	-4.4	1.3	6.3	182.7	15.8	374.6	-11.6
BC Aggregate Bond Index	0.0	1.0	100.0	100.0	8.7	100.0	-3.1
HFN FoF Multi-Strategy Average	-3.6	0.3	3.8	18.7	1.6	99.0	-3.1

Five Year Risk Analysis

RVKuhns & ASSOCIATES, INC.

As of March 2011

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - AOFL II	3.7	7.4	0.2	5.0	-8.3	40.0	20.0
Blackstone Partners Offshore, Ltd.	5.1	5.2	0.5	3.3	-4.9	45.0	15.0
Crestline Offshore Fund, Ltd.	2.6	5.2	0.1	1.9	-5.4	44.0	16.0
Grosvenor - GIP, L.P.	2.6	6.1	0.1	2.7	-6.9	43.0	17.0
Mesirow - MIMSF, LP	4.5	5.4	0.4	3.8	-6.3	41.0	19.0
PAAMCO - PHS	4.5	7.6	0.3	5.1	-8.6	44.0	16.0
Prisma Spectrum Fund, Ltd.	5.2	6.5	0.5	4.4	-7.8	44.0	16.0
Rock Creek Diversified 1	3.4	6.8	0.2	2.8	-6.8	42.0	18.0
S&P 500 Index	2.6	17.9	0.0	9.6	-16.8	39.0	21.0
BC Aggregate Bond Index	6.0	3.6	1.1	3.7	-2.4	42.0	18.0
HFN FoF Multi-Strategy Average	1.1	6.4	-0.2	3.1	-6.6	37.0	23.0

MPT Statistics vs. S&P 500 Index

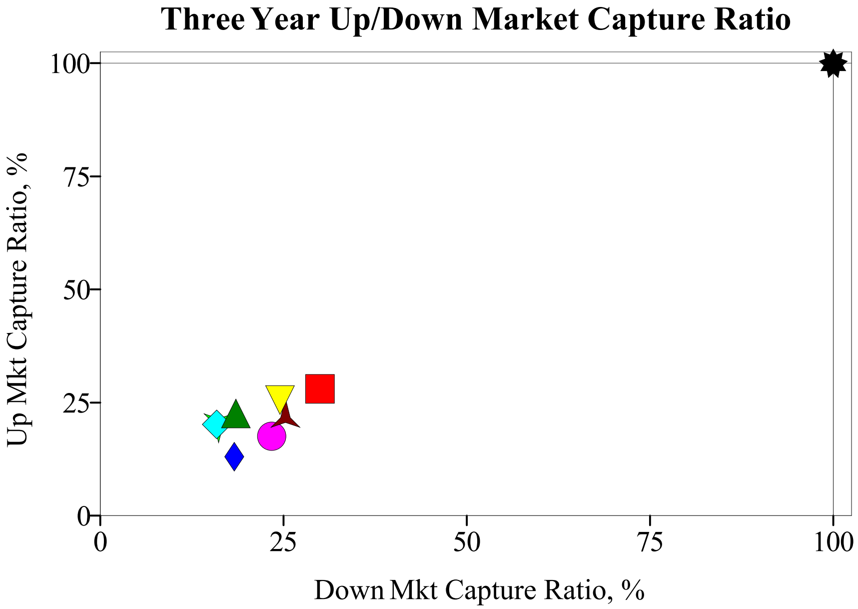
Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	1.3	0.3	49.8	33.8	9.7	27.1	-5.5
Blackstone Partners Offshore, Ltd.	2.8	0.2	39.3	27.7	8.0	13.2	-2.7
Crestline Offshore Fund, Ltd.	0.3	0.2	33.7	20.1	5.8	15.0	-3.0
Grosvenor - GIP, L.P.	0.3	0.2	37.8	24.3	7.0	20.0	-4.0
Mesirow - MIMSF, LP	2.2	0.2	32.1	27.0	7.8	15.1	-3.1
PAAMCO - PHS	2.1	0.2	32.3	31.0	8.9	20.1	-4.1
Prisma Spectrum Fund, Ltd.	2.9	0.2	27.6	29.2	8.4	14.4	-2.9
Rock Creek Diversified 1	1.0	0.3	43.3	32.0	9.2	26.4	-5.4
S&P 500 Index	0.0	1.0	100.0	100.0	28.7	100.0	-20.3
BC Aggregate Bond Index	3.8	0.0	3.2	13.7	4.0	-9.8	2.0
HFN FoF Multi-Strategy Average	-1.2	0.2	46.7	23.9	6.9	26.5	-5.4

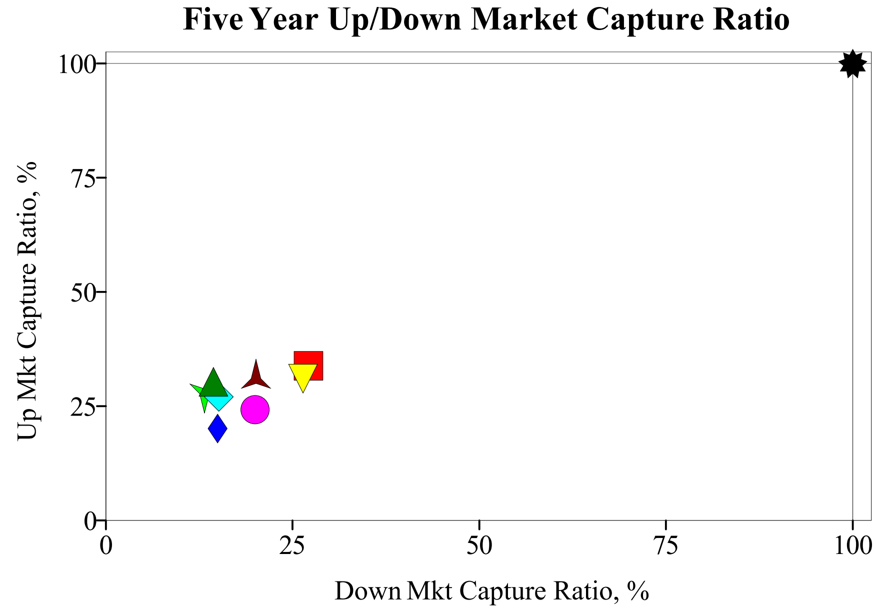
MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	0.6	0.2	1.1	51.1	4.3	27.6	-0.6
Blackstone Partners Offshore, Ltd.	2.6	0.1	0.2	54.3	4.6	-19.7	0.4
Crestline Offshore Fund, Ltd.	0.5	-0.1	0.2	30.5	2.6	1.1	0.0
Grosvenor - GIP, L.P.	0.2	0.1	0.1	36.3	3.1	18.7	-0.4
Mesirow - MIMSF, LP	1.8	0.1	0.5	50.1	4.3	-8.7	0.2
PAAMCO - PHS	1.6	0.2	0.7	54.2	4.6	5.5	-0.1
Prisma Spectrum Fund, Ltd.	2.6	0.1	0.3	57.6	4.9	-14.7	0.3
Rock Creek Diversified 1	0.7	0.1	0.4	38.1	3.2	-5.5	0.1
S&P 500 Index	-3.0	0.9	3.2	116.3	9.9	291.2	-6.6
BC Aggregate Bond Index	0.0	1.0	100.0	100.0	8.5	100.0	-2.3
HFN FoF Multi-Strategy Average	-1.6	0.1	0.5	22.4	1.9	34.4	-0.8

Up/Down Market Capture - Three and Five Year

As of March 2011 Benchmark: S&P 500 Index





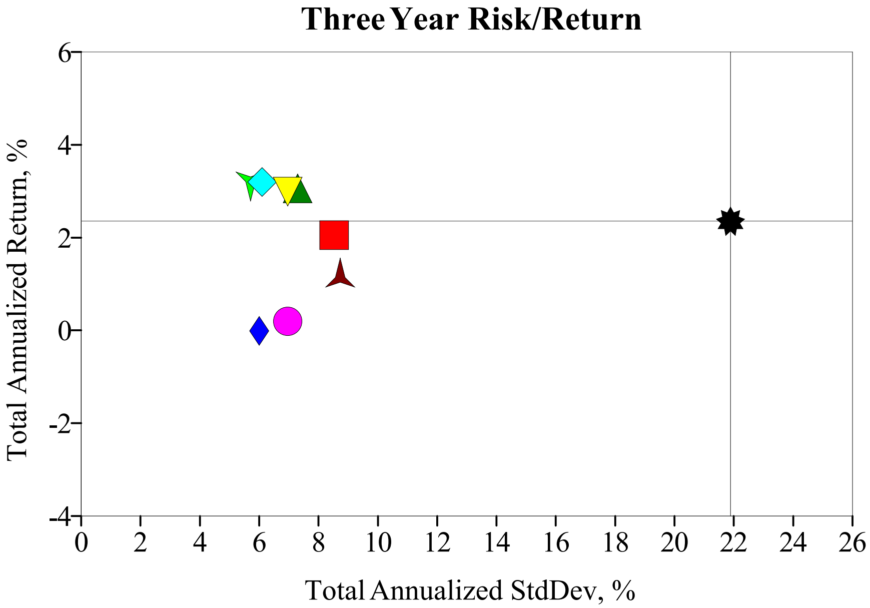
Aurora - AOFL II · Blackstone Partners Offshore, Ltd. · Crestline Offshore Fund, Ltd. · Grosvenor - GIP, L.P. · Mesirow - MIMSF, LP · PAAMCO - PHS · Prisma Spectrum Fund, Ltd. · Rock Creek Diversified 1 · S&P 500 Index

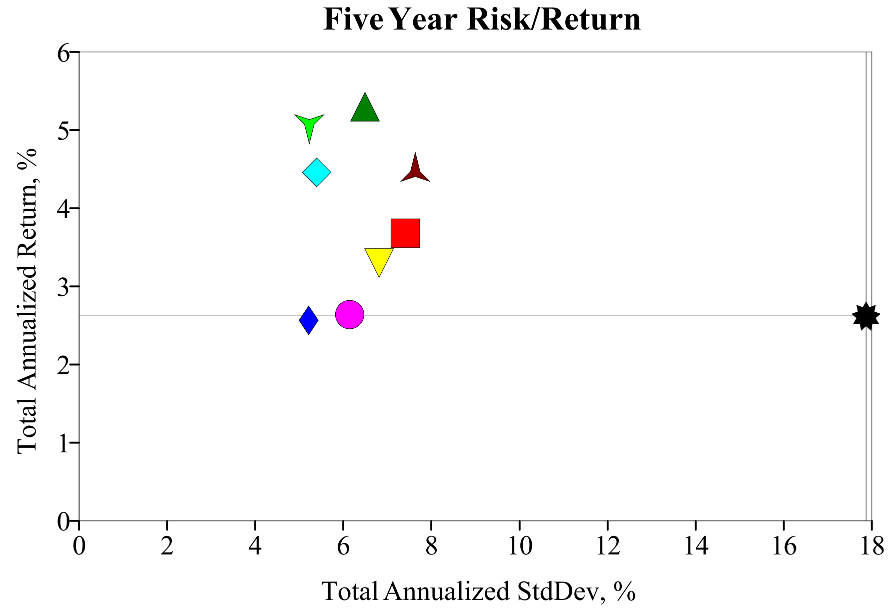
	Down Mkt Cap Ratio, %	Down Mkt Months	Up Mkt Cap Ratio, %	Up Mkt Months
Aurora - AOFL II	29.99	12	28.04	24
Blackstone Partners Offshore, Ltd.	16.16	12	20.37	24
Crestline Offshore Fund, Ltd.	18.28	12	13.04	24
Grosvenor - GIP, L.P.	23.40	12	17.51	24
Mesirow - MIMSF, LP	15.86	12	20.13	24
PAAMCO - PHS	25.27	12	21.65	24
Prisma Spectrum Fund, Ltd.	18.49	12	21.49	24
Rock Creek Diversified 1	24.52	12	26.61	24
S&P 500 Index	**100.00**	**12**	**100.00**	**24**

	Down Mkt Cap Ratio, %	Down Mkt Months	Up Mkt Cap Ratio, %	Up Mkt Months
Aurora - AOFL II	27.14	21	33.82	39
Blackstone Partners Offshore, Ltd.	13.19	21	27.70	39
Crestline Offshore Fund, Ltd.	14.96	21	20.09	39
Grosvenor - GIP, L.P.	19.96	21	24.26	39
Mesirow - MIMSF, LP	15.14	21	27.03	39
PAAMCO - PHS	20.08	21	30.98	39
Prisma Spectrum Fund, Ltd.	14.39	21	29.23	39
Rock Creek Diversified 1	26.39	21	32.04	39
S&P 500 Index	**100.00**	**21**	**100.00**	**39**

Risk/Return - Three and Five Year

As of March 2011 Benchmark: S&P 500 Index





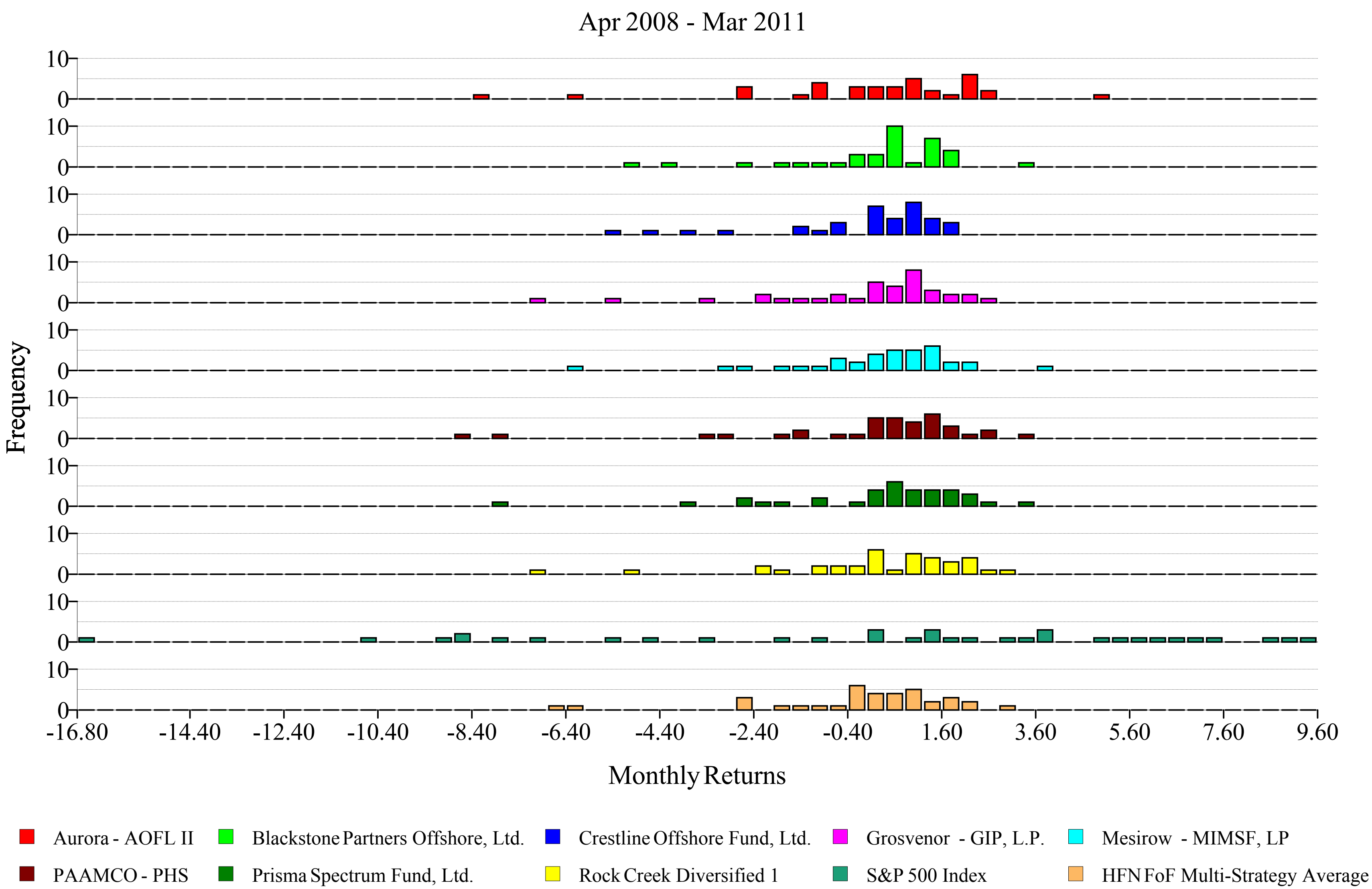
Aurora - AOFL II | Blackstone Partners Offshore, Ltd. | Crestline Offshore Fund, Ltd. | Grosvenor - GIP, L.P. | Mesirow - MIMSF, LP | PAAMCO - PHS | Prisma Spectrum Fund, Ltd. | Rock Creek Diversified 1 | S&P 500 Index

	Annualized Return	Annualized Std. Dev.
Aurora - AOFL II	2.05	8.53
Blackstone Partners Offshore, Ltd.	3.20	5.70
Crestline Offshore Fund, Ltd.	-0.01	6.00
Grosvenor - GIP, L.P.	0.20	6.96
Mesirow - MIMSF, LP	3.20	6.10
PAAMCO - PHS	1.14	8.73
Prisma Spectrum Fund, Ltd.	2.96	7.29
Rock Creek Diversified 1	3.09	6.96
S&P 500 Index	**2.35**	**21.89**

	Annualized Return	Annualized Std. Dev.
Aurora - AOFL II	3.68	7.41
Blackstone Partners Offshore, Ltd.	5.07	5.22
Crestline Offshore Fund, Ltd.	2.56	5.21
Grosvenor - GIP, L.P.	2.64	6.14
Mesirow - MIMSF, LP	4.46	5.40
PAAMCO - PHS	4.47	7.63
Prisma Spectrum Fund, Ltd.	5.24	6.50
Rock Creek Diversified 1	3.36	6.81
S&P 500 Index	**2.62**	**17.87**

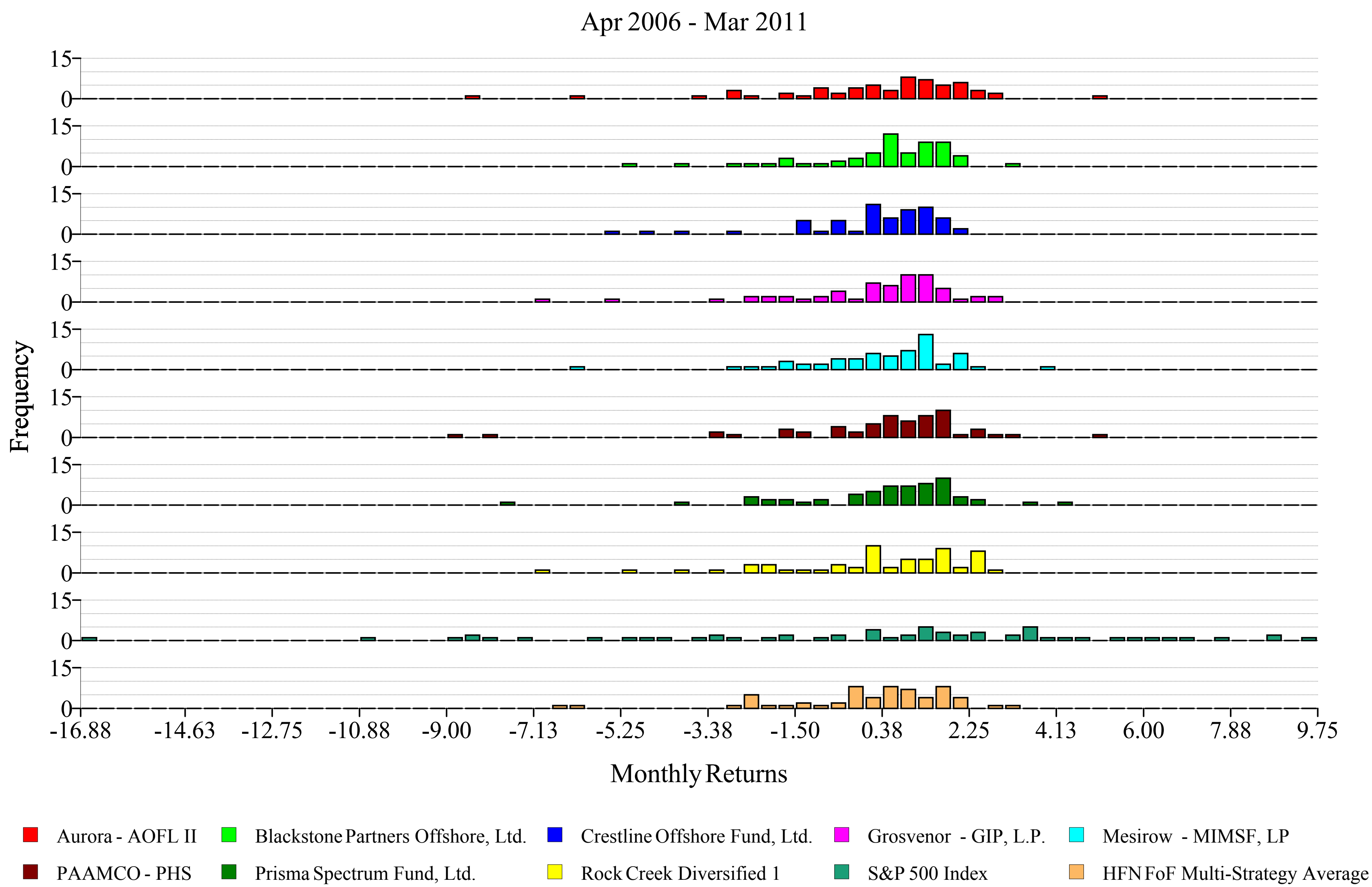
Distribution of Returns - 3 Year

As of March 2011



Distribution of Returns - 5 Year

As of March 2011



Correlation Of Returns - 3 Year

RVKuhns & ASSOCIATES, INC.

As of March 2011

Direct Correlations

Correlation: Apr 2008 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	0.97	0.91	0.95	0.94	0.93	0.94	0.97
Blackstone Partners Offshore, Ltd.	0.97	1.00	0.95	0.97	0.94	0.95	0.94	0.96
Crestline Offshore Fund, Ltd.	0.91	0.95	1.00	0.97	0.91	0.92	0.91	0.91
Grosvenor - GIP, L.P.	0.95	0.97	0.97	1.00	0.95	0.95	0.96	0.97
Mesirow - MIMSF, LP	0.94	0.94	0.91	0.95	1.00	0.90	0.95	0.93
PAAMCO - PHS	0.93	0.95	0.92	0.95	0.90	1.00	0.93	0.92
Prisma Spectrum Fund, Ltd.	0.94	0.94	0.91	0.96	0.95	0.93	1.00	0.94
Rock Creek Diversified 1	0.97	0.96	0.91	0.97	0.93	0.92	0.94	1.00
S&P 500 Index	0.74	0.68	0.59	0.64	0.56	0.58	0.54	0.75
BC Aggregate Bond Index	0.16	0.11	-0.03	0.09	0.13	0.15	0.10	0.16
HFN FoF Multi-Strategy Average	0.97	0.97	0.91	0.96	0.90	0.95	0.94	0.97

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Apr 2008 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	-0.03	-0.13	0.19	0.21	0.29	0.24	0.35
Blackstone Partners Offshore, Ltd.	-0.03	1.00	0.75	0.55	0.74	-0.09	0.28	0.27
Crestline Offshore Fund, Ltd.	-0.13	0.75	1.00	0.80	0.60	0.13	0.35	0.28
Grosvenor - GIP, L.P.	0.19	0.55	0.80	1.00	0.69	0.34	0.61	0.53
Mesirow - MIMSF, LP	0.21	0.74	0.60	0.69	1.00	0.03	0.65	0.55
PAAMCO - PHS	0.29	-0.09	0.13	0.34	0.03	1.00	0.33	-0.11
Prisma Spectrum Fund, Ltd.	0.24	0.28	0.35	0.61	0.65	0.33	1.00	0.36
Rock Creek Diversified 1	0.35	0.27	0.28	0.53	0.55	-0.11	0.36	1.00
S&P 500 Index	0.36	-0.50	-0.50	-0.37	-0.53	-0.20	-0.57	0.09
BC Aggregate Bond Index	-0.43	0.52	0.24	0.01	0.40	-0.36	-0.03	0.13

Correction Of Returns - 5 Year

RVKuhns & ASSOCIATES, INC.

As of March 2011

Direct Correlations

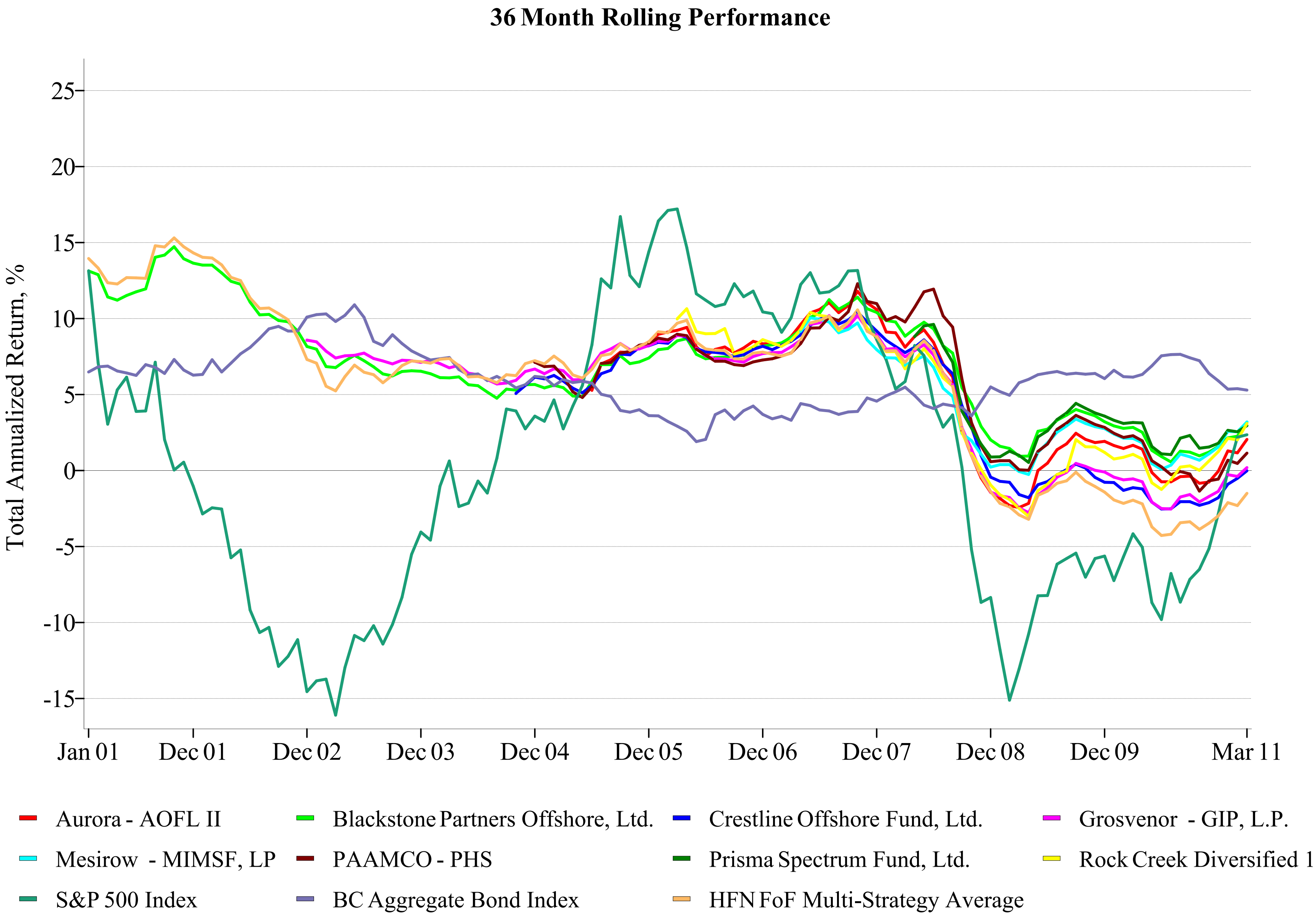
Correlation: Apr 2006 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	0.96	0.90	0.95	0.94	0.92	0.93	0.91
Blackstone Partners Offshore, Ltd.	0.96	1.00	0.93	0.96	0.92	0.91	0.92	0.89
Crestline Offshore Fund, Ltd.	0.90	0.93	1.00	0.95	0.89	0.90	0.90	0.84
Grosvenor - GIP, L.P.	0.95	0.96	0.95	1.00	0.95	0.94	0.96	0.90
Mesirow - MIMSF, LP	0.94	0.92	0.89	0.95	1.00	0.88	0.93	0.89
PAAMCO - PHS	0.92	0.91	0.90	0.94	0.88	1.00	0.93	0.84
Prisma Spectrum Fund, Ltd.	0.93	0.92	0.90	0.96	0.93	0.93	1.00	0.88
Rock Creek Diversified 1	0.91	0.89	0.84	0.90	0.89	0.84	0.88	1.00
S&P 500 Index	0.70	0.62	0.57	0.61	0.56	0.56	0.52	0.66
BC Aggregate Bond Index	0.07	0.02	-0.06	0.00	0.03	0.06	0.03	0.02
HFN FoF Multi-Strategy Average	0.96	0.96	0.90	0.96	0.91	0.93	0.94	0.93

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Apr 2006 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	0.06	-0.04	0.24	0.23	0.28	0.20	0.13
Blackstone Partners Offshore, Ltd.	0.06	1.00	0.72	0.53	0.64	-0.05	0.26	0.02
Crestline Offshore Fund, Ltd.	-0.04	0.72	1.00	0.72	0.62	0.13	0.36	0.04
Grosvenor - GIP, L.P.	0.24	0.53	0.72	1.00	0.70	0.33	0.59	0.10
Mesirow - MIMSF, LP	0.23	0.64	0.62	0.70	1.00	0.04	0.54	0.26
PAAMCO - PHS	0.28	-0.05	0.13	0.33	0.04	1.00	0.34	-0.20
Prisma Spectrum Fund, Ltd.	0.20	0.26	0.36	0.59	0.54	0.34	1.00	0.06
Rock Creek Diversified 1	0.13	0.02	0.04	0.10	0.26	-0.20	0.06	1.00
S&P 500 Index	0.35	-0.36	-0.34	-0.29	-0.36	-0.15	-0.48	0.07
BC Aggregate Bond Index	-0.25	0.57	0.44	0.19	0.48	-0.19	0.11	0.01

3 Year Rolling Returns

As of March 2011



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Year Firm Established	1988
Year First Fund of Funds Launched	1988
Location	Chicago, IL
Number of Investment Professionals	27
Percentage Employee Owned	0%
Total AUM (millions)	$10,468

[illegible]

Please see response below:

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The Firm's mission statement is: "Aurora Investment Management L.L.C. is committed to being a premier investment firm focused on delivering consistently superior investment results within a collegial environment that encourages a culture of excellence, respect, teamwork and integrity."

In order to deliver consistently superior investment results, the Firm adheres to a disciplined investment process guided by experienced portfolio managers who manage funds of hedge funds that offer consistent long-term capital appreciation with low volatility and little correlation with equities and bonds. Believing that the most important factors guiding the selection of hedge fund managers are qualitative, not quantitative, the Firm performs thorough and wide-ranging analyses, comparisons and reviews, ultimately relying on the sound judgment that our portfolio management team has developed over the last 22 years. The key element of our investment process that differentiates us from others is our retention of critical judgments (i.e., inclusion/termination of a manager and on-site due diligence of managers) at the most senior level. In both the initial and ongoing due diligence process, we believe that the direct contact between our own Portfolio Management Team and the principals of the underlying managers results in the most accurate and timely assessment possible and allows for the establishment of a unique long-term peer-to-peer relationship. When managers consistently interact with the same senior decision-makers, we can be assured that important information will not be misinterpreted or overlooked. Moreover, we will not invest with any manager until each of our Portfolio Managers has met with the underlying manager and reached a unanimous decision to invest.

Another unique aspect of our investment process is that each Portfolio Manager is a generalist. This generalist perspective allows each Portfolio Manager to seek the best investment opportunities objectively and make logical, well-informed decisions in a consensus-driven manner. This process is in contrast to a "sector specialist" approach, wherein the Portfolio Manager might tend to promote inclusion of his/her own sector in the portfolio – regardless of whether that recommendation may generate the best investment outcome for the portfolio as a whole. This consensus-driven approach makes each Portfolio Manager an owner of each investment decision.

Our investment process also leverages our technology platform. We have developed extensive and sophisticated proprietary databases that house our entire manager due diligence, quantitative, and qualitative analyses, and serves as the centerpiece for all decisions. Each Portfolio Manager travels with the entire database on his/her laptop, creating a virtual office environment, synchronizing wirelessly, allowing for seamless and continuous communication.

The qualitative nature of our work also differentiates us from our peers. For Aurora, the most important factors guiding the final decision of selecting external investment managers is qualitative, not quantitative. While we perform thorough and wide-ranging quantitative analyses, comparisons, and reviews, when it comes to deciding who will receive an allocation of capital, we rely on the sound judgment that our team has developed over the last 21+ years. The accompanying document entitled "The Due Diligence Process" by Roxanne Martino elaborates on the qualitative aspects of our investment process.

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Aurora Investment Management L.L.C. is an indirect subsidiary of Natixis Global Asset Management, L.P. which owns, in addition to Aurora Investment Management, a number of other asset management and distribution and service entities. Natixis Global Asset Management, L.P. is part of Natixis Global Asset Management, an international asset management group based in Paris, France, that is principally owned by Natixis, a French investment banking and financial services firm. Natixis is principally owned by BPCE, France's second largest banking group. The group includes two autonomous and completely retail banking networks consisting of the Caisses d'Epargne regional savings banks and the Banque Populaire regional cooperative banks. Natixis and BPCE each owns, directly or indirectly, other investment advisers established in various jurisdictions.

Employees

Roxanne M. Martino

Title

Partner, President, Chief Executive Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1977

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Accounting (University of Notre Dame, 1977), MBA (University of Chicago, 1988)
Certified Public Accountant (1977)
Formerly a General Partner with Grosvenor Partners (1984-1990); and a Senior Manager with Coopers & Lybrand (1977-1984)
Thirty-three years industry experience
Joined Aurora Investment Management in 1990

Compensation Structure

N/A

Employees

Scott C. Schweighauser

Title

Partner, Chief Investment Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Mathematics (Williams College, 1983), MBA (University of Chicago, 1989)
Formerly Vice President for derivatives and interest rate product trading with ABN AMRO Bank (1993-1994); a Vice President and Managing Director with Continental Bank's Risk Management Trading Group (1986-1993); and Associate in Corporate Finance at Bankers Trust Co. (1983-1986)
Twenty-eight years industry experience
Joined Aurora Investment Management in 1994

Compensation Structure

N/A

Employees

Justin D. Sheperd

Title

Partner and Portfolio Manager

Location

Chicago

Industry Start Year:

1995

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Business Administration, Finance and Accounting (Miami University, 1994), MBA (University of Chicago, 2003)
Formerly Client Database Services Assistant with Information Resources Inc. (1995-1996)
CFA Charterholder
Fifteen years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Employees

Peter S. Hamet

Title

Head of Research

Location

Chicago

Industry Start Year:

1998

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Finance and Accounting (Western Michigan University, 1998)
Formerly Business Director of Hotel Zelai in Spain (2000-2001); and an Analyst for CIBC Oppenheimer, Alternative Investments Group (1998-2000)
CFA Charterholder
Eleven years industry experience
Joined Aurora Investment Management in 2002

Compensation Structure

N/A

Employees

Patrick C. Sheedy

Title
Strategy Head - Long/Short Credit, Macro, Multi-Strategy Opportunistic & Event-Driven

Location
Chicago

Industry Start Year:
2001

Firm Start Year:
2005

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
BA in Government and International Relations (University of Notre Dame, 2001)
Formerly Associate Consultant and Head of Hedge Fund Research at Stratford Advisory Group (2001-2005)
Ten years industry experience
Joined Aurora Investment Management in 2005

Compensation Structure
N/A

Employees

Gregory D. Schneiderman

Title

Strategy Head - Long/Short Equities & Portfolio Hedge

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Finance and Accounting (Washington University, 1999)
Formerly Director – Head of Absolute Return Manager Research, and Vice President – Senior Research Analyst at Guggenheim Wealth Management (2006-2008); Vice President – Senior Research Analyst and Senior Associate at Morgan Stanley Alternative Investment Partners (2002-2006); and Investment Banking Analyst at A.G. Edwards and Sons, Inc. (1999-2002)
CFA Charterholder
Twelve years industry experience
Joined Aurora Investment Management in 2008

Compensation Structure

N/A

Employees

David E. Kuenzi

Title

Director of Risk Management and Quantitative Research

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2009

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA (Western Michigan University, 1988), MFA (University of Iowa, 1990), MBA (University of Chicago, 2001), MS (University of Chicago, 2004)
Formerly Head of Risk Management and Quantitative Research with Man Investments USA Corp. (Glenwood Capital) (2003-2008); Vice President, Research, Development, and Risk Management with Nuveen Investments (1996-2003); Securities Analyst with Perritt Capital Management (1994-1995); and Adjunct Professor at Grand Valley State University (1991-1993)
CFA Charterholder
Seventeen years industry experience
Joined Aurora Investment Management in 2009

Compensation Structure

N/A

Employees

Anne Marie Morley

Title

Partner, Managing Director of Operational Due Diligence

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Accounting (DePaul University, 1991), MS in Taxation (DePaul University, 2006)
Formerly a Senior Accountant with Grosvenor Partners (1988-1994); Chief Financial Officer of LaSalle Portfolio Management (1994-1995); and Assistant Controller with Edelman Public Relations (1995-1996)
Twenty-three years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Employees

Scott Craven Jones

Title

Chief Operating Officer & Chief Financial Officer

Location

Chicago

Industry Start Year:

1984

Firm Start Year:

2010

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA (Trinity College, 1984), JD (Northwestern University School of Law, 1989)
Formerly Executive Vice President and Chief Administrative Officer with Calamos Investments (2005-2008); Managing Director, Strategic Development (2004-2005), Global Chief Operating Officer – Quantitative Management (2003-2004), Senior Product Manager (2000-2003)with Northern Trust, Global Investments; Vice President and Product Manager (1993-2000), Associate Counsel (1992-1993) with Nuveen Investments; Associate Attorney (1989-1992) with Schiff, Hardin & Waite; and a Commercial Loan Officer with Connecticut National Bank (1984-1986).
CFA Charterholder
Twenty-one years industry experience
Joined Aurora Investment Management in 2010

Compensation Structure

N/A

Additional Manager Detail

Firm: Aurora Investment Management L.L.C.
Product Name: Aurora Offshore Fund Ltd. II

Allocation by Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	34.0%	12.0%	0.0%	0.0%	21.0%	0.0%	0.0%	0.0%	15.0%	18.0%
12/31/2009	37.0%	11.0%	0.0%	0.0%	23.0%	0.0%	0.0%	0.0%	12.0%	17.0%
12/31/2008	42.0%	12.0%	0.0%	0.0%	15.0%	0.0%	0.0%	0.0%	14.0%	17.0%
12/31/2007	45.0%	11.0%	0.0%	0.0%	11.0%	0.0%	0.0%	0.0%	12.0%	21.0%
12/31/2006	48.0%	10.0%	0.0%	0.0%	14.0%	0.0%	0.0%	0.0%	12.0%	16.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$2,100	$8,000	$10,468	$10,468	306	103
12/31/2009	$1,900	$7,200	$9,542	$9,542	204	230
12/31/2008	$1,800	$6,268	$9,053	$9,053	259	137
12/31/2007	$2,900	$9,068	$13,128	$13,128	194	69
12/31/2006	$2,400	$7,175	$9,624	$9,624	168	110

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Year Firm Established	1990
Year First Fund of Funds Launched	1990
Location	New York, NY
Number of Investment Professionals	61
Percentage Employee Owned	74%
Total AUM (millions)	$32,923

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BAAM seeks to build and maintain portfolios diversified across alpha-generating hedge fund managers in order to maximize risk-adjusted returns. BAAM's portfolio management process combines top-down views and bottom-up manager analyses. It has been and will continue to be, shaped by the broad experience of BAAM's investment professionals.

Setting the Strategic Direction: In addition to weekly top-down identification of investment opportunities, BAAM performs ongoing analysis of short- and medium-term risk and expected returns by sector to help form asset allocation decisions and guide research efforts.

Finding Sources of Alpha: Each investment with a hedge fund manager is the culmination of BAAM's investment decision-making process. Managers are selected based upon a disciplined review and due diligence process that incorporates quantitative and qualitative analysis and operational and legal review. The goal is to create a pool of best-in-class managers from which BAAM can draw.

Inclusion in BAAM Portfolios: On a monthly basis, BAAM performs a review of its Funds that incorporates ongoing monitoring of existing investments, as well as the potential integration of newly approved managers. In addition, a variety of analytical approaches are employed throughout the year to monitor and manage risk levels. This includes, but is not limited to, peer group analysis, scenario modeling, stress testing, and beta analysis. Upon completion of BAAM's comprehensive due diligence process, which takes into consideration, among other areas, the macro-economic environment, a manager's strategy / style, track record, operational ability, and business plan, the manager will be sized appropriately according to their risk / return profile and proposed objective within the BAAM Fund.

[illegible]

BAAM's investment process begins with the establishment of an investment strategy, objectives, and restrictions. Areas considered include, but are not limited to, volatility constraints, sector and strategy allocation limits, correlation to various indices, liquidity needs, and relevant regulatory issues.

Asset allocation suggestions are guided by a top-down assessment of opportunities across market sectors and refined to satisfy investment goals and restrictions. A bottom-up approach is then used to determine a combination of underlying hedge fund managers that reflect objectives. Managers are evaluated with respect to their individual performance, as well as their ability to add diversification value to the portfolio.

Further investment strategy analysis includes beta testing, as well as the use of BAAM's portfolio construction and asset allocation models. BAAM also performs scenario analysis and stress testing to help understand possible portfolio reactions in periods of market dislocation.

By the conclusion of the process, policies and procedures are defined and a portfolio is designed that targets the strategy's specific objectives and that reflects BAAM's macro outlook. Allocations to strategies and specific managers are continually reviewed and are dynamic based upon opportunities as they arise.

[illegible]

Blackstone is a publicly traded limited partnership that has common units which trade on the New York Stock Exchange under the symbol "BX". Information about Blackstone, including certain ownership, governance, and financial information, is disclosed in the firm's periodic filings with the SEC which can be obtained from the firm's website at http://ir.blackstone.com/ or the SEC's website at www.sec.gov.

Employees

J. Tomilson Hill

Title

President and Chief Executive Officer of BAAM, Vice Chairman of Blackstone

Location

New York

Industry Start Year:

N/A

Firm Start Year:

1993

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group before assuming his role in BAAM. In his current capacity, Mr. Hill has been responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. He also serves as a member of Blackstone's Management and Executive Committees.

Before joining Blackstone in 1993, Mr. Hill began his career at First Boston, later becoming one of the Co-Founders of the Mergers & Acquisitions Department. After running the Mergers & Acquisitions Department at Smith Barney, he joined Lehman Brothers as a Partner in 1982, serving as Co-Head and subsequently Head of Investment Banking. Later, he served as Co-Chief Executive Officer of Lehman Brothers and Co-President and Co-COO of Shearson Lehman Brothers Holding Inc.

Mr. Hill is a graduate of Harvard College and the Harvard Business School. He is a member of the Council on Foreign Relations where he chairs the Investment Committee, and is a member of the Board of Directors of Lincoln Center Theater, where he serves as Vice Chairman. Mr. Hill serves as Chairman of the Board of Trustees of the Smithsonian's Hirshhorn Museum and Sculpture Garden. He is a member of the Advisory Board of Christie's and the Board of Directors of OpenPeak Inc.

Compensation Structure

N/A

Employees

Stephen Sullens

Title

Head of Portfolio Management for BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2001

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sullens oversees portfolio management for all of BAAM's multi-manager programs. He is responsible for directing the manager research team in hedge fund manager selection and monitoring.

Before joining Blackstone in 2001, Mr. Sullens served as a Director with Citi Alternative Investment Strategies, Citigroup's hedge fund investment center. In that role, he was responsible for manager selection and monitoring, as well as portfolio management. Previously, Mr. Sullens served as Manager of Alternative Investments for The Walt Disney Company, where he directed the company's alternative investment program, including investments in private equity, real estate, venture capital and hedge funds. Prior to his six years at Disney, he was an analyst with Trammell Crow Ventures, a real estate investment advisory firm.

Mr. Sullens received both an MS in Industrial Engineering and a BA in Economics from Stanford University. He has earned the right to use the Chartered Financial Analyst designation.

Compensation Structure

N/A

Employees

Brian Gavin

Title

Chief Operating Officer of BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Gavin leads a cross-functional team charged with evaluating the operational and business risks of BAAM's underlying hedge fund managers. He is responsible for business management, administration, technology, operations and finance of BAAM, and for helping determine the strategic direction and growth of BAAM. He also serves on BAAM's Investment Committee.

Before joining Blackstone in 2002, Mr. Gavin was a Partner in Arthur Andersen's Hedge Fund Advisory and Capital Markets group.

Mr. Gavin received a BS in Accounting from New York University. He is a Certified Public Accountant.

Compensation Structure

N/A

Employees

Halbert Lindquist

Title

Chief Investment Strategist of BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Lindquist focuses on setting BAAM's overall investment strategy and working with investors to structure portfolios to meet their objectives. Additionally, Mr. Lindquist has continuing involvement in all aspects of hedge fund manager evaluation, selection and monitoring, portfolio construction, portfolio management and risk management.

Before joining Blackstone in 1996, Mr. Lindquist was in charge of global risk management and proprietary trading at Bear, Stearns & Co. Inc. Prior to Bear, Stearns, he was employed by Carroll McEntee and McGinley, Inc.

Mr. Lindquist earned both a degree in Business Administration and an MBA from the University of Arizona. Currently, Mr. Lindquist is a Principal of Tucson Asset Management.

Compensation Structure

N/A

Employees

Gideon L. Berger

Title

Head of Risk Management for BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Berger is responsible for hedge fund manager risk analysis, as well as risk monitoring and analysis of the BAAM funds. He serves on BAAM's Investment Committee.

Before joining Blackstone in 2002, Mr. Berger was a founder and President of Ez-Ways, Incorporated, a technology startup, where he also served on the Board of Directors. Prior to that, Mr. Berger was a founder and Principal of a consulting firm specializing in the design and implementation of database and enterprise solutions.

Mr. Berger received a BA in Mathematics and Physics from Vassar College, an MS in Applied Physics from Columbia University and a PhD in Computer Science from the Courant Institute of Mathematical Sciences at New York University.

Compensation Structure

N/A

Employees

John McCormick

Title

Head of Global Business Strategy and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. McCormick works closely with senior management and business group leadership to establish clear strategic priorities for the BAAM business globally and to ensure that those priorities are addressed on an ongoing basis.

Before joining Blackstone in 2005, Mr. McCormick was an associate principal at McKinsey & Company, where he worked with clients in the financial services industry on a wide variety of strategic and operational issues. Before joining McKinsey, Mr. McCormick practiced law in Davis Polk & Wardwell's investment management group, as corporate counsel at Reuters America, and as general counsel and VP of business development for Norbert Technologies. Mr. McCormick also served at the U.S. Department of the Treasury.

Mr. McCormick received a BA from Vassar College and a JD from Yale Law School.

Compensation Structure

N/A

Employees

Eric Perlyn

Title

Vice President, BAAM Investor Relations and Business Development

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2007

Firm End Date:

N/A

Email

perlyn@blackstone.com

Office Phone:

212-583-5957

Cell Phone

N/A

Bio

Since joining Blackstone, Mr. Perlyn has been involved in new business and product development, as well as servicing existing client relationships.

Before joining Blackstone in 2007, Mr. Perlyn worked at Morgan Stanley as an Analyst in the Global Capital Markets Group and then as an Associate in the Wealth Management Investment Strategy and Asset Allocation Group.

Mr. Perlyn received a BA in Economics from Duke University and an MBA with a Concentration in Finance from the Wharton School at the University of Pennsylvania.

Compensation Structure

N/A

Additional Manager Detail

Firm□□lac□stone Alternative Asset Management L□P□
Product Name□□lac□stone Partners Offshore Fund L□P

Allocation □y Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	22.0%	0.0%	23.0%	4.0%	1.0%	0.0%	0.0%	3.0%	9.0%	38.0%
12/31/2009	21.0%	0.0%	18.0%	3.0%	1.0%	0.0%	0.0%	4.0%	11.0%	42.0%
12/31/2008	23.0%	0.0%	22.0%	4.0%	0.0%	0.0%	0.0%	3.0%	7.0%	41.0%
12/31/2007	30.0%	0.0%	19.0%	4.0%	1.0%	0.0%	0.0%	2.0%	6.0%	38.0%
12/31/2006	28.0%	0.0%	18.0%	2.0%	1.0%	0.0%	0.0%	4.0%	5.0%	42.0%

□istorical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$3,106	$10,863	$32,923	$32,923	77	26
12/31/2009	$2,418	$8,470	$27,095	$27,095	29	33
12/31/2008	$2,203	$7,331	$23,085	$23,085	75	24
12/31/2007	$2,124	$7,213	$26,922	$26,922	104	11
12/31/2006	$1,132	$3,445	$14,997	$14,997	47	17

Crestline Offshore Fund

Information [illegible]

Organization

Year Firm Established	1997
Year First Fund of Funds Launched	1997
Location	Fort Worth, TX
Number of Investment Professionals	29
Percentage Employee Owned	90%
Total AUM (millions)	$5,800

Investment Philosophy

Crestline's investment philosophy is that:
- Market inefficiencies exist.
- Harnessing these market inefficiencies can produce attractive returns with low net market exposure.
- Successful investing requires a forward-looking approach, not reliance on prior years' returns.
- Risk management is paramount to long-term performance.

There are three features to our investment approach which we believe are our edge and contribute most to alpha generation:
1. The first is our top-down, forward-looking approach to strategy selection. In an environment where large amounts of capital are attracted to the strategies that performed well last year, we believe the ability to understand the drivers of return going forward enables us to achieve better risk-adjusted returns.
2. The second is manager selection. Sourcing high quality managers is the way we implement our strategy views.
3. The third is our risk management process. Risk management is integral to our investment process and leads us to a well-diversified portfolio of absolute return strategies. Protecting the downside enables the portfolio to grow and compound over time.

Investment Process

Our first step in the investment process is to evaluate the prospects for each of the hedge fund strategies. Our research team is comprised of strategy specialists who are responsible for identifying the opportunities within their strategy, quantifying the projected risk/reward and ranking the strategy. In constructing our portfolios, we draw heavily from strategies that we believe tend to have lower volatility and a demonstrated alpha.

The first step in the evaluation of a fund is a high level "Quick Look" analysis which will provide basic information on the fund including returns, strategy description, manager background and basic risk statistics.

The fund then moves to the Research stage and the analyst team will gather marketing materials, set up a call or an office meeting with the manager, begin reference checking, and perform a quantitative analysis of returns (conducted by Crestline's risk team).

When we move a manager into the due diligence process, we have done enough preliminary work to know whether we like the basic fundamentals of the manager, the strategy, the returns and the risk profile. Based on that information, the goal of our due diligence process is to find a reason not to invest with the manager.

Ownership Structure

Crestline Investors, Inc., a Delaware corporation, serves as the general partner of Crestline Management, L.P. and Crestline Associates, L.P., both Delaware limited partnerships. Crestline Management, L.P. is a federally registered investment adviser and serves as the investment manager to the domestic and offshore investment funds. Crestline Associates, L.P. serves as the general partner of the domestic limited partnership investment funds. As products were added within the past year, Crestline Offshore Associates, Ltd. began to serve as the general partner of offshore limited partnership investment funds. Crestline Management, L.P., Crestline

Associates, L.P., Crestline Offshore Associates, Ltd. and Crestline Investors, Inc. are collectively referred to herein as Crestline Investors, Crestline or the Firm.

The Firm is an employee-owned firm. Doug Bratton, Caroline Cooley, John Cochran, and Martin Bowen (a non-operating partner) are the principal owners. Additionally, Crestline shares ownership via phantom equity and profit sharing participation with its employees. Director-level professionals, along with minority principal owners, have phantom equity ownership and also participate in profit sharing of the Firm.

Employees

Doug Bratton

Title

President / CIO

Location

Fort Worth

Industry Start Year:

1984

Firm Start Year:

1997

Firm End Date:

N/A

Email

dbratton@crestlineinc.com

Office Phone:

817-390-8796

Cell Phone

N/A

Bio

Mr. Bratton is founder and majority owner of Crestline Investors, Inc., the general partner of Crestline Management, L.P. & Crestline Associates, L.P., the investment manager and general partner, respectively, of the Crestline fund of funds products. He is the Chair of the Investment and Executive Committees. Mr. Bratton has been an investment professional with organizations utilizing alternative asset strategies since 1983. He has extensive experience in hedge fund management, multi-strategy portfolio construction, private equity and venture capital. Mr. Bratton has specific expertise in absolute return arbitrage strategies, having started his career in this business and later managed arbitrage groups. Since 1989, Mr. Bratton has managed portfolios using these alternative asset strategies on behalf of organizations associated with the Bass family. During this period, he has also negotiated hedge fund related joint ventures for Bass entities. These include: lift-outs of proprietary trading groups in merger arbitrage and convertible arbitrage ultimately employing $500 mm in capital; a collateralized loan obligation group managing $3 billion in bank loans; and an experienced distressed securities group. In addition, Mr. Bratton negotiated a $1 billion active investing joint venture. Since 1997, he has been President of Crestline Investors, Inc. Prior to founding Crestline Investors, he spent six years with Taylor & Company, an investment organization associated with members of the Bass family. From 1989 to 1991, Mr. Bratton was a partner of the Airlie Group, L.P. where he managed the merger arbitrage and special situation portfolio. From 1988 to 1989, Mr. Bratton was employed by Investment, L.P. (the predecessor firm of the Airlie Group) as a partner in the Merger Arbitrage group. From 1984 to 1988, Mr. Bratton served as Vice President in the Merger Arbitrage group for Smith Barney Harris Upham and Company. Mr. Bratton received a B.S. from North Carolina State University in 1981 and a Masters of Business Administration with Honors from Duke University in 1984.

Compensation Structure

Salary, fixed bonus and profits interest

Crestline Investors, Inc.

Information Effective As Of 12/31/2010

Employees

Caroline Cooley

Title

Senior Portfolio Manager

Location

Fort Worth

Industry Start Year:

1985

Firm Start Year:

1998

Firm End Date:

N/A

Email

ccooley@crestlineinc.com

Office Phone:

817-339-7377

Cell Phone

N/A

Bio

Ms. Cooley is the senior portfolio manager in charge of our low volatility funds and leads the portfolio management team. She is a member of the Executive Committee. Ms. Cooley has over 25 years of experience in the investment industry, focusing almost exclusively in the absolute return arena. She has significant experience in proprietary trading as well as hedge fund risk management. Prior to joining the firm in April 1998, Ms. Cooley was a Managing Director for Culmen Group, L.P., an investment firm based in Fort Worth. From 1986 to 1997 she was an investment professional with Taylor & Company where she was active in equity derivatives and fixed income arbitrage. She has experience trading securities in both the U.S. and international markets. In addition, Ms. Cooley was responsible for the risk management of the various absolute return strategies employed by Taylor & Company, including monitoring and hedging equity, currency and interest rate exposure. Ms. Cooley began her career in the investment industry at Manufacturers Hanover Trust Company in New York and Chicago after receiving her B.A. in Economics from The College of William and Mary in 1983.

Compensation Structure

Salary, discretionary bonus and profits interest

Employees

John Cochran

Title

Chief Administrative Officer

Location

Fort Worth

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

jcochran@crestlineinc.com

Office Phone:

817-339-7379

Cell Phone

N/A

Bio

Mr. Cochran serves as the Chief Financial Officer/Chief Administrative Officer and manager of the firm's operational due diligence efforts for Crestline's fund of funds products. He is a member of the Executive Committee. Mr. Cochran has 22 years experience in various segments of the investment industry including private equity, venture capital and hedge funds. Prior to joining the firm in October 1998, he spent 10 years with KPMG L.L.P. ("KPMG"). During his employment at KPMG, Mr. Cochran received extensive industry experience through his position as an auditor and focus in the Merger and Acquisition area. During his tenure at KPMG, a majority of his time was spent working with various hedge funds, investment companies, private equity firms, venture capital groups and broker dealers. Mr. Cochran is a CPA and received a B.B.A. in Accounting from Texas Christian University in 1987.

Compensation Structure

Salary, discretionary bonus and profits interest

Additional Manager Detail

Firm: Crestline Investors, Inc.
Product Name: Crestline Offshore Fund

Allocation by Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	23.0%	0.0%	2.0%	5.0%	9.0%	2.0%	0.0%	4.0%	2.0%	53.0%
12/31/2009	19.5%	0.0%	1.8%	2.6%	6.2%	4.6%	0.0%	3.4%	3.5%	58.5%
12/31/2008	19.3%	0.0%	1.9%	2.0%	6.5%	6.2%	0.0%	1.3%	4.1%	58.5%
12/31/2007	19.6%	0.0%	1.6%	4.1%	11.3%	5.4%	0.0%	1.4%	6.2%	50.4%
12/31/2006	17.1%	0.0%	0.9%	3.4%	10.5%	5.1%	0.0%	3.1%	11.1%	48.7%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$526	$2,805	$5,800	$5,800	17	36
12/31/2009	$499	$3,239	$5,500	$5,500	18	78
12/31/2008	$550	$2,520	$3,600	$3,600	93	13
12/31/2007	$585	$2,950	$4,300	$4,300	82	11
12/31/2006	$370	$1,950	$2,500	$2,500	49	20

Grosvenor Institutional Partners

Information Effective as of [illegible]

Organization

Year Firm Established	1971
Year First Fund of Funds Launched	1971
Location	Chicago, IL
Number of Investment Professionals	42
Percentage Employee Owned	70%
Total AUM (millions)	$24,045

Investment Philosophy

Grosvenor believes a properly constructed portfolio of proven alternative investment strategies, implemented by a carefully selected combination of talented investment managers, can produce competitive absolute returns and superior risk-adjusted returns with limited correlation to traditional equity and fixed income markets. Grosvenor implements this philosophy by: investing in absolute return strategies; allocating capital to superior investment managers; and systematically diversificating of portfolios.

Investment Process

Grosvenor begins by establishing an investment policy and target strategy weightings for every portfolio. The Portfolio Managers select managers from an approved list, with selection driven by style, correlation, liquidity considerations and capacity. Typically, more than one manager is included for each strategy to take advantage of style differences, mitigate manager risk, and provide for future capacity.

The portfolio is statistically measured on both a historical and forward-looking basis. The historical simulation uses actual returns over a specific time period. The forward-looking analysis evaluates expected return, standard deviation, Severe Case Loss (SCL), and beta to S&P 500 of the portfolio.

The resulting portfolio is compared to its formal investment policy to ensure compliance. While Grosvenor does not attempt to "time" the market, but portfolios are frequently adjusted as new investment opportunities present themselves, as capital flows into or out of the portfolio or as managers are terminated.

Ownership Structure

Grosvenor's ownership structure is split between certain senior employees of the Firm and three investment funds (the "H&F Funds") under the management of Hellman & Friedman LLC ("H&F"), a private equity investment firm. The H&F Funds indirectly own, in the aggregate, approximately 30% of Grosvenor. The remainder is owned indirectly by Grosvenor Holdings, LLC, an entity whose members are certain senior employees of the Firm. The H&F Funds are passive investors in Grosvenor and are not involved in the day-to-day management of Grosvenor.

Employees

Michael J. Sacks, Esq.

Title

Chief Executive Officer, Managing Director

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sacks joined the firm in 1990 and is the firm's Chief Executive Officer. In addition to his management responsibilities, Mr. Sacks shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1988 through 1990, Mr. Sacks was associated with Harris Associates, L.P. Mr. Sacks graduated with his Bachelor of Arts in Economics from Tulane University in 1984 and received two degrees from Northwestern University in 1988: his Masters of Business Administration from the J.L. Kellogg Graduate School of Management and his Juris Doctorate from the School of Law. He is a member of the Illinois Bar.

Compensation Structure

Confidential.

Employees

David B. Small

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1987

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Small was a Consultant to Grosvenor from 1987 to 1993 and joined the firm full-time in 1994. He shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. Prior to joining Grosvenor, Mr. Small was the Founder and Chief Executive Officer of David Bruce & Co., a software firm specializing in the development of risk management systems for derivatives trading firms, from 1987 through 1994. From 1979 to 1982, Mr. Small was associated with Philadelphia Insurance Research Group, and from 1978 to 1979, he was associated with Rapidata. Mr. Small received his Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania in 1978 and his Masters of Business Administration in Finance and Econometrics from the University of Chicago's Booth School of Business in 1985.

Compensation Structure

Confidential.

Employees

David S. Richter, CPA

Title

Managing Director - Investments, Chairman of Investment Committee

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Richter has been affiliated with Grosvenor since 1994 and has been in his current role since 2003. Mr. Richter is the Chairman of the Firm's Investment Committee and a Portfolio Manager. Mr. Richter supervises the Team Leaders within the Investments Department and shares responsibility for evaluation, selection, and monitoring of various investment strategies and managers. From 1994 through 2002, he was the Founder and Managing Partner of Chicago-based Waveland Capital Management, L.P., a U.S. long-short equity hedge fund. From 1988 to 1994, Mr. Richter was a Vice President of JMB Realty Corporation in the Corporate Acquisitions Group. Prior to 1988, Mr. Richter was a Manager of KPMG Peat Marwick. He graduated summa cum laude with his Bachelor of Science in Accountancy from the University of Illinois in 1983. Mr. Richter is a Certified Public Accountant and received the national AICPA Elijah Watt Sells Award from the American Institute of CPA's for his scores on the Uniform CPA Examination.

Compensation Structure

Confidential.

Employees

Brian A. Wolf, CFA

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Wolf joined the firm in 1995 and shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1993 to 1995, he was an Analyst and Trader for M&M Financial, a Chicago-based money management firm. He graduated summa cum laude with his Bachelor of Science in Finance from Bradley University in 1992 and earned his Masters of Business Administration magna cum laude from the University of Notre Dame in 1993. Mr. Wolf is a CFA Charterholder and a member of the CFA Society of Chicago. Mr. Wolf is also the author of a chapter on hedged equity funds in the publication "Hedge Funds: Definitive Strategies and Techniques".

Compensation Structure

Confidential.

Employees

Paul Meister, Esq., CPA

Title

Chief Operating Officer, Chairman of the Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1991

Firm Start Year:

1991

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Meister joined the firm in 1991 and is the firm's Chief Operations Officer. In addition, Mr. Meister serves as Chair of the firm’s Operations Committee. From 1987 to 1991, Mr. Meister was with the law firm of Barack, Ferrazzano, Kirschbaum & Perlman, except for a 12 month period from 1990 to 1991, when he managed the real estate operations for Sportmart, a Chicago-based retailer. He received his Bachelor of Science in Accounting from the University of Illinois in 1984 and his Juris Doctorate cum laude from Northwestern University School of Law in 1987, where he was a member of the Law Review and Order of the Coif. Mr. Meister is a Certified Public Accountant and a member of the Illinois Bar. Since 2000, Mr. Meister has served on the Law Board of Northwestern University School of Law and is currently a Vice Chair of its Executive Committee.

Compensation Structure

Confidential.

Employees

Eric Felton, CFA, CPA

Title

Chief Financial Officer, Member of Operations Committe, Managing Director

Location

Chicago

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Felton joined the firm in 2004 and is the firm's Chief Financial Officer. From 2002 to 2004, Mr. Felton was a Partner in the Financial Services Industry Practice for Ernst & Young, L.L.P. in their Chicago office. From 1986 to 2002, he was a Partner with Arthur Andersen, L.L.P. in their Chicago office. He graduated with High Distinction from Valparaiso University with his Bachelor of Science in Accounting in 1986, and earned his Masters of Business Administration with Honors from the University of Chicago in 1992. Mr. Felton is a Certified Public Accountant and a CFA Charterholder. He is a member of the American Institute of Certified Public Accountants, The Illinois CPA Society, the CFA Institute, and the CFA Society of Chicago.

Compensation Structure

Confidential.

Employees

Joseph H. Nesler, Esq.

Title

Chief Compliance Officer, General Counsel, Member of Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1982

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Nesler joined the firm in 2004 and serves as Grosvenor's General Counsel and Chief Compliance Officer. Prior to joining Grosvenor, Mr. Nesler practiced at Gardner, Carton & Douglass for two years. From 1996 to 2002, he served as a Partner in the Investment Products and Derivatives Group at Sidley Austin Brown & Wood, L.L.P. Between 1986 and 1996, Mr. Nesler practiced with Schiff Hardin & Waite in Chicago. From 1982 to 1986, he was an Associate with Gardner, Carton & Douglas. Mr. Nesler graduated magna cum laude from Amherst College in 1978 and received his Juris Doctorate from Yale University in 1982. He is a member of the Chicago Bar Association and former Co-Chairman of the subcommittee of its securities law committee on investment company regulation.

Compensation Structure

Confidential.

Employees

Joseph D. Gutman, CPA

Title

Managing Director - Client Group

Location

Chicago

Industry Start Year:

1981

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Gutman joined Grosvenor in 2005 and is responsible for overseeing its business development and client services operations. From 1981 through 2002, Mr. Gutman was associated with Goldman, Sachs & Co. in various capacities. From 1996 through 2002, Mr. Gutman was a Partner of Goldman, and from 1998 to 2002 a Managing Director. From 1997 through 2002, Mr. Gutman was Co-Head of Goldman's Chicago office. From 1994 through 2002, Mr. Gutman was also head of Goldman's Institutional Equities business in the Midwest and shared responsibility on the leadership team of Goldman's US Shares Business. Mr. Gutman received a B.S. in Accounting from the University of Illinois in 1979 and an M.B.A. in Finance from Northwestern University's J.L. Kellogg Graduate School of Management in 1981. Mr. Gutman is a member of the Kellogg Alumni Advisory Council of the J.L. Kellogg Graduate School of Management, a member of the Board of Overseers at the University of Illinois College of Business M.B.A. program, a member of the Illinois Executive Board of the AIPAC and a member of the Board of Directors of Children's Memorial Hospital of Chicago and The Make a Better Place Foundation. He is a Certified Public Accountant.

Compensation Structure

Confidential.

Employees

Stephen J. Brewster

Title

Managing Director - Business Development

Location

Chicago

Industry Start Year:

1985

Firm Start Year:

1991

Firm End Date:

N/A

Email

sbrewster@gcmlp.com

Office Phone:

312-506-6525

Cell Phone

N/A

Bio

Mr. Brewster joined the firm in 1991 and shares responsibility for business development. From 1985 to 1991, Mr. Brewster was associated with JMB Realty Corporation. In 1988, he became Vice President of JMB Institutional Realty Corporation responsible for marketing to U.S. institutional investors. Prior to joining JMB, Mr. Brewster was Staff Assistant to the Under Secretary of the U.S. Department of Housing and Urban Development from 1984 to 1985. He received his Bachelor of Arts with Honors in Economics from Williams College in 1984.

Compensation Structure

Confidential.

Additional Manager Detail

Firm: Grosvenor Capital Management, L.P.
Product Name: Grosvenor Institutional Partners, L.P.

Allocation by Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	35.6%	1.7%	0.0%	0.0%	0.0%	1.1%	0.0%	0.0%	4.6%	57.0%
12/31/2009	35.3%	2.4%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	61.1%
12/31/2008	25.1%	5.9%	0.0%	0.0%	0.0%	2.5%	0.0%	0.0%	0.0%	66.5%
12/31/2007	37.9%	6.2%	0.0%	0.0%	0.0%	3.2%	0.0%	0.0%	0.0%	52.7%
12/31/2006	39.4%	3.1%	0.0%	0.0%	0.0%	3.8%	2.4%	0.0%	0.0%	51.3%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$6,312	$19,374	$24,045	$24,045	59	34
12/31/2009	$5,619	$19,914	$22,635	$22,635	58	35
12/31/2008	$4,660	$18,675	$20,474	$20,474	120	38
12/31/2007	$5,039	$23,642	$25,322	$25,322	118	30
12/31/2006	$3,089	$17,595	$18,840	$18,840	86	37

Mesirow [illegible] International [illegible] Strategies [illegible]

[illegible]

Organization

Year Firm Established	1990
Year First Fund of Funds Launched	1990
Location	Chicago, IL
Number of Investment Professionals	42
Percentage Employee Owned	93%
Total AUM (millions)	$13,628

Investment Philosophy

We believe: (1) Investment management and risk management are inseparable endeavors, (2) Differentiating skill from luck is the foundation for sustainable value-added investment results, (3) Our independent verification processes are paramount to successful hedge fund investing, (4) Investment opportunities ebb and flow across geographies, strategies and sectors requiring dynamic allocation of capital, and (5) Incentive alignment is critical to investment and organizational success.

Investment Process

Prospective managers undergo detailed due diligence by our qualitative, quantitative, and operational due diligence professionals. We research managers across a number of areas including organizational structure, investment process, portfolio construction, and risk management. Our Investment Committee makes final decisions relating to manager hiring/redemption.

Portfolio construction is a combination of qualitative and quantitative tools. Our quantitative approach involves three steps: first, we model portfolios based on strategy and style characteristics. Second, we allocate to managers within the strategy groups. Finally, we apply qualitative analysis to this process, which focuses on identifying other characteristics to potentially modify asset allocation.

In regard to risk controls, we have developed various proprietary quantitative systems and would be happy to discuss these with you. We monitor a variety of exposures (individual manager and fund level) including gross/net, sector, market capitalization, regional, and exposure by asset class. We closely monitor aggregate leverage and liquidity as well.

Ownership Structure

MAS is a wholly-owned subsidiary of Mesirow Financial Holdings, Inc. (MFHI), a privately-owned firm with approximately 93% of the ownership interests held by active employees of MFHI as of 12/31/2010. All senior principals of MAS own shares in MFHI.

Employees

Marty Kaplan

Title

Chief Executive Officer

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Marty Kaplan is the chief executive officer of Mesirow Advanced Strategies, Inc., and a member of its investment and executive committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. Mr. Kaplan is responsible for developing and implementing key strategic initiatives for the business, including client service, new product development and building the operational infrastructure. In addition, he focuses on developing and implementing key strategic initiatives for Mesirow Advanced Strategies, Inc. Since 1995, Mr. Kaplan has helped coordinate the group's management and strategic initiatives, and has been active in leading the research function. Prior to joining Mesirow Advanced Strategies, Inc. in 1995, he was an attorney with the law firm of Katten Muchin & Zavis, where he specialized in matters involving securities, mergers and acquisitions, venture capital and sports law. Mr. Kaplan received a B.B.A. in finance and real estate from the University of Texas at Austin and a J.D. from George Washington University - National Law Center. Mr. Kaplan was admitted to the Illinois Bar in 1993.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Steve Vogt

Title

Chief Investment Officer

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

1999

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Stephen Vogt is the chief investment officer of Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. Dr. Vogt is responsible for overseeing all aspects of research including portfolio management, risk management, manager due diligence and manager monitoring. He is also active in managing the day to day operations of Mesirow Advanced Strategies, Inc. Prior to joining Mesirow Advanced Strategies, Inc. in 1999, he was an associate professor of finance at DePaul University. Dr. Vogt's research focused on empirical tests of financial theories and has been published in both academic and trade journals. He received a B.A. in economics and mathematics from Bemidji State University, and M.A. and Ph.D. degrees in economics from Washington University-St. Louis.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Howard Rossman

Title

Chairman

Location

Chicago

Industry Start Year:

1980

Firm Start Year:

1985

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Howard Rossman is the chairman and founder of Mesirow Advanced Strategies, Inc., and a member of the executive and investment committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings, Inc.'s executive committee and board of directors. He is also a vice chairman of the parent company. Dr. Rossman is responsible for developing and overseeing the strategic direction of the company with regard to research, asset allocation and client management. Since 1983, he has been responsible for providing institutional consulting and advisory services in the area of non-traditional investments and has developed funds utilizing alternative strategies. As the author of many articles on alternative strategies, he has spoken at conferences on non-traditional investing and asset allocation. Dr. Rossman received an A.B. in sociology from Princeton University, an M.A. from the University of Oregon and a Ph.D. from The California Institute of Integral Studies.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Brian Cornell

Title

Senior Managing Director, Office of the Chairman

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1998

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Brian Cornell is a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the investment committee. He is responsible for strategic planning for the business and coordinating special research projects for the CEO and CIO, as well as actively participating in strategic business development efforts. In addition, Mr. Cornell contributes to all aspects of fund management and product development. Prior to joining Mesirow Advanced Strategies, Inc. in 1998, he developed fixed income arbitrage models, managed his own investment firm and built research departments at several organizations in the hedge fund of funds industry. Mr. Cornell received a B.A. in government and economics from Clark University and studied international economics and finance at the Patterson School at University of Kentucky.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Mesirow Advanced Strategies, Inc.

Information Effective As Of 12/31/2010

Employees

Tom Macina

Title

President

Location

Chicago

Industry Start Year:

1992

Firm Start Year:

2003

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Thomas Macina is president of Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. Prior to joining Mesirow Advanced Strategies, Inc. in 2003, Mr. Macina was with a multi-strategy hedge fund where he was responsible for investments in a variety of sectors. Prior to joining the hedge fund industry, he worked in strategy consulting with Bain & Company and in investment banking with Houlihan, Lokey, Howard and Zukin, Inc. Mr. Macina received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the J.L. Kellogg Graduate School of Management at Northwestern University. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Eric Siegel

Title

Senior Managing Director

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

2001

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Eric Siegel is a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. He is responsible for overseeing the implementation of business ideas and improvements within the various operating groups of Mesirow Advanced Strategies, Inc. Mr. Siegel is also responsible for the operational due diligence reviews of managers and participates in portfolio analysis and ongoing manager monitoring. Prior to joining Mesirow Advanced Strategies, Inc. in 2001, he was the chief financial officer of two Chicago based hedge funds. Mr. Siegel also worked in the audit department of Ernst & Young LLP focusing on hedge funds, mutual funds and derivative trading companies. He received a B.S. cum laude in accounting from Syracuse University. In addition, Mr. Siegel is a CFA charterholder and a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Karl Frey

Title

Senior Managing Director

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2003

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Karl Frey is a senior managing director for Mesirow Advanced Strategies, Inc. and a member of the executive committee. He is responsible for the firm's client management activities, including business development and client service functions. Prior to joining Mesirow Advanced Strategies, Inc. in 2003, Mr. Frey had senior marketing and business development responsibilities within the capital markets group of ABN AMRO Incorporated. Mr. Frey received a B.S.B.A. in accounting from Ohio State University and an M.B.A. from the Anderson School at UCLA. In addition, he is a Certified Public Accountant (CPA) and CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Carolyn Burke

Title

Managing Director, Chief Financial Officer

Location

Chicago

Industry Start Year:

1989

Firm Start Year:

2009

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Carolyn Burke is a managing director and chief financial officer for Mesirow Advanced Strategies, Inc., and a member of the executive and operating committee. In this capacity, she is responsible for managing and overseeing all aspects of the firm's accounting and internal fund management activities. Prior to joining Mesirow Advanced Strategies, Inc. in 2009, Ms. Burke was a managing director and Chief Administrative Officer with UBS Global Asset Management where she was responsible for managing the business operations for the Global Fixed Income team. Previously, Ms. Burke was a director with Brinson Partners. She received a B.A. in accounting from the University of Notre Dame and an M.B.A. from the University of Chicago. In addition, Ms. Burke is a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Greg Robbins

Title

Senior Managing Director, General Counsel

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Greg Robbins is the general counsel and a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the executive and operating committees. He is responsible for the legal affairs of Mesirow Advanced Strategies, Inc., including providing legal advice with respect to all aspects of its business, directing relationships with external counsel and assisting in maintaining its operations in compliance with relevant legal and regulatory requirements. Prior to joining Mesirow Advanced Strategies, Inc. in 2008, Mr. Robbins was a partner in the Investment Funds, Advisers and Derivatives group at Sidley Austin LLP, where he specialized in providing legal advice to hedge fund managers and participants in the derivatives industry with respect to all aspects of their business and operations. Just after law school, and prior to joining Sidley, he clerked for the Honorable Robert H. Henry on the U.S. Tenth Circuit Court of Appeals, and before law school he worked as a legislative assistant for U.S. Senator David L. Boren. Mr. Robbins received his B.A. from Yale University in 1991 and his J.D. (cum laude, Order of the Coif) from the University of Wisconsin in 1997.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Heather Wilken Byers

Title
Vice President

Location
Chicago

Industry Start Year:
1993

Firm Start Year:
2007

Firm End Date:
N/A

Email
hbyers@mesirowfinancial.com

Office Phone:
312-595-7982

Cell Phone
773-677-2049

Bio
Heather Wilken Byers is a vice president for Mesirow Advanced Strategies, Inc. She assists in the firm's marketing efforts, client service and business development across North America. Prior to joining Mesirow Advanced Strategies, Inc. in 2007, Ms. Byers was a senior investment relationship manager with Northern Trust Global Investments where she was responsible for business development and client service. Ms. Byers received a B.A. in finance from the University of Illinois at Urbana-Champaign. In addition, she is a CFA charterholder.

Compensation Structure
We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Mark Kulpins

Title

Managing Director

Location

Chicago

Industry Start Year:

1997

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Mark Kulpins is a managing director and director of manager research for Mesirow Advanced Strategies, Inc., and a member of the investment committee. He is responsible for providing leadership and management to the strategy-focused research teams with respect to investment and underlying manager considerations. Mr. Kulpins also shares responsibility with the chief investment officer for various aspects of portfolio construction, portfolio risk management and strategy analysis. Prior to joining Mesirow Advanced Strategies, Inc. in 2004, he worked in the equity research department at William Blair & Company and also worked for Brinson Partners, Inc. Mr. Kulpins received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the University of Chicago. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Additional Manager Detail

Firm□Mesiro□ Advanced Strategies□Inc□

Product Name□Mesiro□ Institutional Multi-Strategy Fund□L□P□MIMSF□

Allocation □y Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	22.7%	3.7%	0.0%	0.0%	30.9%	2.1%	0.0%	0.0%	2.8%	37.9%
12/31/2009	34.4%	5.0%	0.0%	0.0%	25.0%	2.6%	0.0%	0.0%	0.0%	33.0%
12/31/2008	30.9%	8.7%	0.0%	0.0%	21.9%	0.0%	0.0%	0.0%	0.0%	38.5%
12/31/2007	36.4%	5.7%	0.0%	0.0%	17.7%	0.0%	0.0%	0.0%	0.0%	40.2%
12/31/2006	33.1%	3.9%	0.0%	0.0%	13.5%	2.6%	0.0%	0.0%	0.0%	46.9%

□istorical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$1,277	$7,572	$13,628	$13,628	43	78
12/31/2009	$1,034	$6,793	$11,961	$11,961	30	56
12/31/2008	$724	$8,692	$11,982	$11,982	28	46
12/31/2007	$672	$10,912	$16,046	$16,046	35	18
12/31/2006	$468	$8,519	$12,426	$12,426	32	31

[illegible]

[illegible]

Organization

Year Firm Established	2000
Year First Fund of Funds Launched	2000
Location	Irvine, CA
Number of Investment Professionals	44
Percentage Employee Owned	73%
Total AUM (millions)	$9,869

Investment Philosophy

We are active managers and believe in active investment management.

We focus on returns which are expected/targeted to be independent of traditional markets and we build portfolios which aim to diversify sources of idiosyncratic returns.

We believe we must be open to new investment ideas—many new markets, managers, and securities offer attractive alpha opportunities.

We believe we need to be flexible and creative to outperform; experienced individuals, held accountable for their results, make better investment decisions than committees.

We believe investment decisions should be based on independent, fundamental assessments—position-level transparency gives us a solid base for our understanding.

We believe investment costs should be aggressively managed. We attempt to avoid conflicts and maintain the highest ethical standards in evaluating investment opportunities.

Investment Process

PAAMCO's investment process for each of the eight sectors in which it invests is driven by a senior Sector Specialist and team with extensive investment and academic experience in the sector. The team is charged with identifying hedge fund managers in their sector, conducting due diligence, negotiating terms and then monitoring the managers on an ongoing basis.

PAAMCO's portfolio construction process integrates bottom-up manager selection with top-down strategy allocation and risk monitoring. The Strategy Allocation Committee (SAC) is responsible for providing allocation recommendations to the Investment Management Committee (IMC). PAAMCO's IMC ultimately determines the portfolio's strategy allocation which is formally reviewed quarterly. The lead Account Manager for a fund may tailor the strategy and/or manager allocations to reflect a client's specific risk/return objective.

PAAMCO's risk management process relies on position-level transparency and encompasses both traditional statistical models and proprietary behavioral models.

Ownership Structure

The Firm's operating entity is Pacific Alternative Asset Management Company, LLC ("PAAMCO LLC"), a California Limited Liability Company founded in 2000. In 2003, PAAMCO LLC formed a subsidiary based in London, Pacific Alternative Asset Management Co. Europe LLP ("PAAMCO Europe"), which is a Limited Liability Partnership. In 2006, PAAMCO LLC launched a second subsidiary based in Singapore, Pacific Alternative Asset Management Company Asia Pte. Ltd. ("PAAMCO Asia"), which is a Private Limited Company. In 2003, the four founding partners contributed their membership interests in PAAMCO LLC into a separate company called PAAMCO Founders Co., LLC ("Founders"). PAAMCO LLC is directly owned by Founders and 7 US-based senior employees; 3 non-US senior employees hold ownership interests in their respective PAAMCO

entity (PAAMCO Europe or PAAMCO Asia) and have compensation tied to the performance of PAAMCO LLC. Thus, Founders has a 68% economic interest and a 76.25 % voting interest in PAAMCO LLC; the remaining economic interest is held by the other 10 senior employee Partners.

As a result of a judgment entered recently in a case filed by companies controlled by S. Donald Sussman, Founders has issued a Membership Interest Certificate (dated as of January 11, 2010) to Franklin Realty Holdings, LLC ("Franklin") reflecting a 40% membership interest in Founders (not PAAMCO). The issuance by Founders of a Membership Interest Certificate to Franklin does not change the day-to-day management of PAAMCO, the business plans of the Firm or decisions made by PAAMCO on behalf of its clients. Moreover, the founding partners together constitute a supermajority of the members of Founders (60%), are the managers of Founders, and as a result together effectively control Founders.

Employees

Kemmy Koh

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Singapore

Industry Start Year:

2001

Firm Start Year:

2001

Firm End Date:

N/A

Email

kkoh@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

Kemmy Koh, MBA, CFA is a Managing Director and the Sector Specialist responsible for the evaluation and management of Asian long/short equity hedge funds in the various PAAMCO portfolios. Kemmy is also a Director of Pacific Alternative Asset Management Company Asia Pte Ltd. (Singapore). She is a member of the Investment Management and Risk Management Committees and previously served as the firm's Research Manager. She spent the summer of 2000 at the firm as a summer intern and joined PAAMCO full time in the summer of 2001. Prior to joining PAAMCO, Kemmy was a credit analyst for Banque Nationale de Paris (Singapore) and Development Bank of Singapore (Singapore) where she developed an extensive background in security and portfolio analysis. Kemmy graduated from the National University of Singapore with a Bachelor of Business Administration and received her M.B.A. from the University of California, Irvine. Kemmy has nine years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

David Walter

Title

Director, Sector Specialist Pan Asia Portfolio Solutions

Location

Singapore

Industry Start Year:

1987

Firm Start Year:

2010

Firm End Date:

N/A

Email

dwalter@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

David Walter, MA is a Director in PAAMCO's Portfolio Management Group based in the firm's Singapore office. He is responsible for Asian focused investments and acts as Head of Research for Asia and the Pan Asia Portfolio Solutions' funds. Prior to joining PAAMCO, David performed a similar role for KBC Alpha Asset Management. Before KBC, he co-founded Arbiter Fund Managers where he established and managed a dedicated Japanese long/short equity fund. Previously, David worked at London and Oxford Capital Markets establishing and running a Japan-focused multi-strategy fund. Prior to that he was Head of Japanese Equity Product at Sanwa International Securities. David began his professional career in 1987 at Barings Far East Securities where he was employed as a Japanese convertible and warrant trader. He has twenty-four years of investment management experience. David graduated from Christ Church, Oxford with an MA (Hons) degree in Modern History.

Compensation Structure

salary, plus bonus

Employees

Philippe Jorion

Title

Managing Director, Risk Management

Location

Irvine

Industry Start Year:

1983

Firm Start Year:

2006

Firm End Date:

N/A

Email

pjorion@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Philippe Jorion, MBA, PhD is a Managing Director in the Risk Management Group and is responsible for developing and implementing PAAMCO's offensively directed risk management concepts. He also oversees the PAAMCO infrastructure employed in evaluating individual hedge funds from a position level perspective, risk at the level of the various sectors as well as the risk structure of the overall PAAMCO portfolio. Philippe's work also includes developing approaches to evaluating new securities and new markets. Philippe is a member of the Risk Management and Strategy Allocation Committees. He also serves as the Chancellor's Professor of Finance at the Paul Merage School of Business at the University of California at Irvine. He is a frequent speaker at academic and professional conferences; and is on the editorial boards of a number of finance journals. Philippe has authored more than 90 publications on the topic of risk management and international finance. Some of his most notable work includes the Financial Risk Manager Handbook (Wiley 5th ed. 2009), which provides the core body of quantitative methods and tools for financial risk managers; Big Bets Gone Bad: Derivatives and Bankruptcy in Orange County (Academic Press 1995), the first account of the largest municipal failure in U.S. history; and Value at Risk: The New Benchmark for Managing Financial Risk (McGraw-Hill 3rd ed. 2006), the first definitive book on VAR. Philippe holds an M.B.A. and a Ph.D. from the University of Chicago and a degree in engineering from the University of Brussels. Philippe has twenty-seven years of experience in risk management and international finance.

Compensation Structure

salary, plus % of firm profits

Employees

Erik Bernhardt

Title

Director, Portfolio Manager – Commingled Funds

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2003

Firm End Date:

N/A

Email

ebernhardt@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Erik Bernhardt, MBA, CFA is a Director working in both Portfolio Management and Account Management. He serves as the Portfolio Manager for the firm’s commingled funds, supervising overall portfolio construction as well as supporting the funds’ clients. He is also a member of the firm’s Strategy Allocation Committee which focuses on assessing the impact of asset allocation and accompanying risk at the hedge fund and overall portfolio levels. From October 2005 until February 2008, Erik was located in the firm’s London office where he researched managers within the European credit space. He also was responsible for developing relationships with prospective clients and co-managing the firm’s European institutional investor base. Prior to joining PAAMCO, Erik was a Senior Consulting Associate at Cambridge Associates, an investment-consulting firm, where he conducted in-depth studies on asset allocation and portfolio construction. Erik graduated with highest honors from Principia College in St. Louis with a B.A. in Business Administration and History and received his M.B.A. from the Anderson School of Business at the University of California, Los Angeles.

Compensation Structure

salary, plus bonus

Employees

Kevin Williams

Title

Managing Director, Investment Operations

Location

Irvine

Industry Start Year:

2000

Firm Start Year:

2000

Firm End Date:

N/A

Email

kwilliams@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Kevin Williams, MBA, CFA, CPA is the Head of Investment Operations and Chief Compliance Officer, responsible for overseeing operational due diligence, legal and regulatory due diligence, fund accounting and administration, our managed account platform, and compliance. In addition, Kevin has select institutional account management responsibilities and serves on the board of several funds. He is also a member of the firm's Investment Management and Account Management Committees. Prior to joining PAAMCO, Kevin worked for McGladrey and Pullen LLP, a national public accounting and consulting firm, where he audited several financial services clients. He also served as a controller for a technology company. Kevin graduated from the University of California, Los Angeles with a B.A. in Economics, and received his M.B.A. with a concentration in Investment Finance from the Marshall School of Business at the University of Southern California. Kevin has nine years of experience in the financial services sector

Compensation Structure

salary, plus % of firm profits

Employees

Mayer Cherem

Title

Managing Director, Sector Specialist Opportunistic Investments

Location

Irvine

Industry Start Year:

2004

Firm Start Year:

2004

Firm End Date:

N/A

Email

mcherem@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Mayer Cherem, MBS, CFA, CQF is a Managing Director and the Sector Specialist responsible for the evaluation and management of opportunistic investments and offensive risk management initiatives. Mayer focuses on identifying new, uncorrelated sources of alpha through fundamental analysis and their optimal integration into client portfolios. He is also a member of the firm's Strategy Allocation Committee where he focuses on assessing the impact of asset allocation on overall portfolio risk and performance. As a member of the Risk Committee, Mayer is involved in the ongoing development of the firm's risk criteria and quantitative aspects of portfolio construction. Mayer graduated from the Universidad Simon Bolivar with a B.S. in Production Engineering and received an M.B.A. from Columbia Business School.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Maarten Nederlof

Title

Managing Director and Head of Portfolio Solutions

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2009

Firm End Date:

N/A

Email

mnederlof@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Maarten Nederlof is a Managing Director and Head of Portfolio Solutions at PAAMCO. He is a member of the Investment Management, Risk Management and Account Management Committees. Prior to joining PAAMCO, Maarten held various positions at Deutsche Bank Securities, Inc. and Deutsche Asset Management, including Managing Director and Global Co-Head of the Hedge Fund Capital Group and Global Head of the Pension Strategies Group. In addition, he was a Managing Director and Portfolio Manager at K2 Advisors, LLC, as well as Director and Head of Investor Risk Management at Capital Market Risk Advisors. Maarten began his career as a quantitative strategist at Salomon Brothers, Inc. He has twenty-four years of experience in investment management and portfolio construction with institutional investors. Maarten is a member of the Investment Committee of The John D. and Catherine T. MacArthur Foundation, as well as the Investor Risk Committee of the International Association of Financial Engineers (IAFE). He is a frequent lecturer and featured speaker at business schools, seminars and industry conferences.

Compensation Structure

salary, plus % of firm profits

Employees

Judith Posnikoff

Title

Managing Director, Sector Specialist Equity Market Neutral

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2000

Firm End Date:

N/A

Email

jposnikoff@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Judith Posnikoff, MBA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of equity market neutral hedge funds in the various PAAMCO portfolios. As a member of the Investment Management Committee, she is involved in all stages of the investment process. In addition, Judy specifically focuses on the complex customized portfolios of the firm's Asia/Pacific institutional accounts. She is also a member of the Account Management Committee. Prior to forming PAAMCO, Judy was Assistant Portfolio Manager/Research Associate at Collins Associates, an institutional fund of funds and consulting firm, where she focused on market neutral strategies in addition to directing large-scale quantitative research projects focusing on alternative strategies. She has numerous publications in the area of alternative investments and has taught at the University of California, Riverside, at California State University, Fullerton and most recently at the University of California, Irvine, where she held the position of adjunct faculty member at the Graduate School of Management. Judy graduated from the University of California, Riverside with a B.S. in Administrative Studies where she also received her M.B.A. and M.A. in Financial Economics and her Ph.D. in Financial and Managerial Economics. Judy has fifteen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Charles Armendarez

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Irvine

Industry Start Year:

1998

Firm Start Year:

2000

Firm End Date:

N/A

Email

carmendarez@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Charles Armendarez, MBA, CFA is a Managing Director and a Sector Specialist responsible for evaluating hedge fund managers that focus on long/short equity and other opportunistic strategies in the various PAAMCO portfolios. In addition, he is responsible for overall management and supervision of the PAAMCO investment process. Charlie is a member of the Investment Management Committee. In addition, he directs the firm's Investment Associate and Summer Associate Programs and is responsible for firm's Associate recruiting efforts. Prior to joining PAAMCO, Charlie was a Portfolio Manager and Research Associate at Collins Associates, an institutional fund of hedge funds and consulting firm, where he performed research and due diligence on investment managers utilizing alternative investment strategies. At Collins, his focus was on evaluating managers employing the following strategies: directional long/short, distressed debt, merger arbitrage, convertible arbitrage, fixed income arbitrage, equal dollar-weighted long/short and emerging market equities. Charlie graduated from the University of Southern California with a B.A. in Economics and received his M.B.A. from the Amos Tuck School at Dartmouth. Charlie has fifteen years of investment management experience with institutional investors.

Compensation Structure

Salary plus % of firm profits

Employees

James Berens

Title

Managing Director, Sector Specialist Distressed Debt and Long/Short Credit

Location

Irvine

Industry Start Year:

1993

Firm Start Year:

2000

Firm End Date:

N/A

Email

jberens@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

James Berens, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the distressed debt and long/short credit hedge funds in the various PAAMCO portfolios. Jim is also the Portfolio Manager for the commingled funds including Pacific Select Opportunities Fund, a customized fund of hedge funds for institutional investors designed to achieve higher absolute returns by targeting more inefficient sectors and utilizing less liquid investments. As a member of the Investment Management Committee, he is involved in all stages of the investment process. In addition, Jim is responsible for managing relationships with certain institutional investors. Jim also serves on the Risk Management Committee. Prior to forming PAAMCO, Jim was Co-Managing Partner at Collins Associates, an institutional fund of funds and consulting firm, with responsibilities for directional hedge fund strategies. He has written and published extensively on hedge funds and their applications for institutional investors; is a frequent guest speaker and panelist at investment conferences throughout the United States; and has taught investment management courses at the Graduate School of Management at the University of California, Irvine. Jim graduated from the University of Redlands with a B.A. in Economics and Political Science, received his M.A. from the University of California, Riverside in Financial Economics and received his Ph.D. in Administration (concentration in Finance) from the University of California, Irvine. Jim has seventeen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Jane Buchan

Title

Managing Director, Chief Executive Officer, Sector Specialist Fixed Income Realtive Value

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

jbuchan@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Jane Buchan, MA, PhD, CAIA is a Managing Director and the firm's Chief Executive Officer. As CEO, Jane is responsible for overall business strategy and firm direction. In addition, she is a Sector Specialist responsible for the evaluation and management of fixed income relative value hedge funds in the various PAAMCO portfolios. Jane is also a member of the Investment Management, Risk Management and Account Management Committees. Prior to forming PAAMCO, Jane held various positions ranging from Director of Quantitative Analysis to CIO of non-directional strategies at Collins Associates, an institutional fund of funds and consulting firm. She began her career at J.P. Morgan Investment Management in the Capital Markets Group and has numerous professional publications in the field of market neutral and alternative investments strategies. She was an Assistant Professor of Finance at the Amos Tuck School of Business at Dartmouth. She currently sits on the Board of the Chartered Alternative Investment Analyst Association (CAIA). Jane graduated from Yale University with a B.A. in Economics and received both her M.A. and Ph.D. in Business Economics (Finance) from Harvard University. Jane has twenty-four years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

Employees

Alper Ince

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

aince@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Alper Ince, MBA, CFA is a Managing Director and the Sector Specialist responsible for the coverage of long/short equity hedge fund managers in the various PAAMCO portfolios. He is also a member of the Investment Management and Strategy Allocation Committees where he focuses on establishing and assessing overall asset allocation and accompanying risk at both the sector and overall portfolio levels. Prior to joining PAAMCO, Alper was an Associate Director at BARRA RogersCasey, a major pension-consulting firm, where he led the firm’s hedge fund investment and manager research efforts. Alper graduated from METU Ankara (Turkey) with a B.S. in Economics and received his M.B.A. in Finance from the University of Hartford. Alper has thirteen years of investment management and consulting experience with institutional investors.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Bill Knight

Title

Managing Director, Sector Specialist Event-Driven Equity

Location

Irvine

Industry Start Year:

1982

Firm Start Year:

2000

Firm End Date:

N/A

Email

bknight@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Bill Knight, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the event-driven equity hedge funds in the various PAAMCO portfolios. As chair of the firm's Investment Management Committee, Bill is involved in all stages of the investment process. In addition, he chairs the firm's Board of Director meetings. Prior to forming PAAMCO, Bill was Senior Portfolio Manager at Collins Associates, an institutional fund of funds and consulting firm, for two long-only domestic equity funds, two low-beta funds, and a short-biased equity fund. In addition, he has held the position of adjunct faculty member at several universities. Bill graduated from Vanguard University with a B.A. in Social Sciences (History), received his M.A. from California State University, Fullerton in Social Sciences (Sociology and Psychology), and received his Ph.D. in Education (concentration in Management) from the University of California, Riverside. Bill has twenty-eight years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

Additional Manager Detail

Firm: Pacific Alternative Asset Management Company, LLC
Product Name: Pacific Hedged Strategies, LLC

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	28.0%	0.0%	0.0%	7.0%	11.0%	9.0%	4.0%	9.0%	0.0%	32.0%
12/31/2009	27.0%	1.0%	0.0%	4.0%	9.0%	12.0%	5.0%	8.0%	0.0%	34.0%
12/31/2008	35.0%	3.0%	0.0%	5.0%	5.0%	10.0%	7.0%	5.0%	0.0%	30.0%
12/31/2007	36.0%	3.0%	0.0%	4.0%	6.0%	12.0%	6.0%	5.0%	0.0%	28.0%
12/31/2006	38.0%	3.0%	0.0%	5.0%	6.0%	15.0%	4.0%	2.0%	0.0%	27.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$602	$7,610	$9,869	$9,869	26	13
12/31/2009	$535	$8,169	$9,830	$9,830	16	11
12/31/2008	$440	$7,944	$8,640	$8,640	23	2
12/31/2007	$413	$8,371	$9,393	$9,393	16	4
12/31/2006	$236	$6,685	$7,949	$7,949	10	10

Prisma [illegible]

[illegible]

Organization

Year Firm Established	2004
Year First Fund of Funds Launched	2005
Location	New York, NY
Number of Investment Professionals	21
Percentage Employee Owned	43%
Total AUM (millions)	$5,300

Investment Philosophy

Prisma's investment philosophy is based on 5 main tenets:

Transparency: We believe in transparency and will not invest in any manager that does not provide what we consider to be sufficient transparency into its investment process, risk exposures, position sizes, and overall business. Similarly, we are committed to meeting the transparency requirements of our clients.

Investment Specialists: We believe that identifying and understanding the opportunities and risks inherent in complex hedge fund strategies requires dedicated investment "specialists" with significant asset management, trading, capital markets, risk, and operations experience.

Strategy Allocation: We believe that top-down strategy allocation can add significant value to the performance of our funds. Led by Gavyn Davies, former Chief Economist at Goldman Sachs, we analyze macroeconomic trends and allocate capital to what we believe are the most favorable hedge fund strategies.

Specialist Managers: We believe that specialist (single strategy or even sub-strategy) hedge fund managers can generate significant alpha, and have conducted research that shows that substantial value can be added by investing in earlier stage managers.

Three Separate Due Diligence Teams: We believe that proper manager due diligence should comprise independent assessments by separate teams: 1) investments, 2) risk management, and 3) operations, with each team having the ability to veto a potential investment.

Investment Process

Prisma's investment process combines a top-down strategy allocation process with bottom-up manager selection to arrive at what Prisma believes is an optimal portfolio given a client's risk and return objectives. Risk management is closely integrated into each step of the investment process.

Our process begins with strategy allocation. Led by Mr. Davies, strategy allocation incorporates Prisma's top down economic views and forecasts for underlying hedge fund strategies to arrive at target allocations by hedge fund sector. Our manager selection process involves three separate layers of due diligence: 1) investment, 2) risk and 3) operations. Professionals from the investment, risk, and operations teams each conduct due diligence (including onsite visits) to produce a comprehensive evaluation of managers, with each team having a full veto right over any investment. Finally, portfolio construction uses optimization to integrate quantitatively the strategy allocation mix with the approved list of managers in an attempt to achieve the client's desired beta, volatility and liquidity constraints. Prisma's investment process also includes rigorous monthly portfolio monitoring.

Ownership Structure

AEGON USA Investment Management ("AUIM") has a profits interest of 57% of the firm and the remaining balance is owned by Prisma employees and principals. As Prisma attains certain performance targets over time, AUIM's ownership percentage will decrease and employee ownership will increase accordingly.

Employees

Girish Reddy

Title

Managing Partner

Location

New York

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

greddy@prismapartners.com

Office Phone:

212-590-0801

Cell Phone

N/A

Bio

Mr. Reddy is a former partner of Goldman, Sachs & Co., where he was a co-head of equity derivatives. Prior to Goldman, he was the CIO of LOR Associates, a hedging and strategy advising firm based in Los Angeles, developing strategic alliances with other established asset managers like Wells Fargo and Aetna Insurance. Earlier in his career, he was a senior vice president of portfolio construction and asset allocation, at Travelers Investment Management Company, where he specialized in various overlay strategies for the firm using listed futures and options. Mr. Reddy is an elected member of and serves on the executive board of the Indian School of Business. He is also a former board member of Barra Inc.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Thomas Healey

Title

Advisory Partner

Location

New York

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

thealey@Prismapartners.com

Office Phone:

212-590-0800

Cell Phone

N/A

Bio

Thomas Healey is co-founder of Prisma Capital Partners LP. Mr. Healey is a former partner and head of pension services group of Goldman, Sachs & Co. While at Goldman Sachs & Co., he was a co-chairman of the Goldman Sachs retirement committee, with oversight of more than $3 billion in defined contribution plan assets, and also a co-chief investment officer of the $10 billion Central States Teamsters Pension Fund, managed by Goldman Sachs & Co. Mr. Healey is the chair of the investment committee of the Rockefeller Foundation and a board member of other charitable institutions. Earlier, he served as former assistant secretary of the Treasury under President Reagan. Mr. Healey was a senior fellow and is an adjunct lecturer at Harvard University's John F. Kennedy School of Government.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Eric Wolfe

Title

Senior Portfolio Manager

Location

New York

Industry Start Year:

1992

Firm Start Year:

2004

Firm End Date:

N/A

Email

ewolfe@prismapartners.com

Office Phone:

212-590-0802

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Wolfe was a vice president and leading portfolio manager of the hedge fund of funds group at Safra National Bank of New York. He managed the accounts group, and headed the research process to source hedge fund investments for fund-of-funds. Previously, he was the chief financial officer for Buyroad.com, where he co-managed a 20 employee web design team from pre-launch to a revenue producing entity serving the small/medium business market. Earlier, Mr. Wolfe was a vice president and global balanced portfolio manager at J.P. Morgan Investment Management, serving as portfolio manager of over $16 billion in global balanced assets. Also at J.P. Morgan, he was an analyst in the structured derivatives group of the asset management company.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Prisma Capital Partners LP

Information Effective As Of 12/31/2010

Employees

Dan Lawee

Title

Portfolio Manager

Location

New York

Industry Start Year:

1994

Firm Start Year:

2008

Firm End Date:

N/A

Email

dlawee@prismapartners.com

Office Phone:

212-590-0841

Cell Phone

N/A

Bio

Aug 02 - Sept 08: Portfolio Manager - Northwater Capital Management Inc
Responsible for asset-backed and mortgage-backed securities arbitrage, fixed income arbitrage, reinsurance, and volatility arbitrage hedge fund strategies across Northwater's $4 billion in fund of hedge funds portfolios

Aug 87 - July 02: Vice President, Corporate Foreign Exchange Desk - TD Canada Trust

Aug 83 - April 95: Account Executive - Mortgage Department, Republic National Bank of New York

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

James Welch

Title

Managing Director - Portfolio Manager

Location

New York

Industry Start Year:

1980

Firm Start Year:

2010

Firm End Date:

N/A

Email

jwelch@prismapartners.com

Office Phone:

212-590-0829

Cell Phone

N/A

Bio

Prior to Prisma, Mr Welch was a Managing Member of Kettle Cove Investors, LLC, a fund of hedge funds vehicle established for members of Mr. Welch's immediate family
CEO and Executive Director of Kisco Management Corporation, a financial services firm that was exclusively dedicated to serving a prominent U.S. high net worth family
Managing Director and Co-Head of Research and Portfolio Management at J.P. Morgan Alternative Asset Management, Inc., which is J.P. Morgan's fund of hedge funds investment firm
Held various positions of increasing responsibility within J.P. Morgan, primarily in the capital markets area, including roles in derivatives origination, structuring, and training

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Donna Heitzman

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

dheitzman@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Ms. Heitzman was a portfolio manager at AEGON USA Investment Management LLC; facilitating the portfolio's significant growth and broad diversification across all hedge fund strategies with a specialty in researching and implementing new strategies. She was also the director of private placements at AEGON USA Investment Management LLC. Prior, also at AEGON USA, she was the director of the financial division, where she was responsible for investment portfolio analysis. Previously, she was an audit supervisor at Coopers and Lybrand, specializing in the manufacturing and financial institution sectors of both publicly held and privately owned clients.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Michael Rudzik

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1987

Firm Start Year:

2004

Firm End Date:

N/A

Email

mrudzik@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Rudzik was a Portfolio Manager at AEGON USA Investment Management LLC, where he was responsible for hedge fund manager due diligence, selection, and monitoring with primary strategy focus on long/short equity, event-driven, multi-strategy arbitrage and private equity. Previously, he was the chief operating officer at Aeon Capital Management LLC, where he collaborated in the formation of a $50 million emerging markets hedge fund start-up for a European investment group. Earlier, he was a general partner at Tiedemann Investment Group, where he served as the head of the trading desk and in a portfolio management capacity. Earlier in his career, Mr. Rudzik was a financial analyst at Morgan Stanley.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Peter Zakowich

Title

Portfolio Manager

Location

London

Industry Start Year:

1999

Firm Start Year:

2006

Firm End Date:

N/A

Email

pzakowich@prismapartners.com

Office Phone:

20 7016-6495

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Zakowich was an associate portfolio manager at J.P. Morgan Alternative Investments, where he was responsible for investment selection, position sizing, and exposure monitoring. Previously, he was a media analyst at Edge Capital, a long/short equity hedge fund focusing in the media and entertainment sectors. Earlier, Mr. Zakowich was an investment associate in equity research at Putnam Investments where he provided global coverage of the media, advertising, and related technology sectors; and the automotive industry.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

William Cook

Title
Senior Portfolio Manager

Location
London

Industry Start Year:
1981

Firm Start Year:
2004

Firm End Date:
N/A

Email
bscook@prismapartners.com

Office Phone:
212-590-0804

Cell Phone
N/A

Bio
Prior to joining Prisma, Mr. Cook was the head of the capital market strategies group at AEGON USA Investment Management LLC. He was focusing on alternative investments, SBA loans, and special opportunities. Also at AEGON USA, Mr. Cook was the head of the derivatives group which was spun out of the public fixed income group. Prior, and also at AEGON USA, Mr. Cook was the head of public fixed income group where he led teams of six portfolio managers and a group of 15 employees. Previously, he was a partner at Cleveland Management, where he was a generalist with a specialty in fixed income for the high net worth oriented asset management firm. Earlier in his career, Mr. Cook was the director of fixed income at United Capital Management.

Compensation Structure
Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Additional Manager Detail

Firm: Prisma Capital Partners LP
Product Name: Prisma Spectrum Fund Ltd

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	26.9%	1.6%	4.1%	2.4%	33.5%	5.0%	0.0%	10.0%	13.4%	3.0%
12/31/2009	35.9%	2.7%	6.2%	2.0%	19.4%	3.3%	0.0%	11.9%	14.8%	3.8%
12/31/2008	33.3%	7.5%	1.4%	2.0%	18.1%	5.5%	0.0%	8.1%	17.9%	6.2%
12/31/2007	36.7%	7.3%	0.0%	1.9%	22.8%	4.6%	0.0%	5.0%	14.3%	7.6%
12/31/2006	39.9%	5.2%	0.0%	1.0%	16.9%	6.7%	0.0%	5.3%	16.5%	8.5%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$942	$3,971	$5,300	$5,300	75	3
12/31/2009	$504	$2,938	$4,500	$4,500	10	30
12/31/2008	$547	$3,095	$4,200	$4,200	3	8
12/31/2007	$377	$3,498	$4,427	$4,427	1	17
12/31/2006	$156	$2,498	$3,227	$3,227	1	7

[illegible]

[illegible]

Organization

Year Firm Established	2003
Year First Fund of Funds Launched	2003
Location	Washington, DC
Number of Investment Professionals	21
Percentage Employee Owned	100%
Total AUM (millions)	$6,000

Investment Philosophy

Rock Creek's investment philosophy is grounded in three basic convictions: (1) That a portfolio of hedge funds can deliver strong risk-adjusted returns and the risk mitigation associated with rigorous portfolio construction; (2) that identifying, constructing, validating and monitoring such a portfolio is a specialist function requiring a high degree of sophistication, attention, skill and persistence; and (3) that there is a great deal of room for particular hedge fund of fund managers to have superior portfolio selection, responsible relationships ensuring access to top-performing funds and superior analytic and fiduciary infrastructure.

Investment Process

The investment process at Rock Creek is based on what team members developed at the World Bank. With substantial investments in technology, we have greatly enhanced the manner in which it is implemented. The investment process combines top-down and bottom-up analysis . The top down portion of the construction process involves determining the strategic allocations to hedge fund strategies that would allow the fund of funds to meet its risk and return objectives. Bottom-up construction involves identifying those managers which we believe to be "best of breed" within each hedge fund strategy. Risk control is an integral part of the investment and back office continued due diligence and monitoring as well as of the portfolio construction process. Risk control is an integral part of the investment and back office continued due diligence and monitoring as well as of the portfolio construction process.

Employees

Afsaneh Beschloss

Title

President and Chief Executive Officer

Location

Washington

Industry Start Year:

1985

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Ms. Beschloss is President and Chief Executive Officer of The Rock Creek Group. Prior to this, Ms. Beschloss was the Treasurer and Chief Investment Officer of the World Bank, responsible for managing $65 billion in assets and a $30 billion funding strategy, as well as $160 billion in derivatives and structured products. In this position, Ms. Beschloss was instrumental in developing a $3 billion portfolio of alternative investment funds as well as private equity strategies. Her previous responsibilities at the World Bank included Senior Manager of the Derivatives and Structured Products Group and Fixed-Income Portfolio Manager. Ms. Beschloss worked for J.P. Morgan in New York and London, for Shell International Group Planning in London, and she taught international trade at Oxford University. She is a member of the Board of Trustees of the Ford Foundation where she has Chaired the Investment Committee. She is a member of the Board of Trustees of the Colonial Williamsburg Foundation and is on the Investment Committee of the Rockefeller Brothers Fund. She advises international pension funds and central banks and has written a number of journal articles and books. She has an MPhil (Honors) in Economics from Oxford University.

Compensation Structure

N/A

Employees

Sudhir Krishnamurthi

Title

Senior Managing Director

Location

Washington

Industry Start Year:

1986

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Dr. Krishnamurthi is Senior Managing Director of The Rock Creek Group. Prior to this, Dr. Krishnamurthi was Director of the World Bank's Investment Management Department, responsible for managing investment assets, including $12 billion of pension assets in equities, fixed-income securities, and alternative assets. Dr. Krishnamurthi led the alternatives program at the World Bank and was responsible for pioneering work in risk management and asset allocation. Prior to working in the World Bank's Investment Management Department, Dr. Krishnamurthi was the Director of Corporate Finance at the World Bank, where he managed $27 billion of equity. Prior to that, Dr. Krishnamurthi was a Principal Officer in the Derivatives Division of the World Bank, where he worked extensively on structured products. Prior to the World Bank, Dr. Krishnamurthi was an Assistant Professor at the Sloan School of Management, Massachusetts Institute of Technology. Dr. Krishnamurthi received a degree in Mechanical Engineering from the Indian Institute of Technology and a degree in Business from the Indian Institute of Management. He received his doctorate from the Harvard Business School.

Compensation Structure

N/A

Employees

Kenneth G. Lay

Title

Senior Managing Director

Location

Washington

Industry Start Year:

1975

Firm Start Year:

2010

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Lay is a Senior Managing Director of The Rock Creek Group. Prior to this, Mr. Lay served as Treasurer of The World Bank, where he was responsible for more than $100 billion in investments for The World Bank and 40 other financial institutions, including central banks, sovereign wealth and pension funds. Mr. Lay led its transformation to a $20 billion multi-client asset manager with an extensive program of knowledge transfer and capacity-building partnerships. Previously, Mr. Lay served as a country director in Latin America and Southeastern Europe, and headed the World Bank's financial sector practice, where he developed the "financial sector assessment program" that now is the cornerstone of international efforts to monitor and improve the health of countries' banking and capital markets. Before joining the World Bank, Mr. Lay was an enforcement lawyer with the U.S. Securities and Exchange Commission, heading its branch of corporation finance enforcement. Mr. Lay holds a BA from Dartmouth College, a JD from the George Washington University, and the CFA designation. He is a member of the State Bar of California.

Compensation Structure

N/A

Employees

Antonio Sierra

Title

Director

Location

Washington

Industry Start Year:

2002

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sierra is a Director at The Rock Creek Group. Prior to this, he worked at the World Bank and was responsible for managing the treasury operations for the hedge fund, private equity, and real estate portfolios of the World Bank's Staff Retirement Plan and Retired Staff Benefits Plan. He previously worked in the finance and accounting groups of the Investment Management Department and Banking, Capital Markets and Financial Engineering Department. Mr. Sierra has a M.B.A. from Georgetown University. He also holds a B.S. in Civil Engineering from the Mapua Institute of Technology, Manila and a M.S. in Engineering from the University of the Philippines.

Compensation Structure

N/A

Employees

Sherri Rossoff

Title
Managing Director

Location
Washington

Industry Start Year:
1985

Firm Start Year:
2006

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
Ms. Rossoff is a Managing Director and Chief Compliance Officer at The Rock Creek Group. Prior to this, she was senior counsel at the World Bank in the legal finance group. There, she concentrated in the areas of pension investments and asset management, focusing on hedge funds and alternative investments. She was also counsel to the World Bank's Pension Finance Committee. She also provided legal technical assistance to various central banks on investment management issues. Prior to joining the World Bank, she was an associate at Cleary Gottlieb Steen and Hamilton in New York. Ms. Rossoff earned her law degree from New York University School of Law. She graduated Queens College summa cum laude where she was elected to Phi Beta Kappa.

Compensation Structure
N/A

Employees

Alifia Doriwala

Title
Director

Location
Washington

Industry Start Year:
2000

Firm Start Year:
2005

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
Ms. Doriwala is a Director at The Rock Creek Group. Prior to this, she was an Equity Arbitrage trader for the proprietary trading desk at Wolverine Trading, L.P. She was responsible for analyzing, modeling, and trading equity spreads resulting from corporate transactions, including mergers and acquisitions, spin-offs and share classes. In addition, Ms. Doriwala worked with the portfolio manager in selecting, evaluating, and trading relative value pairs across a variety of industries for the long/short equity component of the portfolio. Prior to joining Wolverine Trading, she was an Investment Banking Analyst in Merrill Lynch's Financial Sponsor Group. At Merrill Lynch, she assessed the suitability of potential targets for private equity portfolio companies as well as the capital structure for the financing portion of the transactions. She also prepared industry overview, segmented market analysis, and valuation models for private equity clients. Ms. Doriwala graduated from Georgetown University magna cum laude with a B.A. in Economics and English and has an M.B.A. in Finance and Marketing from New York University's Stern School of Business.

Compensation Structure
N/A

Employees

Ronald J.P. van der Wouden

Title

Managing Director

Location

Washington

Industry Start Year:

1998

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. van der Wouden is a Managing Director of The Rock Creek Group. Prior to this, Mr. van der Wouden spent over seven years at the World Bank, most recently as Co-Head of Risk Management in the World Bank Treasury. In that position, he was responsible for risk management across hedge funds and other asset classes (global fixed income portfolios, alternative investment portfolios, and fixed income relative value portfolios since the mid-1990s). Mr. van der Wouden's previous responsibilities at the Bank Group included developing innovative Asset Liability Management and Strategic Asset Allocation strategies at the World Bank's Investment Management Department. In this position, he also conducted extensive research on "optimal" pension plan design covering allocation to hedge funds and private equity and pension reform issues. Before joining the World Bank, Mr. van der Wouden worked at Robeco Asset Management Group and at Ortec Management Consultants in the Netherlands. Mr. Van der Wouden received a M.S. degree in Econometrics from the Erasmus University Rotterdam.

Compensation Structure

N/A

Additional Manager Detail

Firm□<u>Roc□Cree□Group</u>
Product Name□<u>Roc□Cree□Diversified 1</u>

Allocation □y Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	38.0%	0.0%	0.0%	23.0%	11.0%	0.0%	0.0%	0.0%	15.0%	13.0%
12/31/2009	39.0%	0.0%	0.0%	12.0%	25.0%	0.0%	0.0%	0.0%	11.0%	13.0%
12/31/2008	36.0%	0.0%	0.0%	18.0%	16.0%	2.0%	0.0%	0.0%	13.0%	15.0%
12/31/2007	40.0%	0.0%	0.0%	16.0%	8.0%	3.0%	0.0%	6.0%	7.0%	20.0%
12/31/2006	37.0%	0.0%	0.0%	23.0%	4.0%	2.0%	0.0%	6.0%	8.0%	20.0%

□istorical AUM Data

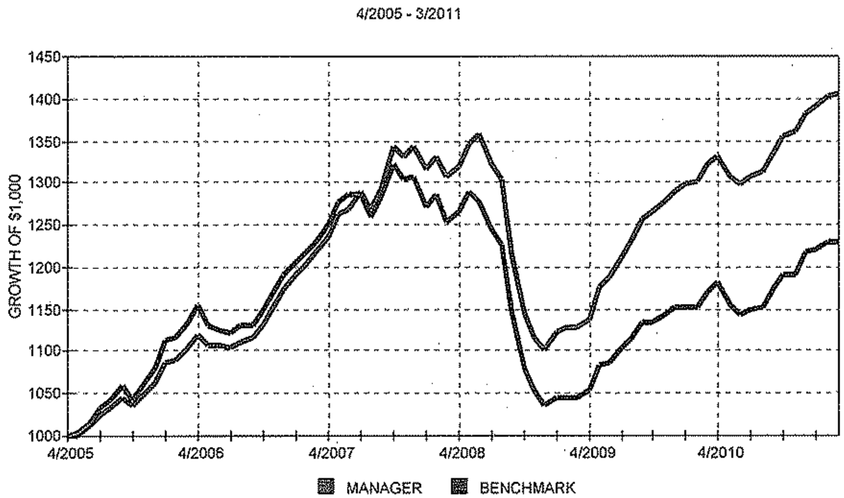
	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$400	$4,250	$5,350	$6,000	7	1
12/31/2009	$370	$3,600	$4,200	$4,600	7	4
12/31/2008	$310	$3,350	$3,600	$3,600	8	2
12/31/2007	$390	$4,000	$4,100	$4,100	7	2
12/31/2006	$350	$3,350	$3,000	$3,000	21	0

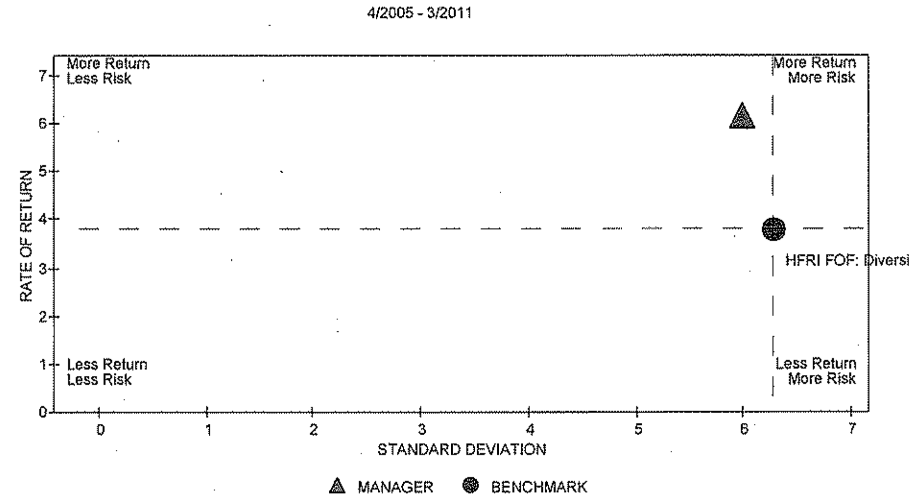
Attachment F

PSN Optimization and Manager Performance Snapshots

PSN

BLACKSTONE PAAMCO PRISMA
FOF
PERFORMANCE VS BENCHMARK
APRIL 30, 2005 TO MARCH 31, 2011





RATE OF RETURN				GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	6.41	4.90	1.51	$1,064	$1,049	$15
2 Yrs	11.66	8.47	3.19	$1,247	$1,176	$70
3 Yrs	2.43	-0.64	3.07	$1,075	$981	$94
4 Yrs	3.67	-0.04	3.71	$1,155	$998	$157
5 Yrs	4.93	1.61	3.32	$1,272	$1,083	$189
6 Yrs	N/A	3.23	N/A	N/A	$1,210	N/A
7 Yrs	N/A	3.47	N/A	N/A	$1,269	N/A
8 Yrs	N/A	4.68	N/A	N/A	$1,442	N/A
9 Yrs	N/A	4.29	N/A	N/A	$1,460	N/A
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	5.92	3.54	2.38	$1,405	$1,228	$177

MANAGER: FOF
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 4/2005

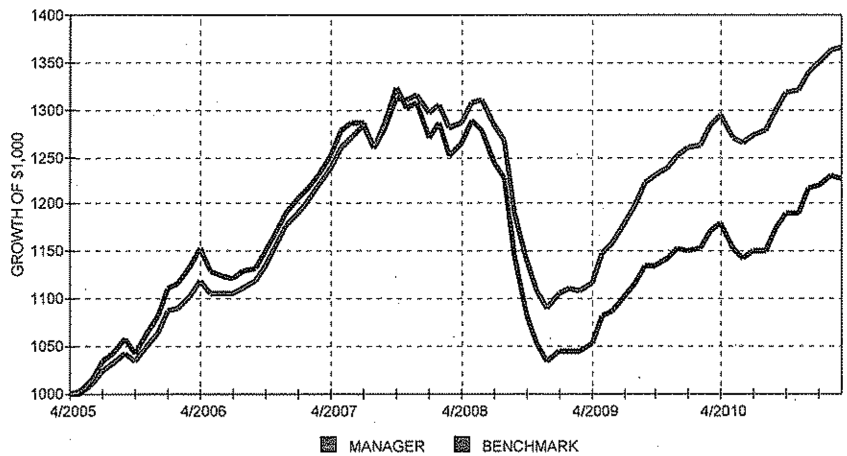
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.82	7.05	17.10	-17.97	14.46	10.27	N/A	N/A	N/A	N/A	N/A	5.92
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	3.54
EXCESS	0.82	1.57	5.64	2.89	4.74	0.09	N/A	N/A	N/A	N/A	N/A	2.38
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	2.23

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	2.43	7.01	3.11	1.01	0.96	1.41	0.29	2.18
4 Yrs	3.67	6.76	3.69	0.97	0.95	1.51	0.37	2.45
5 Yrs	4.93	6.24	3.26	0.95	0.95	1.48	0.48	2.25
6 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	5.92	5.87	2.40	0.92	0.93	1.56	0.63	1.52

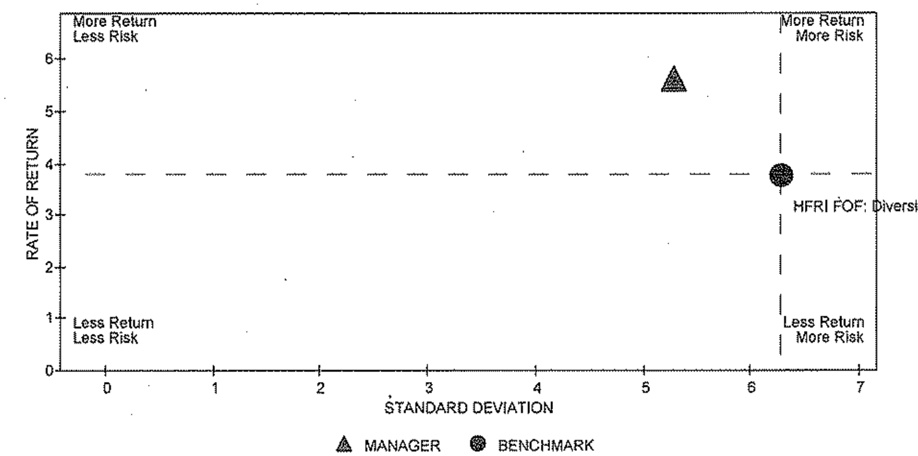
PSN

BLACKSTONE CRESTLINE PRISMA
FOF
PERFORMANCE VS BENCHMARK
APRIL 30, 2005 TO MARCH 31, 2011

4/2005 - 3/2011



4/2005 - 3/2011



RATE OF RETURN				GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	6.39	4.90	1.49	$1,064	$1,049	$15
2 Yrs	10.93	8.47	2.46	$1,230	$1,176	$54
3 Yrs	2.10	-0.64	2.74	$1,064	$981	$83
4 Yrs	2.82	-0.04	2.86	$1,118	$998	$119
5 Yrs	4.32	1.61	2.71	$1,236	$1,083	$153
6 Yrs	N/A	3.23	N/A	N/A	$1,210	N/A
7 Yrs	N/A	3.47	N/A	N/A	$1,269	N/A
8 Yrs	N/A	4.68	N/A	N/A	$1,442	N/A
9 Yrs	N/A	4.29	N/A	N/A	$1,460	N/A
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	5.39	3.54	1.85	$1,364	$1,228	$136

MANAGER: FOF
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 4/2005

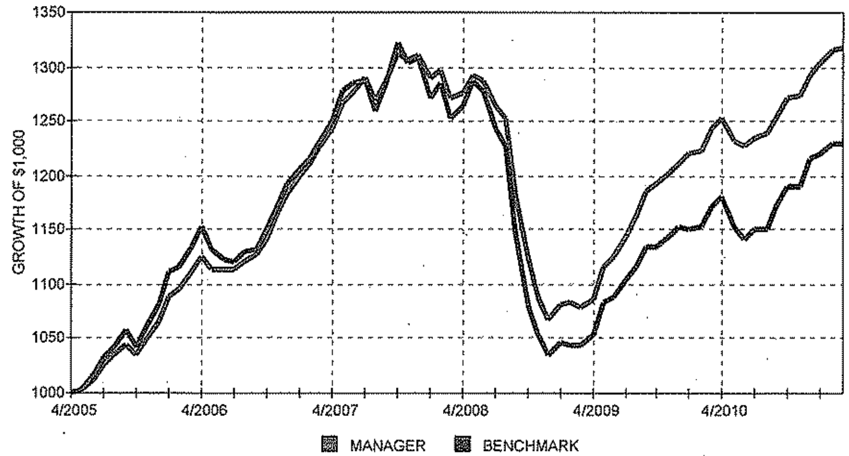
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.89	7.08	14.74	-17.19	11.83	10.72	N/A	N/A	N/A	N/A	N/A	5.39
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	3.54
EXCESS	0.89	1.60	3.28	3.67	2.11	0.54	N/A	N/A	N/A	N/A	N/A	1.85
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	2.23

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	2.10	6.11	2.61	0.88	0.96	1.50	0.28	1.83
4 Yrs	2.82	5.83	2.64	0.84	0.94	1.75	0.28	1.64
5 Yrs	4.32	5.44	2.60	0.83	0.94	1.67	0.44	1.62
6 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	5.39	5.16	2.02	0.81	0.94	1.71	0.61	1.08

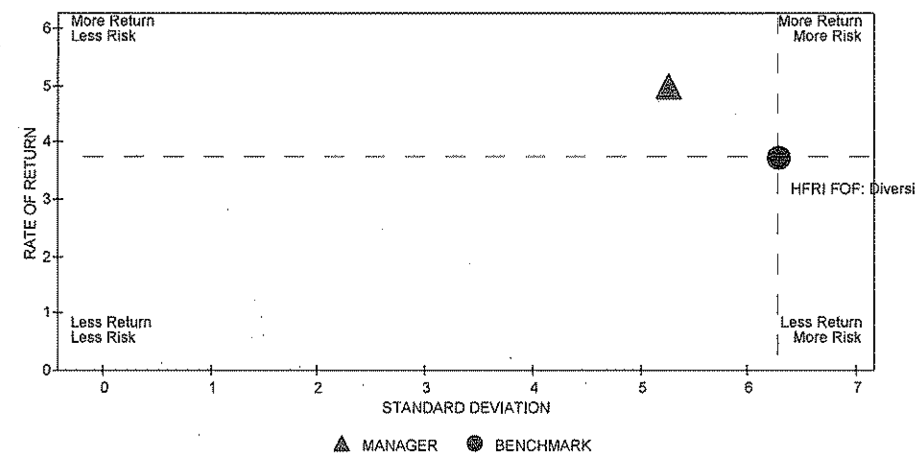
PSN

BLACKSTONE CRESTLINE GROSVENOR
FOF
PERFORMANCE VS BENCHMARK
APRIL 30, 2005 TO MARCH 31, 2011

4/2005 - 3/2011



4/2005 - 3/2011



	RATE OF RETURN			GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	6.01	4.90	1.11	$1,060	$1,049	$11
2 Yrs	10.53	8.47	2.06	$1,222	$1,176	$45
3 Yrs	1.16	-0.64	1.80	$1,035	$981	$54
4 Yrs	1.78	-0.04	1.82	$1,073	$998	$75
5 Yrs	3.45	1.61	1.84	$1,185	$1,083	$102
6 Yrs	N/A	3.23	N/A	N/A	$1,210	N/A
7 Yrs	N/A	3.47	N/A	N/A	$1,269	N/A
8 Yrs	N/A	4.68	N/A	N/A	$1,442	N/A
9 Yrs	N/A	4.29	N/A	N/A	$1,460	N/A
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	4.76	3.54	1.23	$1,317	$1,228	$89

MANAGER: FOF
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 4/2005

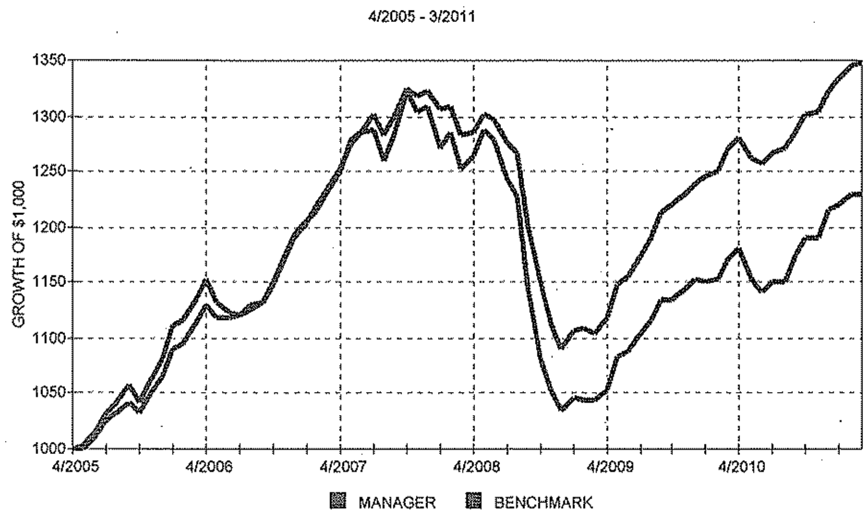
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.92	6.67	13.57	-18.66	10.91	11.06	N/A	N/A	N/A	N/A	N/A	4.76
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	3.54
EXCESS	0.92	1.19	2.11	2.19	1.19	0.89	N/A	N/A	N/A	N/A	N/A	1.23
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	2.23

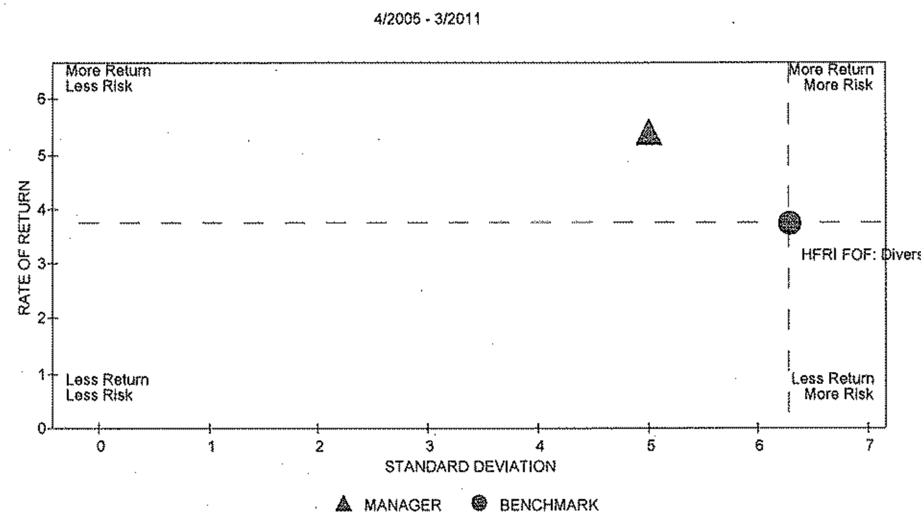
PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	1.16	6.06	1.66	0.87	0.95	1.61	0.13	1.12
4 Yrs	1.78	5.76	1.59	0.83	0.94	1.83	0.11	1.00
5 Yrs	3.45	5.38	1.73	0.82	0.94	1.74	0.28	1.06
6 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	4.76	5.14	1.42	0.81	0.94	1.71	0.49	0.72

7

PSN

BLACKSTONE CRESTLINE
FOF
PERFORMANCE VS BENCHMARK
APRIL 30, 2005 TO MARCH 31, 2011





	RATE OF RETURN			GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	6.13	4.90	1.23	$1,061	$1,049	$12
2 Yrs	10.44	8.47	1.97	$1,220	$1,176	$43
3 Yrs	1.69	-0.64	2.33	$1,051	$981	$71
4 Yrs	2.21	-0.04	2.26	$1,092	$998	$93
5 Yrs	3.88	1.61	2.27	$1,210	$1,083	$127
6 Yrs	N/A	3.23	N/A	N/A	$1,210	N/A
7 Yrs	N/A	3.47	N/A	N/A	$1,269	N/A
8 Yrs	N/A	4.68	N/A	N/A	$1,442	N/A
9 Yrs	N/A	4.29	N/A	N/A	$1,460	N/A
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	5.18	3.54	1.64	$1,348	$1,228	$119

MANAGER: FOF
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 4/2005

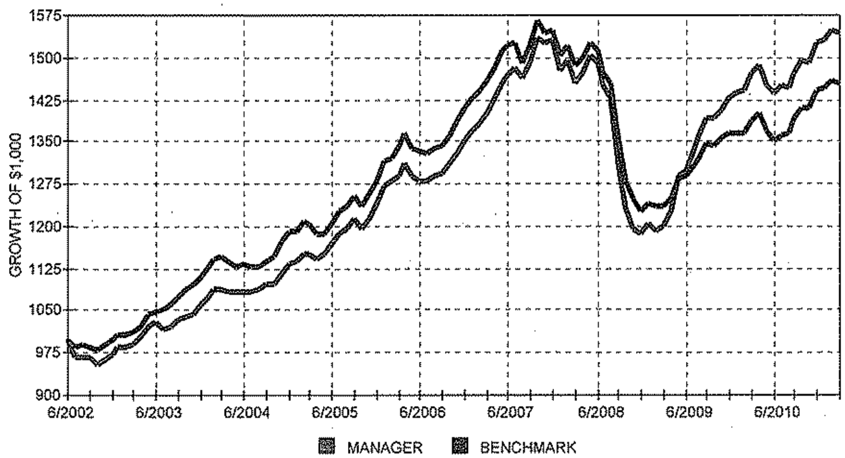
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.96	6.79	13.48	-17.50	11.07	11.92	N/A	N/A	N/A	N/A	N/A	5.18
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	3.54
EXCESS	0.96	1.31	2.02	3.35	1.34	1.74	N/A	N/A	N/A	N/A	N/A	1.64
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	2.23

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	1.69	5.69	2.12	0.81	0.94	1.87	0.23	1.24
4 Yrs	2.21	5.40	1.94	0.77	0.92	2.19	0.19	1.03
5 Yrs	3.88	5.08	2.14	0.76	0.92	2.06	0.38	1.10
6 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	5.18	4.88	1.88	0.76	0.92	2.00	0.60	0.82

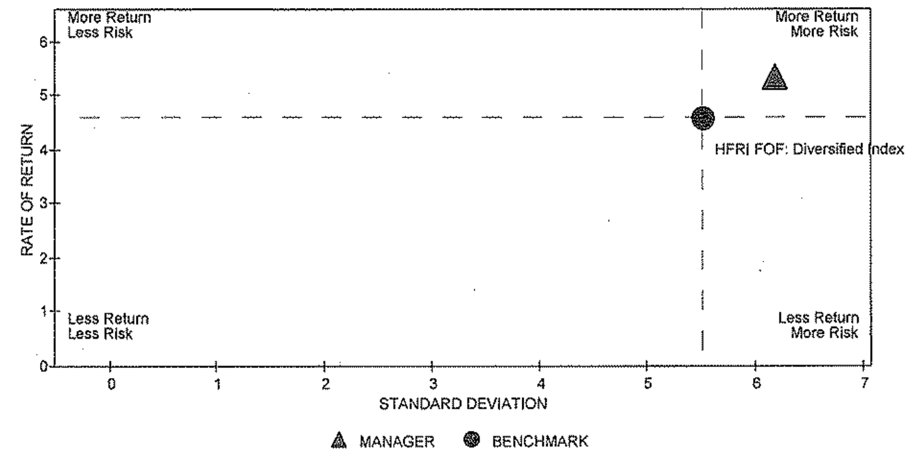
PSN

AURORA
OFFSHORE II
PERFORMANCE VS BENCHMARK
JUNE 30, 2002 TO MARCH 31, 2011

6/2002 - 3/2011



6/2002 - 3/2011



	RATE OF RETURN			GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	4.88	4.90	-0.02	$1,049	$1,049	-$0
2 Yrs	13.58	8.47	5.11	$1,290	$1,176	$114
3 Yrs	2.04	-0.64	2.68	$1,063	$981	$82
4 Yrs	2.45	-0.04	2.49	$1,102	$998	$103
5 Yrs	3.68	1.61	2.07	$1,198	$1,083	$115
6 Yrs	5.04	3.23	1.81	$1,343	$1,210	$133
7 Yrs	5.13	3.47	1.67	$1,420	$1,269	$150
8 Yrs	5.72	4.68	1.05	$1,561	$1,442	$119
9 Yrs	N/A	4.29	N/A	N/A	$1,460	N/A
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	5.10	4.38	0.72	$1,545	$1,455	$90

MANAGER: Aurora Offshore II
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 6/2002

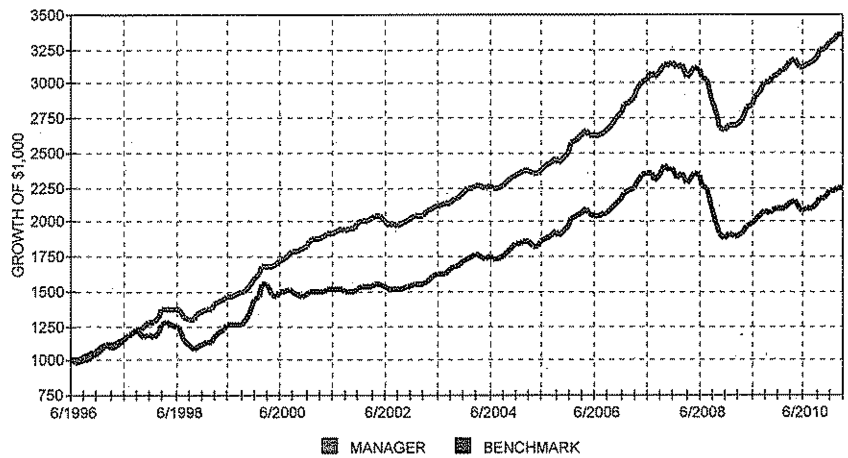
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.17	6.85	20.56	-22.50	13.31	9.05	9.49	6.49	9.48	N/A	N/A	5.10
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	4.38
EXCESS	0.17	1.37	9.10	-1.64	3.59	-1.13	2.03	-0.69	-1.94	N/A	N/A	0.72
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	1.97

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	2.04	8.41	3.00	1.21	0.96	2.28	0.20	1.18
4 Yrs	2.45	8.00	2.74	1.15	0.94	2.14	0.16	1.16
5 Yrs	3.68	7.35	2.12	1.13	0.94	1.97	0.24	1.05
6 Yrs	5.04	6.94	1.70	1.09	0.93	1.89	0.40	0.96
7 Yrs	5.13	6.48	1.56	1.07	0.92	1.85	0.46	0.90
8 Yrs	5.72	6.16	0.89	1.05	0.91	1.91	0.60	0.55
9 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	5.10	6.07	0.56	1.07	0.89	2.01	0.51	0.36

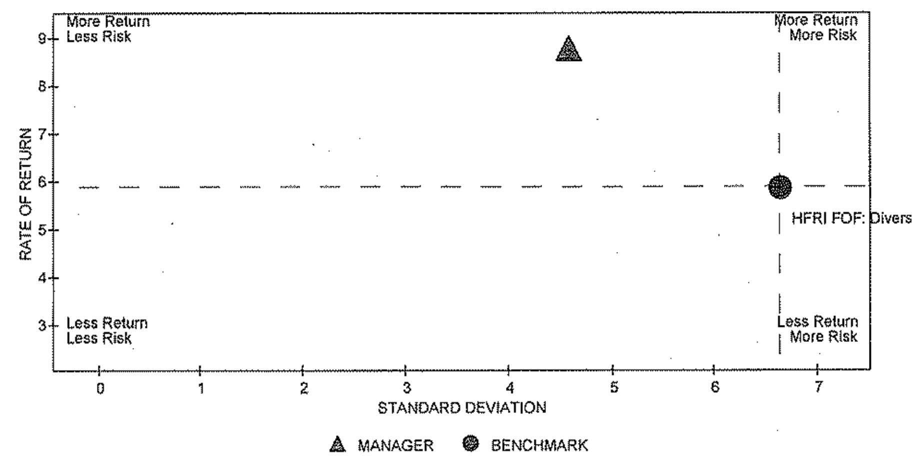
PSN

BLACKSTONE
PARTNERS LTD.
PERFORMANCE VS BENCHMARK
JUNE 30, 1996 TO MARCH 31, 2011

6/1996 - 3/2011



6/1996 - 3/2011



	RATE OF RETURN			GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	6.41	4.90	1.51	$1,064	$1,049	$15
2 Yrs	11.60	8.47	3.13	$1,245	$1,176	$69
3 Yrs	3.20	-0.64	3.84	$1,099	$981	$118
4 Yrs	3.72	-0.04	3.76	$1,157	$998	$159
5 Yrs	5.07	1.61	3.46	$1,281	$1,083	$198
6 Yrs	5.98	3.23	2.75	$1,417	$1,210	$207
7 Yrs	5.86	3.47	2.39	$1,490	$1,269	$220
8 Yrs	6.36	4.68	1.68	$1,638	$1,442	$196
9 Yrs	5.80	4.29	1.51	$1,661	$1,460	$202
10 Yrs	5.93	4.13	1.80	$1,779	$1,498	$280
Inception	8.55	5.62	2.93	$3,356	$2,241	$1,114

MANAGER: Blackstone Partners Ltd.
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 6/1996

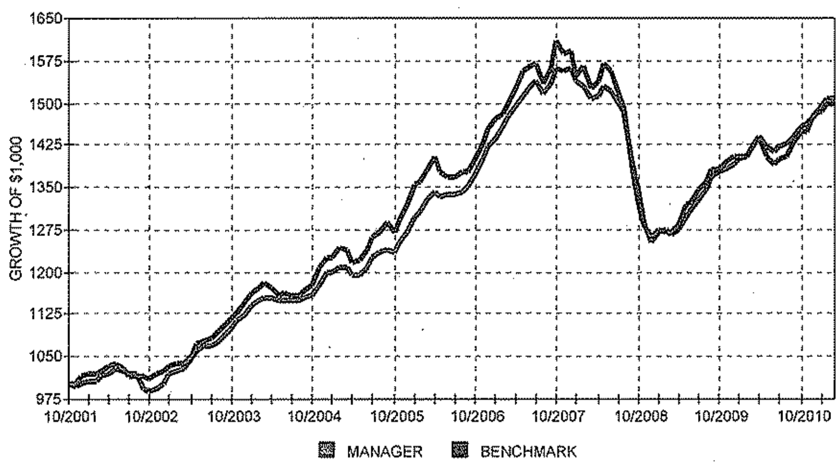
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.75	7.36	15.62	-15.55	12.60	11.66	7.02	5.96	9.26	1.90	8.61	8.55
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	5.62
EXCESS	0.74	1.88	4.16	5.31	2.87	1.48	-0.44	-1.22	-2.17	0.73	5.82	2.93
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	3.02

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	3.20	5.62	3.63	0.81	0.96	1.76	0.50	2.18
4 Yrs	3.72	5.50	3.46	0.78	0.93	2.09	0.46	1.79
5 Yrs	5.07	5.18	3.32	0.78	0.92	1.97	0.61	1.76
6 Yrs	5.98	4.96	2.87	0.77	0.92	1.93	0.75	1.43
7 Yrs	5.86	4.66	2.60	0.76	0.92	1.93	0.79	1.24
8 Yrs	6.36	4.42	2.24	0.75	0.91	1.91	0.98	0.88
9 Yrs	5.80	4.33	1.98	0.77	0.89	1.86	0.89	0.81
10 Yrs	5.93	4.17	2.22	0.76	0.89	1.85	0.94	0.97
Inception	8.55	4.48	3.79	0.60	0.79	3.26	1.24	0.90

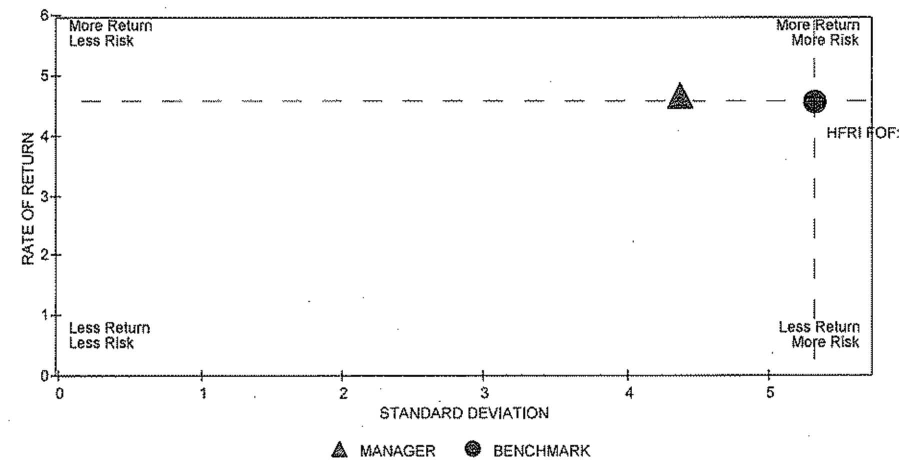
PSN

CRESTLINE
PARTNERS LTD.
PERFORMANCE VS BENCHMARK
OCTOBER 31, 2001 TO MARCH 31, 2011

10/2001 - 3/2011



10/2001 - 3/2011



RATE OF RETURN				GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	5.80	4.90	0.90	$1,058	$1,049	$9
2 Yrs	9.11	8.47	0.64	$1,190	$1,176	$14
3 Yrs	-0.01	-0.64	0.63	$1,000	$981	$19
4 Yrs	0.56	-0.04	0.60	$1,022	$998	$24
5 Yrs	2.56	1.61	0.96	$1,135	$1,083	$52
6 Yrs	3.80	3.23	0.58	$1,251	$1,210	$41
7 Yrs	3.89	3.47	0.42	$1,306	$1,269	$37
8 Yrs	4.92	4.68	0.25	$1,469	$1,442	$27
9 Yrs	4.49	4.29	0.20	$1,485	$1,460	$26
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	4.46	4.37	0.09	$1,509	$1,496	$12

MANAGER: Crestline Partners Ltd.
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 10/2001

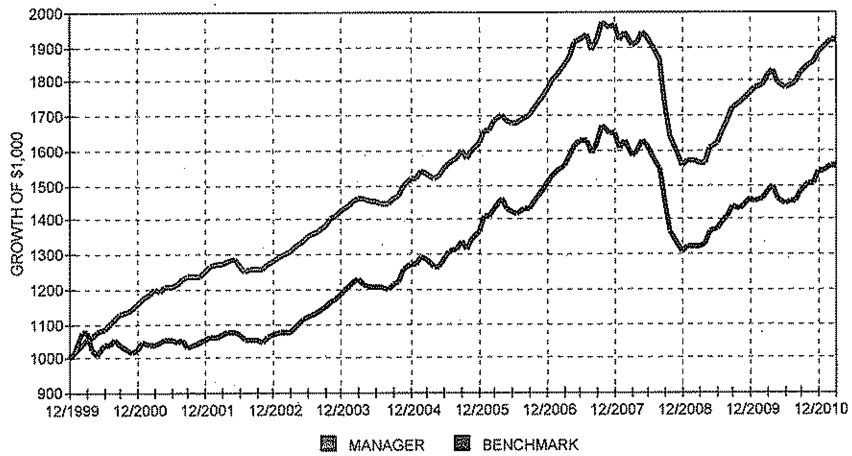
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	2.21	6.11	11.04	-19.62	9.46	12.20	5.98	6.49	12.30	0.02	N/A	4.46
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	4.37
EXCESS	1.21	0.63	-0.42	1.24	-0.26	2.02	-1.48	-0.70	0.88	-1.15	N/A	0.09
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	1.95

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	-0.01	5.92	0.43	0.82	0.88	2.42	-0.07	0.26
4 Yrs	0.56	5.47	0.27	0.75	0.85	2.71	-0.11	0.22
5 Yrs	2.56	5.17	0.84	0.74	0.84	2.59	0.12	0.37
6 Yrs	3.80	4.97	0.80	0.74	0.85	2.48	0.32	0.23
7 Yrs	3.89	4.67	0.74	0.72	0.84	2.42	0.36	0.18
8 Yrs	4.92	4.46	0.92	0.73	0.84	2.30	0.65	0.11
9 Yrs.	4.49	4.38	0.79	0.73	0.81	2.35	0.58	0.09
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	4.46	4.28	0.71	0.73	0.81	2.32	0.59	0.04

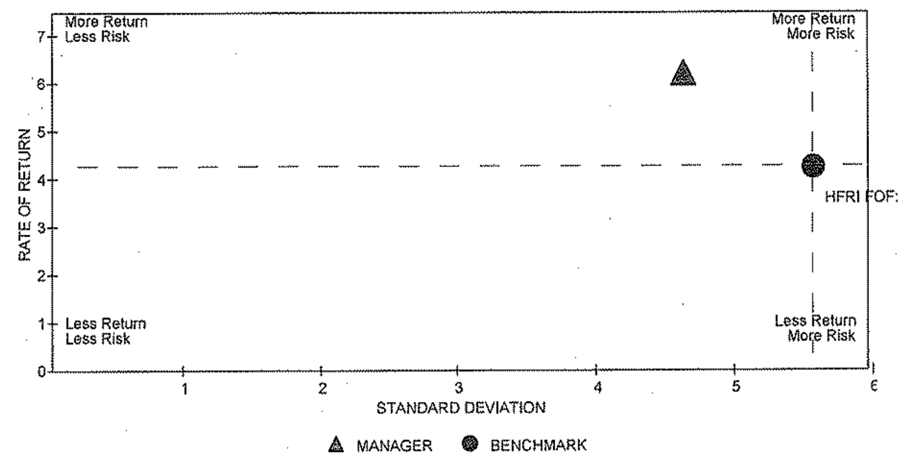
GROSVENOR
INSTITUTIONAL PARTNERS LP
PERFORMANCE VS BENCHMARK
DECEMBER 31, 1999 TO MARCH 31, 2011

PSN

12/1999 - 3/2011



12/1999 - 3/2011



	RATE OF RETURN			GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	5.77	4.90	0.87	$1,058	$1,049	$9
2 Yrs	10.78	8.47	2.31	$1,227	$1,176	$51
3 Yrs	0.20	-0.64	0.84	$1,006	$981	$25
4 Yrs	0.99	-0.04	1.03	$1,040	$998	$42
5 Yrs	2.64	1.61	1.03	$1,139	$1,083	$56
6 Yrs	3.78	3.23	0.55	$1,249	$1,210	$39
7 Yrs	4.00	3.47	0.53	$1,316	$1,269	$47
8 Yrs	4.94	4.68	0.27	$1,471	$1,442	$30
9 Yrs	4.70	4.29	0.41	$1,512	$1,460	$52
10 Yrs	4.82	4.13	0.69	$1,601	$1,498	$102
Inception	5.97	4.00	1.97	$1,919	$1,554	$365

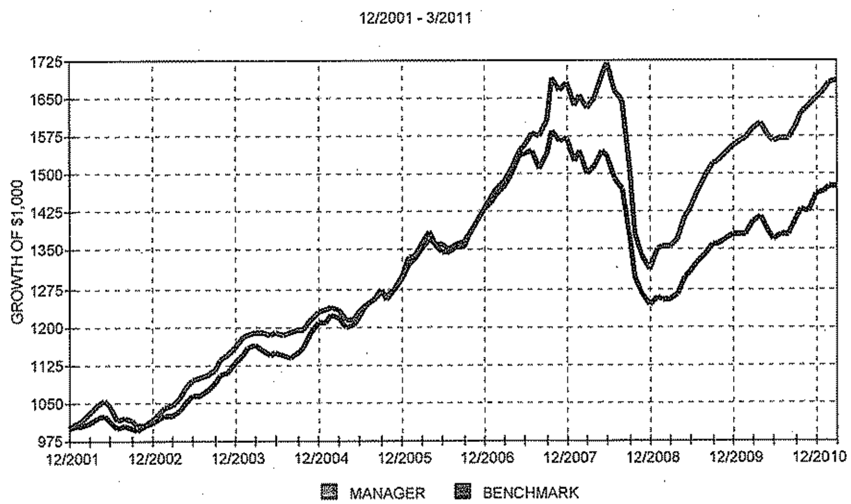
MANAGER: Grosvenor Institutional Partners LP
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 12/1999

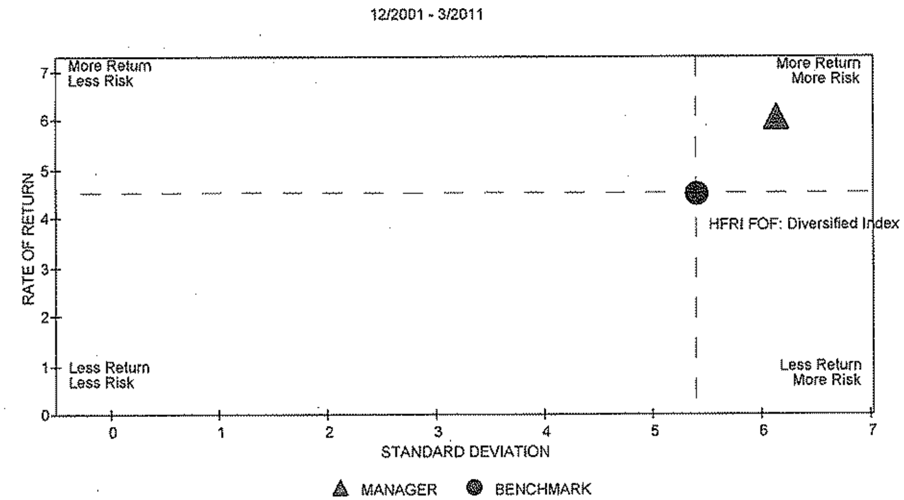
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.84	6.45	13.87	-20.86	10.68	9.40	6.80	6.92	11.02	2.27	8.24	5.97
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	4.00
EXCESS	0.83	0.98	2.41	-0.01	0.95	-0.78	-0.66	-0.27	-0.40	1.10	5.45	1.97
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	2.42

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	0.20	6.86	0.83	0.99	0.95	1.54	-0.03	0.54
4 Yrs	0.99	6.58	0.97	0.95	0.95	1.55	-0.03	0.67
5 Yrs	2.64	6.09	0.99	0.93	0.94	1.53	0.12	0.67
6 Yrs	3.78	5.76	0.62	0.91	0.94	1.54	0.27	0.36
7 Yrs	4.00	5.42	0.64	0.89	0.93	1.51	0.33	0.35
8 Yrs	4.94	5.14	0.54	0.89	0.93	1.48	0.57	0.18
9 Yrs	4.70	4.93	0.64	0.89	0.93	1.44	0.56	0.28
10 Yrs	4.82	4.70	0.95	0.86	0.89	1.69	0.59	0.41
Inception	5.97	4.54	2.41	0.68	0.69	3.04	0.78	0.65

PSN

PAAMCO
PACIFIC HEDGED
PERFORMANCE VS BENCHMARK
DECEMBER 31, 2001 TO MARCH 31, 2011





	RATE OF RETURN			GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	5.92	4.90	1.02	$1,059	$1,049	$10
2 Yrs	11.45	8.47	2.99	$1,242	$1,176	$66
3 Yrs	1.14	-0.64	1.78	$1,035	$981	$54
4 Yrs	3.19	-0.04	3.23	$1,134	$998	$136
5 Yrs	4.47	1.61	2.86	$1,244	$1,083	$161
6 Yrs	5.36	3.23	2.14	$1,368	$1,210	$158
7 Yrs	5.12	3.47	1.65	$1,418	$1,269	$149
8 Yrs	6.13	4.68	1.46	$1,610	$1,442	$169
9 Yrs	5.65	4.29	1.36	$1,640	$1,460	$180
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	5.81	4.29	1.51	$1,685	$1,475	$210

MANAGER: PAAMCO Pacific Hedged
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 12/2001

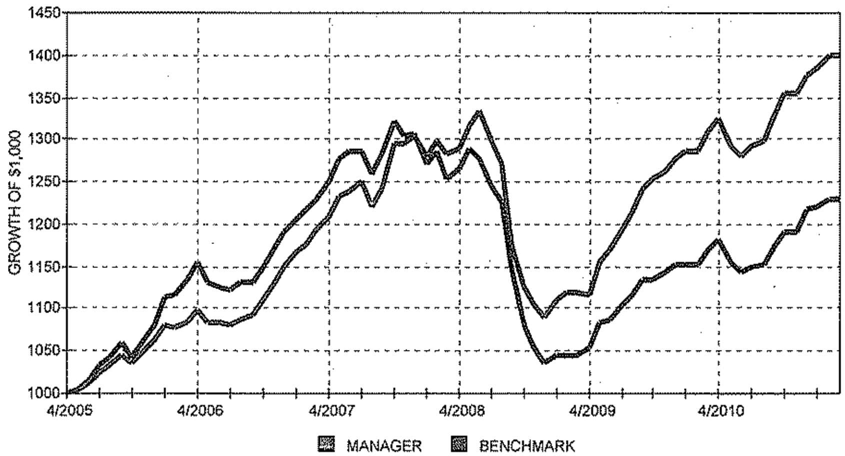
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.97	6.12	18.44	-21.77	17.37	10.84	5.06	6.01	14.31	1.49	N/A	5.81
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	4.29
EXCESS	0.97	0.64	6.98	-0.92	7.64	0.67	-2.40	-1.17	2.89	0.32	N/A	1.51
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	1.96

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	1.14	8.61	2.11	1.20	0.91	2.96	0.09	0.60
4 Yrs	3.19	8.31	3.52	1.15	0.89	2.95	0.24	1.09
5 Yrs	4.47	7.57	2.92	1.11	0.87	2.78	0.33	1.03
6 Yrs	5.36	7.08	2.06	1.07	0.86	2.63	0.44	0.81
7 Yrs	5.12	6.62	1.59	1.04	0.85	2.53	0.44	0.65
8 Yrs	6.13	6.26	1.35	1.03	0.85	2.40	0.66	0.61
9 Yrs	5.65	6.09	1.24	1.05	0.84	2.40	0.61	0.57
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	5.81	6.01	1.38	1.05	0.84	2.39	0.64	0.63

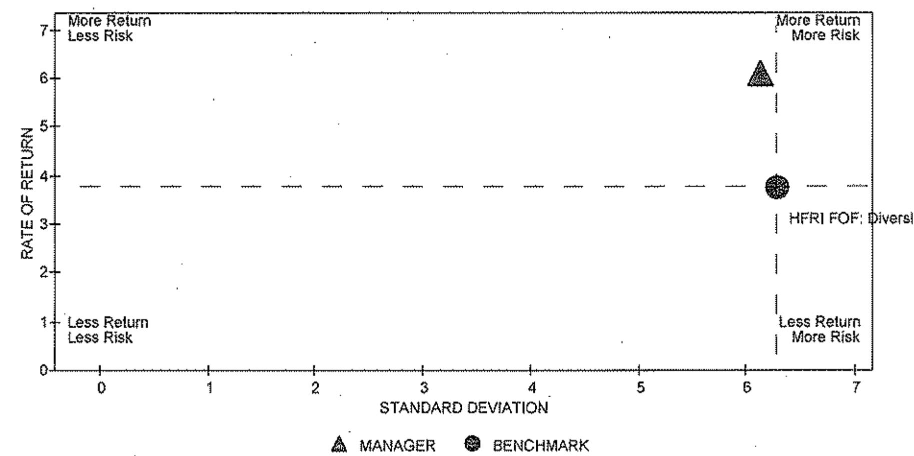
PSN

PRISMA
SPECTRUM LTD.
PERFORMANCE VS BENCHMARK
APRIL 30, 2005 TO MARCH 31, 2011

4/2005 - 3/2011



4/2005 - 3/2011



RATE OF RETURN				GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	6.89	4.90	1.99	$1,069	$1,049	$20
2 Yrs	11.91	8.47	3.45	$1,252	$1,176	$76
3 Yrs	2.96	-0.64	3.60	$1,091	$981	$110
4 Yrs	4.09	-0.04	4.13	$1,174	$998	$176
5 Yrs	5.24	1.61	3.63	$1,291	$1,083	$208
6 Yrs	N/A	3.23	N/A	N/A	$1,210	N/A
7 Yrs	N/A	3.47	N/A	N/A	$1,269	N/A
8 Yrs	N/A	4.68	N/A	N/A	$1,442	N/A
9 Yrs	N/A	4.29	N/A	N/A	$1,460	N/A
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	5.86	3.54	2.32	$1,400	$1,228	$172

MANAGER: Prisma Spectrum Ltd.
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 4/2005

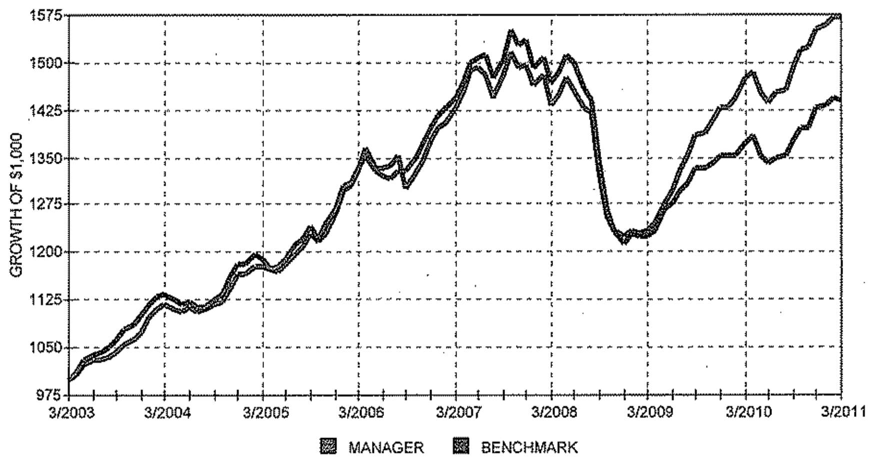
	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.75	7.65	17.29	-16.46	13.45	8.36	N/A	N/A	N/A	N/A	N/A	5.86
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	3.54
EXCESS	0.74	2.17	5.83	4.39	3.72	-1.82	N/A	N/A	N/A	N/A	N/A	2.32
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	2.23

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	2.96	7.19	3.66	1.01	0.91	2.17	0.36	1.66
4 Yrs	4.09	6.97	4.13	0.98	0.90	2.22	0.42	1.86
5 Yrs	5.24	6.44	3.58	0.96	0.90	2.07	0.51	1.75
6 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	5.86	6.02	2.36	0.92	0.87	2.19	0.60	1.06

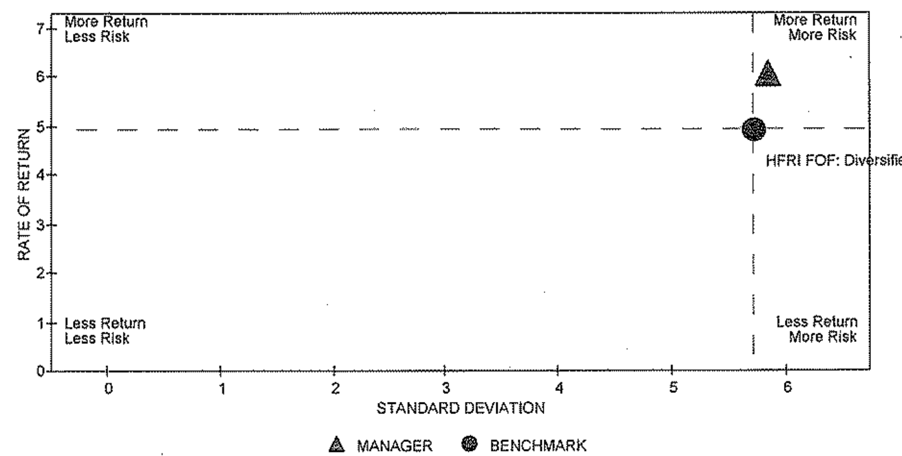
PSN

ROCK CREEK
DIVERSIFIED I
PERFORMANCE VS BENCHMARK
MARCH 31, 2003 TO MARCH 31, 2011

3/2003 - 3/2011



3/2003 - 3/2011



RATE OF RETURN				GROWTH OF $1,000		
PERIOD	MANAGER	BENCHMARK	EXCESS	MANAGER	BENCHMARK	PREMIUM
1 Yr	6.32	4.90	1.42	$1,063	$1,049	$14
2 Yrs	12.80	8.47	4.33	$1,272	$1,176	$96
3 Yrs	3.09	-0.64	3.73	$1,096	$981	$115
4 Yrs	2.36	-0.04	2.40	$1,098	$998	$99
5 Yrs	3.36	1.61	1.75	$1,180	$1,083	$97
6 Yrs	4.88	3.23	1.65	$1,331	$1,210	$121
7 Yrs	4.97	3.47	1.50	$1,404	$1,269	$135
8 Yrs	5.80	4.68	1.12	$1,569	$1,442	$128
9 Yrs	N/A	4.29	N/A	N/A	$1,460	N/A
10 Yrs	N/A	4.13	N/A	N/A	$1,498	N/A
Inception	5.80	4.68	1.12	$1,569	$1,442	$128

MANAGER: Rock Creek Diversified I
BENCHMARK: HFRI FOF: Diversified Index
SINCE INCEPTION: 3/2003

	MRQ	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Incept
MANAGER	1.07	8.83	16.57	-18.19	8.67	9.28	8.19	8.39	N/A	N/A	N/A	5.80
BENCHMARK	1.00	5.48	11.46	-20.85	9.72	10.18	7.46	7.19	11.42	1.17	2.79	4.68
EXCESS	0.07	3.35	5.11	2.67	-1.05	-0.90	0.73	1.20	N/A	N/A	N/A	1.12
90 TBILL	0.03	0.14	0.15	1.27	4.42	4.88	3.30	1.44	1.01	1.59	3.26	2.03

PERIOD	ROR	STDEV	ALPHA	BETA	RSQR	TRCKERR	SHARPE	INFORATIO
3 Yrs	3.09	6.86	3.75	0.99	0.96	1.38	0.39	2.70
4 Yrs	2.36	6.83	2.40	0.99	0.95	1.54	0.17	1.56
5 Yrs	3.36	6.75	1.75	1.01	0.88	2.36	0.21	0.74
6 Yrs	4.88	6.44	1.64	0.99	0.87	2.28	0.41	0.72
7 Yrs	4.97	6.06	1.51	0.97	0.87	2.18	0.46	0.69
8 Yrs	5.80	5.73	1.19	0.96	0.87	2.10	0.66	0.53
9 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10 Yrs	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Inception	5.80	5.73	1.19	0.96	0.87	2.10	0.66	0.53

EXHIBIT 15

To: Aldridge, Brent (KRS)[brent.aldridge@kyret.ky.gov]; Miller, Laura (KRS)[laura.miller@kyret.ky.gov]; Gilbert, Joe (KRS)[joe.gilbert@kyret.ky.gov]; Carter, Brian (KRS)[brian.carter@kyret.ky.gov]; Peden, David (KRS)[david.peden@kyret.ky.gov]; Masthay, Thomas (KRS)[Thomas.Masthay@kyret.ky.gov]
From: Cracraft, Bo (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=BO.CRACRAFT]
Sent: Tue 8/24/2010 8:14:52 AM (UTC-04:00)
Subject: FW: Schedule for the FOF calls USM
KRS FOF Conference Calls 8.24.2010.pdf
Aurora Exposure Report 7.1.10.pdf
Aurora Limited Partnership_Statistics.pdf
Kentucky Retirement Systems - Presentation.pdf
1_warning.htm
PAAMCO Presentation for KRS 20100824.FINAL.pdf

FYI. Here are the digital copies of today's presentations. I have made 7 copies for the group, which I will bring to the conf calls. If you would like to flip through a copy prior to the call, feel free to stop by my office and pick one up!

Thanks, Bo

Bo Cracraft Kentucky Retirement Systems Director of Equity |
|☎502.696.8445 | Fax 502.696.8805 | ✉ bo.cracraft kyret.ky.gov|

From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Monday, August 23, 2010 3:18 PM
To: Cracraft, Bo (KRS)
Cc: Todd Shupp; KRS Team
Subject: RE: Schedule for the FOF calls USM

Bo,

Attached please find the materials for tomorrow's calls as well as the finalized agenda. Please let me know if you have any questions or need anything else. I will send over Wednesday's batch when I have them all as well.

Best,

Kim

Kimberly A. MacKenzie
Administrative Project Assistant
R.V. Kuhns & Associates, Inc.
1 Penn Plaza, Suite 2128
New York, NY 10119
(646) 805-7086 Direct
(646) 805-7075 Main
(646) 805-7986 Facsimile
Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 23, 2010 1:26 PM
To: Kim MacKenzie
Subject: RE: Schedule for the FOF calls USM

No worries. I appreciate you doing this. I just wanted to make sure we were on the same page and I shouldn't be doing something on my end.
Thanks, Bo

Bo Cracraft Kentucky Retirement Systems Director of Equity |
|☎502.696.8445 | Fax 502.696.8805 | ✉ bo.cracraft kyret.ky.gov|

From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Monday, August 23, 2010 12:25 PM
To: Cracraft, Bo (KRS)
Cc: Tony Johnson
Subject: RE: Schedule for the FOF calls USM

Bo,

I have requested that all of the managers send electronic copies to me. I am waiting to get materials from one more manager and will send them all out together when I have them compiled. I will be sure that I send all materials to you in advance of the day's calls so that you have everything you need. Mesirow insisted on sending hard copies as well, so I am glad you received them.

Please let me know if you need anything else and I will be in touch soon.

Best,

Kim

Kimberly A. MacKenzie
Administrative Project Assistant
R.V. Kuhns & Associates, Inc.
1 Penn Plaza, Suite 2128
New York, NY 10119
(646) 805-7086 Direct
(646) 805-7075 Main
(646) 805-7986 Facsimile
Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 23, 2010 12:11 PM
To: Kim MacKenzie
Cc: Tony Johnson
Subject: RE: Schedule for the FOF calls USM

Hey Kim, I have received presentation booklets for Mesirow, but didn't know if we should expect some digital versions that were sent to RVK for the other managers? We can easily print and have in front of us for the calls.

Thanks and just let me know. We are trying to get set for tomorrow.

Thanks, Bo

Bo Cracraft Kentucky Retirement Systems Director of Equity |
|☎502.696.8445 | Fax 502.696.8805 | ✉ bo.cracraft kyret.ky.gov|
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From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Wednesday, August 18, 2010 4:19 PM

To: Cracraft, Bo (KRS)
Subject: RE: Schedule for the FOF calls USM

Great, thanks for the info, Bo. Have a great evening and we will have that info over to you as soon as we can.

Kim

Kimberly A. MacKenzie
Administrative Project Assistant
R.V. Kuhns & Associates, Inc.
1 Penn Plaza, Suite 2128
New York, NY 10119
(646) 805-7086 Direct
(646) 805-7075 Main
(646) 805-7986 Facsimile
Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 18, 2010 3:31 PM
To: Kim MacKenzie; Tony Johnson
Cc: Todd Shupp; Aldridge, Brent (KRS)
Subject: RE: Schedule for the FOF calls USM

Sounds great. Thanks.
As for our attendees,
David Peden, Brent Aldridge, and Bo Cracraft will be calling in to each of the calls.
Joe Gilbert, Tom Masthay, Laura Miller, and Brian Carter have all been invited, but they will probably not all be able to attend every meeting given their availability/etc
You can list everyone if that makes the most sense.

Hopefully that will help and I will keep an eye out for the information.
Thanks again! Bo

Bo Cracraft Kentucky Retirement Systems Director of Equity |
| 502.696.8445 **| Fax** 502.696.8805 **|** bo.cracraft kyret.ky.gov|

From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Wednesday, August 18, 2010 3:17 PM
To: Cracraft, Bo (KRS); Tony Johnson
Cc: Todd Shupp; Aldridge, Brent (KRS)
Subject: RE: Schedule for the FOF calls USM

Bo,

We are working on getting something together for you; we will pass it along as soon as it is complete. Please let us know if you need anything else.

Also, who will be calling in for the calls on your end? The managers have asked for a complete list of attendees.

Thanks a bunch!

Kim

Kimberly A. MacKenzie
Administrative Project Assistant
R.V. Kuhns & Associates, Inc.
1 Penn Plaza, Suite 2128
New York, NY 10119
(646) 805-7086 Direct
(646) 805-7075 Main
(646) 805-7986 Facsimile
Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 18, 2010 2:52 PM
To: Tony Johnson; Kim MacKenzie
Cc: Todd Shupp; Aldridge, Brent (KRS)
Subject: RE: Schedule for the FOF calls USM

Hey Tony, hope this email finds you doing well. I am following up on a voicemail I just left regarding the FOF conference calls that we have scheduled for next week.

I was hoping that we could receive some summary information about each of the seven firm/FOFs to review prior to our calls. I know you have mentioned that RVK maintains a database of RFIs or questionnaires for many of the firms and anything that could be reviewed to prepare and educate ourselves about the firms would be greatly appreciated. Digital versions would be great as well so that we could email to everyone involved.

Just let me know.

Thanks, Bo

Bo Cracraft Kentucky Retirement Systems Director of Equity |
|☎502.696.8445 | **Fax** 502.696.8805 | ✉ bo.cracraft kyret.ky.gov|

From: Tony Johnson [mailto:Tony.Johnson@rvkuhns.com]
Sent: Wednesday, August 04, 2010 9:08 AM
To: Peden, David (KRS); Kim MacKenzie; Cracraft, Bo (KRS); Aldridge, Brent (KRS)
Cc: Todd Shupp
Subject: Re: Schedule for the FOF calls USM

Kim,

Please send the HFOF interview schedule to the KRS staff listed above.

Thanks.

Anthony K. Johnson
Principal, Senior Consultant
R.V. Kuhns & Associates, Inc.
One Penn Plaza, Suite 2128
New ork, N 10119
646-805-7080 Direct
646-805-7980 Facsimile
Tony.Johnson rvkuhns.com
www.rvkuhns.com

Sent from my iPhone
On Aug 4, 2010, at 8:30 AM, "Peden, David (KRS)" <david.peden@kyret.ky.gov> wrote:

Hi Tony,

When you get a tentative schedule for the FOF calls in August please send that to someone. PIMCO would like to come in that week and I want to schedule PIMCO around the FOF calls.

thanks

David Peden
Kentucky Retirement Systems | Director Fixed Income Assets
☎ 502.696.8485 | **Fax** 502.696.8805 | ✉david.peden@kyret.ky.gov

EXHIBIT 16

RVKuhns
& ASSOCIATES, INC.

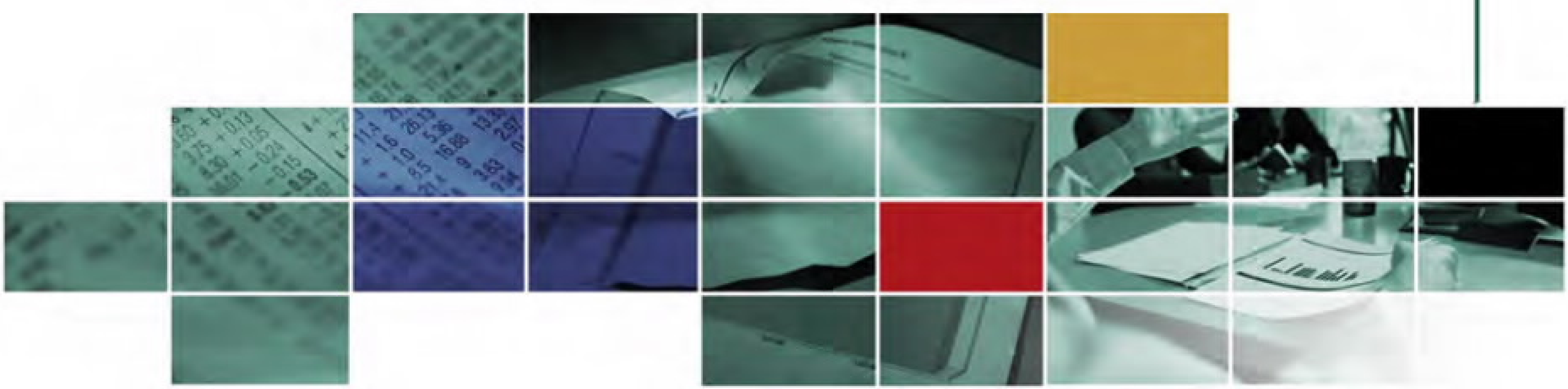
Kentucky Retirement Systems

Investment Manager Search

Absolute Return Strategies

Performance Data as of: December 2010

Performance Format: Net of Fees



RVKuhns & ASSOCIATES, INC.

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Section 2 ....Investment Manager Profiles

- Aurora - AOFL II
- Crestline Offshore Fund, Ltd.
- GAM Diversity
- Grosvenor - GIP L.P.
- Mesirow - MIMSF, LP
- PAAMCO - PHS
- Prisma Spectrum Fund, Ltd.

RVKuhns & ASSOCIATES, INC.

General Information

Strategy Name	Year Firm Established	Year First Fund of Hedge Funds Launched	Firm AUM ($mil)	Fund AUM ($mil)	Percentage Employee Owned	RIA Status
Aurora Offshore Fund Ltd. II	1988	1988	$10,468	$2,100	0%	Yes
Crestline Offshore Fund	1997	1997	$5,800	$526	90%	Yes
GAM Diversity	1983	1989	$14,300	$5,106	0%	Yes
Grosvenor Institutional Partners, L.P.	1971	1971	$24,045	$6,312	70%	Yes
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	1990	1990	$13,628	$1,277	93%	Yes
PAAMCO Pacific Hedged Strategies, LLC	2000	2000	$9,869	$602	73%	Yes
Prisma Spectrum Fund Ltd	2004	2005	$5,300	$942	43%	Yes

RVKuhns & ASSOCIATES, INC.

Personnel / Number of Investment Professionals

Strategy Name	Total Employees	Portfolio Managers	Research Analysts	Other Professionals	Fund Team	Average # of Years Portfolio Managers Have Worked Together
Aurora Offshore Fund Ltd. II	95	3	13	79	Anne Marie Morley; David E. Kuenzi; Gregory D. Schneiderman; Patrick C. Sheedy; Peter S. Hamet; Justin D. Sheperd; Scott C. Schweighauser; Roxanne M. Martino;	15
Crestline Offshore Fund	63	4	18	41	John Cochran; Caroline Cooley; Doug Bratton;	20
GAM Diversity	86	11	15	60	Arvin Soh; Jeffrey Rose; Amir Madden; Chi Keong Lee; Andrew Hutson; Jennifer Drake; Catherine Cripps; Kier Boley; David Smith;	6
Grosvenor Institutional Partners, L.P.	233	4	37	192	Brian A. Wolf, CFA; David S. Richter, CPA; David B. Small; Michael J. Sacks, Esq.;	17
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	105	7	30	68	Mark Kulpins; Eric Siegel; Tom Macina; Brian Cornell; Howard Rossman; Steve Vogt; Marty Kaplan;	5
PAAMCO Pacific Hedged Strategies, LLC	131	10	19	102	Erik Bernhardt; Mayer Cherem; Neale Safaty; Judith Posnikoff; Kemmy Koh; Bill Knight; Alper Ince; Jane Buchan; Charles Armendarez; James Berens;	8
Prisma Spectrum Fund Ltd	46	8	6	32	James Welch; Peter Zakowich; Dan Lawee; Michael Rudzik; Donna Heitzman; Eric Wolfe; William Cook;	6

RVKuhns & ASSOCIATES, INC.

Fund of Hedge Fund Assets Under Management ($Mil)

Strategy Name	Total	Corporate	Public	Taft-Hartley	Endowment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other
Aurora Offshore Fund Ltd. II	**$10,468**	**$2,512**	**$2,826**	**$314**	**$942**	**$2,408**	**$0**	**$1,466**
Crestline Offshore Fund	**$5,800**	**$1,334**	**$2,900**	**$986**	**$116**	**$406**	**$58**	**$0**
GAM Diversity	**$14,300**	**$1,101**	**$1,058**	**$0**	**$86**	**$0**	**$1,316**	**$10,739**
Grosvenor Institutional Partners, L.P.	**$24,045**	**$4,328**	**$4,352**	**$3,775**	**$1,515**	**$1,755**	**$5,867**	**$2,453**
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	**$13,628**	**$3,680**	**$2,453**	**$1,772**	**$681**	**$681**	**$2,317**	**$2,044**
PAAMCO Pacific Hedged Strategies, LLC	**$9,869**	**$2,763**	**$4,737**	**$99**	**$790**	**$296**	**$296**	**$888**
Prisma Spectrum Fund Ltd	**$5,300**	**$848**	**$371**	**$0**	**$159**	**$530**	**$2,491**	**$901**

* Aurora's allocation to "Other" represents separate accounts.
* GAM's allocation to "Other" represents a professional intermediary and private clients.
* Grosvenor's allocation to "Other" represents hospital/health care and non-pension government entities.
* Mesirow's allocation to "Other" represents sovereign entities and third party feeder funds/accounts.
* PAAMCO's allocation to "Other" represents offshore pension, other pension and employees.
* Prisma's allocation to "Other" represents Prisma employees and other non-US pension plans.

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Specific Fund Assets Under Management ($Mil)

Strategy Name	Total	Corporate	Public	Taft-Hartley	Endowment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other
Aurora Offshore Fund Ltd. II	$2,100	$700	$700	$100	$400	$200	$0	$0
Crestline Offshore Fund	$526	$80	$195	$35	$80	$1	$0	$135
GAM Diversity	$5,106	$1,308	$871	$0	$147	$0	$40	$2,740
Grosvenor Institutional Partners, L.P.	$6,312	$1,050	$1,315	$2,790	$293	$134	$0	$730
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	$1,277	$228	$3	$926	$38	$11	$43	$27
PAAMCO Pacific Hedged Strategies, LLC	$602	$0	$235	$0	$285	$0	$0	$82
Prisma Spectrum Fund Ltd	$942	$212	$65	$0	$138	$3	$420	$104

* Crestline's allocation to "Other" represents inter-fund investments.
* GAM's allocation to "Other" represents mutual fund assets held in the name of third party intermediaries.
* Grosvenor's allocation to "Other" represents hospital/health care and non-pension government entities.
* Mesirow's allocation to "Other" represents other pensions and pensions managed on behalf of hospitals.
* PAAMCO's allocation to "Other" represents religious organization pension plans.
* Prisma's allocation to "Other" represents Prisma employees and other non-US pension plans.

Underlying Investment Manager Information

Strategy Name	Amount Invested by General Partners ($mil)	Current Number of Underlying Managers	Range of Underlying Managers	Maximum Weighting of any Manager	Frequency of Communication with Underlying Managers	Manager Turnover	Ratio of Current Managers to Research Analysts
Aurora Offshore Fund Ltd. II	**$100**	**43**	**40 - 50**	**10%**	**Regular/Constant**	**19%**	**7:1**
Crestline Offshore Fund	**$31**	**46**	**42 - 60**	**10%**	**Monthly/quarterly with annual on-site visits**	**20%**	**5:1**
GAM Diversity	**25% of management's net worth**	**32**	**30 - 70**	**7%**	**Constant contact with managers (On-going)**	**15%**	**3:1**
Grosvenor Institutional Partners, L.P.	**$313**	**41**	**21 - 67**	**10%**	**Monthly at a minimum**	**13%**	**2.5:1**
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	**$414**	**57**	**25 - 90**	**N/A***	**Monthly**	**15%**	**2:1**
PAAMCO Pacific Hedged Strategies, LLC	**$15**	**53**	**45 - 65**	**5%**	**Monthly**	**20%**	**1.7:1**
Prisma Spectrum Fund Ltd	**$80**	**48**	**21 - 48**	**4%**	**Monthly**	**17%**	**14:1**

* Mesirow does not have specific limits on manager weightings. However, in many funds they strive to maintain a 5% allocation on any underlying fund position at time of purchase. Please note that this may fluctuate after time of purchase and is a general guideline.

RVKuhns & ASSOCIATES, INC.

Current Allocation by Strategy

Strategy Name	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other*
Aurora Offshore Fund Ltd. II	34%	12%	0%	0%	21%	0%	0%	0%	15%	18%
Crestline Offshore Fund	23%	0%	2%	5%	9%	2%	0%	4%	2%	53%
GAM Diversity	27%	0%	37%	0%	2%	0%	0%	2%	0%	32%
Grosvenor Institutional Partners, L.P.	36%	2%	0%	0%	0%	1%	0%	0%	5%	57%
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	23%	4%	0%	0%	31%	2%	0%	0%	3%	38%
PAAMCO Pacific Hedged Strategies, LLC	28%	0%	0%	7%	11%	9%	4%	9%	0%	32%
Prisma Spectrum Fund Ltd	27%	2%	4%	2%	34%	5%	0%	10%	13%	3%

* Aurora's allocation to "Other" represents their multi-strategy opportunistic strategy.
* Crestline's allocation to "Other" represents credit arbitrage, origination, multiple strategy, bank loans, cash and other assets.
* GAM's allocation to "Other" includes credit L/S, ABS, relative value and event driven.
* Grosvenor's allocation to "Other" represents L/S credit, directional credit, event driven, relative value, multi-strategy and cash.
* Mesirow's allocation to "Other" represents event, relative value, multi-strategy, redeeming managers and cash.
* PAAMCO's allocation to "Other" represents Long/Short credit, opportunistic and a cash balance that ranges from 1-8%.

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Allocation by Region

Strategy Name	U.S.	Developed Europe	Japan	Emerging Mkts	Other*
Aurora Offshore Fund Ltd. II	**54%**	**19%**	**5%**	**8%**	**14%**
Crestline Offshore Fund	**65%**	**22%**	**6%**	**2%**	**5%**
GAM Diversity	**44%**	**23%**	**0%**	**16%**	**17%**
Grosvenor Institutional Partners, L.P.	**66%**	**16%**	**3%**	**5%**	**10%**
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	**78%**	**11%**	**2%**	**2%**	**7%**
PAAMCO Pacific Hedged Strategies, LLC	**64%**	**19%**	**3%**	**4%**	**10%**
Prisma Spectrum Fund Ltd	**58%**	**21%**	**13%**	**2%**	**6%**

* Aurora's allocation to "Other" represents global allocations.
* Crestline's allocation to "Other" represents global allocation which incudes commodities, currencies and CTAs.
* GAM's allocation to "Other" represents Asia-Pacific and global allocations.
* Grosvenor's allocation to "Other" represents allocations to Australia, Hong Kong, New Zealand, Singapore and cash.
* Mesirow's allocation to "Other" represents Asia ex-Japan.
* PAAMCO's allocation to "Other" represents Canada, Hong Kong, Australia and Bermuda.
* Prisma's allocation to "Other" represents commodities and foreign exchange exposure.

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General Product Information

Strategy Name	Inception Date	Onshore/Offshore	Is UBTI Likely?	3.C.1 or 3.C.7?	Accepting ERISA Clients?	Historical Leverage Range (look-through)
Aurora Offshore Fund Ltd. II	7/1/2002	Offshore	No	3c7	Yes	1x - 2.6x
Crestline Offshore Fund	11/1/2001	Offshore	No	3c7	Yes	1x - 1.2x
GAM Diversity	7/1/1996	Offshore	No	3c7	Yes	1x - 3x
Grosvenor Institutional Partners, L.P.	1/1/2000	Onshore	No	3c7	Yes	1.1x - 2.8x
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	4/1/2004	Onshore	No	3c7	Yes	1.3x - 2.4x
PAAMCO Pacific Hedged Strategies, LLC	1/1/2002	Onshore	No	3c7	No	0.9x - 1.7x
Prisma Spectrum Fund Ltd	5/1/2005	Offshore	No	3c7	Yes	1.5x

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Minimum and Fee Information

Strategy Name	Subscription Frequency	Lock-Up Period	Redemption Frequency	Notice Period	Minimum Investment ($mil)	Annual Management Fee*	Performance Fee	Hurdle Rate	High Water Mark?
Aurora Offshore Fund Ltd. II	Monthly	No	Quarterly	95 Days	$1	1.0%	10.0%	No	Yes
Crestline Offshore Fund	Monthly	12 Months	Quarterly	95 Days	$1	1.3%	0.0%	No	No
GAM Diversity	Weekly	No	Quarterly	95 Days	$3	1.1%	0.0%	No	No
Grosvenor Institutional Partners, L.P.	Monthly	No	Quarterly	70 Days	$5	First $10 Million: 1.4% Next $15 Million: 1.2% Next $25 Million: 1.0% Next $50 Million: 0.8% Over $100 Million: 0.6%	0.0%	No	No
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	Monthly	No	Quarterly	95 Days	$5	1.0%	10.0%	5.0%	Yes
PAAMCO Pacific Hedged Strategies, LLC	Monthly	12 Months	Quarterly	90 Days	$5	1.0%	5.0%	No	Yes
Prisma Spectrum Fund Ltd	Monthly	12 Months	Quarterly	65 Days	$1	1.0%	5.0%	Yes*	Yes

* Lower fees may be negotiated for mandates over $100 million.
* Prisma's hurdle rate is the performance of 13 Week US T-Bill.

Trailing Period Returns

RVKuhns & ASSOCIATES, INC.

As of December 2010

Firm/Product	Current Quarter	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Aurora - AOFL II	3.5	6.8	6.8	-0.1	4.3	5.3	---
Crestline Offshore Fund, Ltd.	2.4	6.1	6.1	-1.8	3.1	4.0	---
GAM Diversity	2.2	-1.9	-1.9	-4.1	1.6	3.1	4.6
Grosvenor - GIP L.P.	3.0	6.3	6.3	-1.4	3.0	4.1	5.0
Mesirow - MIMSF, LP	2.8	6.6	6.6	2.0	4.8	---	---
PAAMCO - PHS	3.5	6.1	6.1	-0.6	5.0	5.2	---
Prisma Spectrum Fund, Ltd.	3.6	7.6	7.6	1.8	5.3	---	---
HFN FoF Multi-Strategy Average	*3.4*	*4.8*	*4.8*	*-3.0*	*2.0*	*3.3*	*4.5*
Merrill Lynch - T-Bills +5%	*1.3*	*5.1*	*5.1*	*5.8*	*7.5*	*7.5*	*7.5*
BC Aggregate Bond Index	*-1.3*	*6.5*	*6.5*	*5.9*	*5.8*	*5.1*	*5.8*
S&P 500 Index	*10.8*	*15.1*	*15.1*	*-2.9*	*2.3*	*3.9*	*1.4*

Performance is Net of Fees

Calendar Year Returns

RVKuhns & ASSOCIATES, INC.

As of December 2010

Firm/Product	Calendar Year 2010	2009	2008	2007	2006	2005	2004
Aurora - AOFL II	6.8	20.6	-22.5	13.3	9.1	9.5	6.5
Crestline Offshore Fund, Ltd.	6.1	11.0	-19.6	9.5	12.2	6.0	6.5
GAM Diversity	-1.9	5.9	-15.0	6.4	15.3	9.1	4.8
Grosvenor - GIP L.P.	6.3	13.9	-20.9	10.7	9.4	6.8	6.9
Mesirow - MIMSF, LP	6.6	18.0	-15.7	8.7	9.8	5.3	---
PAAMCO - PHS	6.1	18.4	-21.8	17.4	10.8	5.1	6.0
Prisma Spectrum Fund, Ltd.	7.6	17.3	-16.5	13.4	8.4	---	---
BC Aggregate Bond Index	*6.5*	*5.9*	*5.2*	*7.0*	*4.3*	*2.4*	*4.3*
HFN FoF Multi-Strategy Average	*4.8*	*9.7*	*-20.6*	*9.9*	*9.8*	*6.8*	*6.8*
Merrill Lynch - T-Bills +5%	*5.1*	*5.2*	*7.2*	*10.3*	*10.1*	*8.2*	*6.4*
S&P 500 Index	*15.1*	*26.5*	*-37.0*	*5.5*	*15.8*	*4.9*	*10.9*

Performance is Net of Fees

Three Year Risk Analysis

RVKuhns & ASSOCIATES, INC.

As of December 2010

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - AOFL II	-0.1	9.0	-0.1	5.0	-8.3	22.0	14.0
Crestline Offshore Fund, Ltd.	-1.8	6.0	-0.4	1.9	-5.4	23.0	13.0
GAM Diversity	-4.1	5.1	-1.0	1.3	-4.7	18.0	18.0
Grosvenor - GIP L.P.	-1.4	7.2	-0.3	2.7	-6.9	24.0	12.0
Mesirow - MIMSF, LP	2.0	6.3	0.2	3.8	-6.3	24.0	12.0
PAAMCO - PHS	-0.6	9.0	-0.2	3.2	-8.6	25.0	11.0
Prisma Spectrum Fund, Ltd.	1.8	7.4	0.1	3.5	-7.8	25.0	11.0
S&P 500 Index	-2.9	22.2	-0.2	9.6	-16.8	21.0	15.0
BC Aggregate Bond Index	5.9	4.2	1.2	3.7	-2.4	24.0	12.0
HFN FoF Multi-Strategy Average	-3.0	7.3	-0.5	3.0	-6.6	20.0	16.0

MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	0.2	0.3	52.3	28.9	10.1	32.9	-9.2
Crestline Offshore Fund, Ltd.	-2.0	0.2	36.0	11.8	4.1	20.3	-5.7
GAM Diversity	-4.3	0.1	36.4	7.7	2.7	23.5	-6.6
Grosvenor - GIP L.P.	-1.5	0.2	39.6	16.8	5.9	24.6	-6.9
Mesirow - MIMSF, LP	1.8	0.2	29.1	19.0	6.6	15.6	-4.4
PAAMCO - PHS	-0.5	0.2	34.4	21.3	7.4	26.6	-7.4
Prisma Spectrum Fund, Ltd.	1.7	0.2	30.1	21.3	7.5	18.8	-5.3
S&P 500 Index	0.0	1.0	100.0	100.0	35.0	100.0	-28.0
BC Aggregate Bond Index	5.3	0.0	5.7	11.0	3.9	-7.0	2.0
HFN FoF Multi-Strategy Average	-2.9	0.2	51.2	17.3	6.1	30.5	-8.5

MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	-2.7	0.4	2.8	31.2	2.9	92.7	-2.9
Crestline Offshore Fund, Ltd.	-2.7	0.0	0.0	-0.6	-0.1	56.1	-1.7
GAM Diversity	-5.1	0.0	0.1	-22.4	-2.1	64.7	-2.0
Grosvenor - GIP L.P.	-3.2	0.2	1.2	13.6	1.3	85.7	-2.7
Mesirow - MIMSF, LP	-0.2	0.3	3.2	41.7	3.9	58.9	-1.8
PAAMCO - PHS	-3.1	0.3	2.6	21.5	2.0	80.6	-2.5
Prisma Spectrum Fund, Ltd.	-0.1	0.2	1.5	33.1	3.1	40.1	-1.2
S&P 500 Index	-10.0	1.2	5.7	107.0	9.9	374.6	-11.6
BC Aggregate Bond Index	0.0	1.0	100.0	100.0	9.3	100.0	-3.1
HFN FoF Multi-Strategy Average	-5.3	0.3	2.7	1.0	0.1	99.3	-3.1

Five Year Risk Analysis

RVKuhns & ASSOCIATES, INC.

As of December 2010

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - AOFL II	4.3	7.5	0.2	5.0	-8.3	41.0	19.0
Crestline Offshore Fund, Ltd.	3.1	5.3	0.1	2.3	-5.4	44.0	16.0
GAM Diversity	1.6	6.0	-0.1	3.8	-4.7	36.0	24.0
Grosvenor - GIP L.P.	3.0	6.2	0.1	2.7	-6.9	44.0	16.0
Mesirow - MIMSF, LP	4.8	5.4	0.4	3.8	-6.3	42.0	18.0
PAAMCO - PHS	5.0	7.7	0.3	5.1	-8.6	44.0	16.0
Prisma Spectrum Fund, Ltd.	5.3	6.5	0.4	4.4	-7.8	43.0	17.0
S&P 500 Index	2.3	17.8	0.0	9.6	-16.8	39.0	21.0
BC Aggregate Bond Index	5.8	3.6	0.9	3.7	-2.4	41.0	19.0
HFN FoF Multi-Strategy Average	2.0	6.6	-0.1	3.1	-6.6	38.0	22.0

MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	1.9	0.3	49.8	36.6	10.4	27.1	-5.5
Crestline Offshore Fund, Ltd.	0.7	0.2	33.1	22.2	6.3	15.0	-3.0
GAM Diversity	-0.8	0.2	25.2	21.7	6.1	21.0	-4.3
Grosvenor - GIP L.P.	0.6	0.2	37.3	26.0	7.3	20.0	-4.0
Mesirow - MIMSF, LP	2.4	0.2	29.9	27.6	7.8	13.7	-2.8
PAAMCO - PHS	2.7	0.2	32.3	33.6	9.5	20.1	-4.1
Prisma Spectrum Fund, Ltd.	2.9	0.2	27.5	30.0	8.5	14.4	-2.9
S&P 500 Index	0.0	1.0	100.0	100.0	28.3	100.0	-20.3
BC Aggregate Bond Index	3.4	0.0	2.9	13.2	3.7	-9.8	2.0
HFN FoF Multi-Strategy Average	-0.4	0.3	46.1	27.4	7.8	26.5	-5.4

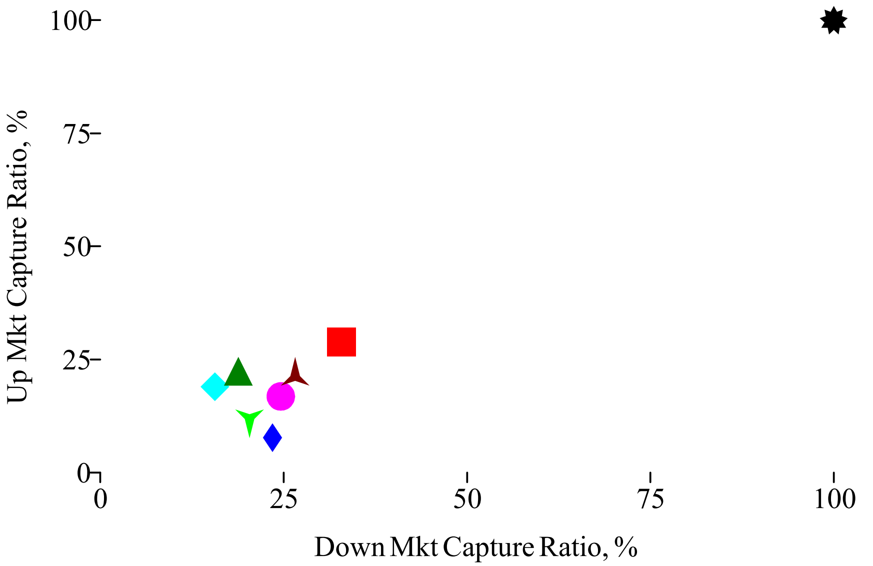
MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	1.3	0.2	0.7	56.2	4.8	18.3	-0.4
Crestline Offshore Fund, Ltd.	1.0	-0.1	0.5	32.2	2.7	-13.8	0.3
GAM Diversity	-0.4	-0.1	0.4	15.9	1.3	-11.0	0.3
Grosvenor - GIP L.P.	0.5	0.0	0.0	37.5	3.2	6.7	-0.2
Mesirow - MIMSF, LP	2.0	0.1	0.6	52.0	4.4	-16.4	0.4
PAAMCO - PHS	2.2	0.1	0.4	57.2	4.8	-8.1	0.2
Prisma Spectrum Fund, Ltd.	2.6	0.1	0.3	56.9	4.8	-20.2	0.5
S&P 500 Index	-2.9	0.8	2.9	109.1	9.2	259.0	-6.4
BC Aggregate Bond Index	0.0	1.0	100.0	100.0	8.5	100.0	-2.5
HFN FoF Multi-Strategy Average	-0.7	0.1	0.1	28.7	2.4	18.6	-0.5

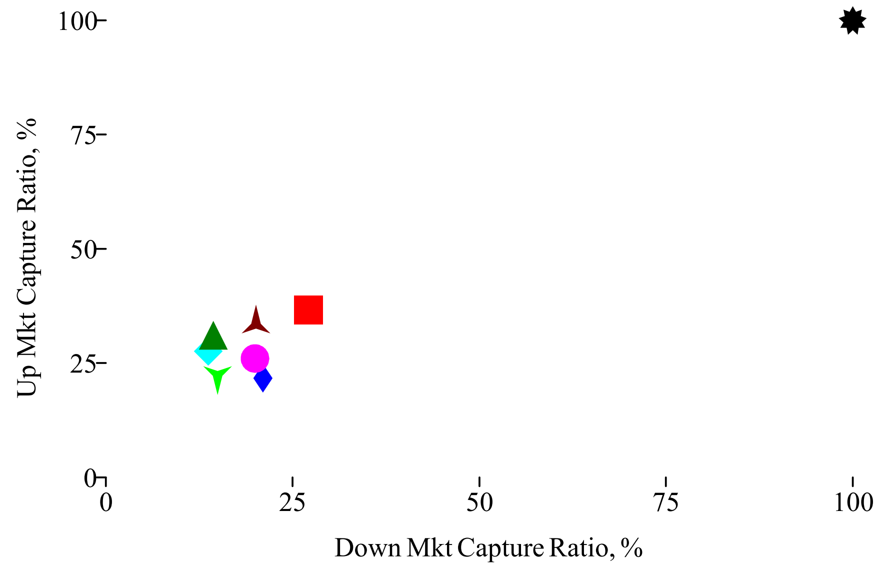
Up/Down Market Capture - Three and Five Year

As of December 2010 **Benchmark: S&P 500 Index**

Three Year Up/Down Market Capture Ratio



Five Year Up/Down Market Capture Ratio



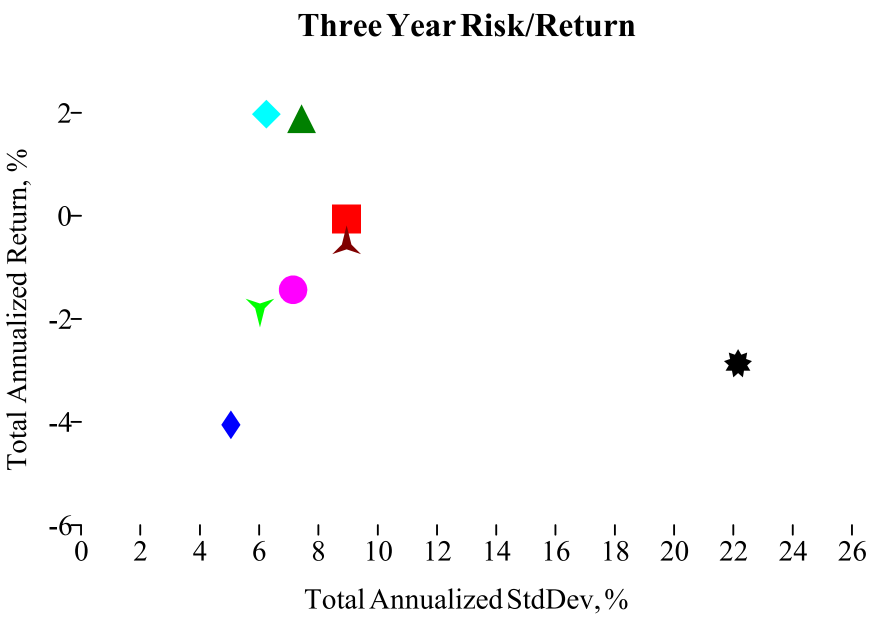
Aurora - AOFL II | Crestline Offshore Fund, Ltd. | GAM Diversity | Grosvenor - GIP L.P. | Mesirow - MIMSF, LP
PAAMCO - PHS | Prisma Spectrum Fund, Ltd. | S&P 500 Index

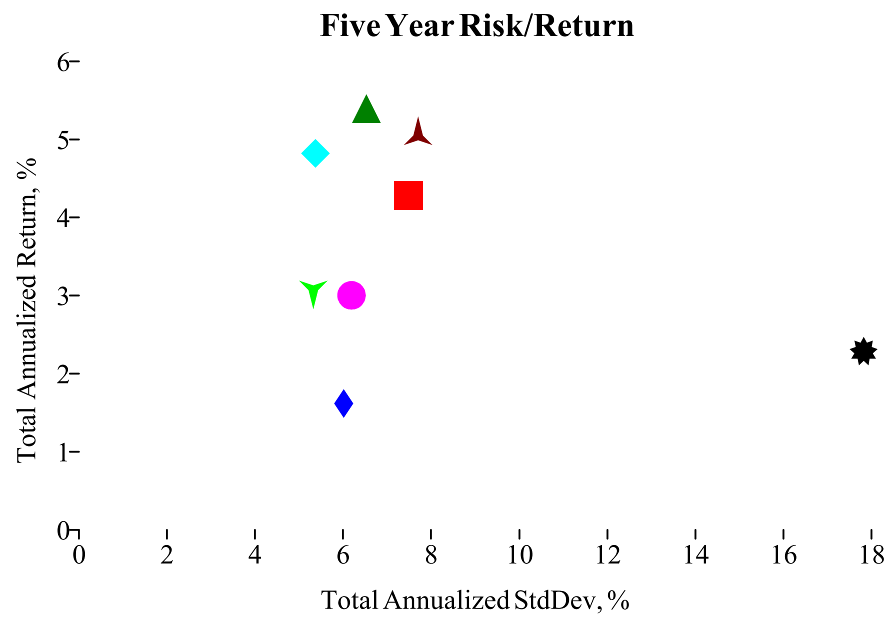
	Down Mkt Cap Ratio, %	Down Mkt Months	Up Mkt Cap Ratio, %	Up Mkt Months
Aurora - AOFL II	32.92	15	28.86	21
Crestline Offshore Fund, Ltd.	20.33	15	11.84	21
GAM Diversity	23.48	15	7.73	21
Grosvenor - GIP L.P.	24.63	15	16.80	21
Mesirow - MIMSF, LP	15.61	15	18.99	21
PAAMCO - PHS	26.56	15	21.26	21
Prisma Spectrum Fund, Ltd.	18.80	15	21.31	21
S&P 500 Index	**100.00**	**15**	**100.00**	**21**

	Down Mkt Cap Ratio, %	Down Mkt Months	Up Mkt Cap Ratio, %	Up Mkt Months
Aurora - AOFL II	27.14	21	36.58	39
Crestline Offshore Fund, Ltd.	14.96	21	22.23	39
GAM Diversity	21.03	21	21.71	39
Grosvenor - GIP L.P.	19.96	21	25.96	39
Mesirow - MIMSF, LP	13.72	21	27.61	39
PAAMCO - PHS	20.08	21	33.58	39
Prisma Spectrum Fund, Ltd.	14.39	21	30.02	39
S&P 500 Index	**100.00**	**21**	**100.00**	**39**

Risk/Return - Three and Five Year

As of December 2010 **Benchmark: S&P 500 Index**





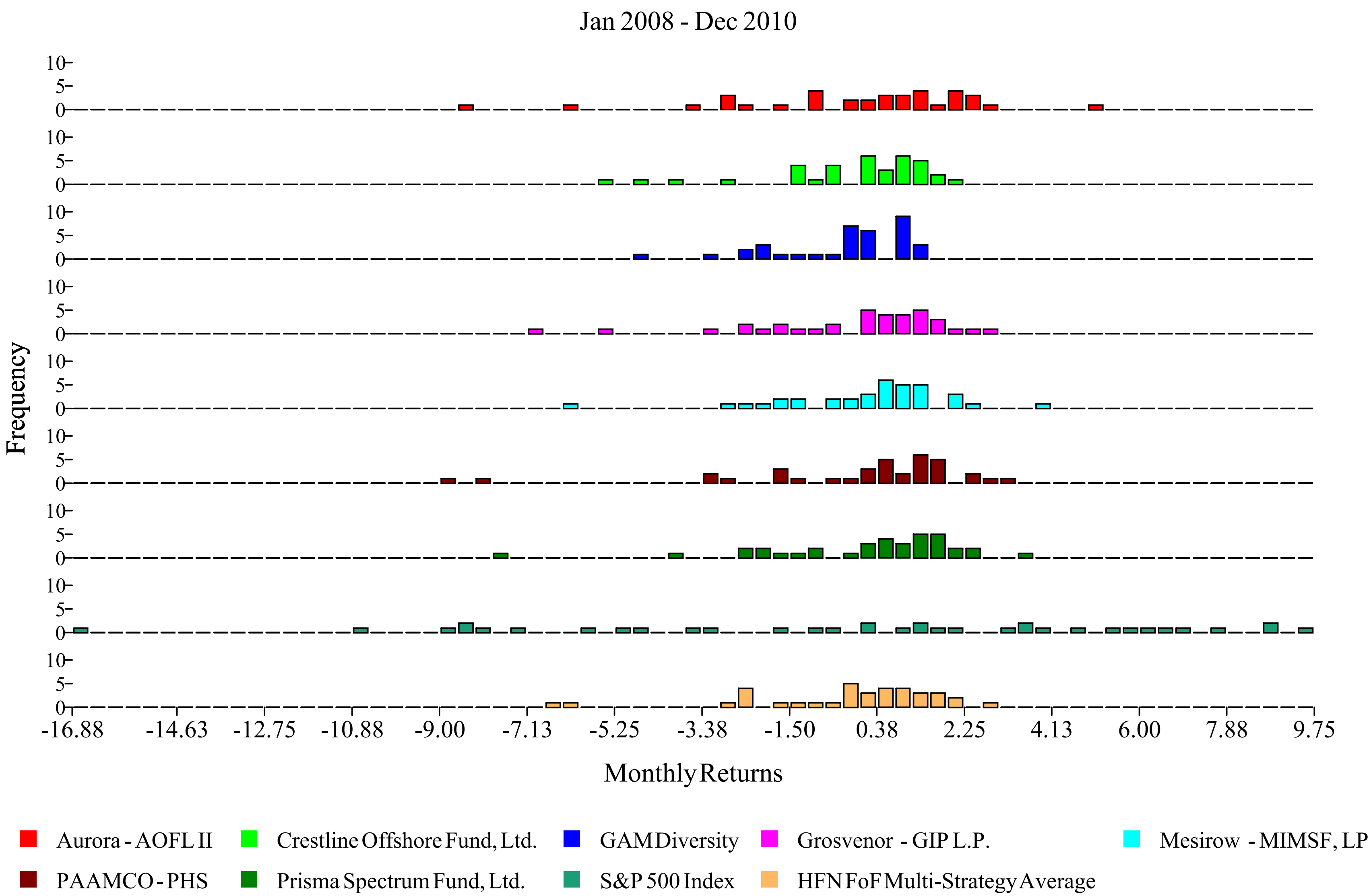
Aurora - AOFL II
Crestline Offshore Fund, Ltd.
GAM Diversity
Grosvenor - GIP L.P.
Mesirow - MIMSF, LP
PAAMCO - PHS
Prisma Spectrum Fund, Ltd.
S&P 500 Index

	Annualized Return	Annualized Std. Dev.
Aurora - AOFL II	-0.06	8.96
Crestline Offshore Fund, Ltd.	-1.80	6.03
GAM Diversity	-4.06	5.05
Grosvenor - GIP L.P.	-1.43	7.16
Mesirow - MIMSF, LP	1.97	6.25
PAAMCO - PHS	-0.56	8.95
Prisma Spectrum Fund, Ltd.	1.79	7.44
S&P 500 Index	**-2.86**	**22.16**

	Annualized Return	Annualized Std. Dev.
Aurora - AOFL II	4.28	7.49
Crestline Offshore Fund, Ltd.	3.07	5.32
GAM Diversity	1.62	6.01
Grosvenor - GIP L.P.	3.00	6.19
Mesirow - MIMSF, LP	4.82	5.37
PAAMCO - PHS	5.05	7.71
Prisma Spectrum Fund, Ltd.	5.33	6.53
S&P 500 Index	**2.29**	**17.82**

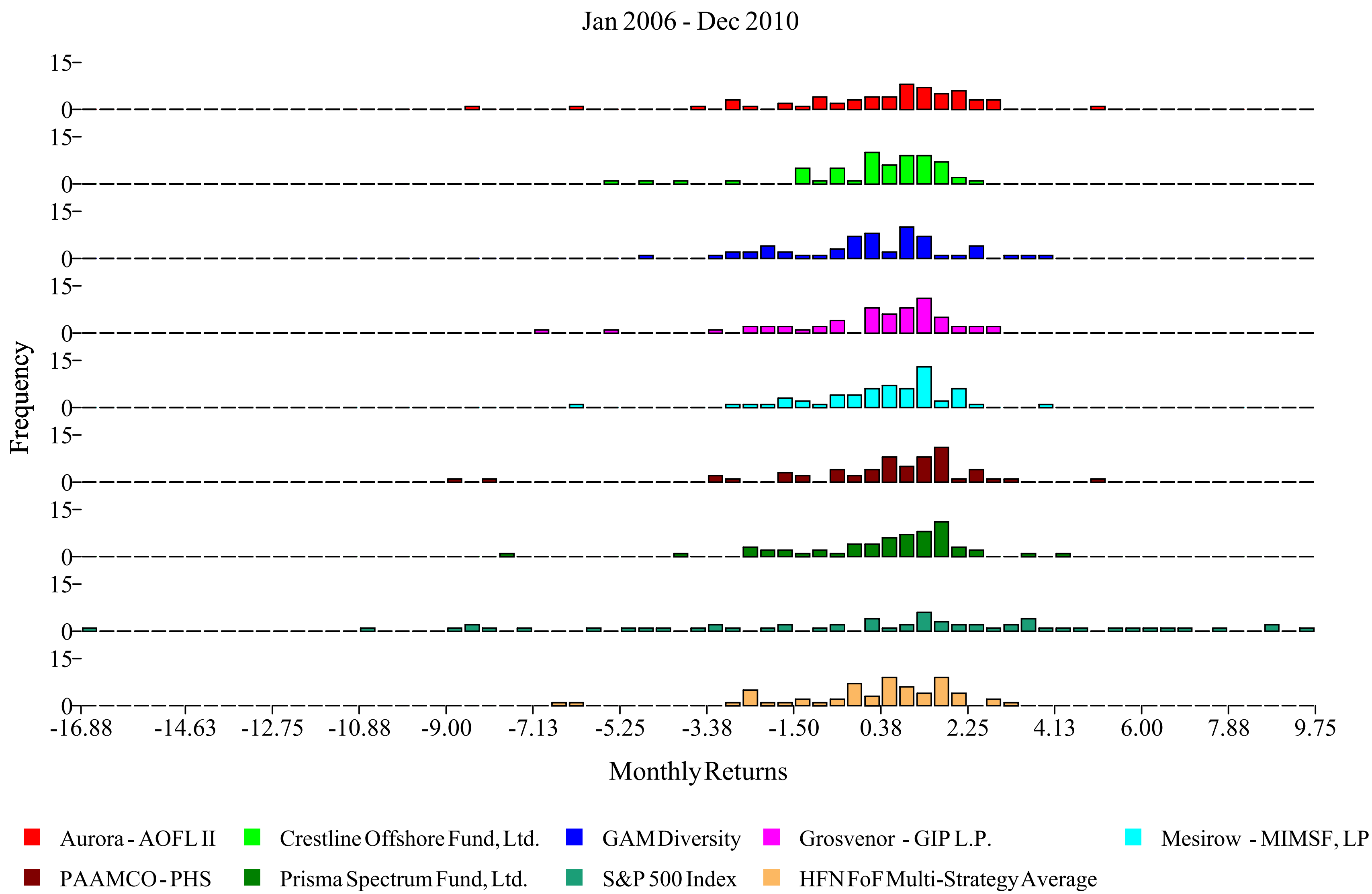
Distribution of Returns - 3 Year

As of December 2010



Distribution of Returns - 5 Year

As of December 2010



Correlation Of Returns - 3 Year

RVKuhns & ASSOCIATES, INC.

As of December 2010

Direct Correlations

Correlation: Jan 2008 - Dec 2010	Aurora - AOFL II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - GIP L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.
Aurora - AOFL II	1.00	0.90	0.88	0.95	0.94	0.93	0.93
Crestline Offshore Fund, Ltd.	0.90	1.00	0.83	0.96	0.90	0.92	0.91
GAM Diversity	0.88	0.83	1.00	0.90	0.85	0.84	0.91
Grosvenor - GIP L.P.	0.95	0.96	0.90	1.00	0.95	0.95	0.96
Mesirow - MIMSF, LP	0.94	0.90	0.85	0.95	1.00	0.90	0.94
PAAMCO - PHS	0.93	0.92	0.84	0.95	0.90	1.00	0.94
Prisma Spectrum Fund, Ltd.	0.93	0.91	0.91	0.96	0.94	0.94	1.00
S&P 500 Index	0.72	0.59	0.60	0.62	0.53	0.58	0.54
BC Aggregate Bond Index	0.11	-0.04	-0.02	0.06	0.13	0.11	0.07
HFN FoF Multi-Strategy Average	0.97	0.90	0.89	0.96	0.90	0.95	0.94

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Jan 2008 - Dec 2010	Aurora - AOFL II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - GIP L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.
Aurora - AOFL II	1.00	-0.15	-0.37	0.17	0.16	0.30	0.18
Crestline Offshore Fund, Ltd.	-0.15	1.00	0.50	0.76	0.61	0.12	0.41
GAM Diversity	-0.37	0.50	1.00	0.39	0.52	-0.34	0.39
Grosvenor - GIP L.P.	0.17	0.76	0.39	1.00	0.66	0.35	0.64
Mesirow - MIMSF, LP	0.16	0.61	0.52	0.66	1.00	0.04	0.62
PAAMCO - PHS	0.30	0.12	-0.34	0.35	0.04	1.00	0.34
Prisma Spectrum Fund, Ltd.	0.18	0.41	0.39	0.64	0.62	0.34	1.00
S&P 500 Index	0.39	-0.40	-0.44	-0.35	-0.53	-0.17	-0.51
BC Aggregate Bond Index	-0.47	0.35	0.56	0.08	0.47	-0.33	0.05

Correlation Of Returns - 5 Year

RVKuhns & ASSOCIATES, INC.

As of December 2010

Direct Correlations

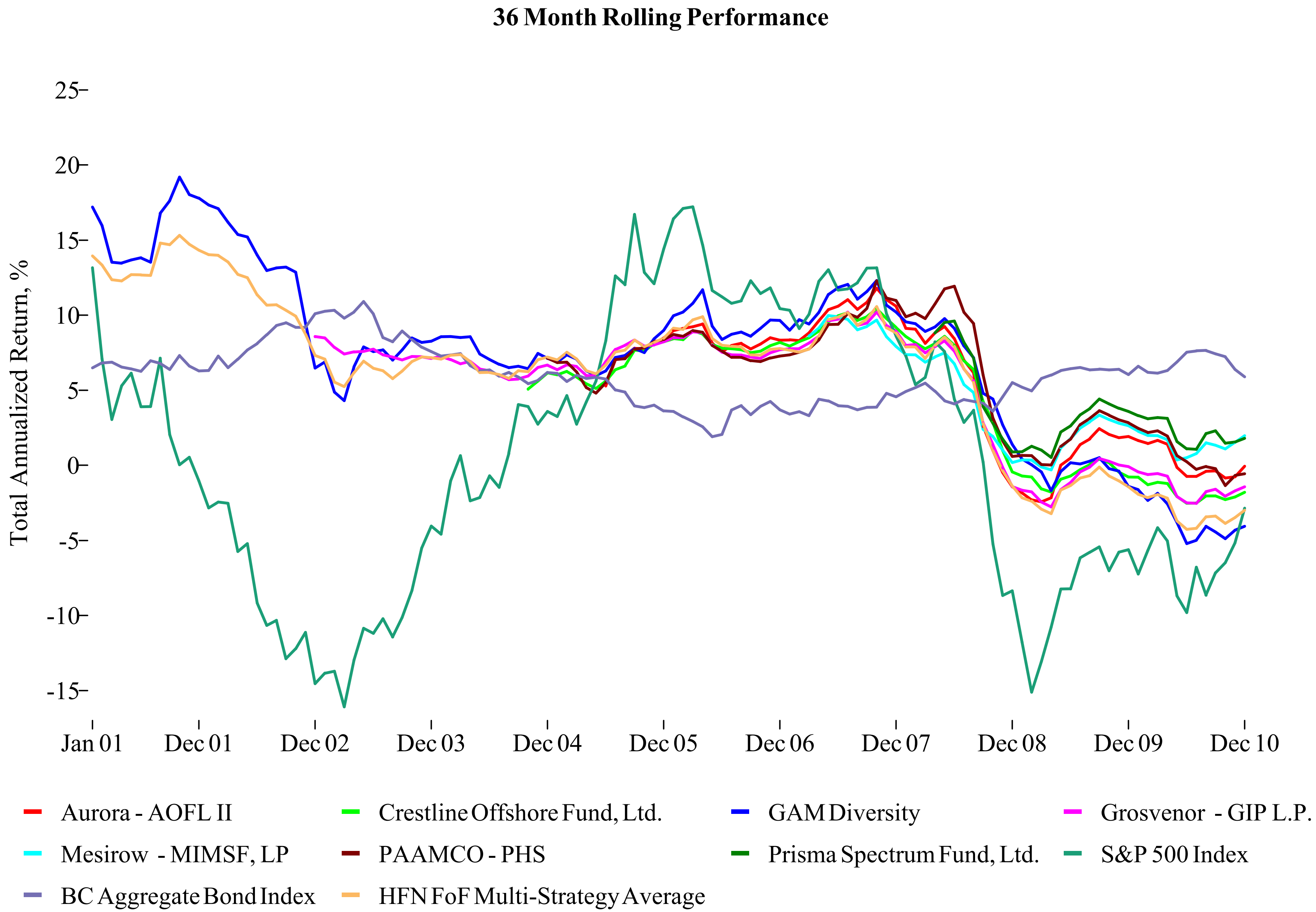
Correlation: Jan 2006 - Dec 2010	Aurora - AOFL II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - GIP L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.
Aurora - AOFL II	1.00	0.90	0.78	0.95	0.93	0.92	0.93
Crestline Offshore Fund, Ltd.	0.90	1.00	0.79	0.95	0.89	0.90	0.89
GAM Diversity	0.78	0.79	1.00	0.80	0.77	0.73	0.79
Grosvenor - GIP L.P.	0.95	0.95	0.80	1.00	0.94	0.94	0.95
Mesirow - MIMSF, LP	0.93	0.89	0.77	0.94	1.00	0.88	0.93
PAAMCO - PHS	0.92	0.90	0.73	0.94	0.88	1.00	0.92
Prisma Spectrum Fund, Ltd.	0.93	0.89	0.79	0.95	0.93	0.92	1.00
S&P 500 Index	0.70	0.57	0.49	0.61	0.54	0.56	0.52
BC Aggregate Bond Index	0.05	-0.09	-0.07	-0.01	0.04	0.04	0.02
HFN FoF Multi-Strategy Average	0.96	0.91	0.85	0.96	0.90	0.93	0.93

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Jan 2006 - Dec 2010	Aurora - AOFL II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - GIP L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.
Aurora - AOFL II	1.00	-0.03	-0.36	0.26	0.24	0.29	0.24
Crestline Offshore Fund, Ltd.	-0.03	1.00	0.30	0.71	0.61	0.12	0.35
GAM Diversity	-0.36	0.30	1.00	0.08	0.25	-0.38	0.11
Grosvenor - GIP L.P.	0.26	0.71	0.08	1.00	0.69	0.34	0.61
Mesirow - MIMSF, LP	0.24	0.61	0.25	0.69	1.00	0.06	0.55
PAAMCO - PHS	0.29	0.12	-0.38	0.34	0.06	1.00	0.34
Prisma Spectrum Fund, Ltd.	0.24	0.35	0.11	0.61	0.55	0.34	1.00
S&P 500 Index	0.35	-0.35	-0.33	-0.29	-0.38	-0.15	-0.44
BC Aggregate Bond Index	-0.18	0.45	0.30	0.25	0.54	-0.15	0.19

3 Year Rolling Returns

As of December 2010



Aurora Investment Management

Organization

Year Firm Established	1988
Year First Fund of Funds Launched	1988
Location	Chicago, IL
Number of Investment Professionals	27
Percentage Employee Owned	0%
Total AUM (millions)	$10,468

Investment Philosophy

Please see response below:

Investment Process

The Firm's mission statement is: "Aurora Investment Management L.L.C. is committed to being a premier investment firm focused on delivering consistently superior investment results within a collegial environment that encourages a culture of excellence, respect, teamwork and integrity."

In order to deliver consistently superior investment results, the Firm adheres to a disciplined investment process guided by experienced portfolio managers who manage funds of hedge funds that offer consistent long-term capital appreciation with low volatility and little correlation with equities and bonds. Believing that the most important factors guiding the selection of hedge fund managers are qualitative, not quantitative, the Firm performs thorough and wide-ranging analyses, comparisons and reviews, ultimately relying on the sound judgment that our portfolio management team has developed over the last 22 years. The key element of our investment process that differentiates us from others is our retention of critical judgments (i.e., inclusion/termination of a manager and on-site due diligence of managers) at the most senior level. In both the initial and ongoing due diligence process, we believe that the direct contact between our own Portfolio Management Team and the principals of the underlying managers results in the most accurate and timely assessment possible and allows for the establishment of a unique long-term peer-to-peer relationship. When managers consistently interact with the same senior decision-makers, we can be assured that important information will not be misinterpreted or overlooked. Moreover, we will not invest with any manager until each of our Portfolio Managers has met with the underlying manager and reached a unanimous decision to invest.

Another unique aspect of our investment process is that each Portfolio Manager is a generalist. This generalist perspective allows each Portfolio Manager to seek the best investment opportunities objectively and make logical, well-informed decisions in a consensus-driven manner. This process is in contrast to a “sector specialist” approach, wherein the Portfolio Manager might tend to promote inclusion of his/her own sector in the portfolio – regardless of whether that recommendation may generate the best investment outcome for the portfolio as a whole. This consensus-driven approach makes each Portfolio Manager an owner of each investment decision.

Our investment process also leverages our technology platform. We have developed extensive and sophisticated proprietary databases that house our entire manager due diligence, quantitative, and qualitative analyses, and serves as the centerpiece for all decisions. Each Portfolio Manager travels with the entire database on his/her laptop, creating a virtual office environment, synchronizing wirelessly, allowing for seamless and continuous communication.

The qualitative nature of our work also differentiates us from our peers. For Aurora, the most important factors guiding the final decision of selecting external investment managers is qualitative, not quantitative. While we perform thorough and wide-ranging quantitative analyses, comparisons, and reviews, when it comes to deciding who will receive an allocation of capital, we rely on the sound judgment that our team has developed over the last 21+ years. The accompanying document entitled “The Due Diligence Process” by Roxanne Martino elaborates on the qualitative aspects of our investment process.

[illegible]

Aurora Investment Management L.L.C. is an indirect subsidiary of Natixis Global Asset Management, L.P. which owns, in addition to Aurora Investment Management, a number of other asset management and distribution and service entities. Natixis Global Asset Management, L.P. is part of Natixis Global Asset Management, an international asset management group based in Paris, France, that is principally owned by Natixis, a French investment banking and financial services firm. Natixis is principally owned by BPCE, France's second largest banking group. The group includes two autonomous and completely retail banking networks consisting of the Caisses d'Epargne regional savings banks and the Banque Populaire regional cooperative banks. Natixis and BPCE each owns, directly or indirectly, other investment advisers established in various jurisdictions.

Employees

Roxanne M. Martino

Title

Partner, President, Chief Executive Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1977

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Accounting (University of Notre Dame, 1977), MBA (University of Chicago, 1988)
Certified Public Accountant (1977)
Formerly a General Partner with Grosvenor Partners (1984-1990); and a Senior Manager with Coopers & Lybrand (1977-1984)
Thirty-three years industry experience
Joined Aurora Investment Management in 1990

Compensation Structure

N/A

Employees

Scott C. Schweighauser

Title

Partner, Chief Investment Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Mathematics (Williams College, 1983), MBA (University of Chicago, 1989)
Formerly Vice President for derivatives and interest rate product trading with ABN AMRO Bank (1993-1994); a Vice President and Managing Director with Continental Bank's Risk Management Trading Group (1986-1993); and Associate in Corporate Finance at Bankers Trust Co. (1983-1986)
Twenty-eight years industry experience
Joined Aurora Investment Management in 1994

Compensation Structure

N/A

Employees

Justin D. Sheperd

Title

Partner and Portfolio Manager

Location

Chicago

Industry Start Year:

1995

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Business Administration, Finance and Accounting (Miami University, 1994), MBA (University of Chicago, 2003)
Formerly Client Database Services Assistant with Information Resources Inc. (1995-1996)
CFA Charterholder
Fifteen years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Employees

Peter S. Hamet

Title

Head of Research

Location

Chicago

Industry Start Year:

1998

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Finance and Accounting (Western Michigan University, 1998)
Formerly Business Director of Hotel Zelai in Spain (2000-2001); and an Analyst for CIBC Oppenheimer, Alternative Investments Group (1998-2000)
CFA Charterholder
Eleven years industry experience
Joined Aurora Investment Management in 2002

Compensation Structure

N/A

Employees

Patrick C. Sheedy

Title

Strategy Head - Long/Short Credit, Macro, Multi-Strategy Opportunistic & Event-Driven

Location

Chicago

Industry Start Year:

2001

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Government and International Relations (University of Notre Dame, 2001)
Formerly Associate Consultant and Head of Hedge Fund Research at Stratford Advisory Group (2001-2005)
Ten years industry experience
Joined Aurora Investment Management in 2005

Compensation Structure

N/A

Aurora Investment Management L.L.C.

Information Effective As Of 12/31/2010

Employees

Gregory D. Schneiderman

Title

Strategy Head - Long/Short Equities & Portfolio Hedge

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Finance and Accounting (Washington University, 1999)
Formerly Director – Head of Absolute Return Manager Research, and Vice President – Senior Research Analyst at Guggenheim Wealth Management (2006-2008); Vice President – Senior Research Analyst and Senior Associate at Morgan Stanley Alternative Investment Partners (2002-2006); and Investment Banking Analyst at A.G. Edwards and Sons, Inc. (1999-2002)
CFA Charterholder
Twelve years industry experience
Joined Aurora Investment Management in 2008

Compensation Structure

N/A

Employees

David E. Kuenzi

Title

Director of Risk Management and Quantitative Research

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2009

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA (Western Michigan University, 1988), MFA (University of Iowa, 1990), MBA (University of Chicago, 2001), MS (University of Chicago, 2004)
Formerly Head of Risk Management and Quantitative Research with Man Investments USA Corp. (Glenwood Capital) (2003-2008); Vice President, Research, Development, and Risk Management with Nuveen Investments (1996-2003); Securities Analyst with Perritt Capital Management (1994-1995); and Adjunct Professor at Grand Valley State University (1991-1993)
CFA Charterholder
Seventeen years industry experience
Joined Aurora Investment Management in 2009

Compensation Structure

N/A

Employees

Anne Marie Morley

Title

Partner, Managing Director of Operational Due Diligence

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Accounting (DePaul University, 1991), MS in Taxation (DePaul University, 2006)
Formerly a Senior Accountant with Grosvenor Partners (1988-1994); Chief Financial Officer of LaSalle Portfolio Management (1994-1995); and Assistant Controller with Edelman Public Relations (1995-1996)
Twenty-three years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Employees

Scott Craven Jones

Title
Chief Operating Officer & Chief Financial Officer

Location
Chicago

Industry Start Year:
1984

Firm Start Year:
2010

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
BA (Trinity College, 1984), JD (Northwestern University School of Law, 1989)
Formerly Executive Vice President and Chief Administrative Officer with Calamos Investments (2005-2008); Managing Director, Strategic Development (2004-2005), Global Chief Operating Officer – Quantitative Management (2003-2004), Senior Product Manager (2000-2003)with Northern Trust, Global Investments; Vice President and Product Manager (1993-2000), Associate Counsel (1992-1993) with Nuveen Investments; Associate Attorney (1989-1992) with Schiff, Hardin & Waite; and a Commercial Loan Officer with Connecticut National Bank (1984-1986).
CFA Charterholder
Twenty-one years industry experience
Joined Aurora Investment Management in 2010

Compensation Structure
N/A

[redacted]

Firm: **Aurora Investment Management L.L.C.**
Product Name: **Aurora Offshore Fund Ltd. II**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	34.0%	12.0%	0.0%	0.0%	21.0%	0.0%	0.0%	0.0%	15.0%	18.0%
12/31/2009	37.0%	11.0%	0.0%	0.0%	23.0%	0.0%	0.0%	0.0%	12.0%	17.0%
12/31/2008	42.0%	12.0%	0.0%	0.0%	15.0%	0.0%	0.0%	0.0%	14.0%	17.0%
12/31/2007	45.0%	11.0%	0.0%	0.0%	11.0%	0.0%	0.0%	0.0%	12.0%	21.0%
12/31/2006	48.0%	10.0%	0.0%	0.0%	14.0%	0.0%	0.0%	0.0%	12.0%	16.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$2,100	$8,000	$10,468	$10,468	306	103
12/31/2009	$1,900	$7,200	$9,542	$9,542	204	230
12/31/2008	$1,800	$6,268	$9,053	$9,053	259	137
12/31/2007	$2,900	$9,068	$13,128	$13,128	194	69
12/31/2006	$2,400	$7,175	$9,624	$9,624	168	110

[illegible]

[illegible]

Organization

Year Firm Established	1997
Year First Fund of Funds Launched	1997
Location	Fort Worth, TX
Number of Investment Professionals	29
Percentage Employee Owned	90%
Total AUM (millions)	$5,800

Investment Philosophy

Crestline's investment philosophy is that:
• Market inefficiencies exist.
• Harnessing these market inefficiencies can produce attractive returns with low net market exposure.
• Successful investing requires a forward-looking approach, not reliance on prior years' returns.
• Risk management is paramount to long-term performance.

There are three features to our investment approach which we believe are our edge and contribute most to alpha generation:
1. The first is our top-down, forward-looking approach to strategy selection. In an environment where large amounts of capital are attracted to the strategies that performed well last year, we believe the ability to understand the drivers of return going forward enables us to achieve better risk-adjusted returns.
2. The second is manager selection. Sourcing high quality managers is the way we implement our strategy views.
3. The third is our risk management process. Risk management is integral to our investment process and leads us to a well-diversified portfolio of absolute return strategies. Protecting the downside enables the portfolio to grow and compound over time.

Investment Process

Our first step in the investment process is to evaluate the prospects for each of the hedge fund strategies. Our research team is comprised of strategy specialists who are responsible for identifying the opportunities within their strategy, quantifying the projected risk/reward and ranking the strategy. In constructing our portfolios, we draw heavily from strategies that we believe tend to have lower volatility and a demonstrated alpha.

The first step in the evaluation of a fund is a high level "Quick Look" analysis which will provide basic information on the fund including returns, strategy description, manager background and basic risk statistics.

The fund then moves to the Research stage and the analyst team will gather marketing materials, set up a call or an office meeting with the manager, begin reference checking, and perform a quantitative analysis of returns (conducted by Crestline's risk team).

When we move a manager into the due diligence process, we have done enough preliminary work to know whether we like the basic fundamentals of the manager, the strategy, the returns and the risk profile. Based on that information, the goal of our due diligence process is to find a reason not to invest with the manager.

Ownership Structure

Crestline Investors, Inc., a Delaware corporation, serves as the general partner of Crestline Management, L.P. and Crestline Associates, L.P., both Delaware limited partnerships. Crestline Management, L.P. is a federally registered investment adviser and serves as the investment manager to the domestic and offshore investment funds. Crestline Associates, L.P. serves as the general partner of the domestic limited partnership investment funds. As products were added within the past year, Crestline Offshore Associates, Ltd. began to serve as the general partner of offshore limited partnership investment funds. Crestline Management, L.P., Crestline

Associates, L.P., Crestline Offshore Associates, Ltd. and Crestline Investors, Inc. are collectively referred to herein as Crestline Investors, Crestline or the Firm.

The Firm is an employee-owned firm. Doug Bratton, Caroline Cooley, John Cochran, and Martin Bowen (a non-operating partner) are the principal owners. Additionally, Crestline shares ownership via phantom equity and profit sharing participation with its employees. Director-level professionals, along with minority principal owners, have phantom equity ownership and also participate in profit sharing of the Firm.

Crestline Investors, Inc.

Information Effective As Of 12/31/2010

Employees

Doug Bratton

Title

President / CIO

Location

Fort Worth

Industry Start Year:

1984

Firm Start Year:

1997

Firm End Date:

N/A

Email

dbratton@crestlineinc.com

Office Phone:

817-390-8796

Cell Phone

N/A

Bio

Mr. Bratton is founder and majority owner of Crestline Investors, Inc., the general partner of Crestline Management, L.P. & Crestline Associates, L.P., the investment manager and general partner, respectively, of the Crestline fund of funds products. He is the Chair of the Investment and Executive Committees. Mr. Bratton has been an investment professional with organizations utilizing alternative asset strategies since 1983. He has extensive experience in hedge fund management, multi-strategy portfolio construction, private equity and venture capital. Mr. Bratton has specific expertise in absolute return arbitrage strategies, having started his career in this business and later managed arbitrage groups. Since 1989, Mr. Bratton has managed portfolios using these alternative asset strategies on behalf of organizations associated with the Bass family. During this period, he has also negotiated hedge fund related joint ventures for Bass entities. These include: lift-outs of proprietary trading groups in merger arbitrage and convertible arbitrage ultimately employing $500 mm in capital; a collateralized loan obligation group managing $3 billion in bank loans; and an experienced distressed securities group. In addition, Mr. Bratton negotiated a $1 billion active investing joint venture. Since 1997, he has been President of Crestline Investors, Inc. Prior to founding Crestline Investors, he spent six years with Taylor & Company, an investment organization associated with members of the Bass family. From 1989 to 1991, Mr. Bratton was a partner of the Airlie Group, L.P. where he managed the merger arbitrage and special situation portfolio. From 1988 to 1989, Mr. Bratton was employed by Investment, L.P. (the predecessor firm of the Airlie Group) as a partner in the Merger Arbitrage group. From 1984 to 1988, Mr. Bratton served as Vice President in the Merger Arbitrage group for Smith Barney Harris Upham and Company. Mr. Bratton received a B.S. from North Carolina State University in 1981 and a Masters of Business Administration with Honors from Duke University in 1984.

Compensation Structure

Salary, fixed bonus and profits interest

Employees

Caroline Cooley

Title

Senior Portfolio Manager

Location

Fort Worth

Industry Start Year:

1985

Firm Start Year:

1998

Firm End Date:

N/A

Email

ccooley@crestlineinc.com

Office Phone:

817-339-7377

Cell Phone

N/A

Bio

Ms. Cooley is the senior portfolio manager in charge of our low volatility funds and leads the portfolio management team. She is a member of the Executive Committee. Ms. Cooley has over 25 years of experience in the investment industry, focusing almost exclusively in the absolute return arena. She has significant experience in proprietary trading as well as hedge fund risk management. Prior to joining the firm in April 1998, Ms. Cooley was a Managing Director for Culmen Group, L.P., an investment firm based in Fort Worth. From 1986 to 1997 she was an investment professional with Taylor & Company where she was active in equity derivatives and fixed income arbitrage. She has experience trading securities in both the U.S. and international markets. In addition, Ms. Cooley was responsible for the risk management of the various absolute return strategies employed by Taylor & Company, including monitoring and hedging equity, currency and interest rate exposure. Ms. Cooley began her career in the investment industry at Manufacturers Hanover Trust Company in New York and Chicago after receiving her B.A. in Economics from The College of William and Mary in 1983.

Compensation Structure

Salary, discretionary bonus and profits interest

Employees

John Cochran

Title

Chief Administrative Officer

Location

Fort Worth

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

jcochran@crestlineinc.com

Office Phone:

817-339-7379

Cell Phone

N/A

Bio

Mr. Cochran serves as the Chief Financial Officer/Chief Administrative Officer and manager of the firm's operational due diligence efforts for Crestline's fund of funds products. He is a member of the Executive Committee. Mr. Cochran has 22 years experience in various segments of the investment industry including private equity, venture capital and hedge funds. Prior to joining the firm in October 1998, he spent 10 years with KPMG L.L.P. ("KPMG"). During his employment at KPMG, Mr. Cochran received extensive industry experience through his position as an auditor and focus in the Merger and Acquisition area. During his tenure at KPMG, a majority of his time was spent working with various hedge funds, investment companies, private equity firms, venture capital groups and broker dealers. Mr. Cochran is a CPA and received a B.B.A. in Accounting from Texas Christian University in 1987.

Compensation Structure

Salary, discretionary bonus and profits interest

A

Firm: Crestline Investors, Inc.
Product Name: Crestline Offshore Fund

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	23.0%	0.0%	2.0%	5.0%	9.0%	2.0%	0.0%	4.0%	2.0%	53.0%
12/31/2009	19.5%	0.0%	1.8%	2.6%	6.2%	4.6%	0.0%	3.4%	3.5%	58.5%
12/31/2008	19.3%	0.0%	1.9%	2.0%	6.5%	6.2%	0.0%	1.3%	4.1%	58.5%
12/31/2007	19.6%	0.0%	1.6%	4.1%	11.3%	5.4%	0.0%	1.4%	6.2%	50.4%
12/31/2006	17.1%	0.0%	0.9%	3.4%	10.5%	5.1%	0.0%	3.1%	11.1%	48.7%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$526	$2,805	$5,800	$5,800	17	36
12/31/2009	$499	$3,239	$5,500	$5,500	18	78
12/31/2008	$550	$2,520	$3,600	$3,600	93	13
12/31/2007	$585	$2,950	$4,300	$4,300	82	11
12/31/2006	$370	$1,950	$2,500	$2,500	49	20

G[illegible]
[illegible]

Organization

Year Firm Established	1983
Year First Fund of Funds Launched	1989
Location	New York, NY
Number of Investment Professionals	33
Percentage Employee Owned	0%
Total AUM (millions)	$14,500

Investment Philosophy

We believe that constructing hedge fund portfolios that consistently deliver attractive risk adjusted returns requires deep manager research and a multi-layered approach to risk management. Deep manager research is essential to identifying alpha, while an integrated approach to risk management is needed to control downside risk.

In terms of research, we believe that a global sourcing process is needed to identify hedge fund talent. Much of the growth in the hedge fund industry and, furthermore, most of the opportunity is now occurring outside the U.S. Additionally, investing in non-U.S. managers and markets can reduce the correlation of a hedge fund portfolio to traditional stock and bond indices. We also believe that research must be focused on “discovery” rather than “access”.

As to risk, we believe a comprehensive approach to risk management is needed in fund of hedge fund management. This belief has impacted our investment approach and process in several ways. First, GAM separates investment analysis from operational due diligence, employing a dedicated 6-person team to conduct this analysis. This team reports to the Chief Operating Officer and may “veto” an investment opportunity for operational reasons. Other examples include setting clear return, volatility, and correlation targets for every manager prior to investment and requiring weekly NAV’s from all of managers. Failure to provide the latter will exclude a manager from consideration. Finally, in terms of transparency, we have a strong bias toward strategies which are marked-to-market and require from all of our managers a high degree of holdings transparency. Specifically, for equity managers we require position-level detail, while for trading and arbitrage managers we have developed special templates which seek to isolate the risks specific to a given hedge fund strategy. Again, failure to provide such data will exclude a manager from consideration.

Investment Process

GAM’s investment process provides discipline and risk control, which enables us to identify talented managers on a consistent basis.

We set clear return, risk and correlation objectives for each strategy and sub-strategy. These drive the strategy weights and tactical allocation ranges for our portfolios, thereby ensuring consistent decision-making throughout the process. We select managers using a highly discerning research process which includes mapping the global hedge fund universe, then evaluating the investment approach, operational integrity and performance expectations of the most talented managers. We combine those managers that we believe have a sustainable competitive edge into portfolios using bottom-up, qualitative conviction in tandem with forward-looking modeling tools and our previously defined portfolio weights and objectives. Risk control is threaded throughout this entire process to maximize the predictability of our results.

Our investment process proceeds through five stages: 1. Establish Objectives and Weights; 2. Identification of Talent; 3. Manager Evaluation; 4. Portfolio Construction; and 5. Risk Management & Monitoring.

GAM believes that manager selection is most important when building a fund of hedge fund and assesses opportunities with this mind set and thus takes a bottom mentality.

Ownership Structure

GAM USA Inc. is a Delaware Corporation, incorporated on August 30, 1989, and qualified to conduct business in the State of New York on September 22, 1989. The ultimate parent company of GAM USA Inc. is GAM Holding Ltd, a Swiss public corporation. GAM’s headquarters are located in Zurich, Switzerland.

GAM is an independent public company listed on the Swiss stock exchange.

Employees

David Smith

Title

Chief Investment Director

Location

London

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

David Smith (20 years' investment experience) is Chief Investment Director for GAM Multi-Manager. He is responsible for GAM' Diversity and co-manages several single strategy portfolios. Prior to joining GAM in April 1998, Mr. Smith was head of investment research and management at Buck Consultants. He joined Buck in 1992 from the actuarial investment consultancy division of a leading firm of consultants. Mr. Smith holds a BA (Hons) in Economics and has associate qualifications from IIMR and the Securities Institute. He is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Kier Boley

Title

Investment Manager

Location

London

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Kier Boley (14 years' investment experience) is an Investment Manager in GAM's Multi-Manager team. He is responsible for GAM's Emerging Markets and Asian Multi-Manager investments, as well as managing a commodities-focused fund of hedge funds. Prior to joining GAM in April 2000, Mr. Boley spent six years with City of London Investment Management where, as a director, he was responsible for its London investment team dealing in non-US traded emerging market and Asian funds. Prior to this, Mr. Boley worked in Asia for two years. He holds a BA (Hons) in Economics from Portsmouth University and an MSc in Economics from Southampton University and is a member of SIP. He is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Catherine Cripps

Title

Investment Manager

Location

London

Industry Start Year:

1992

Firm Start Year:

2006

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Catherine Cripps (18 years' investment experience) is an Investment Manager responsible for GAM's multi-manager investments in environmental and European strategies. She is also Head of Research for GAM's Multi-Manager team. Ms Cripps joined GAM in July 2006 from a multi-strategy fund of hedge fund manager, Aida Capital Limited, where she was CEO. Prior to joining Aida Capital, Ms Cripps held various positions in equity derivatives trading, risk management and product control at Credit Suisse, Chase Manhattan, ING Barings and Bankers Trust. Ms Cripps holds an MA in Physics from Oxford University and is a qualified Chartered Accountant. She is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.
The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.
From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Chi Keong Lee

Title

Risk Manager

Location

London

Industry Start Year:

1995

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Chi Keong Lee (14 years' investment experience) is a Risk Manager for GAM Multi-Manager. He is responsible for monitoring investments, coordinating the risk process and developing the Multi-Manager risk systems. Prior to joining GAM in January 2008, Chi originated and structured credit derivatives at Morgan Stanley and before that was head of quantitative research at an Asian fund of funds (now part of LGT Capital). He started his career in 1995 in financial risk management consulting with Andersen and has also implemented a successful automated statistical arbitrage trading strategy for a family office. Chi holds an MBA in Finance from the Wharton School and a BA in Computer Science from Cambridge University.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Omar Faruqui

Title

Investment Manager

Location

London

Industry Start Year:

2004

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Omar Faruqui is an Investment Manager in GAM's Multi-Manager team. Prior to joining GAM in January 2004, Omar spent over two years in the corporate finance division of Commerzbank Securities, having previously worked as a research analyst for the London Stock Exchange. Omar holds a BSc (Hons) in Economics from University College, London (UCL) and is a CFA charterholder. He is based in London.

Compensation Structure

N/A

Employees

Amir Madden

Title

Investment Manager

Location

New York

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Amir Madden (8 years' investment experience) is an Investment Manager in GAM's Multi-Manager team, responsible for GAM's event driven multi-manager investments. He also co-manages a North American multi-manager fund. Prior to joining GAM in August 2002, he spent two years at JP Morgan Private Bank in the multi-manager investment advisory group as a due diligence specialist, having previously worked at Jennison Associates LLC. Mr. Madden holds an MBA in Banking and Finance from Hofstra University and a BBA in International Finance and Marketing from the University of Miami. He is based in New York.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

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From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Arvin Soh

Title

Investment Manager

Location

New York

Industry Start Year:

1994

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Arvin Soh (14 years' investment experience) is an Investment Manager in GAM's Multi-Manager team focusing on macro and managed futures strategies. Prior to joining GAM in February 2005, he was a manager at Pfizer with primary responsibility for manager selection in international equity, global macro and currency funds. Prior to this Mr. Soh was an assistant portfolio manager with a hedge fund and a vice president with Bankers Trust. He holds a BA in Economics from Cornell University and an MBA from the Wharton School of the University of Pennsylvania. He is based in New York.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Jennifer Drake

Title

Investment Manager

Location

New York

Industry Start Year:

1997

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Jennifer Drake (11 years' investment experience) is an Investment Manager in GAM's Multi-Manager team and co-manages an arbitrage fund of hedge funds. Prior to joining GAM in September 2004, she worked at Nomura Securities, New York, where she was head analyst and portfolio manager of its proprietary convertible bond portfolios. Ms Drake started her career at Goldman Sachs, New York, as an analyst in mergers and acquisitions. She holds a BA (Hons) in Physics from Williams College, Williamstown, Massachusetts. She is based in New York.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

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Firm: GAM
Product Name: GAM Diversity, LP

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	26.7%	0.0%	36.8%	0.0%	1.5%	0.0%	0.3%	2.3%	0.0%	32.4%
12/31/2009	32.0%	0.0%	33.1%	0.0%	2.2%	0.0%	1.5%	4.5%	0.0%	26.7%
12/31/2008	16.5%	0.0%	50.5%	0.0%	4.2%	0.7%	6.6%	6.0%	0.0%	15.5%
12/31/2007	47.9%	0.0%	26.4%	0.0%	3.3%	0.0%	7.3%	3.7%	0.0%	11.4%
12/31/2006	47.3%	0.0%	28.2%	0.0%	3.9%	3.0%	5.5%	0.0%	0.0%	12.1%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$2,937	$3,414	$14,500	$50,122	78	48
12/31/2009	$4,638	$5,459	$15,000	$40,696	49	36
12/31/2008	$5,814	$7,907	$15,688	$30,465	23	41
12/31/2007	$9,001	$13,251	$26,060	$57,314	65	26
12/31/2006	$5,388	$10,455	$20,365	$50,838	53	22

Grosvenor Institutional Partners

Information Provided as of [illegible]

Organization

Year Firm Established	1971
Year First Fund of Funds Launched	1971
Location	Chicago, IL
Number of Investment Professionals	42
Percentage Employee Owned	70%
Total AUM (millions)	$24,045

Investment Philosophy

Grosvenor believes a properly constructed portfolio of proven alternative investment strategies, implemented by a carefully selected combination of talented investment managers, can produce competitive absolute returns and superior risk-adjusted returns with limited correlation to traditional equity and fixed income markets. Grosvenor implements this philosophy by: investing in absolute return strategies; allocating capital to superior investment managers; and systematically diversificating of portfolios.

Investment Process

Grosvenor begins by establishing an investment policy and target strategy weightings for every portfolio. The Portfolio Managers select managers from an approved list, with selection driven by style, correlation, liquidity considerations and capacity. Typically, more than one manager is included for each strategy to take advantage of style differences, mitigate manager risk, and provide for future capacity.

The portfolio is statistically measured on both a historical and forward-looking basis. The historical simulation uses actual returns over a specific time period. The forward-looking analysis evaluates expected return, standard deviation, Severe Case Loss (SCL), and beta to S&P 500 of the portfolio.

The resulting portfolio is compared to its formal investment policy to ensure compliance. While Grosvenor does not attempt to "time" the market, but portfolios are frequently adjusted as new investment opportunities present themselves, as capital flows into or out of the portfolio or as managers are terminated.

Ownership Structure

Grosvenor's ownership structure is split between certain senior employees of the Firm and three investment funds (the "H&F Funds") under the management of Hellman & Friedman LLC ("H&F"), a private equity investment firm. The H&F Funds indirectly own, in the aggregate, approximately 30% of Grosvenor. The remainder is owned indirectly by Grosvenor Holdings, LLC, an entity whose members are certain senior employees of the Firm. The H&F Funds are passive investors in Grosvenor and are not involved in the day-to-day management of Grosvenor.

Employees

Michael J. Sacks, Esq.

Title

Chief Executive Officer, Managing Director

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sacks joined the firm in 1990 and is the firm's Chief Executive Officer. In addition to his management responsibilities, Mr. Sacks shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1988 through 1990, Mr. Sacks was associated with Harris Associates, L.P. Mr. Sacks graduated with his Bachelor of Arts in Economics from Tulane University in 1984 and received two degrees from Northwestern University in 1988: his Masters of Business Administration from the J.L. Kellogg Graduate School of Management and his Juris Doctorate from the School of Law. He is a member of the Illinois Bar.

Compensation Structure

Confidential.

Employees

David B. Small

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1987

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Small was a Consultant to Grosvenor from 1987 to 1993 and joined the firm full-time in 1994. He shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. Prior to joining Grosvenor, Mr. Small was the Founder and Chief Executive Officer of David Bruce & Co., a software firm specializing in the development of risk management systems for derivatives trading firms, from 1987 through 1994. From 1979 to 1982, Mr. Small was associated with Philadelphia Insurance Research Group, and from 1978 to 1979, he was associated with Rapidata. Mr. Small received his Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania in 1978 and his Masters of Business Administration in Finance and Econometrics from the University of Chicago's Booth School of Business in 1985.

Compensation Structure

Confidential.

Employees

David S. Richter, CPA

Title

Managing Director - Investments, Chairman of Investment Committee

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Richter has been affiliated with Grosvenor since 1994 and has been in his current role since 2003. Mr. Richter is the Chairman of the Firm's Investment Committee and a Portfolio Manager. Mr. Richter supervises the Team Leaders within the Investments Department and shares responsibility for evaluation, selection, and monitoring of various investment strategies and managers. From 1994 through 2002, he was the Founder and Managing Partner of Chicago-based Waveland Capital Management, L.P., a U.S. long-short equity hedge fund. From 1988 to 1994, Mr. Richter was a Vice President of JMB Realty Corporation in the Corporate Acquisitions Group. Prior to 1988, Mr. Richter was a Manager of KPMG Peat Marwick. He graduated summa cum laude with his Bachelor of Science in Accountancy from the University of Illinois in 1983. Mr. Richter is a Certified Public Accountant and received the national AICPA Elijah Watt Sells Award from the American Institute of CPA's for his scores on the Uniform CPA Examination.

Compensation Structure

Confidential.

Employees

Brian A. Wolf, CFA

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Wolf joined the firm in 1995 and shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1993 to 1995, he was an Analyst and Trader for M&M Financial, a Chicago-based money management firm. He graduated summa cum laude with his Bachelor of Science in Finance from Bradley University in 1992 and earned his Masters of Business Administration magna cum laude from the University of Notre Dame in 1993. Mr. Wolf is a CFA Charterholder and a member of the CFA Society of Chicago. Mr. Wolf is also the author of a chapter on hedged equity funds in the publication "Hedge Funds: Definitive Strategies and Techniques".

Compensation Structure

Confidential.

Grosvenor Capital Management, L.P.

Information Effective As Of 12/31/2010

Employees

Paul Meister, Esq., CPA

Title

Chief Operating Officer, Chairman of the Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1991

Firm Start Year:

1991

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Meister joined the firm in 1991 and is the firm's Chief Operations Officer. In addition, Mr. Meister serves as Chair of the firm’s Operations Committee. From 1987 to 1991, Mr. Meister was with the law firm of Barack, Ferrazzano, Kirschbaum & Perlman, except for a 12 month period from 1990 to 1991, when he managed the real estate operations for Sportmart, a Chicago-based retailer. He received his Bachelor of Science in Accounting from the University of Illinois in 1984 and his Juris Doctorate cum laude from Northwestern University School of Law in 1987, where he was a member of the Law Review and Order of the Coif. Mr. Meister is a Certified Public Accountant and a member of the Illinois Bar. Since 2000, Mr. Meister has served on the Law Board of Northwestern University School of Law and is currently a Vice Chair of its Executive Committee.

Compensation Structure

Confidential.

Employees

Eric Felton, CFA, CPA

Title

Chief Financial Officer, Member of Operations Committe, Managing Director

Location

Chicago

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Felton joined the firm in 2004 and is the firm's Chief Financial Officer. From 2002 to 2004, Mr. Felton was a Partner in the Financial Services Industry Practice for Ernst & Young, L.L.P. in their Chicago office. From 1986 to 2002, he was a Partner with Arthur Andersen, L.L.P. in their Chicago office. He graduated with High Distinction from Valparaiso University with his Bachelor of Science in Accounting in 1986, and earned his Masters of Business Administration with Honors from the University of Chicago in 1992. Mr. Felton is a Certified Public Accountant and a CFA Charterholder. He is a member of the American Institute of Certified Public Accountants, The Illinois CPA Society, the CFA Institute, and the CFA Society of Chicago.

Compensation Structure

Confidential.

Employees

Joseph H. Nesler, Esq.

Title

Chief Compliance Officer, General Counsel, Member of Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1982

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Nesler joined the firm in 2004 and serves as Grosvenor's General Counsel and Chief Compliance Officer. Prior to joining Grosvenor, Mr. Nesler practiced at Gardner, Carton & Douglass for two years. From 1996 to 2002, he served as a Partner in the Investment Products and Derivatives Group at Sidley Austin Brown & Wood, L.L.P. Between 1986 and 1996, Mr. Nesler practiced with Schiff Hardin & Waite in Chicago. From 1982 to 1986, he was an Associate with Gardner, Carton & Douglas. Mr. Nesler graduated magna cum laude from Amherst College in 1978 and received his Juris Doctorate from Yale University in 1982. He is a member of the Chicago Bar Association and former Co-Chairman of the subcommittee of its securities law committee on investment company regulation.

Compensation Structure

Confidential.

Employees

Joseph D. Gutman, CPA

Title

Managing Director - Client Group

Location

Chicago

Industry Start Year:

1981

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Gutman joined Grosvenor in 2005 and is responsible for overseeing its business development and client services operations. From 1981 through 2002, Mr. Gutman was associated with Goldman, Sachs & Co. in various capacities. From 1996 through 2002, Mr. Gutman was a Partner of Goldman, and from 1998 to 2002 a Managing Director. From 1997 through 2002, Mr. Gutman was Co-Head of Goldman's Chicago office. From 1994 through 2002, Mr. Gutman was also head of Goldman's Institutional Equities business in the Midwest and shared responsibility on the leadership team of Goldman's US Shares Business. Mr. Gutman received a B.S. in Accounting from the University of Illinois in 1979 and an M.B.A. in Finance from Northwestern University's J.L. Kellogg Graduate School of Management in 1981. Mr. Gutman is a member of the Kellogg Alumni Advisory Council of the J.L. Kellogg Graduate School of Management, a member of the Board of Overseers at the University of Illinois College of Business M.B.A. program, a member of the Illinois Executive Board of the AIPAC and a member of the Board of Directors of Children's Memorial Hospital of Chicago and The Make a Better Place Foundation. He is a Certified Public Accountant.

Compensation Structure

Confidential.

Employees

Stephen J. Brewster

Title
Managing Director - Business Development

Location
Chicago

Industry Start Year:
1985

Firm Start Year:
1991

Firm End Date:
N/A

Email
sbrewster@gcmlp.com

Office Phone:
312-506-6525

Cell Phone
N/A

Bio
Mr. Brewster joined the firm in 1991 and shares responsibility for business development. From 1985 to 1991, Mr. Brewster was associated with JMB Realty Corporation. In 1988, he became Vice President of JMB Institutional Realty Corporation responsible for marketing to U.S. institutional investors. Prior to joining JMB, Mr. Brewster was Staff Assistant to the Under Secretary of the U.S. Department of Housing and Urban Development from 1984 to 1985. He received his Bachelor of Arts with Honors in Economics from Williams College in 1984.

Compensation Structure
Confidential.

A

Firm: Grosvenor Capital Management, L.P.
Product Name: Grosvenor Institutional Partners, L.P.

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	35.6%	1.7%	0.0%	0.0%	0.0%	1.1%	0.0%	0.0%	4.6%	57.0%
12/31/2009	35.3%	2.4%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	61.1%
12/31/2008	25.1%	5.9%	0.0%	0.0%	0.0%	2.5%	0.0%	0.0%	0.0%	66.5%
12/31/2007	37.9%	6.2%	0.0%	0.0%	0.0%	3.2%	0.0%	0.0%	0.0%	52.7%
12/31/2006	39.4%	3.1%	0.0%	0.0%	0.0%	3.8%	2.4%	0.0%	0.0%	51.3%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$6,312	$19,374	$24,045	$24,045	59	34
12/31/2009	$5,619	$19,914	$22,635	$22,635	58	35
12/31/2008	$4,660	$18,675	$20,474	$20,474	120	38
12/31/2007	$5,039	$23,642	$25,322	$25,322	118	30
12/31/2006	$3,089	$17,595	$18,840	$18,840	86	37

Organization

Year Firm Established	1990
Year First Fund of Funds Launched	1990
Location	Chicago, IL
Number of Investment Professionals	42
Percentage Employee Owned	93%
Total AUM (millions)	$13,628

Investment Philosophy

We believe: (1) Investment management and risk management are inseparable endeavors, (2) Differentiating skill from luck is the foundation for sustainable value-added investment results, (3) Our independent verification processes are paramount to successful hedge fund investing, (4) Investment opportunities ebb and flow across geographies, strategies and sectors requiring dynamic allocation of capital, and (5) Incentive alignment is critical to investment and organizational success.

Investment Process

Prospective managers undergo detailed due diligence by our qualitative, quantitative, and operational due diligence professionals. We research managers across a number of areas including organizational structure, investment process, portfolio construction, and risk management. Our Investment Committee makes final decisions relating to manager hiring/redemption.

Portfolio construction is a combination of qualitative and quantitative tools. Our quantitative approach involves three steps: first, we model portfolios based on strategy and style characteristics. Second, we allocate to managers within the strategy groups. Finally, we apply qualitative analysis to this process, which focuses on identifying other characteristics to potentially modify asset allocation.

In regard to risk controls, we have developed various proprietary quantitative systems and would be happy to discuss these with you. We monitor a variety of exposures (individual manager and fund level) including gross/net, sector, market capitalization, regional, and exposure by asset class. We closely monitor aggregate leverage and liquidity as well.

Ownership Structure

MAS is a wholly-owned subsidiary of Mesirow Financial Holdings, Inc. (MFHI), a privately-owned firm with approximately 93% of the ownership interests held by active employees of MFHI as of 12/31/2010. All senior principals of MAS own shares in MFHI.

Employees

Marty Kaplan

Title

Chief Executive Officer

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Marty Kaplan is the chief executive officer of Mesirow Advanced Strategies, Inc., and a member of its investment and executive committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. Mr. Kaplan is responsible for developing and implementing key strategic initiatives for the business, including client service, new product development and building the operational infrastructure. In addition, he focuses on developing and implementing key strategic initiatives for Mesirow Advanced Strategies, Inc. Since 1995, Mr. Kaplan has helped coordinate the group's management and strategic initiatives, and has been active in leading the research function. Prior to joining Mesirow Advanced Strategies, Inc. in 1995, he was an attorney with the law firm of Katten Muchin & Zavis, where he specialized in matters involving securities, mergers and acquisitions, venture capital and sports law. Mr. Kaplan received a B.B.A. in finance and real estate from the University of Texas at Austin and a J.D. from George Washington University - National Law Center. Mr. Kaplan was admitted to the Illinois Bar in 1993.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Steve Vogt

Title

Chief Investment Officer

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

1999

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Stephen Vogt is the chief investment officer of Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. Dr. Vogt is responsible for overseeing all aspects of research including portfolio management, risk management, manager due diligence and manager monitoring. He is also active in managing the day to day operations of Mesirow Advanced Strategies, Inc. Prior to joining Mesirow Advanced Strategies, Inc. in 1999, he was an associate professor of finance at DePaul University. Dr. Vogt's research focused on empirical tests of financial theories and has been published in both academic and trade journals. He received a B.A. in economics and mathematics from Bemidji State University, and M.A. and Ph.D. degrees in economics from Washington University-St. Louis.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Howard Rossman

Title

Chairman

Location

Chicago

Industry Start Year:

1980

Firm Start Year:

1985

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Howard Rossman is the chairman and founder of Mesirow Advanced Strategies, Inc., and a member of the executive and investment committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings, Inc.'s executive committee and board of directors. He is also a vice chairman of the parent company. Dr. Rossman is responsible for developing and overseeing the strategic direction of the company with regard to research, asset allocation and client management. Since 1983, he has been responsible for providing institutional consulting and advisory services in the area of non-traditional investments and has developed funds utilizing alternative strategies. As the author of many articles on alternative strategies, he has spoken at conferences on non-traditional investing and asset allocation. Dr. Rossman received an A.B. in sociology from Princeton University, an M.A. from the University of Oregon and a Ph.D. from The California Institute of Integral Studies.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Brian Cornell

Title

Senior Managing Director, Office of the Chairman

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1998

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Brian Cornell is a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the investment committee. He is responsible for strategic planning for the business and coordinating special research projects for the CEO and CIO, as well as actively participating in strategic business development efforts. In addition, Mr. Cornell contributes to all aspects of fund management and product development. Prior to joining Mesirow Advanced Strategies, Inc. in 1998, he developed fixed income arbitrage models, managed his own investment firm and built research departments at several organizations in the hedge fund of funds industry. Mr. Cornell received a B.A. in government and economics from Clark University and studied international economics and finance at the Patterson School at University of Kentucky.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Tom Macina

Title

President

Location

Chicago

Industry Start Year:

1992

Firm Start Year:

2003

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Thomas Macina is president of Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. Prior to joining Mesirow Advanced Strategies, Inc. in 2003, Mr. Macina was with a multi-strategy hedge fund where he was responsible for investments in a variety of sectors. Prior to joining the hedge fund industry, he worked in strategy consulting with Bain & Company and in investment banking with Houlihan, Lokey, Howard and Zukin, Inc. Mr. Macina received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the J.L. Kellogg Graduate School of Management at Northwestern University. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Eric Siegel

Title

Senior Managing Director

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

2001

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Eric Siegel is a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. He is responsible for overseeing the implementation of business ideas and improvements within the various operating groups of Mesirow Advanced Strategies, Inc. Mr. Siegel is also responsible for the operational due diligence reviews of managers and participates in portfolio analysis and ongoing manager monitoring. Prior to joining Mesirow Advanced Strategies, Inc. in 2001, he was the chief financial officer of two Chicago based hedge funds. Mr. Siegel also worked in the audit department of Ernst & Young LLP focusing on hedge funds, mutual funds and derivative trading companies. He received a B.S. cum laude in accounting from Syracuse University. In addition, Mr. Siegel is a CFA charterholder and a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Karl Frey

Title

Senior Managing Director

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2003

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Karl Frey is a senior managing director for Mesirow Advanced Strategies, Inc. and a member of the executive committee. He is responsible for the firm's client management activities, including business development and client service functions. Prior to joining Mesirow Advanced Strategies, Inc. in 2003, Mr. Frey had senior marketing and business development responsibilities within the capital markets group of ABN AMRO Incorporated. Mr. Frey received a B.S.B.A. in accounting from Ohio State University and an M.B.A. from the Anderson School at UCLA. In addition, he is a Certified Public Accountant (CPA) and CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Carolyn Burke

Title

Managing Director, Chief Financial Officer

Location

Chicago

Industry Start Year:

1989

Firm Start Year:

2009

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Carolyn Burke is a managing director and chief financial officer for Mesirow Advanced Strategies, Inc., and a member of the executive and operating committee. In this capacity, she is responsible for managing and overseeing all aspects of the firm's accounting and internal fund management activities. Prior to joining Mesirow Advanced Strategies, Inc. in 2009, Ms. Burke was a managing director and Chief Administrative Officer with UBS Global Asset Management where she was responsible for managing the business operations for the Global Fixed Income team. Previously, Ms. Burke was a director with Brinson Partners. She received a B.A. in accounting from the University of Notre Dame and an M.B.A. from the University of Chicago. In addition, Ms. Burke is a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Mesirow Advanced Strategies, Inc.

Information Effective As Of 12/31/2010

Employees

Greg Robbins

Title

Senior Managing Director, General Counsel

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Greg Robbins is the general counsel and a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the executive and operating committees. He is responsible for the legal affairs of Mesirow Advanced Strategies, Inc., including providing legal advice with respect to all aspects of its business, directing relationships with external counsel and assisting in maintaining its operations in compliance with relevant legal and regulatory requirements. Prior to joining Mesirow Advanced Strategies, Inc. in 2008, Mr. Robbins was a partner in the Investment Funds, Advisers and Derivatives group at Sidley Austin LLP, where he specialized in providing legal advice to hedge fund managers and participants in the derivatives industry with respect to all aspects of their business and operations. Just after law school, and prior to joining Sidley, he clerked for the Honorable Robert H. Henry on the U.S. Tenth Circuit Court of Appeals, and before law school he worked as a legislative assistant for U.S. Senator David L. Boren. Mr. Robbins received his B.A. from Yale University in 1991 and his J.D. (cum laude, Order of the Coif) from the University of Wisconsin in 1997.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Heather Wilken Byers

Title

Vice President

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

2007

Firm End Date:

N/A

Email

hbyers@mesirowfinancial.com

Office Phone:

312-595-7982

Cell Phone

773-677-2049

Bio

Heather Wilken Byers is a vice president for Mesirow Advanced Strategies, Inc. She assists in the firm's marketing efforts, client service and business development across North America. Prior to joining Mesirow Advanced Strategies, Inc. in 2007, Ms. Byers was a senior investment relationship manager with Northern Trust Global Investments where she was responsible for business development and client service. Ms. Byers received a B.A. in finance from the University of Illinois at Urbana-Champaign. In addition, she is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Mark Kulpins

Title

Managing Director

Location

Chicago

Industry Start Year:

1997

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Mark Kulpins is a managing director and director of manager research for Mesirow Advanced Strategies, Inc., and a member of the investment committee. He is responsible for providing leadership and management to the strategy-focused research teams with respect to investment and underlying manager considerations. Mr. Kulpins also shares responsibility with the chief investment officer for various aspects of portfolio construction, portfolio risk management and strategy analysis. Prior to joining Mesirow Advanced Strategies, Inc. in 2004, he worked in the equity research department at William Blair & Company and also worked for Brinson Partners, Inc. Mr. Kulpins received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the University of Chicago. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

A

Firm: **Mesirow Advanced Strategies, Inc.**
Product Name: **Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	22.7%	3.7%	0.0%	0.0%	30.9%	2.1%	0.0%	0.0%	2.8%	37.9%
12/31/2009	34.4%	5.0%	0.0%	0.0%	25.0%	2.6%	0.0%	0.0%	0.0%	33.0%
12/31/2008	30.9%	8.7%	0.0%	0.0%	21.9%	0.0%	0.0%	0.0%	0.0%	38.5%
12/31/2007	36.4%	5.7%	0.0%	0.0%	17.7%	0.0%	0.0%	0.0%	0.0%	40.2%
12/31/2006	33.1%	3.9%	0.0%	0.0%	13.5%	2.6%	0.0%	0.0%	0.0%	46.9%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$1,277	$7,572	$13,628	$13,628	43	78
12/31/2009	$1,034	$6,793	$11,961	$11,961	30	56
12/31/2008	$724	$8,692	$11,982	$11,982	28	46
12/31/2007	$672	$10,912	$16,046	$16,046	35	18
12/31/2006	$468	$8,519	$12,426	$12,426	32	31

[illegible]

[illegible]

Organization

Year Firm Established	2000
Year First Fund of Funds Launched	2000
Location	Irvine, CA
Number of Investment Professionals	44
Percentage Employee Owned	73%
Total AUM (millions)	$9,869

Investment Philosophy

We are active managers and believe in active investment management.

We focus on returns which are expected/targeted to be independent of traditional markets and we build portfolios which aim to diversify sources of idiosyncratic returns.

We believe we must be open to new investment ideas—many new markets, managers, and securities offer attractive alpha opportunities.

We believe we need to be flexible and creative to outperform; experienced individuals, held accountable for their results, make better investment decisions than committees.

We believe investment decisions should be based on independent, fundamental assessments—position-level transparency gives us a solid base for our understanding.

We believe investment costs should be aggressively managed. We attempt to avoid conflicts and maintain the highest ethical standards in evaluating investment opportunities.

Investment Process

PAAMCO's investment process for each of the eight sectors in which it invests is driven by a senior Sector Specialist and team with extensive investment and academic experience in the sector. The team is charged with identifying hedge fund managers in their sector, conducting due diligence, negotiating terms and then monitoring the managers on an ongoing basis.

PAAMCO's portfolio construction process integrates bottom-up manager selection with top-down strategy allocation and risk monitoring. The Strategy Allocation Committee (SAC) is responsible for providing allocation recommendations to the Investment Management Committee (IMC). PAAMCO's IMC ultimately determines the portfolio's strategy allocation which is formally reviewed quarterly. The lead Account Manager for a fund may tailor the strategy and/or manager allocations to reflect a client's specific risk/return objective.

PAAMCO's risk management process relies on position-level transparency and encompasses both traditional statistical models and proprietary behavioral models.

Ownership Structure

The Firm's operating entity is Pacific Alternative Asset Management Company, LLC ("PAAMCO LLC"), a California Limited Liability Company founded in 2000. In 2003, PAAMCO LLC formed a subsidiary based in London, Pacific Alternative Asset Management Co. Europe LLP ("PAAMCO Europe"), which is a Limited Liability Partnership. In 2006, PAAMCO LLC launched a second subsidiary based in Singapore, Pacific Alternative Asset Management Company Asia Pte. Ltd. ("PAAMCO Asia"), which is a Private Limited Company. In 2003, the four founding partners contributed their membership interests in PAAMCO LLC into a separate company called PAAMCO Founders Co., LLC ("Founders"). PAAMCO LLC is directly owned by Founders and 7 US-based senior employees; 3 non-US senior employees hold ownership interests in their respective PAAMCO

entity (PAAMCO Europe or PAAMCO Asia) and have compensation tied to the performance of PAAMCO LLC. Thus, Founders has a 68% economic interest and a 76.25 % voting interest in PAAMCO LLC; the remaining economic interest is held by the other 10 senior employee Partners.

As a result of a judgment entered recently in a case filed by companies controlled by S. Donald Sussman, Founders has issued a Membership Interest Certificate (dated as of January 11, 2010) to Franklin Realty Holdings, LLC ("Franklin") reflecting a 40% membership interest in Founders (not PAAMCO). The issuance by Founders of a Membership Interest Certificate to Franklin does not change the day-to-day management of PAAMCO, the business plans of the Firm or decisions made by PAAMCO on behalf of its clients. Moreover, the founding partners together constitute a supermajority of the members of Founders (60%), are the managers of Founders, and as a result together effectively control Founders.

Employees

Kemmy Koh

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Singapore

Industry Start Year:

2001

Firm Start Year:

2001

Firm End Date:

N/A

Email

kkoh@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

Kemmy Koh, MBA, CFA is a Managing Director and the Sector Specialist responsible for the evaluation and management of Asian long/short equity hedge funds in the various PAAMCO portfolios. Kemmy is also a Director of Pacific Alternative Asset Management Company Asia Pte Ltd. (Singapore). She is a member of the Investment Management and Risk Management Committees and previously served as the firm's Research Manager. She spent the summer of 2000 at the firm as a summer intern and joined PAAMCO full time in the summer of 2001. Prior to joining PAAMCO, Kemmy was a credit analyst for Banque Nationale de Paris (Singapore) and Development Bank of Singapore (Singapore) where she developed an extensive background in security and portfolio analysis. Kemmy graduated from the National University of Singapore with a Bachelor of Business Administration and received her M.B.A. from the University of California, Irvine. Kemmy has nine years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

Employees

David Walter

Title

Director, Sector Specialist Pan Asia Portfolio Solutions

Location

Singapore

Industry Start Year:

1987

Firm Start Year:

2010

Firm End Date:

N/A

Email

dwalter@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

David Walter, MA is a Director in PAAMCO's Portfolio Management Group based in the firm's Singapore office. He is responsible for Asian focused investments and acts as Head of Research for Asia and the Pan Asia Portfolio Solutions' funds. Prior to joining PAAMCO, David performed a similar role for KBC Alpha Asset Management. Before KBC, he co-founded Arbiter Fund Managers where he established and managed a dedicated Japanese long/short equity fund. Previously, David worked at London and Oxford Capital Markets establishing and running a Japan-focused multi-strategy fund. Prior to that he was Head of Japanese Equity Product at Sanwa International Securities. David began his professional career in 1987 at Barings Far East Securities where he was employed as a Japanese convertible and warrant trader. He has twenty-four years of investment management experience. David graduated from Christ Church, Oxford with an MA (Hons) degree in Modern History.

Compensation Structure

salary, plus bonus

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Philippe Jorion

Title

Managing Director, Risk Management

Location

Irvine

Industry Start Year:

1983

Firm Start Year:

2006

Firm End Date:

N/A

Email

pjorion@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Philippe Jorion, MBA, PhD is a Managing Director in the Risk Management Group and is responsible for developing and implementing PAAMCO's offensively directed risk management concepts. He also oversees the PAAMCO infrastructure employed in evaluating individual hedge funds from a position level perspective, risk at the level of the various sectors as well as the risk structure of the overall PAAMCO portfolio. Philippe's work also includes developing approaches to evaluating new securities and new markets. Philippe is a member of the Risk Management and Strategy Allocation Committees. He also serves as the Chancellor's Professor of Finance at the Paul Merage School of Business at the University of California at Irvine. He is a frequent speaker at academic and professional conferences; and is on the editorial boards of a number of finance journals. Philippe has authored more than 90 publications on the topic of risk management and international finance. Some of his most notable work includes the Financial Risk Manager Handbook (Wiley 5th ed. 2009), which provides the core body of quantitative methods and tools for financial risk managers; Big Bets Gone Bad: Derivatives and Bankruptcy in Orange County (Academic Press 1995), the first account of the largest municipal failure in U.S. history; and Value at Risk: The New Benchmark for Managing Financial Risk (McGraw-Hill 3rd ed. 2006), the first definitive book on VAR. Philippe holds an M.B.A. and a Ph.D. from the University of Chicago and a degree in engineering from the University of Brussels. Philippe has twenty-seven years of experience in risk management and international finance.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Erik Bernhardt

Title

Director, Portfolio Manager – Commingled Funds

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2003

Firm End Date:

N/A

Email

ebernhardt@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Erik Bernhardt, MBA, CFA is a Director working in both Portfolio Management and Account Management. He serves as the Portfolio Manager for the firm's commingled funds, supervising overall portfolio construction as well as supporting the funds' clients. He is also a member of the firm's Strategy Allocation Committee which focuses on assessing the impact of asset allocation and accompanying risk at the hedge fund and overall portfolio levels. From October 2005 until February 2008, Erik was located in the firm's London office where he researched managers within the European credit space. He also was responsible for developing relationships with prospective clients and co-managing the firm's European institutional investor base. Prior to joining PAAMCO, Erik was a Senior Consulting Associate at Cambridge Associates, an investment-consulting firm, where he conducted in-depth studies on asset allocation and portfolio construction. Erik graduated with highest honors from Principia College in St. Louis with a B.A. in Business Administration and History and received his M.B.A. from the Anderson School of Business at the University of California, Los Angeles.

Compensation Structure

salary, plus bonus

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Kevin Williams

Title

Managing Director, Investment Operations

Location

Irvine

Industry Start Year:

2000

Firm Start Year:

2000

Firm End Date:

N/A

Email

kwilliams@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Kevin Williams, MBA, CFA, CPA is the Head of Investment Operations and Chief Compliance Officer, responsible for overseeing operational due diligence, legal and regulatory due diligence, fund accounting and administration, our managed account platform, and compliance. In addition, Kevin has select institutional account management responsibilities and serves on the board of several funds. He is also a member of the firm's Investment Management and Account Management Committees. Prior to joining PAAMCO, Kevin worked for McGladrey and Pullen LLP, a national public accounting and consulting firm, where he audited several financial services clients. He also served as a controller for a technology company. Kevin graduated from the University of California, Los Angeles with a B.A. in Economics, and received his M.B.A. with a concentration in Investment Finance from the Marshall School of Business at the University of Southern California. Kevin has nine years of experience in the financial services sector

Compensation Structure

salary, plus % of firm profits

Employees

Mayer Cherem

Title

Managing Director, Sector Specialist Opportunistic Investments

Location

Irvine

Industry Start Year:

2004

Firm Start Year:

2004

Firm End Date:

N/A

Email

mcherem@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Mayer Cherem, MBS, CFA, CQF is a Managing Director and the Sector Specialist responsible for the evaluation and management of opportunistic investments and offensive risk management initiatives. Mayer focuses on identifying new, uncorrelated sources of alpha through fundamental analysis and their optimal integration into client portfolios. He is also a member of the firm's Strategy Allocation Committee where he focuses on assessing the impact of asset allocation on overall portfolio risk and performance. As a member of the Risk Committee, Mayer is involved in the ongoing development of the firm's risk criteria and quantitative aspects of portfolio construction. Mayer graduated from the Universidad Simon Bolivar with a B.S. in Production Engineering and received an M.B.A. from Columbia Business School.

Compensation Structure

salary, plus % of firm profits

Employees

Maarten Nederlof

Title

Managing Director and Head of Portfolio Solutions

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2009

Firm End Date:

N/A

Email

mnederlof@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Maarten Nederlof is a Managing Director and Head of Portfolio Solutions at PAAMCO. He is a member of the Investment Management, Risk Management and Account Management Committees. Prior to joining PAAMCO, Maarten held various positions at Deutsche Bank Securities, Inc. and Deutsche Asset Management, including Managing Director and Global Co-Head of the Hedge Fund Capital Group and Global Head of the Pension Strategies Group. In addition, he was a Managing Director and Portfolio Manager at K2 Advisors, LLC, as well as Director and Head of Investor Risk Management at Capital Market Risk Advisors. Maarten began his career as a quantitative strategist at Salomon Brothers, Inc. He has twenty-four years of experience in investment management and portfolio construction with institutional investors. Maarten is a member of the Investment Committee of The John D. and Catherine T. MacArthur Foundation, as well as the Investor Risk Committee of the International Association of Financial Engineers (IAFE). He is a frequent lecturer and featured speaker at business schools, seminars and industry conferences.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Judith Posnikoff

Title

Managing Director, Sector Specialist Equity Market Neutral

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2000

Firm End Date:

N/A

Email

jposnikoff@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Judith Posnikoff, MBA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of equity market neutral hedge funds in the various PAAMCO portfolios. As a member of the Investment Management Committee, she is involved in all stages of the investment process. In addition, Judy specifically focuses on the complex customized portfolios of the firm's Asia/Pacific institutional accounts. She is also a member of the Account Management Committee. Prior to forming PAAMCO, Judy was Assistant Portfolio Manager/Research Associate at Collins Associates, an institutional fund of funds and consulting firm, where she focused on market neutral strategies in addition to directing large-scale quantitative research projects focusing on alternative strategies. She has numerous publications in the area of alternative investments and has taught at the University of California, Riverside, at California State University, Fullerton and most recently at the University of California, Irvine, where she held the position of adjunct faculty member at the Graduate School of Management. Judy graduated from the University of California, Riverside with a B.S. in Administrative Studies where she also received her M.B.A. and M.A. in Financial Economics and her Ph.D. in Financial and Managerial Economics. Judy has fifteen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Charles Armendarez

Title
  Managing Director, Sector Specialist Long/Short Equity

Location
  Irvine

Industry Start Year:
  1998

Firm Start Year:
  2000

Firm End Date:
  N/A

Email
  carmendarez@paamco.com

Office Phone:
  949-261-4900

Cell Phone
  N/A

Bio
  Charles Armendarez, MBA, CFA is a Managing Director and a Sector Specialist responsible for evaluating hedge fund managers that focus on long/short equity and other opportunistic strategies in the various PAAMCO portfolios. In addition, he is responsible for overall management and supervision of the PAAMCO investment process. Charlie is a member of the Investment Management Committee. In addition, he directs the firm's Investment Associate and Summer Associate Programs and is responsible for firm's Associate recruiting efforts. Prior to joining PAAMCO, Charlie was a Portfolio Manager and Research Associate at Collins Associates, an institutional fund of hedge funds and consulting firm, where he performed research and due diligence on investment managers utilizing alternative investment strategies. At Collins, his focus was on evaluating managers employing the following strategies: directional long/short, distressed debt, merger arbitrage, convertible arbitrage, fixed income arbitrage, equal dollar-weighted long/short and emerging market equities. Charlie graduated from the University of Southern California with a B.A. in Economics and received his M.B.A. from the Amos Tuck School at Dartmouth. Charlie has fifteen years of investment management experience with institutional investors.

Compensation Structure
  Salary plus % of firm profits

Employees

James Berens

Title

Managing Director, Sector Specialist Distressed Debt and Long/Short Credit

Location

Irvine

Industry Start Year:

1993

Firm Start Year:

2000

Firm End Date:

N/A

Email

jberens@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

James Berens, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the distressed debt and long/short credit hedge funds in the various PAAMCO portfolios. Jim is also the Portfolio Manager for the commingled funds including Pacific Select Opportunities Fund, a customized fund of hedge funds for institutional investors designed to achieve higher absolute returns by targeting more inefficient sectors and utilizing less liquid investments. As a member of the Investment Management Committee, he is involved in all stages of the investment process. In addition, Jim is responsible for managing relationships with certain institutional investors. Jim also serves on the Risk Management Committee. Prior to forming PAAMCO, Jim was Co-Managing Partner at Collins Associates, an institutional fund of funds and consulting firm, with responsibilities for directional hedge fund strategies. He has written and published extensively on hedge funds and their applications for institutional investors; is a frequent guest speaker and panelist at investment conferences throughout the United States; and has taught investment management courses at the Graduate School of Management at the University of California, Irvine. Jim graduated from the University of Redlands with a B.A. in Economics and Political Science, received his M.A. from the University of California, Riverside in Financial Economics and received his Ph.D. in Administration (concentration in Finance) from the University of California, Irvine. Jim has seventeen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary plus % of firm profits

Employees

Jane Buchan

Title

Managing Director, Chief Executive Officer, Sector Specialist Fixed Income Realtive Value

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

jbuchan@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Jane Buchan, MA, PhD, CAIA is a Managing Director and the firm's Chief Executive Officer. As CEO, Jane is responsible for overall business strategy and firm direction. In addition, she is a Sector Specialist responsible for the evaluation and management of fixed income relative value hedge funds in the various PAAMCO portfolios. Jane is also a member of the Investment Management, Risk Management and Account Management Committees. Prior to forming PAAMCO, Jane held various positions ranging from Director of Quantitative Analysis to CIO of non-directional strategies at Collins Associates, an institutional fund of funds and consulting firm. She began her career at J.P. Morgan Investment Management in the Capital Markets Group and has numerous professional publications in the field of market neutral and alternative investments strategies. She was an Assistant Professor of Finance at the Amos Tuck School of Business at Dartmouth. She currently sits on the Board of the Chartered Alternative Investment Analyst Association (CAIA). Jane graduated from Yale University with a B.A. in Economics and received both her M.A. and Ph.D. in Business Economics (Finance) from Harvard University. Jane has twenty-four years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Alper Ince

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

aince@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Alper Ince, MBA, CFA is a Managing Director and the Sector Specialist responsible for the coverage of long/short equity hedge fund managers in the various PAAMCO portfolios. He is also a member of the Investment Management and Strategy Allocation Committees where he focuses on establishing and assessing overall asset allocation and accompanying risk at both the sector and overall portfolio levels. Prior to joining PAAMCO, Alper was an Associate Director at BARRA RogersCasey, a major pension-consulting firm, where he led the firm's hedge fund investment and manager research efforts. Alper graduated from METU Ankara (Turkey) with a B.S. in Economics and received his M.B.A. in Finance from the University of Hartford. Alper has thirteen years of investment management and consulting experience with institutional investors.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Bill Knight

Title

Managing Director, Sector Specialist Event-Driven Equity

Location

Irvine

Industry Start Year:

1982

Firm Start Year:

2000

Firm End Date:

N/A

Email

bknight@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Bill Knight, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the event-driven equity hedge funds in the various PAAMCO portfolios. As chair of the firm's Investment Management Committee, Bill is involved in all stages of the investment process. In addition, he chairs the firm's Board of Director meetings. Prior to forming PAAMCO, Bill was Senior Portfolio Manager at Collins Associates, an institutional fund of funds and consulting firm, for two long-only domestic equity funds, two low-beta funds, and a short-biased equity fund. In addition, he has held the position of adjunct faculty member at several universities. Bill graduated from Vanguard University with a B.A. in Social Sciences (History), received his M.A. from California State University, Fullerton in Social Sciences (Sociology and Psychology), and received his Ph.D. in Education (concentration in Management) from the University of California, Riverside. Bill has twenty-eight years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

A

Firm: Pacific Alternative Asset Management Company, LLC
Product Name: Pacific Hedged Strategies, LLC

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	28.0%	0.0%	0.0%	7.0%	11.0%	9.0%	4.0%	9.0%	0.0%	32.0%
12/31/2009	27.0%	1.0%	0.0%	4.0%	9.0%	12.0%	5.0%	8.0%	0.0%	34.0%
12/31/2008	35.0%	3.0%	0.0%	5.0%	5.0%	10.0%	7.0%	5.0%	0.0%	30.0%
12/31/2007	36.0%	3.0%	0.0%	4.0%	6.0%	12.0%	6.0%	5.0%	0.0%	28.0%
12/31/2006	38.0%	3.0%	0.0%	5.0%	6.0%	15.0%	4.0%	2.0%	0.0%	27.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$602	$7,610	$9,869	$9,869	26	13
12/31/2009	$535	$8,169	$9,830	$9,830	16	11
12/31/2008	$440	$7,944	$8,640	$8,640	23	2
12/31/2007	$413	$8,371	$9,393	$9,393	16	4
12/31/2006	$236	$6,685	$7,949	$7,949	10	10

[illegible]

[illegible]

Organization

Year Firm Established	2004
Year First Fund of Funds Launched	2005
Location	New York, NY
Number of Investment Professionals	21
Percentage Employee Owned	43%
Total AUM (millions)	$5,300

Investment Philosophy

Prisma's investment philosophy is based on 5 main tenets:

Transparency: We believe in transparency and will not invest in any manager that does not provide what we consider to be sufficient transparency into its investment process, risk exposures, position sizes, and overall business. Similarly, we are committed to meeting the transparency requirements of our clients.

Investment Specialists: We believe that identifying and understanding the opportunities and risks inherent in complex hedge fund strategies requires dedicated investment "specialists" with significant asset management, trading, capital markets, risk, and operations experience.

Strategy Allocation: We believe that top-down strategy allocation can add significant value to the performance of our funds. Led by Gavyn Davies, former Chief Economist at Goldman Sachs, we analyze macroeconomic trends and allocate capital to what we believe are the most favorable hedge fund strategies.

Specialist Managers: We believe that specialist (single strategy or even sub-strategy) hedge fund managers can generate significant alpha, and have conducted research that shows that substantial value can be added by investing in earlier stage managers.

Three Separate Due Diligence Teams: We believe that proper manager due diligence should comprise independent assessments by separate teams: 1) investments, 2) risk management, and 3) operations, with each team having the ability to veto a potential investment.

Investment Process

Prisma's investment process combines a top-down strategy allocation process with bottom-up manager selection to arrive at what Prisma believes is an optimal portfolio given a client's risk and return objectives. Risk management is closely integrated into each step of the investment process.

Our process begins with strategy allocation. Led by Mr. Davies, strategy allocation incorporates Prisma's top down economic views and forecasts for underlying hedge fund strategies to arrive at target allocations by hedge fund sector. Our manager selection process involves three separate layers of due diligence: 1) investment, 2) risk and 3) operations. Professionals from the investment, risk, and operations teams each conduct due diligence (including onsite visits) to produce a comprehensive evaluation of managers, with each team having a full veto right over any investment. Finally, portfolio construction uses optimization to integrate quantitatively the strategy allocation mix with the approved list of managers in an attempt to achieve the client's desired beta, volatility and liquidity constraints. Prisma's investment process also includes rigorous monthly portfolio monitoring.

Ownership Structure

AEGON USA Investment Management ("AUIM") has a profits interest of 57% of the firm and the remaining balance is owned by Prisma employees and principals. As Prisma attains certain performance targets over time, AUIM's ownership percentage will decrease and employee ownership will increase accordingly.

Prisma Capital Partners LP

Information Effective As Of 12/31/2010

Employees

Girish Reddy

Title

Managing Partner

Location

New York

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

greddy@prismapartners.com

Office Phone:

212-590-0801

Cell Phone

N/A

Bio

Mr. Reddy is a former partner of Goldman, Sachs & Co., where he was a co-head of equity derivatives. Prior to Goldman, he was the CIO of LOR Associates, a hedging and strategy advising firm based in Los Angeles, developing strategic alliances with other established asset managers like Wells Fargo and Aetna Insurance. Earlier in his career, he was a senior vice president of portfolio construction and asset allocation, at Travelers Investment Management Company, where he specialized in various overlay strategies for the firm using listed futures and options. Mr. Reddy is an elected member of and serves on the executive board of the Indian School of Business. He is also a former board member of Barra Inc.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Thomas Healey

Title

Advisory Partner

Location

New York

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

thealey@Prismapartners.com

Office Phone:

212-590-0800

Cell Phone

N/A

Bio

Thomas Healey is co-founder of Prisma Capital Partners LP. Mr. Healey is a former partner and head of pension services group of Goldman, Sachs & Co. While at Goldman Sachs & Co., he was a co-chairman of the Goldman Sachs retirement committee, with oversight of more than $3 billion in defined contribution plan assets, and also a co-chief investment officer of the $10 billion Central States Teamsters Pension Fund, managed by Goldman Sachs & Co. Mr. Healey is the chair of the investment committee of the Rockefeller Foundation and a board member of other charitable institutions. Earlier, he served as former assistant secretary of the Treasury under President Reagan. Mr. Healey was a senior fellow and is an adjunct lecturer at Harvard University's John F. Kennedy School of Government.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Eric Wolfe

Title

Senior Portfolio Manager

Location

New York

Industry Start Year:

1992

Firm Start Year:

2004

Firm End Date:

N/A

Email

ewolfe@prismapartners.com

Office Phone:

212-590-0802

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Wolfe was a vice president and leading portfolio manager of the hedge fund of funds group at Safra National Bank of New York. He managed the accounts group, and headed the research process to source hedge fund investments for fund-of-funds. Previously, he was the chief financial officer for Buyroad.com, where he co-managed a 20 employee web design team from pre-launch to a revenue producing entity serving the small/medium business market. Earlier, Mr. Wolfe was a vice president and global balanced portfolio manager at J.P. Morgan Investment Management, serving as portfolio manager of over $16 billion in global balanced assets. Also at J.P. Morgan, he was an analyst in the structured derivatives group of the asset management company.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Dan Lawee

Title
    Portfolio Manager

Location
    New York

Industry Start Year:
    1994

Firm Start Year:
    2008

Firm End Date:
    N/A

Email
    dlawee@prismapartners.com

Office Phone:
    212-590-0841

Cell Phone
    N/A

Bio

Aug 02 - Sept 08: Portfolio Manager - Northwater Capital Management Inc
Responsible for asset-backed and mortgage-backed securities arbitrage, fixed income arbitrage, reinsurance, and volatility arbitrage hedge fund strategies across Northwater's $4 billion in fund of hedge funds portfolios

Aug 87 - July 02: Vice President, Corporate Foreign Exchange Desk - TD Canada Trust

Aug 83 - April 95: Account Executive - Mortgage Department, Republic National Bank of New York

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

James Welch

Title

Managing Director - Portfolio Manager

Location

New York

Industry Start Year:

1980

Firm Start Year:

2010

Firm End Date:

N/A

Email

jwelch@prismapartners.com

Office Phone:

212-590-0829

Cell Phone

N/A

Bio

Prior to Prisma, Mr Welch was a Managing Member of Kettle Cove Investors, LLC, a fund of hedge funds vehicle established for members of Mr. Welch's immediate family
CEO and Executive Director of Kisco Management Corporation, a financial services firm that was exclusively dedicated to serving a prominent U.S. high net worth family
Managing Director and Co-Head of Research and Portfolio Management at J.P. Morgan Alternative Asset Management, Inc., which is J.P. Morgan's fund of hedge funds investment firm
Held various positions of increasing responsibility within J.P. Morgan, primarily in the capital markets area, including roles in derivatives origination, structuring, and training

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Donna Heitzman

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

dheitzman@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Ms. Heitzman was a portfolio manager at AEGON USA Investment Management LLC; facilitating the portfolio's significant growth and broad diversification across all hedge fund strategies with a specialty in researching and implementing new strategies. She was also the director of private placements at AEGON USA Investment Management LLC. Prior, also at AEGON USA, she was the director of the financial division, where she was responsible for investment portfolio analysis. Previously, she was an audit supervisor at Coopers and Lybrand, specializing in the manufacturing and financial institution sectors of both publicly held and privately owned clients.

Compensation Structure

Prisma’s compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual’s commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma’s funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Michael Rudzik

Title
: Portfolio Manager

Location
: Louisville

Industry Start Year:
: 1987

Firm Start Year:
: 2004

Firm End Date:
: N/A

Email
: mrudzik@prismapartners.com

Office Phone:
: 502-560-2730

Cell Phone
: N/A

Bio

Prior to joining Prisma, Mr. Rudzik was a Portfolio Manager at AEGON USA Investment Management LLC, where he was responsible for hedge fund manager due diligence, selection, and monitoring with primary strategy focus on long/short equity, event-driven, multi-strategy arbitrage and private equity. Previously, he was the chief operating officer at Aeon Capital Management LLC, where he collaborated in the formation of a $50 million emerging markets hedge fund start-up for a European investment group. Earlier, he was a general partner at Tiedemann Investment Group, where he served as the head of the trading desk and in a portfolio management capacity. Earlier in his career, Mr. Rudzik was a financial analyst at Morgan Stanley.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Peter Zakowich

Title
Portfolio Manager

Location
London

Industry Start Year:
1999

Firm Start Year:
2006

Firm End Date:
N/A

Email
pzakowich@prismapartners.com

Office Phone:
20 7016-6495

Cell Phone
N/A

Bio

Prior to joining Prisma, Mr. Zakowich was an associate portfolio manager at J.P. Morgan Alternative Investments, where he was responsible for investment selection, position sizing, and exposure monitoring. Previously, he was a media analyst at Edge Capital, a long/short equity hedge fund focusing in the media and entertainment sectors. Earlier, Mr. Zakowich was an investment associate in equity research at Putnam Investments where he provided global coverage of the media, advertising, and related technology sectors; and the automotive industry.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

William Cook

Title

Senior Portfolio Manager

Location

London

Industry Start Year:

1981

Firm Start Year:

2004

Firm End Date:

N/A

Email

bscook@prismapartners.com

Office Phone:

212-590-0804

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Cook was the head of the capital market strategies group at AEGON USA Investment Management LLC. He was focusing on alternative investments, SBA loans, and special opportunities. Also at AEGON USA, Mr. Cook was the head of the derivatives group which was spun out of the public fixed income group. Prior, and also at AEGON USA, Mr. Cook was the head of public fixed income group where he led teams of six portfolio managers and a group of 15 employees. Previously, he was a partner at Cleveland Management, where he was a generalist with a specialty in fixed income for the high net worth oriented asset management firm. Earlier in his career, Mr. Cook was the director of fixed income at United Capital Management.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

A

Firm: **Prisma Capital Partners LP**
Product Name: **Prisma Spectrum Fund Ltd**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	26.9%	1.6%	4.1%	2.4%	33.5%	5.0%	0.0%	10.0%	13.4%	3.0%
12/31/2009	35.9%	2.7%	6.2%	2.0%	19.4%	3.3%	0.0%	11.9%	14.8%	3.8%
12/31/2008	33.3%	7.5%	1.4%	2.0%	18.1%	5.5%	0.0%	8.1%	17.9%	6.2%
12/31/2007	36.7%	7.3%	0.0%	1.9%	22.8%	4.6%	0.0%	5.0%	14.3%	7.6%
12/31/2006	39.9%	5.2%	0.0%	1.0%	16.9%	6.7%	0.0%	5.3%	16.5%	8.5%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$942	$3,971	$5,300	$5,300	75	3
12/31/2009	$504	$2,938	$4,500	$4,500	10	30
12/31/2008	$547	$3,095	$4,200	$4,200	3	8
12/31/2007	$377	$3,498	$4,427	$4,427	1	17
12/31/2006	$156	$2,498	$3,227	$3,227	1	7

EXHIBIT 17

To: Peden, David (KRS)[david.peden@kyret.ky.gov]; Gilbert, Joe (KRS)[joe.gilbert@kyret.ky.gov]; Miller, Laura (KRS)[laura.miller@kyret.ky.gov]; Aldridge, Brent (KRS)[brent.aldridge@kyret.ky.gov]; Carter, Brian (KRS)[brian.carter@kyret.ky.gov]; Masthay, Thomas (KRS)[Thomas.Masthay@kyret.ky.gov]
From: Cracraft, Bo (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=BO.CRACRAFT]
Sent: Thur 8/26/2010 10:02:49 AM (UTC-04:00)
Subject: FW: Schedule for the FOF calls USM
GAM - KRS.pdf
2010 Redacted Example DD 2.pdf
GAM Diversity Client Communication and Reporting Package 3-10.pdf
Managers Information Pack.pdf
MLVI_20100730_NYCrisk.pdf
ODD Table of Contents.pdf

FYI. Here is the information that GAM has provided. I have printed a copy of the Presentation and Risk Dashboard booklets for each of you. I also printed ONE copy of the sample reports, managers info pack, and redacted example. We can pass around and take a look, but I didn't feel like we needed to make seven copies of these.

Also, if RVK has the availability, we will probably hang on the call for a few additional minutes to discuss the week and you will each have an opportunity to discuss any likes/dislikes from the calls.

I have placed the copies out on the conference table is you would like to take a look prior to the call.
Thanks, Bo

Bo Cracraft | Kentucky Retirement Systems | Director of Equity |
|502.696.8445 | **Fax** 502.696.8805 | bo.cracraft@kyret.ky.gov|

From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Wednesday, August 25, 2010 3:30 PM
To: Kim MacKenzie; Cracraft, Bo (KRS)
Cc: Todd Shupp; KRS Team
Subject: RE: Schedule for the FOF calls USM

Bo,

I hope all of the calls are going well. Attached please find the materials for tomorrow's final call with GAM. Please let me know if you need anything else and I will talk with you soon.

Best,

Kim

Kimberly A. MacKenzie
Administrative Project Assistant
R.V. Kuhns & Associates, Inc.
1 Penn Plaza, Suite 2128
New York, NY 10119
(646) 805-7086 Direct
(646) 805-7075 Main
(646) 805-7986 Facsimile
Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Kim MacKenzie
Sent: August 24, 2010 3:27 PM
To: Cracraft, Bo (KRS)

Cc: Todd Shupp; KRS Team
Subject: RE: Schedule for the FOF calls USM

Hello Everyone,

I hope today's calls went (and are going) smoothly. Attached please find all of the materials for tomorrow's calls.

Attachments 1&2 - Crestline's Bio's and presentation
Attachments 3, 4, & 5 – Mesirow
Attachment 6- Prisma

Please let me know if you need anything else or encounter any issues with the calls.

Thanks!

Kim
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Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Kim MacKenzie
Sent: August 23, 2010 3:18 PM
To: Cracraft, Bo (KRS)
Cc: Todd Shupp; KRS Team
Subject: RE: Schedule for the FOF calls USM

Bo,

Attached please find the materials for tomorrow's calls as well as the finalized agenda. Please let me know if you have any questions or need anything else. I will send over Wednesday's batch when I have them all as well.

Best,

Kim

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R.V. Kuhns & Associates, Inc.
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From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 23, 2010 1:26 PM
To: Kim MacKenzie

Subject: RE: Schedule for the FOF calls USM

No worries. I appreciate you doing this. I just wanted to make sure we were on the same page and I shouldn't be doing something on my end.
Thanks, Bo

Bo Cracraft | Kentucky Retirement Systems | Director of Equity |
|☎502.696.8445 | Fax 502.696.8805 | ✉ bo.cracraft@kyret.ky.gov|

From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Monday, August 23, 2010 12:25 PM
To: Cracraft, Bo (KRS)
Cc: Tony Johnson
Subject: RE: Schedule for the FOF calls USM

Bo,

I have requested that all of the managers send electronic copies to me. I am waiting to get materials from one more manager and will send them all out together when I have them compiled. I will be sure that I send all materials to you in advance of the day's calls so that you have everything you need. Mesirow insisted on sending hard copies as well, so I am glad you received them.

Please let me know if you need anything else and I will be in touch soon.

Best,

Kim

Kimberly A. MacKenzie
Administrative Project Assistant
R.V. Kuhns & Associates, Inc.
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(646) 805-7086 Direct
(646) 805-7075 Main
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Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 23, 2010 12:11 PM
To: Kim MacKenzie
Cc: Tony Johnson
Subject: RE: Schedule for the FOF calls USM

Hey Kim, I have received presentation booklets for Mesirow, but didn't know if we should expect some digital versions that were sent to RVK for the other managers? We can easily print and have in front of us for the calls.

Thanks and just let me know. We are trying to get set for tomorrow.

Thanks, Bo

Bo Cracraft | Kentucky Retirement Systems | Director of Equity |
|☎502.696.8445 | Fax 502.696.8805 | ✉ bo.cracraft@kyret.ky.gov|

From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Wednesday, August 18, 2010 4:19 PM
To: Cracraft, Bo (KRS)
Subject: RE: Schedule for the FOF calls USM

Great, thanks for the info, Bo. Have a great evening and we will have that info over to you as soon as we can.

Kim

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Administrative Project Assistant
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(646) 805-7986 Facsimile
Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 18, 2010 3:31 PM
To: Kim MacKenzie; Tony Johnson
Cc: Todd Shupp; Aldridge, Brent (KRS)
Subject: RE: Schedule for the FOF calls USM

Sounds great. Thanks.
As for our attendees,
David Peden, Brent Aldridge, and Bo Cracraft will be calling in to each of the calls.
Joe Gilbert, Tom Masthay, Laura Miller, and Brian Carter have all been invited, but they will probably not all be able to attend every meeting given their availability/etc
You can list everyone if that makes the most sense.

Hopefully that will help and I will keep an eye out for the information.
Thanks again! Bo

Bo Cracraft | Kentucky Retirement Systems | Director of Equity |
|☎502.696.8445 | **Fax** 502.696.8805 | ✉ bo.cracraft@kyret.ky.gov|
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From: Kim MacKenzie [mailto:Kim.MacKenzie@rvkuhns.com]
Sent: Wednesday, August 18, 2010 3:17 PM
To: Cracraft, Bo (KRS); Tony Johnson
Cc: Todd Shupp; Aldridge, Brent (KRS)
Subject: RE: Schedule for the FOF calls USM

Bo,

We are working on getting something together for you; we will pass it along as soon as it is complete. Please let us know if you need anything else.

Also, who will be calling in for the calls on your end? The managers have asked for a complete list of attendees.

Thanks a bunch!

Kim

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(646) 805-7086 Direct
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Kim.MacKenzie@rvkuhns.com
http://www.rvkuhns.com

From: Cracraft, Bo (KRS) [mailto:bo.cracraft@kyret.ky.gov]
Sent: August 18, 2010 2:52 PM
To: Tony Johnson; Kim MacKenzie
Cc: Todd Shupp; Aldridge, Brent (KRS)
Subject: RE: Schedule for the FOF calls USM

Hey Tony, hope this email finds you doing well. I am following up on a voicemail I just left regarding the FOF conference calls that we have scheduled for next week.

I was hoping that we could receive some summary information about each of the seven firm/FOFs to review prior to our calls. I know you have mentioned that RVK maintains a database of RFIs or questionnaires for many of the firms and anything that could be reviewed to prepare and educate ourselves about the firms would be greatly appreciated. Digital versions would be great as well so that we could email to everyone involved.

Just let me know.

Thanks, Bo

Bo Cracraft | Kentucky Retirement Systems | Director of Equity |
|☎502.696.8445 **| Fax** 502.696.8805 **|** ✉ bo.cracraft@kyret.ky.gov|

From: Tony Johnson [mailto:Tony.Johnson@rvkuhns.com]
Sent: Wednesday, August 04, 2010 9:08 AM
To: Peden, David (KRS); Kim MacKenzie; Cracraft, Bo (KRS); Aldridge, Brent (KRS)
Cc: Todd Shupp
Subject: Re: Schedule for the FOF calls USM

Kim,

Please send the HFOF interview schedule to the KRS staff listed above.

Thanks.

Anthony K. Johnson
Principal, Senior Consultant
R.V. Kuhns & Associates, Inc.
One Penn Plaza, Suite 2128

New York, NY 10119
646-805-7080 Direct
646-805-7980 Facsimile
Tony.Johnson@rvkuhns.com
www.rvkuhns.com

Sent from my iPhone
On Aug 4, 2010, at 8:30 AM, "Peden, David (KRS)" <david.peden@kyret.ky.gov> wrote:

Hi Tony,

When you get a tentative schedule for the FOF calls in August please send that to someone. PIMCO would like to come in that week and I want to schedule PIMCO around the FOF calls.

thanks

David Peden
Kentucky Retirement Systems | Director Fixed Income Assets
☎ 502.696.8485 | **Fax** 502.696.8805 | ✉david.peden@kyret.ky.gov

EXHIBIT 18

To: Tosh, Adam (KRS)[adam.tosh@kyret.com]
From: Donde, Anastasia (NY)[adonde@iinews.com]
Sent: Mon 4/12/2010 2:52:30 PM (UTC-04:00)
Subject: FW: Tobe named to Investment Committee for $13 billion Kentucky Ret. Systems

????

From: Brian Breidenbach [mailto:Brian@4bcap.com]
Sent: Monday, April 12, 2010 2:51 PM
To: 'Brian Breidenbach'
Cc: chris@4bcap.com
Subject: Tobe named to Investment Committee for $13 billion Kentucky Ret. Systems

Breidenbach Capital Consulting, LLC (BCAP) is proud to announce that Chris Tobe, CAIA, CFA a Senior Consultant for BCAP has been named to the Investment Committee for the $13 billion Kentucky Ret. Systems. Tobe previously was with NEPC and AEGON.

Tobe is supportive of KRS's continuing move to diversify into alternatives including hedge funds and private equity.

Brian C. Breidenbach, MBA, CPA, PFS, CFA
Managing Principal
Breidenbach Capital Consulting, LLC
101 North Seventh Street
Louisville, Kentucky 40202
(502) 561-3411 voice
www.4bcap.com

EXHIBIT 19

To: Carlson, TJ (KRS)[TJ.Carlson@kyret.ky.gov]; Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Masthay, Thomas (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=THOMAS.MASTHAY]
Sent: Fri 7/8/2011 2:19:30 PM (UTC-04:00)
Subject: HFoF Sizing

TJ/David,

I know we've briefly talked about sizing of the HFoF managers. This email discusses how much and secondarily, how much each manager should take of the total proportion.

How Much
How we plan allocate will have an effect on the total dollar amount. I ran through various plan allocation schemes and have come up with the following as what I feel is a good proxy for what we'd deem an appropriate allocation method:

HFoF Allocation
(Arrowhawk Cross - Underfunded to Target Method)

Total

% Underfunded to Target	Total HFoF Funding	Total AR Unfunded	% Exposure to HFoF
35%	866,959,335.09	519,788,201.39	5.9%
30%	941,214,792.43	445,532,744.05	6.4%
25%	1,015,470,249.77	371,277,286.70	6.9%
20%	1,089,725,707.11	297,021,829.36	7.4%
15%	1,163,981,164.45	222,766,372.02	7.9%
10%	1,238,236,621.80	148,510,914.68	8.4%
5%	1,312,492,079.14	74,255,457.34	8.9%
0%	1,386,747,536.48	-	9.4%

I would argue, to the extent we feel the liquidity is available, that we leave 100 bps on the table (i.e. plans, with Arrowhawk and HFoF would be at target minus 100bps; I talk more about this below… this translates to approx $1.2B per the table above). We have already discussed the timeline to deploying this capital as being long enough it probably doesn't make sense to come in at 60-70% of the allocation. It also doesn't make sense given the timeline and liquidity structure of the funds to come it at 100% either. The -100bps method I feel strikes the balance that mitigates going overallocated in the event of a portfolio drawdown in the ST and leaves some headroom for new personnel / consultant / thoughts to add value to the portfolio. Additionally, the -100bps can be revisited at the next meeting by approving more capital to be added if we decide it is prudent.

A couple of points of minutia in the building of these numbers are as follows:

- There are 2 plans with 12% targets; in order to accommodate this we need to make a decision about how we will deviate from the benchmark in the event we don't fund HFoF to the maximum. The decision is between targeting a given amount of underexposure to the asset class (and thus the 12% plans would have more tied up in HFoF than a portfolio designed to mimic the return of the 10% target plans would imply) or we target HFoF to be a set percentage of the total target (and the 12% plans are further in absolute terms from the benchmark weight than the 10% plans). I favor the former method which is used in the table above.
- Pension Arrowhawk allocations were arbitrarily altered amongst the plans from the first allocation due to perceived liquidity issues. This effectively makes the decision to use a simple basis point exposure method more complicated. We can cross the Arrowhawk assets (If we were to do this I think disclosure/approval in conjunction with the investment should be made to the board since this is contrary to my notion that we shouldn't be crossing assets at intervals inconsistent with liquidity terms) given the risk control issues this particular asset class brings to the table at the outset of the implementation of HFoF, I think bringing plans in line with each other is appropriate. Insurance allocations were done in a manner that was far more plan equitable and thus is not really an issue there if we ultimately choose a plain vanilla method of plan allocation.

How Much for Each Manager
TJ, you may have already made this decision for all I know, but I would probably argue for naïve diversification amongst the managers. At a high level, our manager investing into the largest pools of capital is also the manager that took us the longest to

get comfortable with… I don't think there is any reasonable notion to overweight BAAM as a result of any perceived liquidity advantages; this is also offset by PAAMCO, who is theoretically investing in the smallest, least liquid pools of capital, but has a bias toward liquid strategies. As discussed previously, as a puzzle of managers, they all fit together pretty well, attacking different parts of the cap spectrum, types of strategies, and employing different investment processes. As such, I feel any underweight to a particular manager due to their strategy (I would focus on PAAMCO and their skew to somewhat earlier stage managers in particular here) would only be a means to diversify away the advantages we perceive them to have.

In a sense naïve diversification is creating an equal weighted portfolio (3 FOF, 40 mgrs apiece, $400 million per FOF equals $10 million a manager investing across the spectrum of life cycles of managers) versus an overweight to the manager that is most capable of handling a lot of capital (for simplicity I will assume this is BAAM) creates a cap-weighted portfolio where larger opportunity set / macro themes are playing a larger role in the portfolio. To overweight Prisma, who I see as falling somewhere in the middle of the spectrum of BAAM and PAAMCO, in a sense we are still creating the equal weighted portfolio with but more manager specific risk.

Long story short, I think $400 million per manager is roughly appropriate. I think this is where we may have been as a group before, but there are at least some numbers to back it up. Let me know your thoughts.

--Tom

Tom Masthay
Kentucky Retirement Systems **|** Analyst - Alternative Investments
☎ 502.696.8850 | **Fax** 502.696.8805 | ✉thomas.masthay@kyret.ky.gov

EXHIBIT 20

To: Masthay, Thomas (KRS)[Thomas.Masthay@kyret.ky.gov]
From: Dorothy Walsh[dwalsh@paamco.com]
Sent: Fri 8/26/2011 4:30:23 PM (UTC-04:00)
Subject: Disclosure Statement and MFN
KRS statement of disclosure - Manager Questionnaire signed 8-26-11.pdf

Tom, here are my follow-up items…

1. I forwarded my email to you and your counsel containing the PM Manager Fund PPM.
2. Fee Cap – you were right, the language did not reflect what we agreed to. To be clear, the cap applies to the rolling 12 months effective immediately.
3. I've attached our Disclosure Statement
4. Annex D - We may need to slightly modify the Investment Considerations
5. MFN statement below
   PAAMCO has always been willing to grant clients forward-looking MFNs as we are doing for KRS. We believe that if we provide a better package of terms to a new client of similar size and for the same mandate then that better package of terms should also be provided to existing clients. Given the terms to be provided to KRS, we will in fact be going back to an existing client that is larger than KRS, with the same moderate multi-strategy mandate, and offering them the new fee schedule.

Tom, is your counsel going to come back with comments and/or did they agree to do a one-on-one call with our counsel to go over the technical legal language? I'll wait to hear back from you on the next steps.

Thanks, Tom!

EXHIBIT 21

To: Peden, David (KRS)[david.peden@kyret.ky.gov]; Masthay, Thomas (KRS)[Thomas.Masthay@kyret.ky.gov]
From: Carlson, TJ (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=TJ.CARLSON]
Sent: Wed 7/13/2011 8:10:19 AM (UTC-04:00)
Subject: FW: Underlying Manager Fees

FYI

From: Rodgers, Helenmarie [mailto:hmrodgers@Prismapartners.com]
Sent: Tuesday, July 12, 2011 6:40 PM
To: Carlson, TJ (KRS)
Cc: Wolfe, Eric; Reddy, Girish
Subject: Underlying Manager Fees

Hi TJ,

Thank you for your call. Per our discussion, the model portfolio as it stands now has an estimated weighted average management fee of 1.8%, and a weighted average incentive fee of 19%. Again, these are estimates, and assume a portfolio based on maximum net returns after fees, and existing managers. We do negotiate lower fees with our underlying managers, but do not select managers where we felt something was impaired, we were too great a percentage of AUM or liquidity was not in keeping with client mandate [all of which can often motivate fee breaks].

For your account, as it will be a customized portfolio, we have the flexibility to amend for any number of objectives and drivers, including cost, if you wish to emphasize that factor more heavily. We are happy to discuss this at length.

Hope that answers your question TJ, but feel free to ring if you wish to speak further about it. Thanks and have a good evening. HM

Helenmarie Rodgers
Managing Director
Prisma Capital Partners LP
One Penn Plaza
Suite 3515
New York, New York 10119
W: 212-590-0808| Cell: 914-672-4994
hmrodgers@prismapartners.com

EXHIBIT 22

MINUTES OF MEETING
OF THE
INVESTMENT COMMITTEE
KENTUCKY RETIREMENT SYSTEMS
AUGUST 2, 2011 AT 9:00 A.M., E.T.
BOARD ROOM
PERIMETER PARK WEST, 1270 LOUISVILLE ROAD
FRANKFORT, KY 40601

At the meeting of the Investment Committee held on August 2, 2011, the following members were present: Thomas Elliott, Chair; Jennifer Elliott, Vince Lang, Timothy Longmeyer, and Christopher Tobe; other Trustees in attendance were Susan Smith. In addition, Staff members present were: William A. Thielen, TJ Carlson, Jennifer Jones, Brent Aldridge, Bo Cracraft, David Peden, Joe Gilbert, Tom Masthay, Brian Carter, Connie Davis, Ann Case, and Leigh Taylor. Also present was Tony Johnson, R. V. Kuhns & Associates, Inc.; and Harshal Shah, Strategic Investment Solutions.

***

Mr. Elliott advised the first order of business was approval of the minutes. Mr. Longmeyer moved approval of the minutes of the May 3, 2011 meeting and was seconded by Ms. Elliott. The motion passed unanimously.

***

Mr. Elliott introduced the agenda item *Compliance Alert Audit Results*. Ms. Case presented and reviewed the findings of the compliance alert program. This report was provided for informational purposes only.

***

Mr. Elliott introduced the agenda item *Management Update.* The following updates were presented to the Committee for informational purposes only:

- Mr. Carlson provided a report on new employee hires and current employee promotions in Investments.
- Mr. Carlson provided an update on the status of the Private Equity Consultant RFI.
- Mr. Cracraft provided the Foreign Exchange Review.
- Mr. Carlson reviewed the quarterly RVK Reports.
- Mr. Carlson provided the list of potential future topics for upcoming Committee meetings.
- Mr. Carlson highlighted articles of interest for educational purposes.

***

Mr. Elliott introduced the agenda item *APA Policy Recommendations.* Mr. Carlson reviewed the following responses as prepared by Investment staff for inclusion in the overall KRS response to the APA audit.

- Finding and recommendation regarding improvements to the Placement Agent Policy.
- Finding and recommendation regarding improvements to communications between Investment Committee and Investment Staff.
- Finding and recommendation regarding anonymous reporting options.
- Finding and recommendation regarding non-investment management fee aspects of budgetary items.
- Finding and recommendation regarding quarterly tracking reports.
- Finding and recommendation regarding manager meetings and manager disclosures.

Ms. Elliott moved and was seconded by Mr. Tobe to approve the investment portion of the KRS Responses to the APA Recommendations for full Board approval. The motion carried unanimously.

Mr. Lang moved and was seconded by Ms. Elliott to approve the revised Statement of Disclosure and Placement Agent Policy for full Board approval. The motion carried unanimously.

Mr. Longmeyer moved and was seconded by Ms. Elliott to approve the amended Investment Transaction Procedures Policy. The motion carried unanimously.

Ms. Smith exited the meeting during this presentation. Mr. Randy Overstreet joined the meeting during this presentation.

***

Mr. Elliott introduced the agenda item *Private Equity Recommendations.* Mr. Aldridge and Mr. Shah presented an overview of the Private Equity information and disclosures for the recommended managers. This report was presented for informational purposes only.

***

Following this presentation, Mr. Brian Sheth and Mr. Jim Hickey of Vista Equity Partners entered the room.

Mr. Elliott introduced the agenda item *Private Equity Manager Presentations.* Mr. Aldridge introduced Mr. Sheth and Mr. Hickey, who presented on Vista Equity Partners Fund IV.

Following their presentation, Mr. Sheth and Mr. Hickey exited the meeting.

***

Mr. Elliott called for a 10 minute break and the room emptied; following the break, Mr. Elliott reconvened the meeting. *Mr. John Cadeddu of DAG Ventures entered the meeting.*

Mr. Carlson introduced Mr. Cadeddu, who presented an update on DAG IV and DAG V.

Following his presentation, Mr. Cadeddu exited the meeting.

After discussion, Mr. Lang moved and was seconded by Ms. Elliott to accept Vista Equity Partners and DAG Ventures at recommended amounts, subject to successful contract negotiations. The motion carried with Mr. Tobe abstaining.

***

Mr. Elliott introduced the agenda item *Absolute Return Presentation.* Mr. Masthay presented an overview of the proposed managers and strategy for Absolute Returns. This report was presented for informational purposes only.

***

Mr. Girish Reddy and Ms. Helenmarie Rodgers of Prisma Capital Partners entered the meeting.

Mr. Carlson introduced Ms. Rodgers and Mr. Reddy, who gave a presentation on Prisma Capital Partners.

Following their presentation, Ms. Rodgers and Mr. Reddy exited the meeting. Mr. Brian Gavin and Ms. Iliana Sobczak of Blackstone Alternative Asset Management entered the meeting.

Mr. Carlson introduced Mr. Gavin and Ms. Sobczak, who gave a presentation on Blackstone Alternative Asset Management.

Following their presentation, Mr. Gavin and Ms. Sobczak exited the meeting. Ms. Dorothy Walsh, Mr. Kevin Williams, and Mr. Sam Diedrich of Pacific Alternative Asset Management Company entered the meeting.

Mr. Carlson introduced Ms. Walsh, Mr. Williams, and Mr. Diedrich, who presented on Pacific Alternative Asset Management Company.

Following their presentation, Ms. Walsh, Mr. Williams, and Mr. Diedrich exited the meeting.

Mr. Carlson recapped all three fund-to-fund managers for the Trustees. Following discussion, additional information from RVK on all three firms was requested at the special called September 15, 2011 meeting prior to voting.

***

Ms. Susan Smith and Mr. Bobby Henson entered the meeting during this discussion.

***

Mr. Elliott introduced the agenda item *Other Business.* Mr. Carlson noted the some funds were held back from repo due to the current debt ceiling issue and downgrade concerns; as market flexibility returns, the monies will be re-invested. This report was presented for informational purposes only.

Mr. Robert Wilcher entered the meeting during this discussion.

***

There being no further business, the meeting adjourned at 2:03 p.m. Copies of all documents presented are incorporated as part of the minutes of the Investment Committee meeting of August 2, 2011.

The next quarterly meeting of the Committee is scheduled for November 3, 2011.

The remainder of this page is intentionally blank.

CERTIFICATION

I, Leigh Taylor, do certify that I was present at this meeting, and I have recorded above the action of the Committee on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in connection with this meeting.

Leigh Taylor

Recording Secretary

I, Thomas Elliott, Chair of the Investment Committee of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on August 2, 2011, were approved by the Investment Committee on November 3, 2011.

Thomas Elliott

Investment Committee Chair

I, Jennifer A. Jones, have reviewed the Minutes of the Investment Committee Meeting held on August 2, 2011 for form and legality.

Interim General Counsel

EXHIBIT 23

Absolute Return:
Funds of Hedge Funds Search

August 2, 2011

Overview & Recommendation

KENTUCKY · RETIREMENT KRS SYSTEMS

Overview

•In 2010 and 2011 the Investment Committee approved asset liability models that included 10-12% plan allocations to Absolute Return Strategies ("ARS").

•KRS Investment Staff and Consultant, R.V. Kuhns & Associates agreed Funds of Hedge Funds ("FoHF") were the appropriate first stage implementation of ARS and commenced a search in the summer of 2010.

•Placement agents WERE NOT used to source the recommended investments.

Recommendation

•Staff & RVK are recommending investing up to 100% of unfunded absolute return allocations* in three FoHF Managers:

PRISMA CAPITAL PARTNERS

Blackstone
Alternative Asset Management

PACIFIC ALTERNATIVE ASSET MANAGEMENT COMPANY

*Approximately $1.4 Billion as of May 31, 2011 plan values.

Asset Allocation – Absolute Return

Portfolio Inclusion

- Absolute Return Strategies ("ARS") provide diversification benefits by focusing on idiosyncratic security-level risks rather than performance relative to traditional benchmarks.

- Hedge funds broaden the opportunity set within existing asset classes by going both long and short, employing derivatives, and shortening and extending investment horizons, among other strategies.

Implementation – Funds of Hedge Funds

- FoHFs outsource key risk taking activities to management teams dedicated to the hedge fund industry.

- Investing in FoHFs will help develop KRS Staff's ability to invest directly in hedge funds. This will enable KRS to invest in lower fee vehicles in the future. Because of their size, however, FoHFs do have significant abilities to extract fee discounts from managers they invest in.

Capital Market Expectations – R.V. Kuhn's and Associates' capital market expectations for absolute return strategies are for a 7.5% return and 9.0% expected standard deviation expectations.

- Global Equities: E(R) = 8.45%; E(σ) = 17.85%
- Core Fixed Income: E(R) = 4.5%; E(σ) = 5.5%

Investment Risks

Hedge Funds require Specialized Due Diligence – Investment in hedge funds requires expertise in assessing investment, operational and risk management capacities of individual hedge funds. By hiring FoHFs, KRS can effectively manage these activities until such a time Staff has the necessary expertise to invest directly.

Portfolio Construction – Complex portfolio construction considerations such as individual manager selection and strategy selection, along with the monitoring of a large universe of hedge fund managers, are also more effectively managed when hiring a FoHF.

FoHF Level Risks – When considering the risks at the FoHF level, KRS and RVK evaluated the structure, process and capabilities of FoHF managers in the following respects:

- Firm Structure
- Portfolio Construction
- Manager Selection
- Operational Risks
- Portfolio Risk Management

Search Process & Portfolio Construction

Search Process

- Search process was commenced in the summer of 2010
- 13 managers were involved in the search process
- 9 managers were interviewed via conference calls
- 7 managers were met with in person
- 4 on-site due diligence meetings were conducted

Portfolio Construction

In addition to individual manager assessments, Staff and RVK maintained an eye on how a multi-manager portfolio would be pursued. Main topics considered were:

- Complementary Processes
- Strategy Allocations
- Size of underlying hedge fund managers being pursued by FoHFs
- # of underlying hedge fund managers being pursued

Manager Summary - Prisma

PRISMA CAPITAL PARTNERS

•Prisma is a $6 billion fund of hedge funds platform with Kentucky ties.

•Prisma focuses on smaller managers with a tilt toward specialized managers that may have sector or geographic orientations.

•Team is extensively experienced, averaging 24 years across its senior management team, driving superior bottom-up manager selection.

Performance Analysis - Prisma

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
6.9%	3.0%	5.2%	-	-
2010	**2009**	**2008**	**2007**	**2006**
7.6%	17.3%	-16.5%	13.4%	8.4%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
7.3%	0.3	75.0%	0.2	0.3
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
6.5%	0.5	73.3%	0.2	0.1

Manager Summary - BAAM

Blackstone

Alternative Asset Management

•Blackstone Alternative Asset Management ("BAAM") is a $32 billion fund of hedge funds platform.

•BAAM focuses on top-down decision making processes and tends to weight strategies such as commodities more heavily than its peers.

•Broad based Blackstone platform allows for deep market knowledge and the ability to pursue trades through BAAM established vehicles.

Performance Analysis - BAAM

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
6.4%	3.2%	5.1%	5.9%	5.9%
2010	**2009**	**2008**	**2007**	**2006**
7.4%	15.6%	-15.5%	12.6%	11.7%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
5.7%	0.5	72.2%	0.2	0.2
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
5.2%	0.5	75.0%	0.2	0.1

Manager Summary - PAAMCO

Pacific Alternative Asset Management Company

- Pacific Alternative Asset Management ("PAAMCO") is a $10 billion fund of hedge funds platform.

- Prisma focuses on small managers with which it can establish day one relationships so that it may negotiate significant fee discounts.

- PAAMCO requires position level transparency from all of its underlying managers, which has positive implications for the risk management and monitoring processes.

Performance Analysis - PAAMCO

Returns

1 Year	3 Year	5 Year	7 Year	10 Year
5.9%	1.1%	4.5%	5.1%	-
2010	**2009**	**2008**	**2007**	**2006**
6.1%	18.4%	-21.8%	17.4%	10.8%

Risk Metrics

3 Yr. Standard Deviation	3 Yr. Sharpe Ratio	3 Yr. Batting Average	3 Yr. S&P 500 Beta	3 Yr. BC Agg. Bond Index Beta
8.7%	0.1	75.0%	0.2	0.4
5 Yr. Standard Deviation	**5 Yr. Sharpe Ratio**	**5 Yr. Batting Average**	**5 Yr. S&P 500 Beta**	**5 Yr. BC Agg. Bond Index Beta**
7.6%	0.3	73.3%	0.2	0.2

Conclusions & Implementation

- The combination of FoHF managers being pursued is complementary in terms of strategies and sizes of managers being pursued.

- 90-120 underlying managers will ultimately be invested in through a three FoHF manager platform. This results in an average of $10-$15 million being invested in each underlying hedge fund manager.

- Strategic Partnering capacities of the FoHF managers proposed is seen as a strength and something that can be levered by KRS Staff.

- KRS Staff proposes equal weights due to complementary processes and belief in the notion that a tilt toward smaller funds has the potential for outperformance.

- Investments are to be structured in LLC vehicles. It has been agreed to with all three firms KRS maintains the capacity with the underlying hedge fund managers in the event of termination.

EXHIBIT 24

MINUTES OF MEETING
OF THE SPECIAL CALLED
INVESTMENT COMMITTEE
KENTUCKY RETIREMENT SYSTEMS
AUGUST 15, 2011 AT 9:00 A.M., E.T.
BOARD ROOM
PERIMETER PARK WEST, 1270 LOUISVILLE ROAD
FRANKFORT, KY 40601

At the meeting of the Investment Committee held on August 15, 2011, the following members were present: Thomas Elliott, Chair; Vince Lang, Timothy Longmeyer, and Christopher Tobe; other Trustees in attendance were Bobby Henson. In addition, Staff members present were: William A. Thielen, TJ Carlson, Jennifer Jones, Brent Aldridge, Bo Cracraft, David Peden, Joe Gilbert, Tom Masthay, Brian Carter, Laura Miller, Bill Murnighan, Connie Davis, Ann Case, and Leigh Taylor. Also present was Tony Johnson, R. V. Kuhns & Associates, Inc.

***

Mr. Elliott called the meeting to order and introduced the agenda item *Management Update.* Mr. Carlson updated the Committee on staffing and activities concerning the Investment division and provided articles of general investment interest. This report was provided for informational purposes only.

***

Mr. Elliott introduced the agenda item *Standard Reports.* Mr. Carlson reviewed the reports and explained the new expense tracking report as a part of the APA response. This report was provided for informational purposes only.

***

Mr. Elliott introduced the agenda item *June Portfolio Rebalancing and Asset Allocation Update*. Staff reviewed the portfolio rebalancing and the asset allocations for the Committee. This report was provided for informational purposes only.

Mr. Fred Fogg and Mr. Anthony Giordano of Credit Suisse entered the meeting during this presentation.

***

Mr. Elliott introduced the agenda item *Portfolio Rebalancing Trade Presentation.* Mr. Fogg and Mr. Giordano detailed the portfolio rebalancing explanation and presentation to the Committee. This report was provided for informational purposes only.

Following the presentation, Mr. Fogg and Mr. Giordano exited the meeting.

***

Mr. Elliott introduced the agenda item *HFOF Follow-Up.* Mr. Masthay updated the Committee on the hedge fund to fund transfer process as requested from the August 2, 2011 meeting. Following the presentation, Mr. Longmeyer moved and was seconded by Mr. Lang to approve BAAM, PAAMCO, and Prisma as hedge fund to fund managers. The motion carried, with Mr. Tobe abstaining.

***

Following a 15 minute break, Mr. Elliott introduced the agenda item *Fixed Income Manager Annual Reviews and Recommendation Summary.* Mr. Peden presented an overview of the proposed managers and strategy for Fixed Income Manager.

Mr. Daniel Janis and Mr. Reid Kilberg of Manulife Asset Management entered the meeting.

Mr. Peden introduced Mr. Janis and Mr. Kilberg, who presented on Manulife Asset Management.

Following their presentation, Mr. Janis and Mr. Kilberg exited the meeting. Mr. Brian Lavin and Mr. Michael Chambers of Columbia Management entered the meeting.

Mr. Peden introduced Mr. Lavin and Mr. Chambers, who presented on Columbia Management.

Following their presentation, Mr. Lavin and Mr. Chambers exited the meeting. Ms. Elaine Stokes and Mr. Chuck Koeniger of Loomis Sayles entered the meeting.

Mr. Peden introduced Ms. Stokes and Mr. Koenger who presented on Loomis Sayles.

Following their presentation, Ms. Stokes and Mr. Koenger exited the meeting.

Mr. Carlson recapped all three presentations and the following motions were made:

> Mr. Tobe moved and was seconded by Mr. Longmeyer to accept Manulife Asset Management at the recommended amounts, subject to successful contract negotiations. The motion carried unanimously.
>
> Mr. Longmeyer moved and was seconded by Mr. Lang to accept Columbia Management at the recommended amounts, subject to successful contract negotiations. The motion carried with Mr. Tobe abstaining.
>
> Mr. Tobe moved and was seconded by Mr. Longmeyer to accept Loomis Sayles at the recommended amounts, subject to successful contract negotiations. The motion carried unanimously.

***

Mr. Elliott introduced the agenda item *Record Currency Management.* Mr. Carlson presented information on the current Currency Manager.

Ms. Leslie Hill and Mr. Bob Noyen of Record Currency Management entered the meeting. Ms. Jones exited the meeting.

Mr. Carlson introduced Ms. Hill and Mr. Noyen who presented on Record Currency Management and currency management insurance.

Mr. Lang and Mr. Elliott exited the meeting during the presentation.

Following their presentation, Ms. Hill and Mr. Noyen exited the meeting.

Following discussion, Mr. Carlson stated that Staff would do a full program review and presentation including recommendation during the November 3, 2011 meeting.

***

There being no further business, the meeting adjourned at 1:30 p.m. Copies of all documents presented are incorporated as part of the minutes of the Investment Committee meeting of August 15, 2011.

The next quarterly meeting of the Committee is scheduled for November 3, 2011.

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CERTIFICATION

I, Leigh Taylor, do certify that I was present at this meeting, and I have recorded above the action of the Committee on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in connection with this meeting.

____

Recording Secretary

I, Thomas Elliott, Chair of the Investment Committee of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on August 15, 2011, were approved by the Investment Committee on November 3, 2011.

____

Investment Committee Chair

I, Jennifer A. Jones, have reviewed the Minutes of the Investment Committee Meeting held on August 15, 2011 for form and legality.

____

Interim General Counsel

EXHIBIT 25

To: Schelling, Chris (KRS)[Chris.Schelling@kyret.ky.gov]
Cc: Eagle, Ken[keagle@prismapartners.com]
From: Rodgers, Helenmarie[hmrodgers@Prismapartners.com]
Sent: Thur 9/8/2011 9:44:33 AM (UTC-04:00)
Subject: RE: Follow-up USM

Hi Chris,

It was good speaking with you as well and thank you for your contact information. I am copying Ken Eagle on this e-mail, and he will get you your user name and password shortly. If you need anything else, or have trouble logging in, just let us know.

Take care Chris.

Kind regards,
HM

Helenmarie Rodgers
Managing Director
Prisma Capital Partners LP
One Penn Plaza
Suite 3515
New York, New York 10119
W: 212-590-0808| Cell: 914-672-4994
hmrodgers@prismapartners.com

From: Schelling, Chris (KRS) [mailto:Chris.Schelling@kyret.ky.gov]
Sent: Thursday, September 08, 2011 9:25 AM
To: Rodgers, Helenmarie
Subject: RE: Follow-up USM

Hi Helenmarie,

It was good speaking to your team on the phone yesterday, and I look forward to working together. I just wanted to send along my contact information for your records. Also, I was wondering if I could get a username and password for the client login on your website.

Thanks again,
Chris

Christopher M. Schelling, CAIA
Director, Absolute and Real Return Assets
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601-6124
Phone: 502-696-8624
Fax: 502-696-8805
chris.schelling@kyret.ky.gov

From: Rodgers, Helenmarie [mailto:hmrodgers@Prismapartners.com]
Sent: Thursday, August 04, 2011 4:26 PM
To: Masthay, Thomas (KRS)
Subject: RE: Follow-up USM

HI Tom,

No worries, went ahead and told them to proceed as planned, given 'high conviction' of funding, so they are proceeding. Regarding the Operation Due Diligence questions, below are our answers, which will hopefully be helpful:

1) Could you provide a brief summary of the process the operations team uses in obtaining background checks on the hedge

fund managers in which you invest? Specifically:

a. **Do you perform background checks on principles of every firm in which you invest?**

Prisma does perform background checks on every firm we invest in. We utilize an independent, well known, background investigations firm to conduct background checks on key principals, and investment and operations personnel involved with each underlying fund. In addition, due to the extensive network of our staff, we are able to obtain independent references on most managers, beyond those provided by the manager himself. This takes place during the due diligence rounds conducted independently by our investment, risk and operations teams.

b. **What positions in the organization are background checks performed on generally?**

Background checks are generally performed on key principals, and investment and operations personnel involved with each underlying fund.

c. **Do you have specific items that may show up on background checks that would formally prevent you from investing or are any finding that may cause concern an issue for the operations or investment committee to consider on a case by case basis.**

In general, significant disingenuous behavior that is detected from a background check could prevent Prisma from investing with a manager. For example, lying about educational background, work experience, or criminal backgrounds may prevent Prisma from investing.

d. **Could you provide an example of a significant finding that may have led to a decision not to invest? Or generally speaking, would you say a background check may just play a role in the decision not to invest as opposed to being the sole reason? Could you provide some examples of some more minor items that may pop-up in background checks that cause some concern?**

During Prisma's due diligence process, a prospective manager claimed he had a long, *continuous* track record of working with another key member of the firm. A background check revealed that he had left the investment management business for two years, which he failed to mention in previous meetings. Prisma believed that the manager was disingenuous with the information that he provided and was not comfortable investing with the manager.

Background checks are important components of Prisma's operational due diligence, which is part of Prisma's overall investment process consisting of three independent stages (investment, risk, operations). Background checks can play a role in deciding not to invest in a manager and may also be the sole reason for not investing if Prisma believes that the information revealed from the background check is significant.

An example of an item that may come up on a background check that would concern Prisma but would not necessarily cause an immediate veto would be employment gaps of key principals. Any concerns that arise from background checks are discussed with the prospective manager. Prisma will determine our comfort level with the manager's background following these discussions.

e. **Could you provide a sentence or two on the philosophy behind doing background checks? E.g. "we want to understand the ethical character of the principles of the firms in which we invest to assess the likelihood of operational failure or fraud"**

Prisma utilizes background checks to help ensure that we are going into business with people that Prisma believes have high moral integrity and have not demonstrated patterns of negative, unethical behavior. The background checks help to provide an additional assessment of the potential manager's character and can assist us in understanding the culture of the firm.

Do you use outside vendors to provide background checks? How much on average does a background check cost?

Yes. Prisma utilizes an independent, well known, background investigations firm to conduct background checks.

On average, background checks cost approximately $5,000 to $6,000 for domestic funds and slightly higher for international funds, depending on the jurisdiction of the fund.

Helenmarie Rodgers
Prisma Capital Partners LP
One Penn Plaza
Suite 3515
New York, New York 10119
W: 212-590-0808| Cell: 914-672-4994
hmrodgers@prismapartners.com

From: Masthay, Thomas (KRS) [mailto:Thomas.Masthay@kyret.ky.gov]
Sent: Thursday, August 04, 2011 10:26 AM
To: Rodgers, Helenmarie
Subject: Follow-up USM

HM,

I apologize for not asking you the other evening regarding willingness to proceed with the legal process with us absent an approval at this juncture. Anne Wynn sent me an email a few minutes back, and I have attached it.

Also, as a follow up to some of the discussions that occurred at the investment committee meeting the other day, I was wondering if I could get a couple of additional items:

2) Could you provide a brief summary of the process the operations team uses in obtaining background checks on the hedge fund managers in which you invest? Specifically:
   a. Do you perform background checks on principles of every firm in which you invest?
   b. What positions in the organization are background checks performed on generally?
   c. Do you have specific items that may show up on background checks that would formally prevent you from investing or are any finding that may cause concern an issue for the operations or investment committee to consider on a case by case basis.
   d. Could you provide an example of a significant finding that may have led to a decision not to invest? Or generally speaking, would you say a background check may just play a role in the decision not to invest as opposed to being the sole reason? Could you provide some examples of some more minor items that may pop-up in background checks that cause some concern?
   e. Could you provide a sentence or two on the philosophy behind doing background checks? E.g. "we want to understand the ethical character of the principles of the firms in which we invest to assess the likelihood of operational failure or fraud"
   f. Do you use outside vendors to provide background checks? How much on average does a background check cost?

   This question arose out of you (or one of the other presenters) discussing doing background checks as part of the Ops DD process; the board wanted to know if it was good for FoHFs to do why it may or may not matter for us to start doing background checks on our managers. You'd be doing us a big favor by answering these questions so that we may go back with an informed answer.

Also, regarding regulatory proceedings / SEC investigations I know you indicated nothing currently was going on but just wanted to follow up and ensure nothing had occurred in the prior 5 years.

Thanks a lot. Please give me a call if you have any questions.

Thanks,

Tom

Tom Masthay
Kentucky Retirement Systems | Analyst - Alternative Investments
☎ 502.696.8850 | **Fax** 502.696.8805 | ✉thomas.masthay@kyret.ky.gov

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EXHIBIT 26

Daniel Boone Fund LLC

An Alternative Investment Specialist

Underlying Hedge Fund Manager Summaries

September 7, 2011

PRISMA CAPITAL PARTNERS

CONFIDENTIAL

Fund Name	Strategy	Page #
Linden Investors LP	Convertible Arb	1
Silver Point Capital Fund, L.P.	Credit-Distressed	3
Centerbridge Credit Partners L.P.	Credit-Distressed	6
Knighthead Domestic Fund, L.P.	Credit-Distressed	8
Sothic Capital European Opportunities Fund LP	Credit-Distressed	11
Highbridge Statistical Opportunities Fund, L.P.	Equity Market Neutral	14
Sabre Style Arbitrage Fund Limited	Equity Market Neutral	16
Pacific Alliance Asia Opportunity Feeder Fund II	Event	19
Pentwater Equity Opportunities Fund LLC	Event	21
West Face Long Term Opportunities (USA) LP	Event	24
Mason Capital L.P.	Event	26
One William Street Capital Partners, L.P.	Fixed Income Arb	29
Henderson Liquidity Events Fund Limited	Fixed Income Arb	31
CQS ABS Feeder Fund Ltd.	Fixed Income Arb	32
Shaw Oculus Fund, L.L.C.	Global Macro	35
Discovery Global Macro Fund, L.P.	Global Macro	38
Finisterre Global Opportunity Partners, LP	Global Macro	39
Astenbeck Commodities Fund II LP	Global Macro	42
CCP Quantitative Fund LP ("Cantab")	Global Macro	44
Scout Capital Partners II L.P.	Long/Short Equity	47
Tremblant Partners LP	Long/Short Equity	50
Pelham Long/Short Fund LP	Long/Short Equity	52
Charter Bridge Capital Partners LLC	Long/Short Equity	54
Force Capital II LLC	Long/Short Equity	56
Ayer Capital Partners Fund, LP	Long/Short Equity	58
Newland Fund, LP	Long/Short Equity	60
The Real Return Funds PLC ("Veritas")	Long/Short Equity	62
JAT Capital Domestic Fund, L.P.	Long/Short Equity	65
Ashoka Fund ("Flowering Tree")	Long/Short Equity	67
White Elm Capital Partners, L.P.	Long/Short Equity	69
Graham Global Investment Fund Ltd.	Managed Futures	71
Kingsford Capital Partners, LP	Short Bias	73
Ursus Partners, L.P.	Short Bias	75

Linden Capital LP
Linden International Ltd.

CLASSIFICATION:
Strategy: Convertible Arbitrage
Market Bias: Variable to long bias
Geography: US/Europe/Asia

FIRM SUMMARY:
Linden Advisors was founded in May 2003 by four members of JP Morgan's Arbitrage Desk. The Senior Portfolio Manager is Joe Wong, who headed the arbitrage group at JP Morgan. The other three founding members include Yuri Omelchenko, Tycho Von Rosenvinge, and Volkan Gulboy. As of September 2010, the fund and the firm currently have AUM of $893MM, and $1,010MM respectively.

INVESTMENT STRATEGY:
Linden's strategy will migrate between convertible, convertible credit, and non-convertible based credit strategies. Irrespective of whether Linden is executing with convertibles or straight debt, the fund will often take a fairly activist approach. This activism can be friendly in terms of working with issuers to modify debt. Conversely, it can be less friendly when pressing investor rights with issuers.

DISTINGUISHING FEATURES*:*
- 7-year returns are in the 1st percentile of peer group;
- Opportunistic approach that is less reliant on convertible issuance given the manager's willingness to migrate to straight debt opportunities
- Strong credit research approach to convertible and credit investing
- Stable organization as evidenced by the fact that all the original founders are still with the firm
- 1.25%/15% with 1-month Libor hurdle fee structure is very competitive relative to peers
- The fund has two full-time lawyers on the investment team and views its legal expertise as a core part of the firm's edge.

TEAM:
Joe Wong, CEO/CIO
- Graduated from University of Chicago in 1994 with a B.A. in Economics
- Began at JP Morgan in 1994 working in Equity Derivatives, Fixed Income Derivatives, and Corporate Finance
- Founded JP Morgan Arbitrage Desk in 1998
- Founded Linden in May 2003

Yuri Omelchenko, Principal/Portfolio Manager
- Graduated from Yale in 1999 with B.A. in Economics and Mathematics
- JP Morgan Structured Finance, and Arbitrage Desk
- Founded Linden in May 2003

Tycho von Rosenvinge, Ph.D, Principal/Risk Manager
- Received Ph.D in Physics from University of Pennsylvania in 1998, and B.A in Physics from Boston University in 1992
- JP Morgan Convertible and Equity Derivatives Research
- Founded Linden in May 2003

Linden

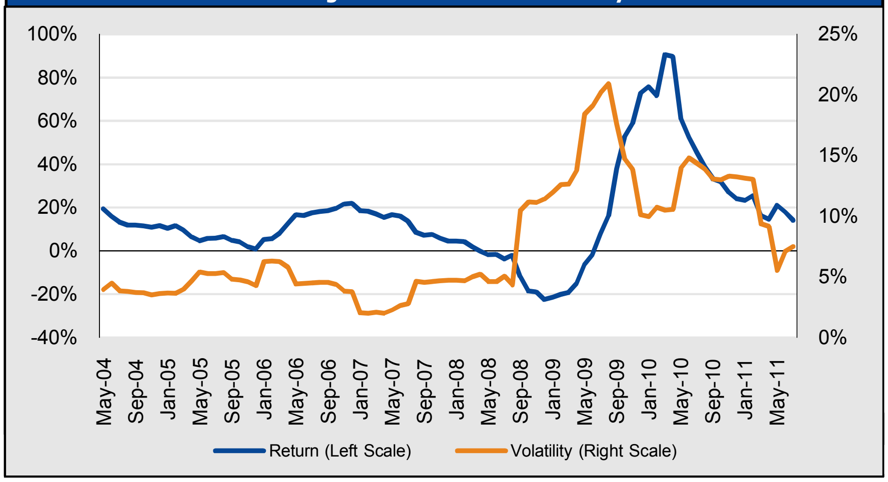
Performance Summary
Strategy: Convert Arb

Start Date: June 2003
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	4.28%	2.33%	2.23%	1.76%	-0.51%	-3.41%	-1.24%						5.35%
2010	4.81%	0.51%	10.33%	3.34%	-5.83%	-0.91%	2.14%	1.95%	2.87%	2.88%	-0.65%	1.01%	23.95%
2009	3.04%	2.91%	-0.55%	3.76%	10.93%	4.62%	7.17%	6.80%	7.07%	3.99%	3.08%	3.62%	72.86%
2008	1.66%	1.14%	-1.54%	-1.36%	0.55%	-0.34%	-2.20%	-0.95%	-9.77%	-6.01%	-0.98%	-4.76%	-22.47%
2007	1.66%	1.39%	0.75%	0.61%	2.30%	-0.54%	-0.05%	-2.80%	0.43%	1.59%	-0.40%	-0.46%	4.47%
2006	4.60%	1.69%	1.68%	2.11%	1.18%	-0.02%	2.02%	1.85%	1.63%	1.17%	1.26%	0.94%	22.00%

Fund Statistics	3 Year	ITD
Annualized Return	21.4%	14.0%
Jensen's Alpha to S&P 500	19.7%	10.4%
Annualized Standard Deviation	15.0%	9.9%
Sharpe Ratio	1.36	1.15
Sortino Ratio	1.07	1.49
Skewness	(0.36)	0.01
Kurtosis	0.81	3.85
Percent Profitable Months	67%	71%
Auto Correlation	0.49	0.50

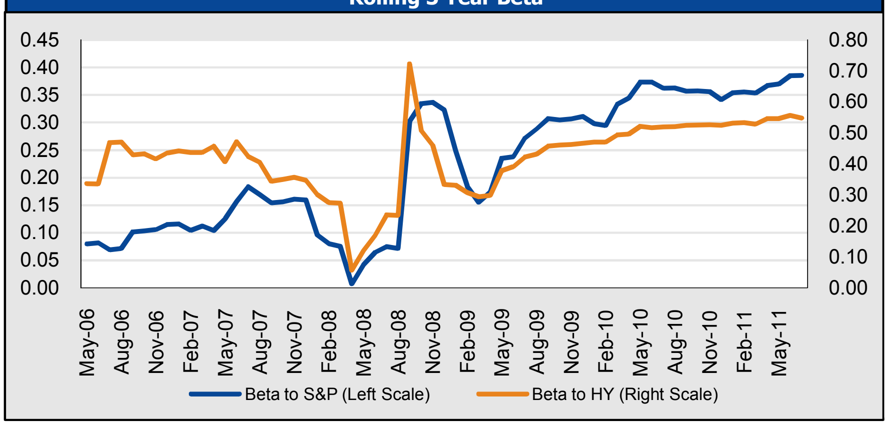
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(24.6%)	10	7	Feb-08	Dec-08
(6.7%)	2	4	Apr-10	Jun-10
(5.1%)	3		Apr-11	Jul-11

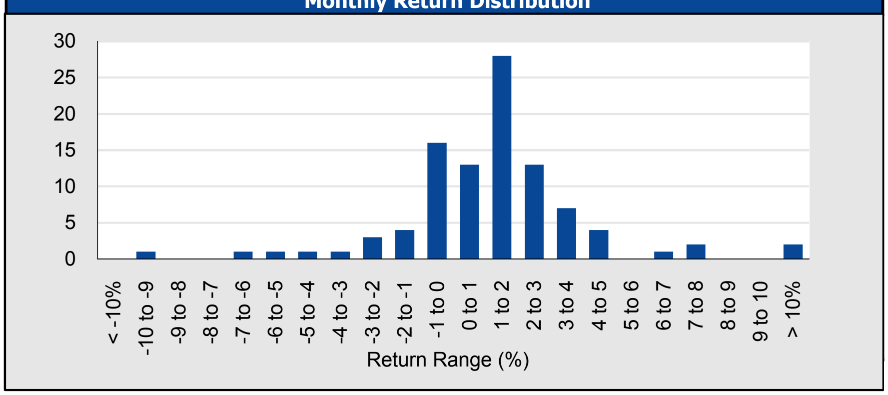
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.31	0.39	0.46	0.55
MSCI North Am	0.31	0.39	0.48	0.57
MSCI Asia	0.25	0.37	0.46	0.56
MSCI Europe	0.27	0.32	0.53	0.60
DXY	(0.35)	(0.44)	(0.31)	(0.35)
S&P GSCI	0.16	0.31	0.41	0.62
ML High Yield	0.52	0.55	0.57	0.61
ML Treasury 10+	(0.24)	(0.32)	(0.26)	(0.30)
VIX	(0.00)	(0.00)	(0.17)	(0.36)
HFRI Composite	0.99	1.36	0.65	0.76
HFRI Convert Arb	0.76	0.75	0.75	0.78

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	98	96	93	87
Last Period	(1.2%)	(5.1%)	1.0%	14.1%
Avg Period Return	1.1%	3.6%	7.6%	15.8%
Average Gain	2.3%	6.2%	11.6%	21.4%
Average Loss	(1.9%)	(4.5%)	(6.9%)	(11.0%)
Best Period	10.9%	24.4%	47.9%	90.5%
Worst Period	(9.8%)	(16.0%)	(22.5%)	(22.5%)
Standard Deviation	2.9%	6.9%	12.7%	22.9%
Gain St Deviation	2.1%	5.4%	10.9%	20.9%
Loss St Deviation	2.2%	4.7%	7.7%	8.7%
VaR 95%	(3.4%)	(5.1%)	(15.2%)	(19.0%)

Monthly Return Distribution



Silver Point Capital, LP
Silver Point Capital Onshore Fund LP

CLASSIFICATION:
Strategy: Credit/Distressed
Market Bias: Variable bias
Geography: North America, Europe

FIRM DESCRIPTION:
The Investment Manager was founded in early 2002 by Edward Mule, formerly of Goldman Sachs, where he managed the firm's global proprietary distressed debt area. He pioneered the development of rescue funding for the firm, providing bridge and mezzanine type financing to non-performing businesses. Bob O'Shea joined Silver Point from Goldman Sachs where he also was responsible for several areas of the firm's distressed business.

INVESTMENT STRATEGY:
Silver Point manages a long-biased distressed fund which invests in debt, equity or other securities of leveraged or financially distressed companies or other special situations. The Fund is both long and short distressed debt and emphasizes longer horizon positions rather than a trading oriented portfolio. Focus is placed on investment niches within the distressed debt market, with approximately 50% of the portfolio in situations in which the manager plays an activist role.

The Investment Manager specializes in research-intensive, fundamental credit analysis. The team focuses on situations in which the true value of the instrument is obscured by financial distress, with the objective to develop maximum information feasible on both the underlying company and the specific financial instrument being evaluated. The Manager participates at all levels of the capital structure, although emphasis is placed at the high end of the capital structure. Bank debt, bonds, trade claims and other types of claims and securities are available for purchase in the portfolio. The Fund may make loans (generally secured) to distressed and highly leveraged companies. The Manager also may buy interest in liquidating trusts. The Manager seeks situations in the distressed market which requires intensive fundamental work because it creates a strong barrier to entry.

DISTINGUISHING FEATURES
- Strong research/fundamental analysis
- Strong risk management focus
- The portfolio managers have a lot of experience
- The manager has a substantial portion of his net worth in the fund
- The track record of this fund is very good.

TEAM:
Edward Mulé, Principal
During the last six of Mr. Mulé's almost 17 year career at Goldman Sachs, he either co-headed or headed its distressed debt broker-dealer operations (1995 to 1999), its Asian Distressed Debt Investing Business (1998 to 2001), and associated funds, including the $1.525 Billion Goldman Sachs Special Opportunities (Asia) Fund. He also headed its Special Situations Investing Business (1999 to 2001). He was also a member of the firm's Senior Traders Committee. Prior to leading Goldman's distressed debt efforts, Mr. Mulé worked for Robert E. Rubin and Stephen Friedman (1991 to 1994) and for Jon Corzine and Henry Paulson (1994 to 1995) in the Office of the Chairman, assisting them on strategy and its implementation, reengineering, setting up control and compliance infrastructure and cost cutting. Mr. Mulé was elected general partner in 1994. Prior to that Mr. Mulé was in Mergers and Acquisitions (1984 to 1991), specializing in a number of areas, including telecommunications, consumer products and forest products. Mr. Mulé graduated magna cum laude from the University of Pennsylvania's Wharton School, contemporaneously receiving both his BS and MBA degrees in 1984.

Robert O'Shea, Principal
Robert O'Shea retired in 2000 after almost 10 years with Goldman Sachs. Throughout his entire career at Goldman, Mr. O'Shea was involved in distressed debt. At the time of his retirement from Goldman he was the Global Head of

the High Yield Business Unit, which was composed of all of the firm's distressed debt businesses (excluding Asia) as well as high yield bond and bank loan underwriting, trading, sales, capital markets and research and the collateralized debt obligation ("CDO") business. Mr. O'Shea was a member of Goldman's Firmwide Risk Committee which was comprised of approximately 15 partners, including the CEO, who were responsible for managing the firm's global risk exposure. Mr. O'Shea was also on the Board of Goldman Sachs International Bank and Senior Traders Committee. Prior to running the High Yield Business, Mr. O'Shea co-headed the Distressed Debt Business worldwide and ran the Global Bank Loan Business. Mr. O'Shea joined Goldman Sachs in 1990 as the firm's first distressed bank loan trader. This business was consistently very profitable for Goldman in the early 1990's. Mr. O'Shea was asked to join the general partnership at the age of 29, which made him one of the youngest professionals to become a partner in the history of Goldman Sachs. Prior to working at Goldman Sachs, Mr. O'Shea worked at Bear Stearns in the High Yield and Bankruptcy Department and Security Pacific Bank in the Merchant Banking Group. Mr. O'Shea graduated from Fordham University with a B.S. in Finance in 1987.

PRISMA CAPITAL PARTNERS

Silver Point

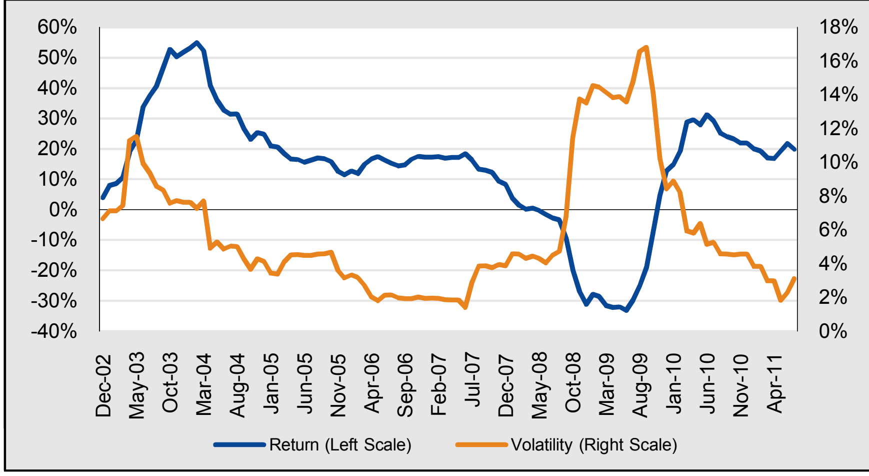
Performance Summary
Strategy: Distressed

Start Date: January 2002
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	2.56%	1.14%	1.85%	1.17%	1.22%	3.05%	-0.50%						10.94%
2010	4.15%	1.78%	3.76%	1.36%	-0.89%	0.94%	1.05%	1.32%	1.50%	1.73%	0.98%	2.30%	21.81%
2009	2.38%	-1.96%	-3.96%	0.70%	0.46%	-1.64%	2.65%	4.62%	2.39%	2.37%	2.10%	2.34%	12.82%
2008	-2.29%	-0.89%	0.19%	1.60%	0.24%	0.07%	-2.30%	-2.01%	-5.33%	-10.54%	-9.60%	-5.01%	-31.15%
2007	2.01%	1.38%	1.49%	1.21%	1.11%	1.32%	-1.14%	-1.31%	0.66%	1.50%	-0.76%	0.58%	8.28%
2006	2.00%	1.18%	1.91%	1.05%	1.10%	0.24%	0.69%	1.24%	1.07%	2.02%	1.96%	1.51%	17.17%

Fund Statistics	3 Year	ITD
Annualized Return	2.8%	11.8%
Jensen's Alpha to HY	(3.6%)	6.1%
Annualized Standard Deviation	11.9%	8.5%
Sharpe Ratio	0.15	1.10
Sortino Ratio	0.74	0.97
Skewness	(1.78)	(1.56)
Kurtosis	3.20	7.21
Percent Profitable Months	72%	81%
Auto Correlation	0.65	0.71

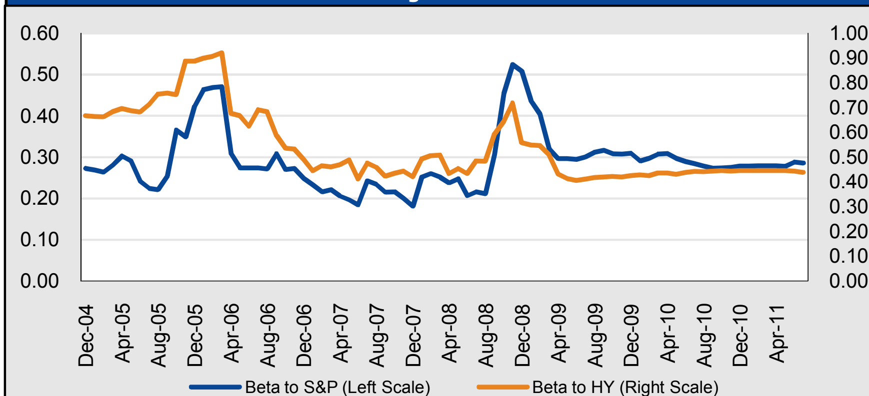
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(34.3%)	24	22	Jun-07	Jun-09
(5.7%)	3	4	May-02	Aug-02
(1.2%)	2	2	Feb-05	Apr-05

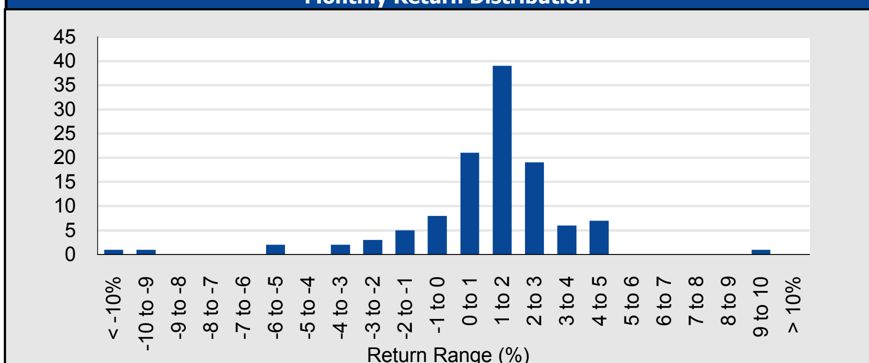
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.27	0.29	0.50	0.51
MSCI North Am	0.27	0.29	0.51	0.53
MSCI Asia	0.21	0.23	0.43	0.43
MSCI Europe	0.22	0.20	0.51	0.48
DXY	(0.22)	(0.23)	(0.22)	(0.23)
S&P GSCI	0.11	0.24	0.32	0.61
ML High Yield	0.48	0.44	0.62	0.62
ML Treasury 10+	(0.21)	(0.33)	(0.27)	(0.39)
VIX	(0.00)	(0.00)	(0.55)	(0.77)
HFRI Composite	0.84	0.88	0.62	0.62
HFRI Distressed	1.05	1.01	0.82	0.82

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	115	113	110	104
Last Period	(0.5%)	3.8%	8.2%	19.9%
Avg Period Return	1.0%	3.1%	6.4%	14.1%
Average Gain	1.8%	5.3%	11.1%	21.3%
Average Loss	(2.6%)	(5.8%)	(8.5%)	(20.1%)
Best Period	9.3%	18.9%	28.9%	55.0%
Worst Period	(10.5%)	(23.4%)	(30.4%)	(33.2%)
Standard Deviation	2.5%	6.2%	11.2%	20.0%
Gain St Deviation	1.4%	3.4%	6.4%	12.3%
Loss St Deviation	2.8%	6.8%	10.4%	12.4%
VaR 95%	(4.0%)	(5.7%)	(18.7%)	(29.8%)

Monthly Return Distribution



Centerbridge Partners, L.P.
Centerbridge Credit Partners Offshore, Ltd.

CLASSIFICATION:
Strategy: Credit-Distressed
Sub-Strategy: Distressed / Restructurings / Reorganizations
Market Bias: Long
Geography: US, Europe

FIRM SUMMARY:
Centerbridge Partners is an investment firm established in early 2006 by Jeffrey Aronson and Mark T. Gallogly. The foundation of the firm blends the founders' expertise in both private equity and distressed investing to capitalize on the unique characteristics of these countercyclical markets. Common to both styles of investing is a deep understanding and specialized industry knowledge derived from control oriented investments and the various transactions across numerous sectors.

INVESTMENT STRATEGY:
Centerbridge employs a disciplined credit research process and is based a thorough understanding of a company and its industry. The Manager has substantial experience in analyzing and assessing a company's valuation, capital structure, financial performance and underlying industry dynamics in order to capitalize on market imbalances, event driven situations and other mispriced opportunities. Such investments might include issuers who are the subject of corporate reorganizations, restructurings, liquidity crises, mergers, spin-offs, leveraged buyouts or credit rating changes or other situations when the market may be mispricing an asset's intrinsic value.

The Fund will invest in a variety of instruments with varied risk and reward characteristics. The primary focus will be on two specific investment strategies:
• Non-control, non influence distressed securities, opportunities of which will increase as credit quality deteriorates and defaults rates rise; and
• Undervalued credit investments such as leveraged loans, high yield bonds, specialty financings and structured products. As the credit cycle evolves, these opportunities are expected to broaden accordingly.

DISTINGUISHING CHARACTERISTICS:
- Expertise in distressed investing and seasoned experience across multiple credit cycles
- Long track record with ability to generate alpha
- Ability to leverage the firm's platform regarding company and industry knowledge

TEAM:
Jeff Aranson, Founder and Managing Principal, is a leading distressed securities investment professional; having led Angelo, Gordon & Co.'s distressed securities and leveraged loan efforts since 1992.

Mark T. Gallogly, Founder and Managing Principal. Prior to co-founding Centerbridge, Mr. Gallogly served in several capacities as a senior investment professional at the Blackstone Group. In his more than 16 years at Blackstone, Mr. Gallogly was involved in a broad spectrum of industries, businesses and investment cycles.

Centerbridge

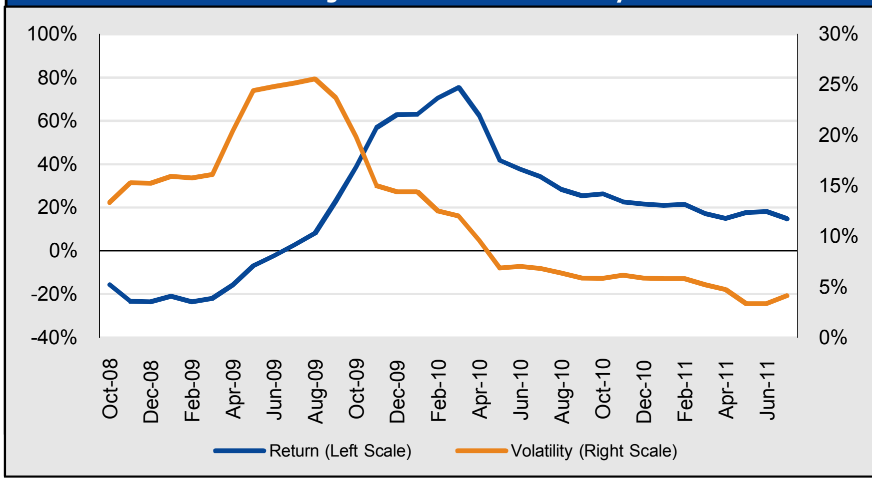
Performance Summary
Strategy: Distressed

Start Date: November 2007
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	2.21%	1.84%	0.52%	1.32%	0.11%	1.52%	-1.10%						6.56%
2010	2.66%	1.47%	4.18%	3.28%	-2.14%	1.03%	1.77%	0.63%	2.06%	2.18%	-0.24%	2.97%	21.58%
2009	2.59%	-3.02%	1.29%	11.49%	12.16%	4.04%	4.40%	5.19%	4.42%	1.45%	2.85%	3.87%	62.94%
2008	-0.90%	0.41%	-0.90%	3.44%	1.41%	-0.84%	-0.66%	-0.07%	-8.16%	-10.09%	-9.03%	0.04%	-23.49%
2007											0.03%	0.36%	0.39%

Fund Statistics	3 Year	ITD
Annualized Return	16.6%	13.8%
Jensen's Alpha to HY	5.7%	6.1%
Annualized Standard Deviation	15.1%	13.7%
Sharpe Ratio	1.03	0.89
Sortino Ratio	0.83	0.98
Skewness	(0.44)	(0.29)
Kurtosis	2.60	3.32
Percent Profitable Months	78%	73%
Auto Correlation	0.63	0.64

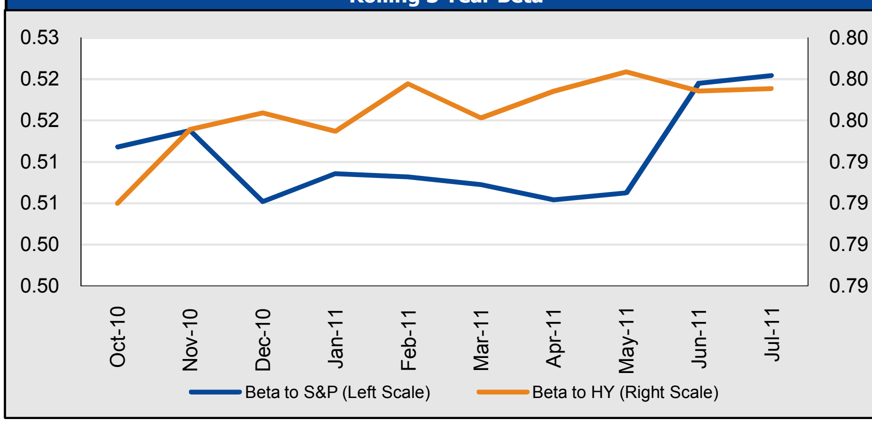
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(26.4%)	9	5	May-08	Feb-09
(2.1%)	1	2	Apr-10	May-10
(1.4%)	3	1	Dec-07	Mar-08

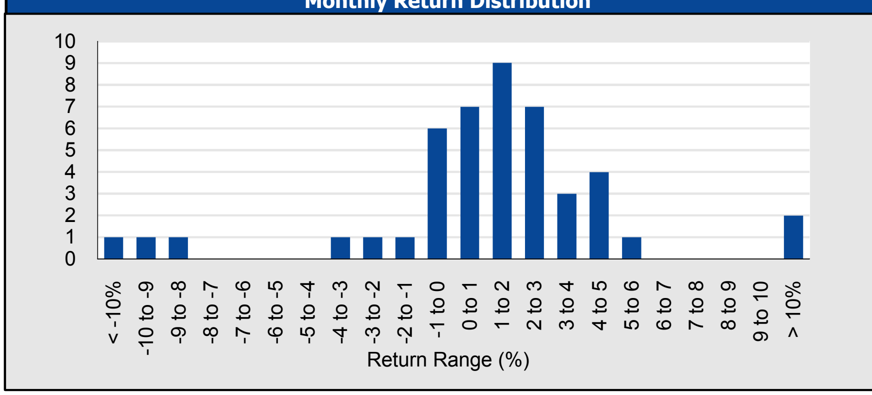
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.50	0.52	0.73	0.73
MSCI North Am	0.50	0.52	0.75	0.75
MSCI Asia	0.48	0.52	0.77	0.78
MSCI Europe	0.39	0.40	0.75	0.76
DXY	(0.54)	(0.59)	(0.43)	(0.47)
S&P GSCI	0.29	0.36	0.63	0.70
ML High Yield	0.79	0.80	0.89	0.89
ML Treasury 10+	(0.40)	(0.40)	(0.39)	(0.38)
VIX	(0.00)	(0.00)	(0.46)	(0.49)
HFRI Composite	1.42	1.55	0.84	0.86
HFRI Distressed	1.38	1.42	0.90	0.91

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	45	43	40	34
Last Period	(1.1%)	0.5%	4.2%	14.9%
Avg Period Return	1.2%	3.9%	8.9%	19.9%
Average Gain	2.7%	7.8%	15.1%	33.1%
Average Loss	(3.1%)	(7.3%)	(20.0%)	(17.0%)
Best Period	12.2%	30.1%	49.2%	75.5%
Worst Period	(10.1%)	(24.9%)	(26.1%)	(23.5%)
Standard Deviation	4.0%	10.0%	17.9%	28.8%
Gain St Deviation	2.7%	7.1%	12.5%	20.6%
Loss St Deviation	3.7%	8.9%	7.5%	7.8%
VaR 95%	(8.2%)	(17.5%)	(25.2%)	(23.5%)

Monthly Return Distribution



Knighthead Capital Management, LLC
Knighthead Domestic Fund, L.P.

CLASSIFICATION:
Strategy: Event-driven, Credit-Distressed
Market Exposure: Variable, with long bias
Sub-Strategy: Opportunistic long/short investing in corporate credit
Geography: Global with an emphasis on North America

FIRM SUMMARY:
Knighthead Capital Management was formed in June 2008 by Ara Cohen and Tom Wagner to invest in event-driven, credit oriented long/short situations. Both have extensive experience in high yield and distressed investing. As of December 2010, the firm managed $1.8 billion in the single strategy and is committed to restraining asset growth to retain its competitive advantage. As of December 2010, the firm had 15 employees, eight of whom are investment professionals. The six person team supporting the portfolio managers has depth and breadth of experience, ranging from six to 22 years of experience. Non-investment professionals include a General Counsel and CCO, CFO and Head of Business Development.

INVESTMENT STRATEGY:
Knighthead employs a long/short credit strategy in event-driven, stressed and distressed credit and other special situations across a broad array of industries. As such, the portfolio is generally long biased, but will vary overall exposures opportunistically. The long portfolio consists primarily in stressed and distressed bonds, 1st and 2nd lien loans, rescue financings and trade claims. The short portfolio is primarily alpha-driven, single names in crossover and HY bonds in both cash and synthetic markets.

Knighthead does not employ a classic distressed investing style, in that generally the firm plays a passive role within the capital structure. With in-depth fundamental research at its core, Knighthead invests in out-of-favor and/or undervalued situations in which a negative, idiosyncratic event has already re-priced the securities. The strategy is dependent upon fundamental and research intensive approaches across core sectors, and importantly, security selection is dependent upon Knighthead's ability to identify what it believes are the best risk-adjusted part of a company's capital structure to express an investment thesis. The Fund places an emphasis on understanding the potential downside risks as well as the catalyst to trigger revaluation of the securities before committing to any position.

The Fund will generally take a long-biased, directional view on the market. Typically, long exposure will range between 80% to 100%, with short exposure between 10% to 50%, Many factors will affect the range of this risk profile over the long run, but generally Knighthead is expected to manage its portfolio between 70% to 90% net (beta adjusted). On a notional basis, these ranges will be substantially lower.

DISTINGUISHING FEATURES:
- Portfolio management team has experience in many types of distressed and high yield markets
- Has historically provided outsized alpha generation
- Active use of short single names
- Partial focus on the middle market

TEAM:
Ara Cohen - co-Founding Partner and co-Portfolio Manager
Mr. Cohen has been involved in the business of investing in debt and equity securities for sixteen years. He joined Redwood Capital Management as a Principal in early 2001, shortly after the firm's founding by Jonathan Kolatch, a former partner of Goldman, Sachs & Co. Mr. Cohen subsequently helped build the firm from a small start-up to a $2.7 billion fund. From 1998 until 2001 Mr. Cohen was a Principal of King Street Capital Management L.L.C., a hedge fund focusing on distressed securities. He was the first investment professional to join King Street after its founding three years earlier by the two General Partners. From 1995 until 1998, Mr. Cohen was a principal of Tamarix Capital Corporation, an international merchant banking firm focused on making investments in companies experiencing

difficulties due to a lack of capital, financial expertise or managerial focus. Mr. Cohen began his career in 1993 at Brown Brothers Harriman & Company where he served principally as an analyst for The 1818 Fund, L.P. and The 1818 Fund II., two private equity partnerships sponsored by the firm with over $800 million of committed capital. Mr. Cohen graduated Magna Cum Laude from Bowdoin College in 1993. Mr. Cohen currently serves on the Board of Directors of the United Cerebral Palsy Research and Educational Foundation and the National MS Society, Southern New York Chapter.

Thomas Wagner - co-Founding Partner and co-Portfolio Manager
Mr. Wagner was most recently employed by Goldman, Sachs & Co. where he was a managing director responsible for running the distressed and high yield credit trading desks. He also co-managed the firm's Capital Structure Franchise Trading desk which combined the trading of credit and equity products issued by stressed and distressed companies. Mr. Wagner's team comprised 22 traders specializing in a variety of credit and equity products including cash bonds, credit default swaps, listed and OTC equities, convertible bonds, preferred stock and equity options. Throughout his seven year career at Goldman, in addition to being consistently one of the most profitable traders in the credit business, Mr. Wagner was active in the firm's mentoring, recruiting and diversity programs. Prior to joining Goldman in 2000, he was employed for two years at Credit Suisse First Boston as a high yield trader and special situations desk analyst. Mr. Wagner graduated Beta Gamma Sigma from Columbia Business School in 1999 and worked full time at CSFB during his second year of studies. Prior to attending business school, he worked for 5 years at Ernst & Young, LLP in the firm's hedge fund practice providing audit and consulting services to a wide range of investment funds. During his tenure at Ernst & Young, LLP, Mr. Wagner was registered as a CPA in Massachusetts and the Cayman Islands. Mr. Wagner graduated in 1992 from Villanova University with a Bachelor of Science in Accounting.

PRISMA CAPITAL PARTNERS

Knighthead

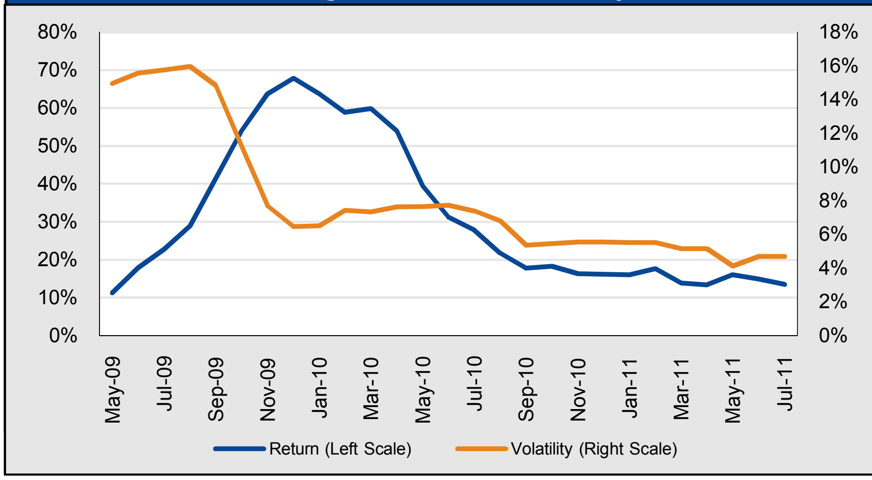
Performance Summary
Strategy: Distressed

Start Date: June 2008
End Date: July 2011

Monthly Performance (%)													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**
2011	2.78%	2.03%	0.06%	0.96%	0.45%	-1.60%	0.49%						5.22%
2010	2.92%	0.65%	3.43%	1.37%	-1.87%	-0.63%	1.71%	0.14%	2.18%	2.83%	0.19%	2.33%	16.20%
2009	5.50%	3.75%	2.77%	5.26%	8.37%	5.59%	4.41%	5.14%	5.61%	2.40%	1.94%	2.37%	67.86%
2008						-0.28%	0.20%	0.18%	-3.76%	-5.99%	-4.11%	-0.13%	-13.27%

Fund Statistics	3 Year	ITD
Annualized Return	21.2%	20.0%
Jensen's Alpha to HY	14.2%	14.0%
Annualized Standard Deviation	10.2%	10.0%
Sharpe Ratio	1.98	1.88
Sortino Ratio	2.43	2.50
Skewness	(0.35)	(0.27)
Kurtosis	0.69	0.71
Percent Profitable Months	81%	79%
Auto Correlation	0.71	0.71

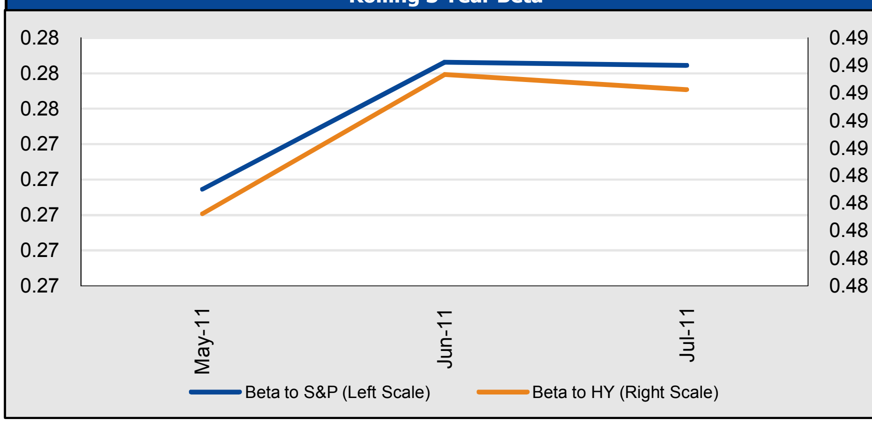
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	**Length**	**Recovery**	**Peak**	**Valley**
(13.4%)	4	4	Aug-08	Dec-08
(2.5%)	2	3	Apr-10	Jun-10
(1.6%)	1		May-11	Jun-11

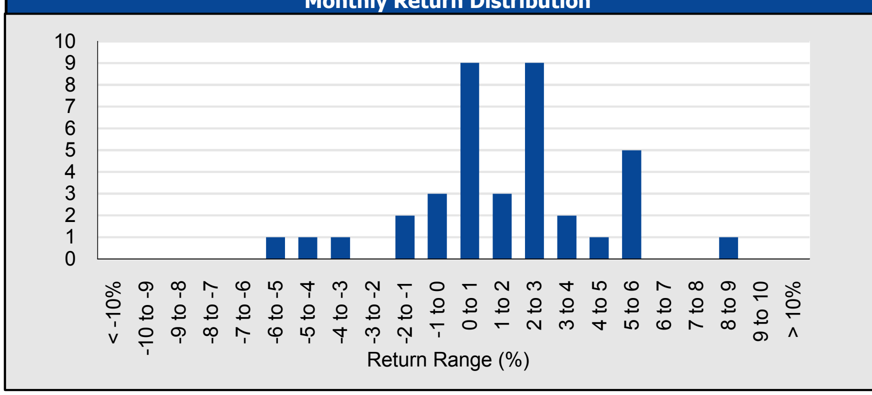
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.28	0.28	0.58	0.58
MSCI North Am	0.28	0.28	0.61	0.60
MSCI Asia	0.27	0.27	0.62	0.61
MSCI Europe	0.22	0.22	0.62	0.61
DXY	(0.33)	(0.33)	(0.39)	(0.39)
S&P GSCI	0.20	0.22	0.60	0.64
ML High Yield	0.49	0.49	0.80	0.80
ML Treasury 10+	(0.29)	(0.29)	(0.40)	(0.40)
VIX	(0.00)	(0.00)	(0.27)	(0.29)
HFRI Composite	0.96	0.97	0.80	0.80
HFRI Distressed	0.93	0.93	0.87	0.87

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	38	36	33	27
Last Period	0.5%	(0.7%)	2.4%	13.5%
Avg Period Return	1.6%	5.2%	12.4%	31.0%
Average Gain	2.6%	8.1%	15.5%	31.0%
Average Loss	(2.3%)	(4.9%)	(9.9%)	
Best Period	8.4%	20.4%	39.6%	67.9%
Worst Period	(6.0%)	(13.2%)	(13.2%)	11.3%
Standard Deviation	2.9%	7.8%	14.1%	19.3%
Gain St Deviation	2.1%	5.7%	12.0%	19.3%
Loss St Deviation	2.1%	5.2%	3.9%	
VaR 95%	(4.1%)	(10.0%)	(13.0%)	13.3%

Monthly Return Distribution



Sothic Capital Management LLP
Sothic Capital European Opportunities Fund

CLASSIFICATION:
Strategy: Credit/Distressed
Sub-Strategy: Distressed, Restructuring, Special Situations
Geography: Europe

FIRM SUMMARY:
Sothic Capital Management was established towards the end of 2008 as a European distressed opportunities and special situations fund. Sothic Capital European Opportunities Fund Limited was launched on September 1, 2009 with $83MM and currently has $263MM of assets. The firm is a London based investment manager and is FSA registered.

INVESTMENT STRATEGY:
Sothic uses an opportunistic approach to investing in single name European corporate distressed, restructuring and special situations. Sothic invests across the capital structure in bank loans, bonds, equities, and CDS of public and private companies. The objective of the fund is to achieve superior risk-adjusted returns over a multi-year period, through investments in distressed and event-driven special situations which generally have a low correlation to the overall market. Sothic seeks to achieve its investment objective by purchasing and selling corporate debt and equity instruments. All investments are based on a bottom-up, fundamental research driven approach with a special focus on capital preservation.

Sothic expects a European distressed cycle of unprecedented size in years to come. The fund believes this cycle will impact earnings, valuations, defaults and recovery rates. It also believes the European economy will most likely remain sluggish at best with sub-par growth. It expects an extended period of higher default rates as interest rates trend higher. Sothic believes the combination of high multiples paid at peak cash-flow and covenant light structures have fundamentally altered the entry points and the fulcrum securities, where value breaks within the capital structure.

The portfolio has between 20 and 30 separate positions. Position size as a percent of NAV is typically 2.5% for normal trades and 5.0% for high conviction trades. There are limits on risk concentration at the portfolio, position, sector, country and instrument levels. Industry exposure is spread across various sectors with no sector having more than 25% gross exposure of NAV. Geographic exposure is spread mainly across Europe. Sothic's average holding period in a single name is situation dependant and varies between a few months to 12-24 months period. Trading volume is typically between 15 and 50 trades a week.

DISTINGUISHING CHARACTERISTICS:
- The current team has worked successfully together for many years while at JP Morgan's Proprietary Positioning Business and Sothic
- Sothic has strong and long-standing relationships with key market participants (brokers, restructuring advisors, bankruptcy practitioners, law firms, etc.) as well as management teams of European companies
- The team has restructured companies in all major European (EU) jurisdictions and has extensive knowledge of various cultural, political and legal customs and practices

TEAM:
Sothic was founded by the former distressed investment team at JP Morgan's Proprietary Positioning Business. Its Chief Investment Officer, Gertjan "GJ" Koomen has invested in distressed securities for over 15 years. Alessandro Esposito, Ralph Herrgott, and Martin Beck are part of the investment team and partners. Didier Martineau is partner and Chief Executive Officer.

Gertjan "GJ" Koomen, Managing Partner and Chief Investment Officer of the Investment Manager
From 2001 to 2008 Mr. Koomen was a Managing Director of JPMorgan's Proprietary Positioning Business, managing and building a team of 24 professionals based in London and New York that invested in the following strategies: distressed debt, capital structure arbitrage, equity special situations and merger arbitrage. In addition to managing the

group Mr. Koomen was the Portfolio Manager for the European Distressed Group. From 1998 to 2001 he was a Managing Director at Merrill Lynch and Head of the European Distressed Trading Business. From 1994 to 1998 he was an Assistant Director and Head of the European Special Situations Proprietary Investment Group at ING Barings in London. Before 1994, Mr. Koomen worked in the Netherlands for ING where lastly he was a Senior Investment Manager in private equity. Mr. Koomen holds a degree in Business Administration (DRS) from Rijksuniversiteit Groningen (Netherlands).

Alessandro Esposito is a Partner and Senior Analyst of the Investment Manager.
From 2004 to 2008 he was an Executive Director of JPMorgan's Proprietary Positioning Business, first working as a senior analyst for the European Distressed Group and most recently as a portfolio manager for the European Equity Special Situations group, reporting directly to Gertjan Koomen. Prior to joining JPMorgan, Mr. Esposito was a Senior Analyst of an event-driven and distressed hedge fund managed by Mellon Financial Corporation and an Analyst at Taconic Capital Advisors. From 1999 to 2001, Mr. Esposito was an Associate in the European leveraged finance group of Donaldson, Lufkin & Jenrette. Mr. Esposito started his career in 1997 at Long-Term Capital Management (LTCM - UK) as a strategist. Mr. Esposito received his degree in Finance and Economics from Universita Luigi Bocconi in Milan, with summa cum laude.

Ralph Herrgott is a Partner and Senior Analyst of the Investment Manager
From 2004 to 2008 Mr. Herrgott worked as a Senior Analyst for JP Morgan's proprietary European Distressed Group. In that function he reported directly to Gertjan Koomen. He has an M&A and debt restructuring advisory background which he gained at Hawkpoint Partners, Robertson Stephens and Morgan Stanley. Mr. Herrgott received a German and French diploma in Business Administration (Diplome des Grandes Ecoles / Diplom-Kaufmann) from ESCP-EAP in Paris.

Martin Beck is a Partner and Senior Analyst of the Investment Manager
From January 2007 until August 2008, he worked as an Analyst for JP Morgan's proprietary European Distressed Group, lead by Gertjan Koomen. Prior to this, Mr. Beck worked as an Analyst and later Associate for JPMorgan's Principal Finance Team, focusing on principal investments in real estate backed non-performing loan portfolios. Mr. Beck holds MBA degrees from European Business School (Oestrich-Winkel, Germany) as well as the University of Pittsburgh, PA, USA.

Didier Martineau is a Partner and the Chief Executive Officer of the Investment Manager
From 2000 to 2008, he cofounded and served as Managing Director for GlobeOp Risk Services Ltd, a provider of risk management services to the Hedge Fund industry. From 2002 to 2008 Mr. Martineau was part of the management committee of GlobeOp Financial Services, a leading provider of back-office, middle-office, administration, and risk services to the hedge fund industry. In 2008, he assumed responsibility for GlobeOp's valuation department, managing over 115 people. He was also CEO of GlobeOp Markets Ltd, a broker/dealer subsidiary of GlobeOp. Prior to this, from 1999 to 2001, Martineau was co-head of a proprietary trading operation at Nomura in London. From 1994 to 1999 he was a senior strategist at Long Term Capital Management. Mr. Martineau holds two Masters degrees: one in engineering from Ecole Polytechnique in Paris and one in parallel computing from Orsay's university.

PRISMA CAPITAL PARTNERS

Sothic

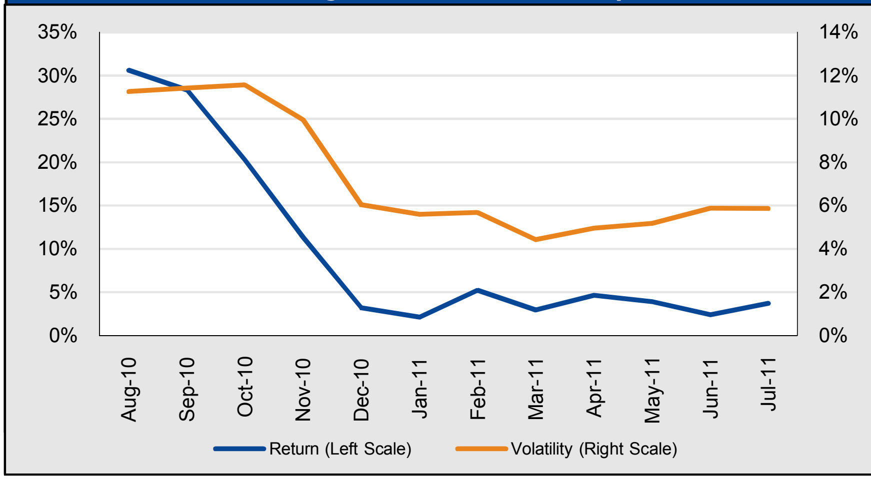
Performance Summary
Strategy: Distressed

Start Date: September 2009
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	1.91%	1.96%	1.83%	2.54%	-1.49%	-2.87%	0.83%						4.68%
2010	2.98%	-1.04%	4.06%	0.89%	-0.79%	-1.43%	-0.46%	0.81%	0.40%	-1.66%	-0.72%	0.27%	3.19%
2009									2.16%	4.93%	7.25%	8.20%	24.40%

Fund Statistics	3 Year	ITD
Annualized Return	16.7%	16.7%
Jensen's Alpha to HY	6.5%	6.5%
Annualized Standard Deviation	9.7%	9.7%
Sharpe Ratio	1.69	1.69
Sortino Ratio	6.26	6.26
Skewness	0.97	0.97
Kurtosis	0.79	0.79
Percent Profitable Months	65%	65%
Auto Correlation	0.59	0.59

Rolling 1 Year Return and Volatility



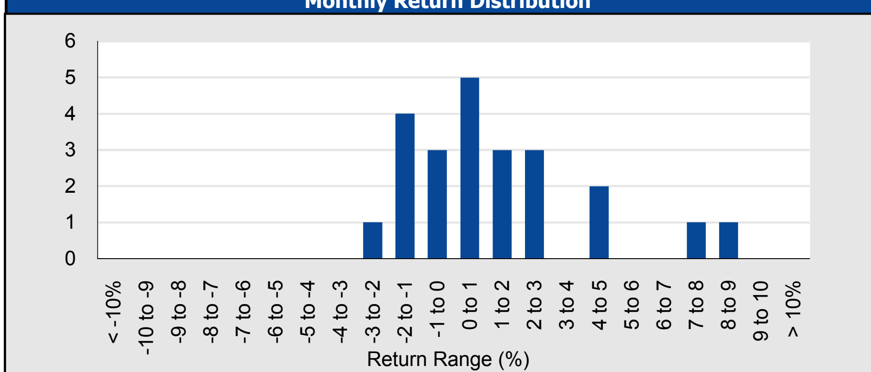
Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(4.3%)	2	0	Apr-11	Jun-11
(3.8%)	7	3	Apr-10	Nov-10
(1.0%)	1	1	Jan-10	Feb-10

Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.15	0.15	0.23	0.23
MSCI North Am	0.14	0.14	0.23	0.23
MSCI Asia	0.10	0.10	0.13	0.13
MSCI Europe	0.08	0.08	0.18	0.18
DXY	0.03	0.03	0.03	0.03
S&P GSCI	0.09	0.09	0.17	0.17
ML High Yield	0.55	0.55	0.37	0.37
ML Treasury 10+	(0.21)	(0.21)	(0.23)	(0.23)
VIX	0.00	0.00	0.04	0.04
HFRI Composite	0.50	0.50	0.28	0.28
HFRI Distressed	1.03	1.03	0.54	0.54

Rolling 3 Year Beta

Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	23	21	18	12
Last Period	0.8%	(3.5%)	2.7%	3.7%
Avg Period Return	1.3%	4.1%	6.9%	9.9%
Average Gain	2.7%	7.9%	9.4%	9.9%
Average Loss	(1.3%)	(1.9%)	(2.0%)	
Best Period	8.2%	21.8%	29.1%	30.6%
Worst Period	(2.9%)	(3.5%)	(3.1%)	2.1%
Standard Deviation	2.8%	7.2%	10.1%	10.5%
Gain St Deviation	2.4%	6.8%	10.0%	10.5%
Loss St Deviation	0.8%	0.9%	1.2%	
VaR 95%	(1.7%)	(2.7%)	(3.1%)	2.1%

Monthly Return Distribution



Highbridge Capital Management, LLC
Highbridge Statistical Opportunities Fund

CLASSIFICATION:
Strategy: Equity market neutral
Sub-Strategy: Quantitative, Statistical Arbitrage
Market Bias: Neutral
Geography: Global

FIRM SUMMARY:
Highbridge Capital Management is an international asset management firm specializing in hedge fund strategies. HCM was founded in 1992 by partners Glenn Dubin and Henry Swieca. HCM is registered as an investment adviser with the SEC and is majority owned by JP Morgan. The Highbridge Statistical Opportunities Fund (or "Fund") is managed by HCM. HCM has selected Evan Dick, Greg Howell and Alain Sunier and their team of investment professionals to make investment decisions for the Fund. Evan and Greg joined HCM in 2002 to build a statistical arbitrage effort. They were joined by Alain in 2005. At the end of 2006, HCM launched the Fund as a standalone product.

INVESTMENT STRATEGY:
The Fund is a quantitative equity market neutral strategy that operates at trading frequencies of one week to several months. The Fund intends to run both dollar and beta neutral. It is anticipated that the investment universe will be comprised of approximately 1,000 of the most liquid stocks in each region. The turnover of the portfolio will be in excess of 600% per year. Highbridge's proprietary approach to statistical arbitrage attempts to forecast security returns, manage portfolio risk and execute trades with minimal market impact. The success of the Fund's statistical arbitrage strategy depends on the allocation of capital resulting from the interaction of four primary components: the forecasting system, the factor model, the optimizer and the order management system. All of these vital components are proprietary and were developed, tested and successfully implemented by HCM over a wide range of equity market cycles.

DISTINGUISHING FEATURES:
- Diversified alpha signals across short-term technical, long term balance sheet, and non-standard data sources
- Fund is expected to be leveraged 4X per side with a 12% target volatility
- Team has extensive experience in building quantitative investment models with an interesting mix of skill sets (DE Shaw, BGI, Citadel and LTCM)
- Culture seems to be very open and collegial and turnover quite low. Significantly different than other quant shops
- Team has strong understanding of each critical component of the equity market neutral process: forecasting system, risk models, optimization engine, and transaction cost / trading module
- Trade execution systems are quite robust and benefits from the short-term statistical arb models
- Research and production systems are closely linked, decreasing lag between idea generation and implementation
- Very liquid fund for investors and underlying positions

TEAM:
Alain Sunier, Senior Vice President of Highbridge, Head of Fundamental Research for Statistical Arbitrage. He joined Highbridge in May 2005. Most recently, Mr. Sunier worked at Citadel Investment Group in a senior research role for statistical arbitrage strategies. Prior to Citadel, Mr. Sunier was employed by Barclays Global Investors, serving as Head of US Equity Research in the Advanced Strategies and Research Group. Prior to BGI, he worked at Long Term Capital Management in equities research. Mr. Sunier began his career at Goldman Sachs, where he worked on trading algorithms and convertible bond models. Mr. Sunier was enrolled in the doctoral program in finance at the University of Chicago where he received his MBA.

Highbridge

PRISMA CAPITAL PARTNERS

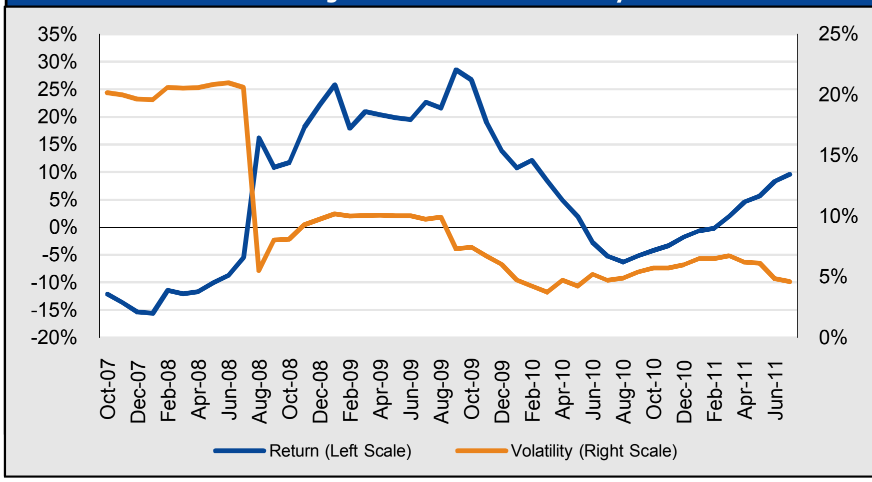
Performance Summary
Strategy: Market Neutral

Start Date: November 2006
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	3.01%	0.38%	1.84%	0.24%	0.58%	-0.84%	0.40%						5.70%
2010	1.89%	-0.12%	-0.33%	-2.24%	-0.47%	-3.30%	-0.76%	-1.79%	2.06%	1.79%	0.19%	1.46%	-1.76%
2009	4.69%	-1.35%	3.04%	1.08%	2.40%	1.43%	1.89%	-0.74%	0.85%	0.72%	-0.69%	-0.16%	13.79%
2008	1.65%	5.24%	0.45%	1.57%	2.85%	1.73%	-0.72%	0.11%	-4.59%	2.19%	5.71%	4.43%	22.16%
2007	1.93%	0.27%	1.21%	1.07%	1.00%	0.26%	-4.16%	-18.54%	0.00%	1.38%	0.00%	0.99%	-15.38%
2006											1.77%	3.06%	4.88%

Fund Statistics	3 Year	ITD
Annualized Return	8.4%	5.4%
Jensen's Alpha to S&P 500	7.4%	3.0%
Annualized Standard Deviation	7.3%	11.2%
Sharpe Ratio	1.01	0.26
Sortino Ratio	0.63	0.21
Skewness	0.03	(3.67)
Kurtosis	0.75	21.14
Percent Profitable Months	64%	68%
Auto Correlation	0.27	0.28

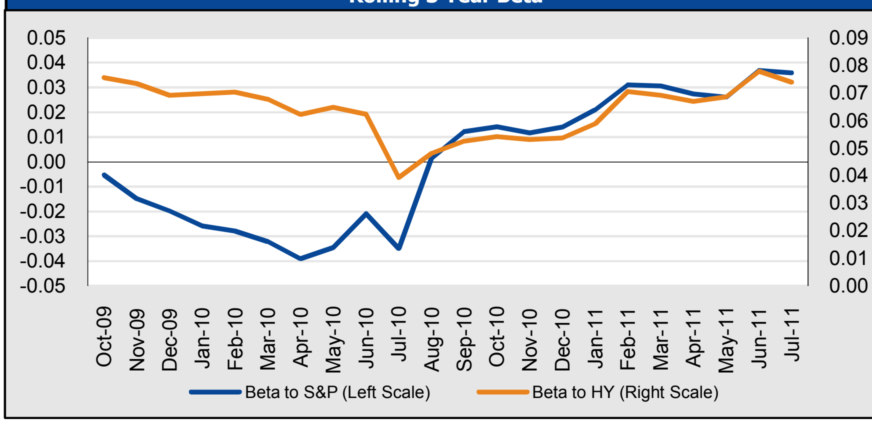
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(21.9%)	2	17	Jun-07	Aug-07
(8.7%)	7	7	Jan-10	Aug-10
(1.4%)	1	1	Jan-09	Feb-09

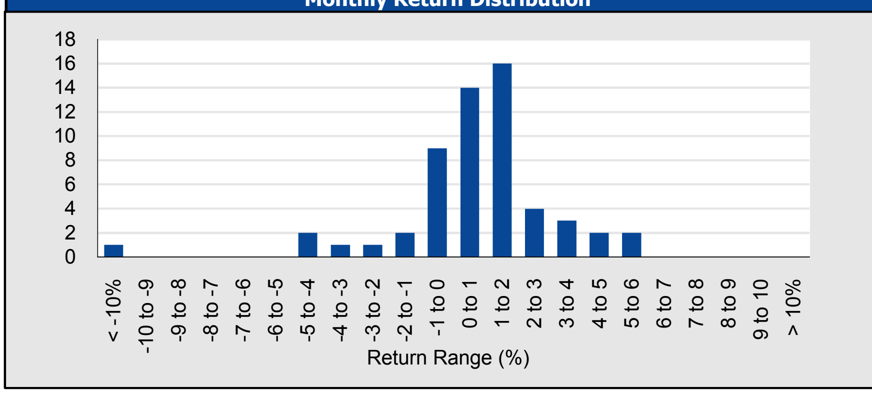
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.02	0.04	0.03	0.10
MSCI North Am	0.03	0.04	0.04	0.11
MSCI Asia	0.09	0.08	0.16	0.25
MSCI Europe	0.05	0.04	0.11	0.16
DXY	(0.11)	(0.11)	(0.10)	(0.18)
S&P GSCI	0.03	(0.02)	0.07	(0.06)
ML High Yield	0.08	0.07	0.09	0.17
ML Treasury 10+	(0.07)	0.01	(0.08)	0.01
VIX	0.00	0.00	0.11	0.30
HFRI Composite	0.33	0.16	0.23	0.19
HFRI Market Neutral	1.35	0.58	0.37	0.25

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	57	55	52	46
Last Period	0.4%	0.1%	2.6%	9.6%
Avg Period Return	0.5%	1.5%	2.8%	5.6%
Average Gain	1.7%	4.3%	8.0%	15.0%
Average Loss	(2.5%)	(6.7%)	(10.0%)	(7.7%)
Best Period	5.7%	15.6%	20.0%	28.5%
Worst Period	(18.5%)	(21.9%)	(20.6%)	(15.6%)
Standard Deviation	3.2%	6.7%	10.1%	13.1%
Gain St Deviation	1.4%	3.2%	4.8%	7.7%
Loss St Deviation	4.5%	7.7%	8.2%	5.0%
VaR 95%	(4.2%)	(17.4%)	(20.1%)	(13.6%)

Monthly Return Distribution



Sabre Fund Management
The Sabre Style Arbitrage Fund

CLASSIFICATION:
Strategy: Equity Market Neutral
Sub-strategy: Quantitative
Geography: Primarily Europe

FIRM SUMMARY:
Founded in 1982, London-based Sabre is an independently owned quantitative equity firm. Sabre's original roots were as a CTA trading futures-based pattern recognition strategies. In 1997, the Firm added a quantitative EMN strategy to diversify its product mix. Coincident with the arrival of Mr. Dan Jelicic, who joined the Firm in 2002 to develop a second generation version of the quantitative EMN strategy, Sabre underwent a management buyout led by Ms. Melissa Hill, who assumed the position of CEO. Since that time, Sabre has focused exclusively on its quantitative EMN strategy. The Firm is now owned by Melissa Hill, who has been with the firm for over a decade, Dan Jelicic, Head of Portfolio Management and the former Chairman, Robin Edwards.

INVESTMENT STRATEGY:
Drawing from a universe of 2,000 liquid stocks, virtually all of which have a market capitalization of at least $1 Bn, Sabre uses a combination of approximately 30 quantitative models (per region) to build a global broadly diversified EMN portfolio comprised of four regional (also market neutral) portfolios drawn from continental Europe, the U.K., the U.S., and Asia (primarily Japan). The firm combines fundamental factor models (i.e., based on growth, value, quality, size, etc.), which are essentially trend following in nature, with mean-reversion statistical arbitrage models to create a robust set of alpha signals, many of which exhibit low correlation with others within this suite. Interestingly, the fundamental factor models are allowed to short most of these factors if the trend is reversed (e.g., high quality stocks are falling). An additional set of models measures the alpha persistence of each of these styles and rotates capital among them as they are judged to be in and out of favor (see schematic below on page 8 for a representation of this three-stage process). These capital allocation shifts tend to be gradual in nature as they are driven by a series of moving averages based upon the premise that investor behavior is not discontinuous

DISTINGUISHING FEATURES*:*
- The manager has developed a robust set of models that are combined in a flexible fashion to generate relatively consistent returns and avoid large drawdowns.
- The manager creates sector neutral sub-portfolios that reflect certain investment factors (e.g., value, quality, size, etc.) and then goes long these portfolios if the perceived trend is favorable. Many of these fundamental factors may also be shorted, although Sabre does not short "value".
- Sabre's style rotation models are unique relative to peers
- The bulk of the capital (80%) is allocated to Europe and the U.K., which are markets/regions that appear to be less efficient and thus more favorable for quantitative EMN strategies.
- The strategy exhibits a modest positive beta (range of .1 to .2) to the major equity markets as, on average, the models tilt toward positive beta postures over time.

TEAM:
Melissa Hill - Managing Principal
Melissa Hill has been the Managing Principal since 2005. She is responsible for business management, development and devising and implementing the company's strategic business plan. She chairs the firm's board and risk management committee. Melissa entered the investment industry in 1996 on joining Sabre. She oversaw the launch of Sabre's first quantitative strategy in 1997, being actively involved in the implementation and global asset raising. In 2003 Sabre's board appointed Melissa to take over the running of business and she went on to lead the management buyout in 2005.

Dan Jelicic - Principal and Lead Portfolio Manager
Dan heads up and leads the Style Arbitrage team. He has overall responsibility for the investment process, trading and research. Prior to Sabre, Dan managed money at ABN AMRO Asset Management London where he was

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employed from 1998-2002. Prior to ABN, Dan spent two years at JP Morgan Investment Management, working on a number of quantitative and risk management projects, as well as providing bespoke research for clients. Education: MSc in Mathematical Trading and Finance (distinction), City University Business School; MSc equivalent. Dipl. Eng (distinction) in Electrical Engineering, University of Belgrade. Dan is also a Fellow of the Institute of Actuaries.

Matthew Isherwood - Quantitative Research & Risk Manager
Matthew joined Sabre in June 2006 and is responsible for quantitative research and risk management. Matt's day to day responsibilities are wide ranging and include assisting with the ongoing development of the trading strategies, focusing on areas such as signal generation, portfolio analysis, optimisation and risk management. Prior to Sabre, Matt was employed as VP, Quantitative Research at Financial Risk Management and brings invaluable experience of the clients' perspective to Sabre. Education: PhD in Theoretical Quantum Physics, University College London. MSci in Physics (First Class), University College London.

Tom Stevenson – Chief Operating and Financial Officer
Tom joined Sabre in September 2004 and was appointed a Director in January 2006. Tom has 20 years of professional experience having qualified as a Chartered Accountant in 1991. Tom is responsible for the company's financial and operational management. Additionally he is Sabre's Compliance Officer, MLRO and Company Secretary.

PRISMA CAPITAL PARTNERS

Sabre

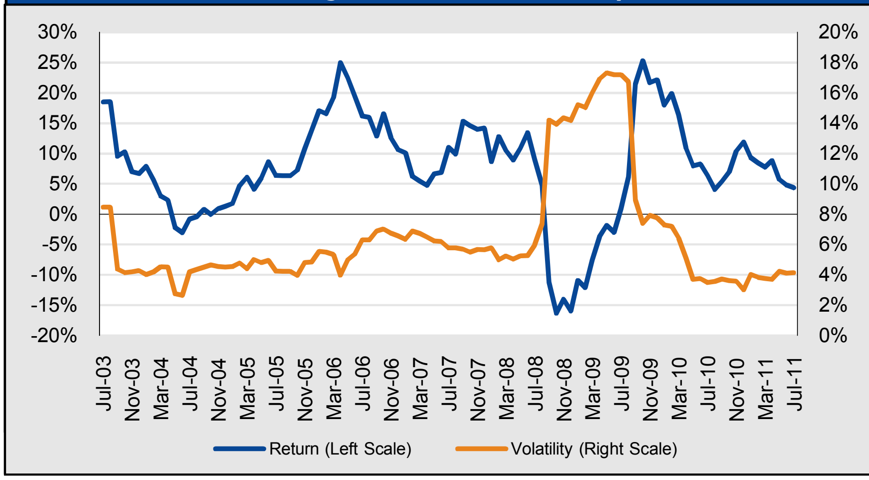
Performance Summary
Strategy: Market Neutral

Start Date: August 2002
End Date: July 2011

Monthly Performance (%)													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**
2011	-1.70%	1.11%	0.79%	1.06%	-1.54%	0.52%	-0.20%						-0.00%
2010	0.65%	1.93%	1.46%	-0.01%	1.45%	1.35%	0.19%	-0.76%	1.46%	1.05%	2.22%	0.39%	11.95%
2009	4.24%	0.27%	4.51%	4.98%	4.20%	1.04%	1.96%	1.45%	0.20%	-0.44%	-0.93%	-1.02%	22.17%
2008	-1.71%	1.70%	-0.65%	0.74%	2.27%	2.20%	-1.96%	-3.55%	-12.43%	-3.51%	2.05%	-1.43%	-15.96%
2007	3.29%	-2.03%	1.41%	2.20%	0.50%	-0.15%	2.01%	0.34%	3.37%	2.38%	-0.70%	0.88%	14.20%
2006	3.80%	1.56%	2.16%	2.87%	-1.28%	-0.36%	-1.80%	1.36%	-1.51%	3.04%	-0.14%	0.67%	10.66%

Fund Statistics	3 Year	ITD
Annualized Return	3.9%	7.8%
Jensen's Alpha to S&P 500	2.6%	4.9%
Annualized Standard Deviation	10.1%	7.6%
Sharpe Ratio	0.29	0.70
Sortino Ratio	0.44	0.77
Skewness	(2.34)	(1.53)
Kurtosis	10.01	11.58
Percent Profitable Months	67%	63%
Auto Correlation	0.26	0.45

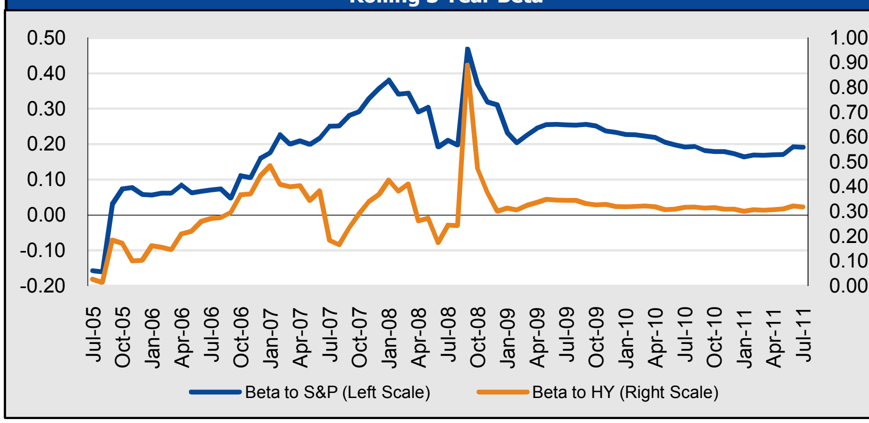
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	**Length**	**Recovery**	**Peak**	**Valley**
(20.1%)	4	10	Jun-08	Oct-08
(5.0%)	10	3	Aug-03	Jun-04
(3.6%)	5	4	Apr-06	Sep-06

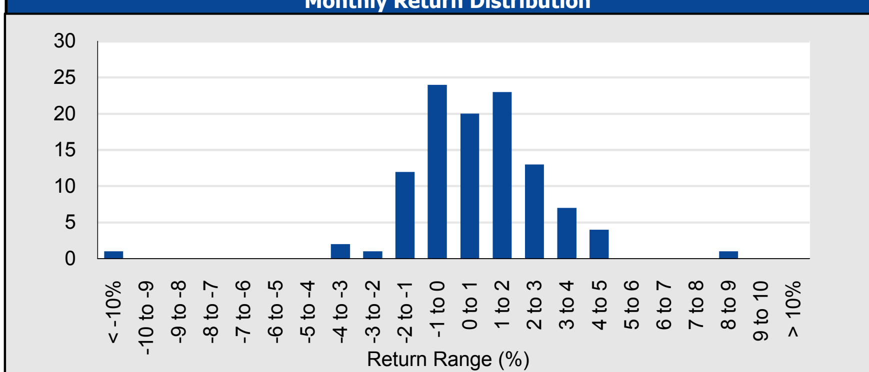
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.11	0.19	0.22	0.40
MSCI North Am	0.12	0.20	0.25	0.43
MSCI Asia	0.17	0.25	0.39	0.57
MSCI Europe	0.11	0.16	0.29	0.46
DXY	(0.15)	(0.22)	(0.17)	(0.27)
S&P GSCI	0.11	0.14	0.36	0.42
ML High Yield	0.26	0.32	0.37	0.53
ML Treasury 10+	(0.04)	(0.08)	(0.06)	(0.12)
VIX	(0.00)	(0.00)	(0.04)	(0.04)
HFRI Composite	0.62	0.77	0.52	0.64
HFRI Market Neutral	1.43	2.01	0.48	0.61

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	108	106	103	97
Last Period	(0.2%)	(1.2%)	1.7%	4.4%
Avg Period Return	0.7%	1.9%	3.9%	7.7%
Average Gain	1.8%	3.7%	5.9%	10.4%
Average Loss	(1.3%)	(3.3%)	(6.5%)	(6.9%)
Best Period	8.2%	14.3%	20.7%	25.3%
Worst Period	(12.4%)	(18.5%)	(19.6%)	(16.3%)
Standard Deviation	2.2%	4.6%	6.9%	8.6%
Gain St Deviation	1.4%	2.8%	4.7%	6.0%
Loss St Deviation	2.0%	5.0%	6.9%	6.0%
VaR 95%	(1.9%)	(2.9%)	(11.2%)	(11.2%)

Monthly Return Distribution



Pacific Alliance Group Asset Management Limited
Pacific Alliance Asia Opportunity Feeder Fund II Limited ("Pax")

CLASSIFICATION:
Strategy: Multi-Strategy
Sub-strategy: Pan-Asia opportunistic
Geography: Pan Asia with Greater China focus

FIRM SUMMARY:
Pacific Alliance was formed in 2002 by Chris Gradel and initially seeded/funded by Millennium, who has since been bought out. Currently, Chris Gradel and employees own 70% of the firm with a seed founder (Horst Geicke) owning the remaining 30%. Strategy assets under management are currently $1.5B, $1.3B of which is in the commingled vehicles. The fund has about eighty people on the ground throughout Asia and also operates separate private equity (~fifty employees and $400m) and real estate (~eighteen employees and $750m) teams. Total firm assets are over $4 billion.

INVESTMENT STRATEGY:
The Pacific Alliance Asia Opportunity Fund is managed with a relatively nimble multi-strategy approach investing across Asia with a Greater China focus. At any given time, the fund invests in a subset of strategies depending on what the team identifies as most attractive on a risk-adjusted basis. The fund invests across most equity and debt instruments looking for value situations in arbitrage, distressed, discounted convertibles, bridge finance, closed-end fund/share class arbitrage, credit re-financings, etc.

The fund seeks to exploit inefficiencies in Asian markets created by informational asymmetries, frequent regulatory change, liquidity constraints, distress, and poor corporate governance. The fund is long-biased, but emphasizes capital preservation through direct hedges, deep discount pricing and/or structured downside protection. Every investment is approached with an identifiable exit and principal repayment/return is sought within six-to-nine months (holding period can typically be two years for the entire position). The fund expects to have about 70% of investments related to Greater China, 20% to South East Asia, and 10% to the rest of Asia.

DISTINGUISHING FEATURES:
- Opportunistic strategy that capitalizes on legal, regulatory, liquidity and other market inefficiencies in Asia that result in identifiable arbitrage situations;
- Large, experienced on the ground team in Asia which provides for substantial edge in sourcing deals and understanding & underwriting regulatory and legal issues. Team has minimal turnover.
- Seven year track record with 28% net returns with low/no leverage.
- Strong risk management framework. Disciplined not to rely on market liquidity. All positions have pre-described exit strategies. Short-term return of cash focus. Principal repayment expected within 6-9 months of investment.
- Co-investment opportunities.

TEAM:
Chris Gradel – Co-Founder and Managing Partner
- Over 12 years of regional investment experience including arbitrage, private equity, and distressed.
- Engagement Manager with McKinsey in Hong Kong from 99-02, where he consulted leading companies on Asia strategy incl. Standard Chartered Bank and Temasek Holdings. Broad M&A experience including transactions in HK, China, Taiwan, Singapore, Indonesia, Germany, and the US.
- Invested in and managed 3 companies in China for Pritzker family from 95-98 incl. turnaround of a bankrupt state-owned company.
- Mr. Gradel has a joint Masters degree in Engineering, Economics and Management from Oxford University.

Prisma Capital Partners

PAX

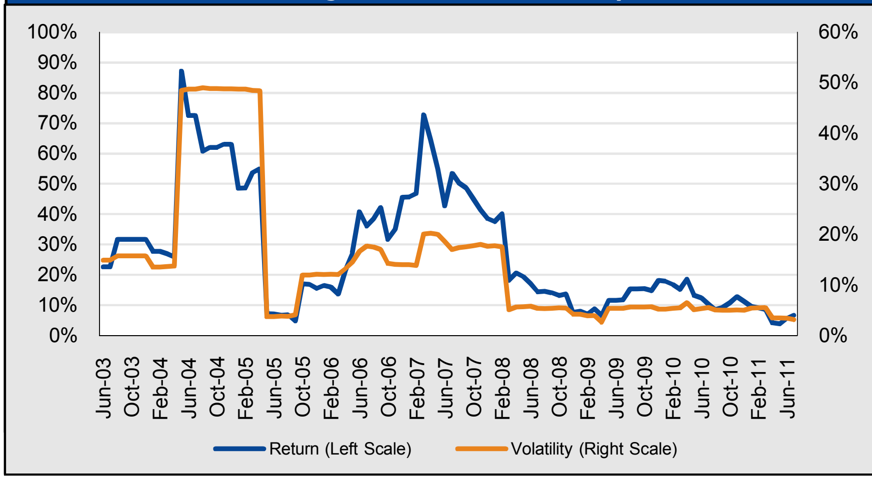
Performance Summary
Strategy: Event Driven

Start Date: July 2002
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-1.29%	0.00%	-0.26%	0.35%	0.09%	1.13%	0.20%						0.20%
2010	0.29%	0.31%	0.23%	4.67%	0.36%	-0.63%	-0.73%	1.46%	0.81%	1.52%	2.03%	0.52%	11.28%
2009	0.55%	1.22%	1.62%	1.62%	5.19%	0.07%	1.20%	3.13%	0.10%	0.10%	0.26%	1.88%	18.18%
2008	0.22%	2.18%	-0.08%	3.66%	0.60%	0.06%	1.01%	-0.08%	0.05%	0.07%	0.76%	-0.97%	7.66%
2007	0.94%	0.29%	18.43%	1.66%	1.51%	2.07%	3.46%	-0.26%	0.50%	0.92%	0.26%	4.58%	38.58%
2006	0.83%	-0.46%	0.67%	6.76%	7.82%	10.69%	-3.76%	1.88%	1.62%	3.36%	2.91%	6.71%	45.59%

Fund Statistics	3 Year	ITD
Annualized Return	9.6%	24.1%
Jensen's Alpha to S&P 500	8.5%	21.5%
Annualized Standard Deviation	4.7%	19.2%
Sharpe Ratio	1.83	1.13
Sortino Ratio	12.85	9.29
Skewness	1.67	6.14
Kurtosis	3.57	48.03
Percent Profitable Months	81%	62%
Auto Correlation	(0.07)	0.06

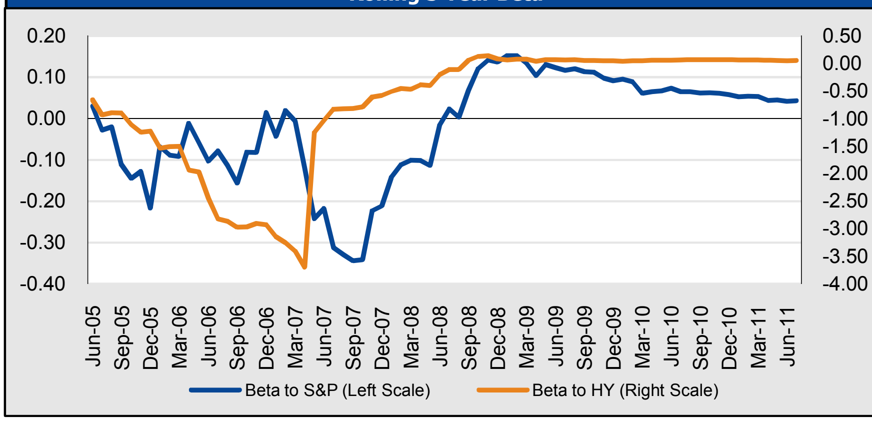
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(3.8%)	1	3	Jun-06	Jul-06
(1.5%)	3	4	Dec-10	Mar-11
(1.5%)	3	1	Jan-04	Apr-04

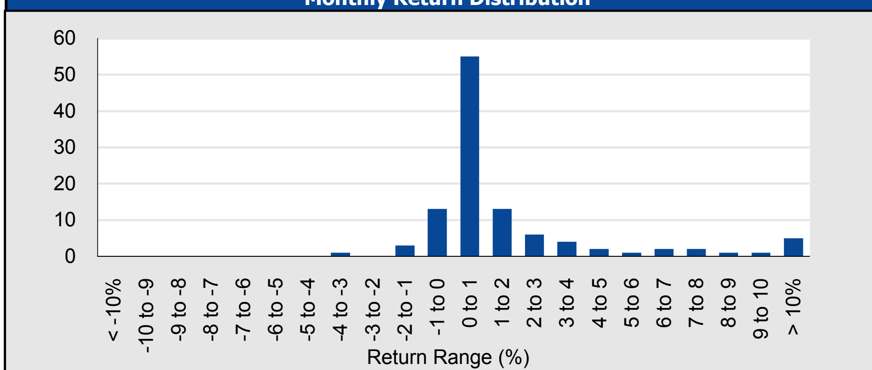
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.03	0.04	0.03	0.19
MSCI North Am	0.04	0.05	0.03	0.21
MSCI Asia	(0.04)	0.06	(0.03)	0.27
MSCI Europe	0.02	0.03	0.02	0.17
DXY	(0.11)	(0.02)	(0.05)	(0.05)
S&P GSCI	0.06	0.05	0.08	0.32
ML High Yield	(0.08)	0.05	(0.04)	0.18
ML Treasury 10+	(0.19)	(0.05)	(0.11)	(0.15)
VIX	(0.00)	(0.00)	(0.11)	(0.01)
HFRI Composite	0.03	0.20	0.01	0.36
HFRI Event Driven	0.06	0.18	0.02	0.33

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	109	107	104	98
Last Period	0.2%	1.4%	1.5%	6.7%
Avg Period Return	1.9%	6.0%	12.5%	27.5%
Average Gain	2.4%	6.6%	12.8%	27.5%
Average Loss	(0.7%)	(0.9%)	(0.3%)	
Best Period	48.7%	48.7%	60.8%	87.3%
Worst Period	(3.8%)	(1.5%)	(0.6%)	3.9%
Standard Deviation	5.5%	9.0%	12.8%	19.8%
Gain St Deviation	5.9%	9.2%	12.8%	19.8%
Loss St Deviation	0.9%	0.5%	0.4%	
VaR 95%	(0.8%)	(0.7%)	1.3%	6.7%

Monthly Return Distribution



Pentwater Equity Opportunities Fund LLC
Pentwater Equity Opportunities Fund Ltd

CLASSIFICATION:
Strategy: Event-Driven, Multi-Strategy
Sub-Strategy: Event Equity Merger Arbitrage, Special Situations
Market Bias: Long Biased
Geography: Global, with a focus on North America

FIRM SUMMARY:
Pentwater Capital Management was formed in April 2007 when it launched its Pentwater Event Funds to invest in event driven strategies. Matthew Halbower is the CEO and CIO of Pentwater Capital Management and serves as Portfolio Manager for both the Pentwater Equity Funds and the Event Funds. Mr. Halbower had been the portfolio manager of this strategy at Deephaven Capital Management and prior to that, with Citadel Investment Group. In 2009, Pentwater launched its Pentwater Equity Funds which employs a similar event driven strategy as its flagship funds, but with a heavier emphasis on equity securities and a limitation on credit investing. As of November 2010, the firm employs 28 people, of which 11 are investment professionals, and manages $1.2 billion, $450 million of which represents the Equity Fund strategy and the remaining $725 million of which represents the more broad Event Fund strategy.

INVESTMENT STRATEGY:
Pentwater employs an event-driven investment strategy through investing in a variety of situations involving foreseeable changes in a company's underlying capital structure as a result of mergers and acquisitions, spin-offs, tender offers, exchanges, etc. The investment strategies generally focus on an event or a catalyst that is anticipated to move an equity price, an equity spread, a credit spread, or an implied volatility spread. Pentwater is particularly attracted to situations where a catalyst exists to realize value and involves merger arbitrage (also known as risk arbitrage), special situation investing and distressed investing. The Funds invest across the entire capital structure and focus on asymmetric opportunities where the potential returns are significantly higher than dollars risked.

Pentwater maintains a bottom-up fundamental research approach to its investment process that is supplemented by quantitative analytics and a keen awareness of the macroeconomic landscape. General market sentiment and macroeconomic factors may also affect, at the margin, the deployment of capital among our different strategies.

DISTINGUISHING FEATURES*:*
- Veteran event investor and team with investment experience across numerous market cycles
- Narrow strategy focus on merger arbitrage and event driven special situations
- Predominantly equity investing, credit limited to 10%
- Unique approach to position structuring and sizing
- Favorable liquidity and terms

TEAM:
Matthew Halbower
Matt is the Founder, CEO, CIO, and Portfolio Manager of Pentwater Capital Management. Matt's experience in event driven investing comes from his years as a Portfolio Manager of event driven trading and distressed securities at Deephaven Capital Management, from his experience as the founder of the Deephaven Event Fund, and from his years of experience as a Portfolio Manager at Citadel Investment Group. Matt has 12 years of investment experience. Matt graduated with a B.S. in Electrical Engineering from the Massachusetts Institute of Technology in 1991 and a J.D. from Harvard Law School in 1994.

Aaron Switz
Aaron joined Pentwater Capital Management in October 2008 as a Managing Director in portfolio management. Prior to joining Pentwater, Aaron was a Portfolio Manager at Deephaven Capital Management. Previously, he was at Royal

Bank of Canada. Aaron has 15 of years of investment experience. Aaron graduated with a B.S. in business from the University of Arizona in 1995.

John Pigott
John joined Pentwater Capital Management in June 2007 as a Managing Director in portfolio management. Prior to joining Pentwater, John was a Portfolio Manager at Tradelink LLC. Previously, he was at Ritchie Capital Management, Compass Asset Management and Pangaea. John has 17 years of investment experience. John graduated with a B.A. from Northwestern University in 1992 and an M.B.A. from the University of Chicago with concentrations in Finance and Economics in 1998.

Daniel Murphy
Dan joined Pentwater in February 2008 as a Portfolio Manager. Prior to joining Pentwater Capital Management, Dan was an analyst at ABN Amro Asset Management. Previously, he was at Anchorage Advisors, LLC and CIBC. Dan has 13 years of investment experience. He earned his B.S. in Finance from the University of Louisville in 1997.

David Zirin
David joined Pentwater Capital Management in April 2007 as the Chief Operating Officer. Prior to joining Pentwater, he was a Director in the Prime Brokerage group at UBS Securities. Previously, David worked at Ritchie Capital Management and Citadel Investment Group. David has 23 years of investment experience. David graduated from the University of Michigan in 1987 with a B.A. in Decision Behavior Analysis and received an M.B.A. in Economics and Finance from the University of Chicago in 1995.

Pentwater Equity

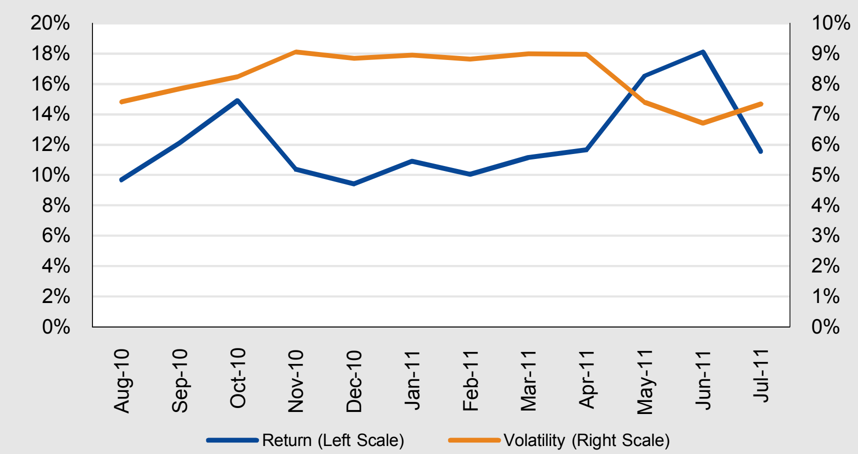
Performance Summary
Strategy: Event Driven

Start Date: September 2009
End Date: July 2011

Monthly Performance (%)													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**
2011	2.18%	1.87%	2.80%	0.82%	0.40%	-1.34%	-2.40%						4.28%
2010	0.79%	2.67%	1.76%	0.36%	-3.79%	-2.66%	3.33%	0.40%	3.35%	3.49%	-2.60%	2.29%	9.41%
2009									1.13%	0.96%	1.40%	3.20%	6.84%

Fund Statistics	3 Year	ITD
Annualized Return	10.9%	10.9%
Jensen's Alpha to S&P 500	5.1%	5.1%
Annualized Standard Deviation	7.4%	7.4%
Sharpe Ratio	1.43	1.43
Sortino Ratio	3.51	3.51
Skewness	(0.81)	(0.81)
Kurtosis	(0.25)	(0.25)
Percent Profitable Months	78%	78%
Auto Correlation	0.17	0.17

Rolling 1 Year Return and Volatility



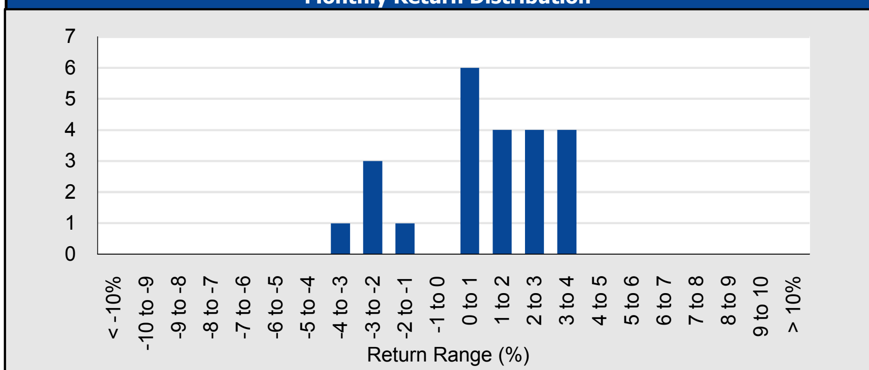
Drawdown Analysis - 3 Worst Periods				
Drawdown	**Length**	**Recovery**	**Peak**	**Valley**
(6.3%)	2	3	Apr-10	Jun-10
(3.7%)	2		May-11	Jul-11
(2.6%)	1	2	Oct-10	Nov-10

Benchmark Comparison				
	Beta	**3Yr Beta**	**Correl**	**3Yr Corr**
S&P 500	0.37	0.37	0.75	0.75
MSCI North Am	0.36	0.36	0.75	0.75
MSCI Asia	0.35	0.35	0.57	0.57
MSCI Europe	0.25	0.25	0.71	0.71
DXY	(0.39)	(0.39)	(0.53)	(0.53)
S&P GSCI	0.23	0.23	0.59	0.59
ML High Yield	0.70	0.70	0.61	0.61
ML Treasury 10+	(0.39)	(0.39)	(0.56)	(0.56)
VIX	(0.00)	(0.00)	(0.47)	(0.47)
HFRI Composite	0.92	0.92	0.67	0.67
HFRI Event Driven	1.03	1.03	0.74	0.74

Rolling 3 Year Beta

Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	23	21	18	12
Last Period	(2.4%)	(3.3%)	2.1%	11.6%
Avg Period Return	0.9%	3.1%	6.4%	12.2%
Average Gain	1.8%	5.0%	7.3%	12.2%
Average Loss	(2.6%)	(2.9%)	(0.9%)	
Best Period	3.5%	7.4%	11.3%	18.1%
Worst Period	(3.8%)	(6.0%)	(1.0%)	9.4%
Standard Deviation	2.1%	3.9%	4.4%	2.8%
Gain St Deviation	1.1%	1.9%	3.8%	2.8%
Loss St Deviation	0.9%	2.2%	0.2%	
VaR 95%	(2.7%)	(3.3%)	(1.0%)	9.4%

Monthly Return Distribution



West Face Capital, Inc.
West Face Long Term Opportunities Fund Ltd.

CLASSIFICATION:
Strategy: Event
Market Bias: Long
Geography: Canada

FIRM SUMMARY:
In 2006, the partners formed West Face Capital with the purpose of raising capital from outside investors and the fund was launched on October 1, 2007. The manager invests in one-off, often complex, special situation opportunities across multiple security classes (equity, debt, convertibles, warrants, commodities, etc.) with a predominantly Canadian bias. Given the eclectic nature of investments and limited number of positions at any given time, the portfolio tends to have high volatility with low correlation to the broader markets.

INVESTMENT STRATEGY:
West Face Capital is a special situations fund based in Toronto. The manager's objective is to intensively research a small number of complex, misunderstood, highly volatile and under-followed situations to gain an advantage over other market participants. The manager will proactively create investment catalysts in order to realize value. The fund will invest globally with a significant emphasis on Canada. The fund's investment universe primarily consists of listed equities and bonds, but the team will also utilize a broad spectrum of securities including preferred shares, futures and options, bank debt and private loans, and commodity options and futures. Lastly, a significant feature of the fund will be co-investment opportunities. The manager expects to present these situations to investors when additional capital is needed to effectively employ its strategy.

DISTINGUISHING FEATURES:
- Senior and experienced team. The four partners have diverse, multi-disciplinary backgrounds allowing them to approach opportunities from numerous angles;
- Strong track record dating to 1998. Greg Boland's managed account for Paloma Partners has had exceptional performance employing the same strategy (annualized net ROR of +29% since inception and +65% over the past five years);
- Self-creation of catalysts and events to increase value of positions, improve alpha generation, and reduce correlation;
- Partners investing over $50m in the fund.

TEAM:
Gregory Boland, *President, CEO, and Co-CIO*
Employment History
- Jan 2006 - present — West Face Capital
- May 1998 - Jan 2006 — Enterprise Capital (Paloma Partners), Toronto
- May 1991 - May 1998 — RBC Dominion Securities, Toronto

Education
- 1991 Bachelor Commerce, University British Columbia (Leslie Wong Fellow)

Peter Fraser, *Partner, Co-CIO*
Employment History
- June 2006 – Present — West Face Capital
- Dec 1999 – June 2006 — Consulting (to Boland)
- June 1996 – Dec 1999 — Jones Heward Investment Counsel
- June 1990 – June 1996 — Nesbit Burns, Toronto

Education
- M.B.A. from Stanford University (1984)
- Bachelor of Commerce from the University of Toronto (1980)

PRISMA CAPITAL PARTNERS

West Face

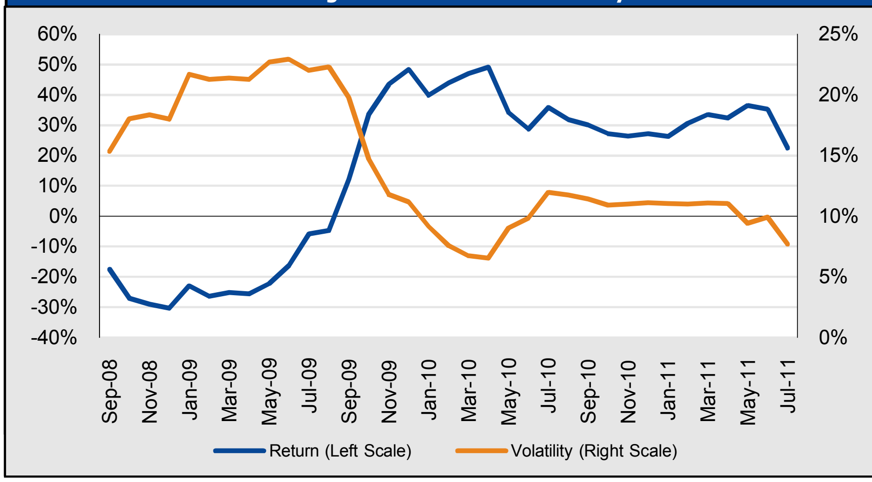
Performance Summary
Strategy: Event Driven

Start Date: October 2007
End Date: July 2011

Monthly Performance (%)													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**
2011	2.14%	3.74%	3.88%	2.32%	-1.03%	-2.38%	-1.20%						7.52%
2010	2.97%	0.26%	1.62%	3.25%	-4.05%	-1.43%	9.00%	1.90%	3.76%	3.27%	0.53%	3.83%	27.27%
2009	9.28%	-2.64%	-0.47%	1.82%	6.63%	2.79%	3.21%	4.96%	5.27%	5.55%	1.22%	3.07%	48.41%
2008	-1.20%	1.95%	-2.05%	2.31%	2.09%	-4.61%	-8.15%	3.67%	-10.55%	-11.35%	-5.78%	-0.34%	-30.30%
2007										0.27%	-3.04%	1.40%	-1.42%

Fund Statistics	3 Year	ITD
Annualized Return	16.2%	9.1%
Jensen's Alpha to S&P 500	14.4%	9.2%
Annualized Standard Deviation	15.3%	15.0%
Sharpe Ratio	0.99	0.50
Sortino Ratio	0.54	0.60
Skewness	(1.07)	(0.84)
Kurtosis	1.95	1.28
Percent Profitable Months	69%	65%
Auto Correlation	0.33	0.32

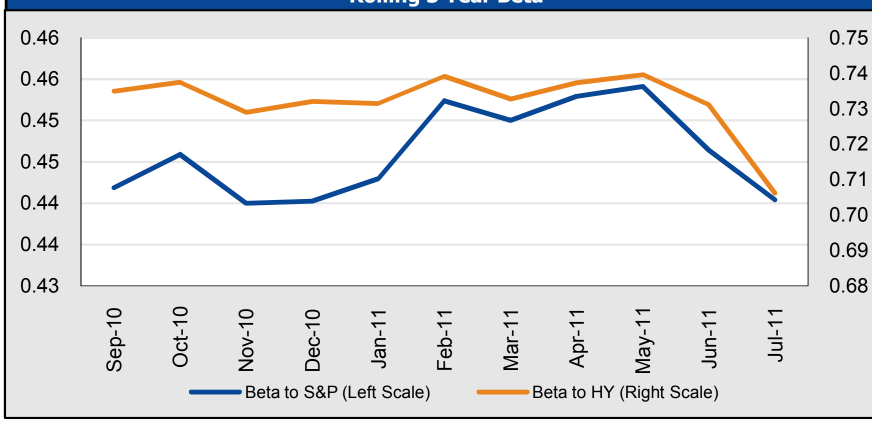
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	**Length**	**Recovery**	**Peak**	**Valley**
(32.4%)	7	12	May-08	Dec-08
(5.4%)	2	1	Apr-10	Jun-10
(4.5%)	3		Apr-11	Jul-11

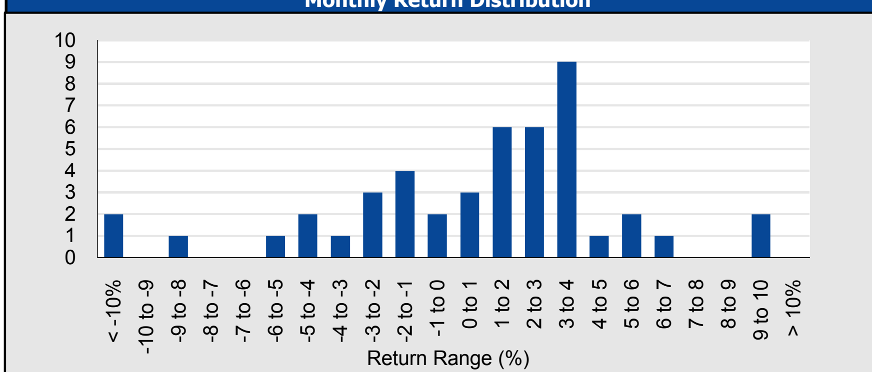
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.45	0.44	0.60	0.61
MSCI North Am	0.46	0.44	0.63	0.63
MSCI Asia	0.40	0.39	0.59	0.58
MSCI Europe	0.35	0.34	0.61	0.62
DXY	(0.47)	(0.52)	(0.34)	(0.41)
S&P GSCI	0.30	0.35	0.59	0.67
ML High Yield	0.74	0.71	0.76	0.77
ML Treasury 10+	(0.37)	(0.35)	(0.32)	(0.32)
VIX	(0.00)	(0.00)	(0.40)	(0.51)
HFRI Composite	1.40	1.40	0.76	0.77
HFRI Event Driven	1.45	1.43	0.82	0.84

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	46	44	41	35
Last Period	(1.2%)	(4.5%)	5.3%	22.5%
Avg Period Return	0.8%	2.9%	6.8%	15.0%
Average Gain	3.3%	7.9%	15.5%	33.7%
Average Loss	(3.8%)	(7.8%)	(14.3%)	(21.1%)
Best Period	9.3%	16.6%	31.9%	49.1%
Worst Period	(11.3%)	(25.3%)	(32.1%)	(30.3%)
Standard Deviation	4.3%	9.3%	16.2%	27.8%
Gain St Deviation	2.2%	4.2%	7.8%	8.8%
Loss St Deviation	3.5%	8.0%	10.9%	8.5%
VaR 95%	(8.1%)	(16.8%)	(26.5%)	(29.1%)

Monthly Return Distribution



Mason Management, LLC
Mason Capital, Ltd

CLASSIFICATION:
Strategy: Event driven multi strategy (equity and credit)
Market Bias: Low to Variable bias
Geography: Global with US bias

FIRM DESCRIPTION:
Mason Capital, launched in 2000, was founded by its two principals, Michael Martino and Kenneth Garschina, who both serve as portfolio managers of the Funds. With $4 billion AUM, the investor profile is institutional and well diversified with less emphasis on funds of funds. Initially launched with corporate pension capital, capital base grew from growth of endowment and foundations. E&F investors currently comprise 45% of the capital base across 41 firms and do not include the large, high profile firms such as Yale et al. While the capital base has grown steadily since 2003 from existing and related endowments and foundations, Mason Capital initiated marketing efforts in 2009 to take advantage of the growing opportunity in event investing and to diversify its capital base away from the endowment and foundation community. The firm anticipates closing the funds to new investors at approximately $5+ billion.

INVESTMENT STRATEGY:
The Funds invest in event driven opportunities, expressed in both credit and equity markets, with the goal of minimizing equity and credit market risk. Security selection is based on a combination of fundamental research, a required future catalyst (can be loosely defined) and an assessment of the optimal security within the capital structure to maximize the risk return profile associated with the catalyst. The strategy's goal is to invest in securities where the impact of the event is not yet fully reflected in the price of the securities.

To capitalize on inefficiencies arising from these events, the manager can be short or long, with short trades as alpha sources. Market hedges, if any, are rare and short positions are designed as alpha generators. As such, market exposure to equity and credit markets vary over time, driven more from bottom up portfolio construction rather than willingness to take directional views.

DISTINGUISHING FEATURES
- Variable bias orientation in both equity and credit markets
- Emphasis on highly liquid and shorter duration events
- Shorts are alpha generators, broad market hedges are rare
- No use of leverage
- Low volatility
- High percentage of endowment and foundation capital
- Avoid value equity investing with no foreseeable catalyst

TEAM:

The firm's two founders, Ken Garschina and Michael Martino, serve as the co-portfolio managers for the Funds. Investment research, portfolio construction and portfolio management are very collaborative, with both co-portfolio managers closely involved in all aspects of each position. Consensus between the two is required for positions to be included in the portfolio. The two managers are also deeply involved and lead the research effort at the firm, working closely with the entire investment team on all aspects of the portfolio.

Kenneth M. Garschina is a founder and principal of Mason Capital Management, LLC. Prior to founding Mason Capital Management, Mr. Garschina was Managing Director, Risk Arbitrage for KS Capital, where he had discretionary investment authority over the risk arbitrage portfolio of KS Capital's portfolio. Mr. Garschina began his career at KS Capital in 1994 as a research analyst specializing in risk arbitrage, distressed securities, restructurings and other event driven investment disciplines. Mr. Garschina graduated from The College of the Holy Cross in 1993, with a degree in Economics. He is a published author in the field of Austrian Economic Theory.

Michael E. Martino is a founder and principal of Mason Capital Management, LLC. Mr. Martino began his investment career at Oppenheimer & Company, where he was responsible for risk arbitrage research; he ended his tenure at Oppenheimer as Executive Director, Risk Arbitrage. He began his business career at GE Capital Corporation, where he held positions in Information Systems and Business Analysis. He was formerly a director of Spar Aerospace Limited, a publicly traded aerospace company. Mr. Martino graduated from Fairfield University with a degree in Political Science and earned a Masters in Business Administration in Finance and International Business from New York University's Stern School of Business.

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Mason

PRISMA CAPITAL PARTNERS

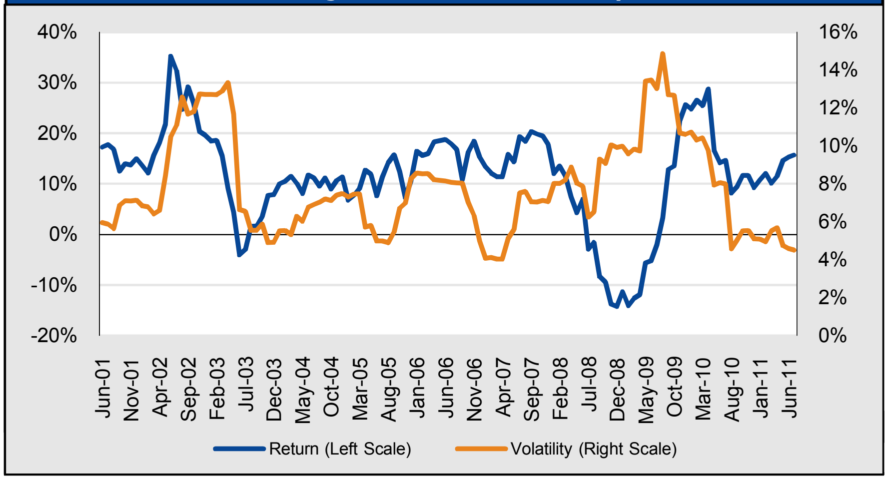
Performance Summary
Strategy: Event Driven

Start Date: July 2000
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	1.44%	0.99%	-1.55%	2.16%	0.77%	0.21%	0.44%						4.52%
2010	0.08%	-0.19%	0.17%	0.89%	-1.95%	-0.33%	0.06%	1.15%	2.99%	3.08%	2.38%	0.70%	9.30%
2009	0.78%	-1.58%	1.00%	-1.68%	8.32%	1.76%	-0.35%	7.21%	1.85%	1.01%	2.35%	2.91%	25.69%
2008	-2.63%	1.62%	-0.67%	-2.53%	1.17%	1.29%	-3.62%	1.73%	-6.80%	0.40%	-5.17%	0.36%	-14.28%
2007	2.34%	0.31%	1.11%	1.17%	4.21%	-1.25%	6.15%	0.40%	0.07%	1.59%	-0.39%	1.00%	17.79%
2006	4.14%	1.43%	1.74%	1.13%	0.21%	0.05%	1.70%	1.20%	-1.55%	2.01%	-0.04%	2.45%	15.34%

Fund Statistics	3 Year	ITD
Annualized Return	9.2%	11.5%
Jensen's Alpha to S&P 500	7.8%	8.9%
Annualized Standard Deviation	9.2%	8.1%
Sharpe Ratio	0.89	1.08
Sortino Ratio	1.05	1.62
Skewness	0.06	0.27
Kurtosis	3.39	2.45
Percent Profitable Months	75%	74%
Auto Correlation	0.02	(0.02)

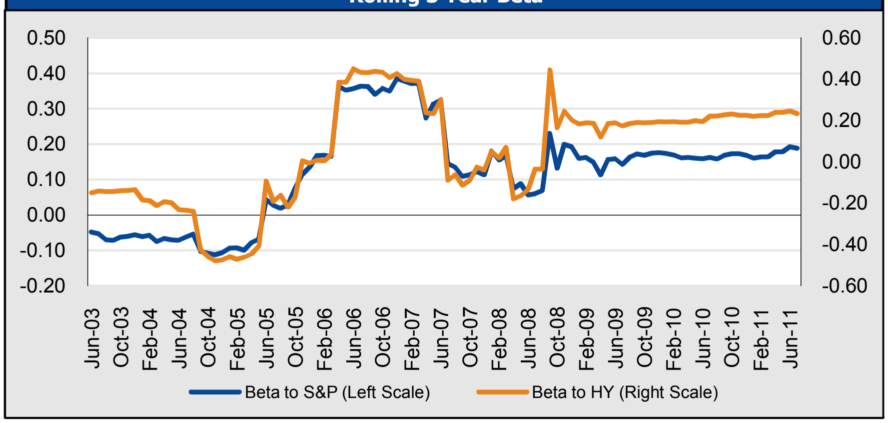
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(15.6%)	16	5	Dec-07	Apr-09
(6.8%)	10	7	Jun-02	Apr-03
(4.6%)	2	1	Sep-05	Nov-05

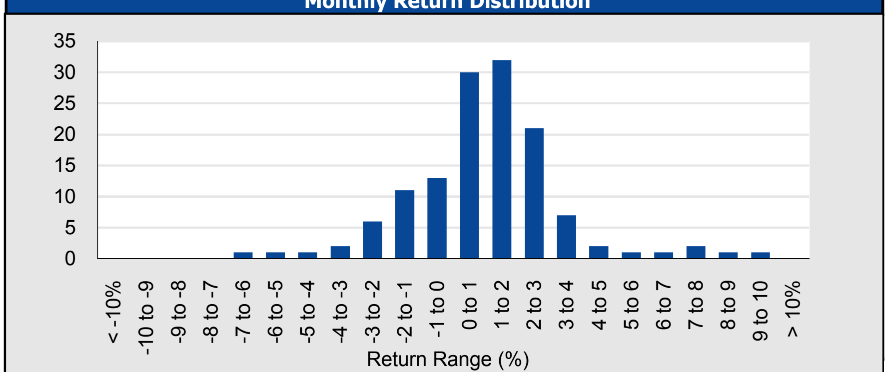
Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.09	0.19	0.18	0.44
MSCI North Am	0.10	0.19	0.19	0.44
MSCI Asia	0.16	0.17	0.35	0.43
MSCI Europe	0.11	0.15	0.27	0.45
DXY	(0.24)	(0.22)	(0.26)	(0.29)
S&P GSCI	0.10	0.16	0.31	0.51
ML High Yield	0.11	0.23	0.15	0.43
ML Treasury 10+	(0.06)	(0.17)	(0.08)	(0.27)
VIX	(0.00)	(0.00)	(0.23)	(0.37)
HFRI Composite	0.51	0.65	0.41	0.59
HFRI Event Driven	0.44	0.61	0.37	0.60

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	133	131	128	122
Last Period	0.4%	1.4%	3.0%	15.7%
Avg Period Return	0.9%	2.9%	5.8%	11.6%
Average Gain	1.9%	4.4%	8.0%	14.4%
Average Loss	(1.8%)	(2.5%)	(4.3%)	(8.0%)
Best Period	9.2%	20.4%	26.2%	35.3%
Worst Period	(6.8%)	(11.3%)	(12.7%)	(14.3%)
Standard Deviation	2.3%	4.2%	6.7%	9.5%
Gain St Deviation	1.7%	3.3%	4.9%	6.2%
Loss St Deviation	1.5%	2.5%	4.0%	4.8%
VaR 95%	(2.8%)	(3.2%)	(6.0%)	(9.4%)

Monthly Return Distribution



One William Street Capital Partners
One William Street Capital Onshore Fund LP

CLASSIFICATION:
Strategy: Fixed Income Arbitrage
Sub-Strategy: ABS
Market Bias: Long
Geography: United States

FIRM SUMMARY:
One William Street was founded at the beginning of 2008 by David Sherr. The six partners of the Firm all came from Lehman Brothers and had worked together in different capacities. The Firm had a relationship with Lehman where Lehman Brothers invested $400mm in the funds of the Firm and agreed to share technology and models for an equity interest. This equity interest has been repurchased by the Fund's principals. The Fund is based in New York City and employs 36 people, of whom 20 are members of the investment team and 16 are members of the business team. At the end of June 2009, the Fund was managing approximately $1 billion.

INVESTMENT STRATEGY:
The long-bias, ABS fixed income arbitrage hedge fund invests in investment-grade MBS/ABS/CMBS/ CDO securities, below investment-grade mezzanine, equity and residuals in MBS/ABS/CMBS/CDO products, and performing/nonperforming/reperforming mortgage loans. In addition, the Fund invests in principal finance predominantly through private secured commercial loans and asset-backed transactions secured by physical, financial and/or intangible assets.

DISTINGUISHING FEATURES

- One William Street team worked together at Lehman for many years
  - Contributed to Lehman being less affected by mortgage crisis
  - Broad experience across all areas of ABS
- Ability to take advantage of some of the less liquid area's such as mortgage workout while maintaining a liquidity provision that is acceptable in a HF format
- Leverage of the fund will be very low because they do not take relative value positions
- Ability to differentiate between securities because of the size of the Fund and strong technology
- Understand dynamics of market participants due to recent sell side experience

TEAM
The entire partnership team came out of Lehman Brothers. Many members of the team worked quite closely together at Lehman Brothers. The team is very experienced across different parts of the ABS space. Partners include David Sherr: Chief Executive Officer, Kahlil A. Kanaan: Portfolio Manager, Kurt A. Locher: Chief Financial Officer, Frank Prezioso: Portfolio Manager, Srinivas Modukuri: Chief Investment Officer, and Matthew J. Ziffer: Portfolio Manager.

David Sherr, Founder and Managing Principal
Prior to founding One William Street Group, Mr. Sherr was a Managing Director of Lehman Brothers and Global Head of their Securitized Products business. In that capacity, Mr. Sherr had responsibility for all Mortgage and Asset Backed related businesses at the firm. Mr. Sherr started at Lehman Brothers in 1986 in their mortgage trading department and became head of the CMO Trading desk in 1994. By 2001, he had assumed responsibility for all of Lehman Brothers' Residential Mortgage and Asset backed trading businesses globally. In 2004, Mr. Sherr was given additional responsibility for Lehman Brothers' Global Structured and Principal Finance, and Insurance related businesses. In that time Lehman Brothers continued to grow it's already industry leading franchise and played a leading role in the development and growth of securitized products as an asset class. Mr. Sherr was a key architect of Lehman Brothers' highly profitable "vertical integration strategy" which combined direct asset origination and servicing capability to provide a captive supply of product at attractive margins. He is currently a member of the Board of Directors of Wilton Reinsurance. He graduated with a B.S. in Finance from Babson College.

One William Street

PRISMA CAPITAL PARTNERS

Performance Summary
Strategy: Fixed Income

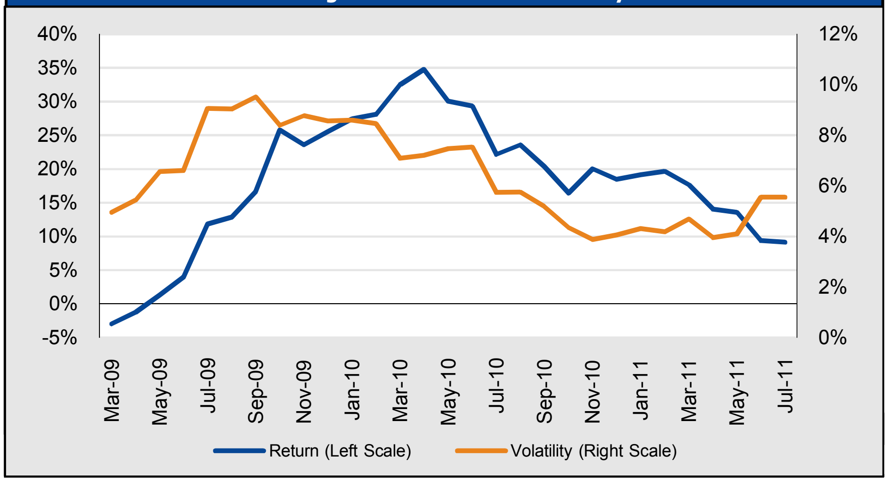
Start Date: April 2008
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	3.47%	0.61%	-0.62%	0.55%	-0.33%	-2.67%	0.60%						1.52%
2010	2.91%	0.15%	1.06%	3.74%	0.08%	1.08%	0.83%	2.43%	1.38%	0.80%	2.37%	0.33%	18.49%
2009	1.36%	-0.36%	-2.31%	2.01%	3.70%	1.65%	6.76%	1.25%	4.10%	4.19%	-0.70%	1.64%	25.52%
2008				0.27%	1.09%	-0.99%	-0.75%	0.32%	0.73%	-3.37%	1.05%	0.09%	-1.63%

Fund Statistics	3 Year	ITD
Annualized Return	14.2%	12.6%
Jensen's Alpha to S&P 500	13.1%	11.4%
Annualized Standard Deviation	6.9%	6.7%
Sharpe Ratio	1.92	1.70
Sortino Ratio	2.49	2.80
Skewness	0.30	0.43
Kurtosis	1.19	1.28
Percent Profitable Months	81%	78%
Auto Correlation	0.15	0.13

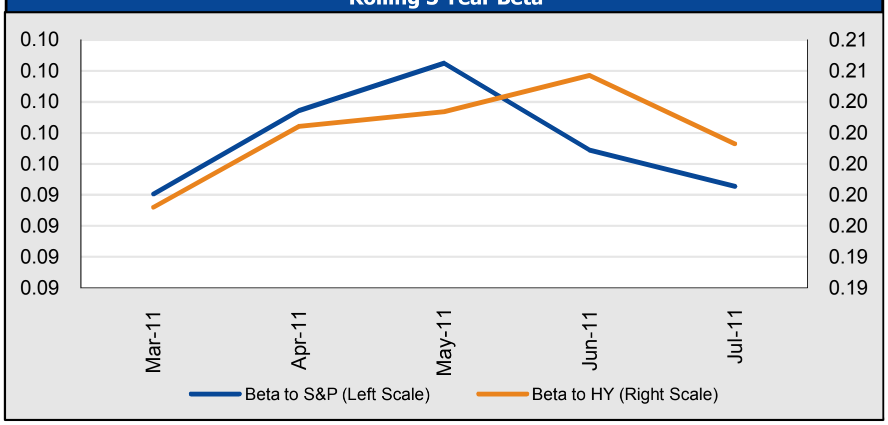
Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(4.3%)	10	2	May-08	Mar-09
(3.1%)	4		Feb-11	Jun-11
(0.7%)	1	1	Oct-09	Nov-09

Rolling 1 Year Return and Volatility



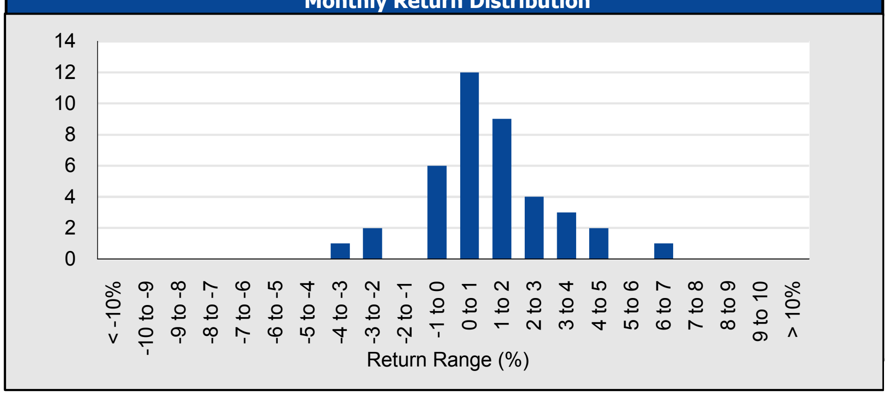
Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.10	0.09	0.31	0.29
MSCI North Am	0.10	0.10	0.32	0.31
MSCI Asia	0.12	0.11	0.39	0.38
MSCI Europe	0.09	0.08	0.35	0.33
DXY	(0.11)	(0.11)	(0.19)	(0.19)
S&P GSCI	0.07	0.09	0.33	0.37
ML High Yield	0.21	0.20	0.49	0.49
ML Treasury 10+	(0.03)	(0.03)	(0.05)	(0.06)
VIX	(0.00)	(0.00)	(0.19)	(0.22)
HFRI Composite	0.37	0.36	0.45	0.43
HFRI Fixed Income	0.50	0.49	0.56	0.55

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	40	38	35	29
Last Period	0.6%	(2.4%)	(1.9%)	9.1%
Avg Period Return	1.0%	3.2%	7.4%	18.0%
Average Gain	1.7%	5.0%	9.5%	19.5%
Average Loss	(1.3%)	(1.6%)	(2.3%)	(2.1%)
Best Period	6.8%	12.5%	23.6%	34.8%
Worst Period	(3.4%)	(2.5%)	(3.6%)	(3.0%)
Standard Deviation	1.9%	4.0%	6.9%	9.8%
Gain St Deviation	1.6%	3.2%	5.8%	8.4%
Loss St Deviation	1.1%	0.8%	1.1%	1.2%
VaR 95%	(2.3%)	(2.4%)	(3.0%)	(1.3%)

Monthly Return Distribution



Henderson Global Investors
The Henderson Liquidity Events Fund Limited

CLASSIFICATION:
Strategy: Fixed Income Arbitrage
Market Bias: Moderate long/short
Geography: US and Europe

FIRM SUMMARY:
Henderson Group is a ("Henderson") $120bn financial institution founded in 1934. Henderson's core business is long only fixed income, equity and property; however with their acquisition of Gartmore in April 2011 they have alternative capabilities as well. The absolute return hedge fund business has approximately $6.7bn in AUM. Henderson has offices located in Europe, the United States and Asia.

INVESTMENT STRATEGY:
The Henderson Liquidity Events Fund ("the Fund") will begin trading on September 1st, 2011. The two principals are Mr. Steve Cain and Mr. David Ko, both formerly of JWM Partners' London office. The Fund will employ a narrow strategy focusing solely on government bond auctions in the U.S., U.K., Germany, and France. The strategy involves going short government bond issues just prior to an auction and going long just after. The inefficiency is due to the behavior of market participants to be short duration targets ahead of auctions, and to buy duration post an auction to cover missed bids.

The trade is executed as follows:
1. Establish a short position in bond futures 1 to 3 days before the auction
2. Cover the short right before the auction
3. Establish a long position in bond futures just after the auction for 1 to 3 days

Prisma believes the current opportunity stems largely from the current environment which is characterized by deficit spending and massive government bond issuance. Bond-auction based strategies are fairly common, but what has changed since the onset of the crisis is the frequency and sizes of auctions.

DISTINGUISHING FEATURES:
- Liquid, definable opportunity and strategy
- Substantial increase in government auctions, we believe, makes this an opportunistic time for the strategy
- Competitive fee arrangement commensurate with the narrow strategy
- Henderson platform provides Mr. Cain and Mr. Ko with the infrastructure to execute with a smaller team

TEAM:
Mr. Cain and Mr. Ko worked together at JWM Partners' London office, and joined Henderson in 2010. The two manage a macro fund with $23MM in AUM, half of which is their own money. The Liquidity Events Fund will be seeded 9/1/2011 by Prisma and a European investor.

Stephen Cain: Prior to Henderson, Mr. Cain spent three years at JWM as a currency volatility and macro portfolio manager. Prior to JWM, he was a founding partner at fixed income fund Nylon Capital from 2003-05. Prior to Nylon, he was Head of Macro Strategy for Shumway Capital from 2002-2003. Mr. Cain's sell-side experience includes currency and EM roles at DB, Morgan Stanley, CS, HSBC, Merrill, and JP Morgan between 1987 and December 2002. He has a bachelor's degree in philosophy, politics and economics from Oxford University.

David Ko joined LTCM in 1994 as a founding partner, and subsequently joined JWM. His initial role was Senior Strategist, and from 1999 to 2007 he was Head of Research. Mr. Ko has a PhD in Theoretical Physics from Cambridge University and held research and teaching posts at Oxford University.

Please note that all AUM data as of July 2011

CQS ABS MASTER FUND LIMITED
CQS ABS Feeder Fund Limited

CLASSIFICATION:
Strategy: Asset-Backed Securities Arbitrage
Market Bias: Moderate to long bias
Geography: US and Europe

FIRM SUMMARY:
CQS was established in 1999 by Michael Hintze and has over $10 billion in AUM. Of that amount, CQS has $4.8bn in AUM across five hedge funds and the remainder in structured products. The firm's largest funds include the multi-strategy Directional Opportunities Fund (DOF) and the ABS Fund with AUM's of about $1.3 billion each. CQS Diversified Fund ("DVA") is a fund of CQS funds and represents 7% of the AUM of the ABS fund. It can trade intra-quarter up to 5% of the ABS fund's AUM. At quarter ends, DVA is subject to the same redemption restrictions as other investors. The ABS fund assets have grown substantially in 2011 from $863MM to $1.3BN. CQS plans to accept money into the fund up to $2BN in AUM. In terms of leverage, CQS plans to run the ABS fund at 1.2X and believe net returns in the low-teens can be achieved through additional spread tightening and carry.

INVESTMENT STRATEGY:
The fund focuses largely on Residential MBS investing in both bonds, and in corporate/ABS trades such as monoline wrapped RMBS bonds versus CDS on the underlying insurance companies. Long credit exposure includes Option Arm Super Seniors, wrapped ABS bonds, subprime front and third pay bonds, prime fixed and floaters, student loans, and European residential and commercial backed bonds. As of April 2011, the portfolio manager believes European banks will become more motivated sellers of bonds as capital charges increase amidst downgrades.

In terms of RMBS, the fund focuses closely on servicer behavior in analyzing which bonds are advantaged and disadvantaged by efforts of servicers to recapture advances to trusts. More aggressive servicers have increased modification activity in order to claw back advances, which hurts front-pay bonds, but benefit third pay bonds.

The fund's short exposure primarily consists of CDS on financials, and to a lesser extent ABS and equity.

DISTINGUISHING CHARACTERISTICS:
- Consistent, positive returns over the fund's history
- Among other competencies, the fund employs corporate credit versus ABS relative value strategies
- Short book has been an alpha generator to performance
- Ability to invest in European ABS and assess its relative value versus US-backed paper
- Broad capabilities across ABS collateral types
- Well developed infrastructure provided by CQS parent

TEAM:
The team is led by Alistair Lumsden who started the fund with Steve Swallow in 2006. In addition to Mr. Lumsden, the fund has four portfolio managers, four analysts, and a product specialist that provides marketing and investor relations for the fund.

Alistair Lumsden, CIO, joined CQS in 2006 as PM. Prior to CQS, he was responsible for running the Asset Management Desk within Rabobank's Vehicle Management Group. Prior to this, he was a PM at Abbey National Treasury Services investing in ABS. He has a BSc in Business and Management studies from the University of Bradford.

David Williams, Portfolio Manager, joined CQS in September 2008 and focuses on the monoline insurance strategies. He works out of the NY office. Previously, he was an MD at FSA underwriting ABS/MBS transactions. He began with FSA in 1995. He holds a B.S. in Civil Engineering from Villanova University, and an MBA in Finance from New York University.

Jason Walker, Portfolio Manager, joined CQS in 2010 and is responsible for European ABS. He worked with both Ali and Steve Swallow at Abbey National, and was brought in ahead of Steve Swallow's departure. Previously, he was with Henderson Global Investors where he was a member of the team managing the Henderson European ABS Opportunities Fund. Jason holds an M.Sc. in Finance from the University of Strathclyde and a BA (Hons) Accountancy from Glasgow Caledonian University.

Aaron Malik, Portfolio Manager, joined CQS in 2006 and is responsible for US RMBS investments. Previously, he worked as an analyst at Fitch Ratings in London in the CDO Department's Credit Derivatives team. He holds a BSc (Hons) in Mathematics & Computer Science from Imperial College of Science, Technology and Medicine, London and an MSc in Mathematical Finance from the CASS Business School in London.

PRISMA CAPITAL PARTNERS

CQS ABS

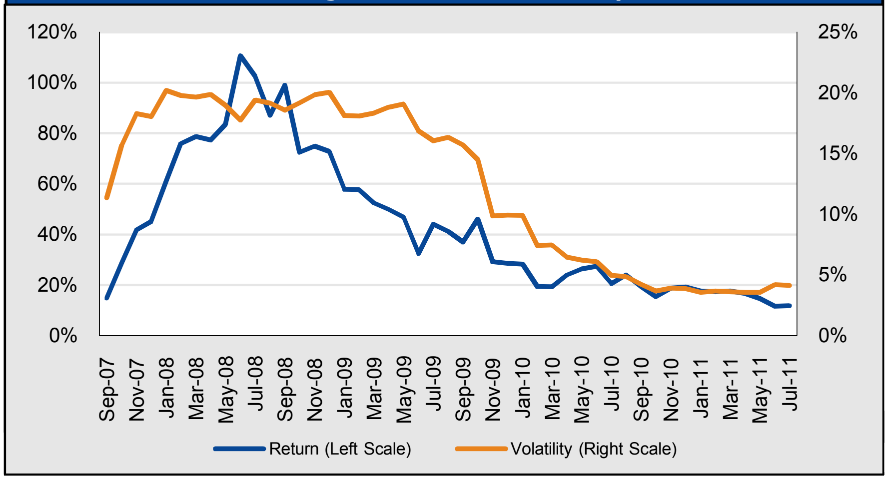
Performance Summary
Strategy: Fixed Income

Start Date: October 2006
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	1.55%	0.33%	1.18%	1.13%	0.34%	-1.16%	0.30%						3.70%
2010	2.85%	0.70%	0.80%	1.97%	2.14%	1.60%	0.01%	2.93%	0.33%	0.22%	3.12%	1.09%	19.20%
2009	3.00%	8.20%	0.93%	-1.91%	0.21%	0.78%	5.65%	0.11%	4.30%	3.64%	0.12%	0.77%	28.53%
2008	12.71%	8.31%	4.47%	-0.25%	2.22%	11.73%	-2.84%	2.20%	7.40%	-2.79%	13.25%	1.31%	72.82%
2007	1.57%	-0.84%	2.78%	0.55%	-1.22%	-2.67%	1.01%	10.61%	1.00%	12.17%	11.72%	2.57%	45.15%
2006										0.21%	1.28%	0.27%	1.77%

Fund Statistics	3 Year	ITD
Annualized Return	24.8%	33.6%
Jensen's Alpha to S&P 500	24.2%	30.9%
Annualized Standard Deviation	10.2%	13.8%
Sharpe Ratio	2.33	2.26
Sortino Ratio	6.86	7.41
Skewness	2.00	1.44
Kurtosis	5.65	1.38
Percent Profitable Months	92%	86%
Auto Correlation	0.05	(0.24)

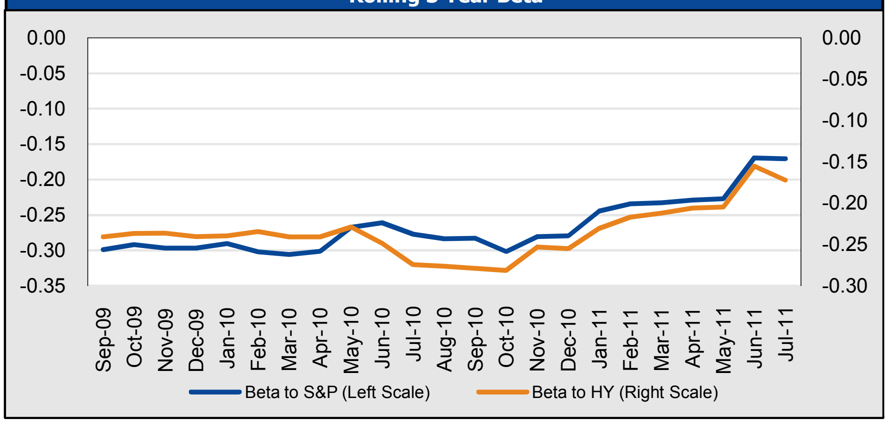
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(3.9%)	2	2	Apr-07	Jun-07
(2.8%)	1	2	Jun-08	Jul-08
(2.8%)	1	1	Sep-08	Oct-08

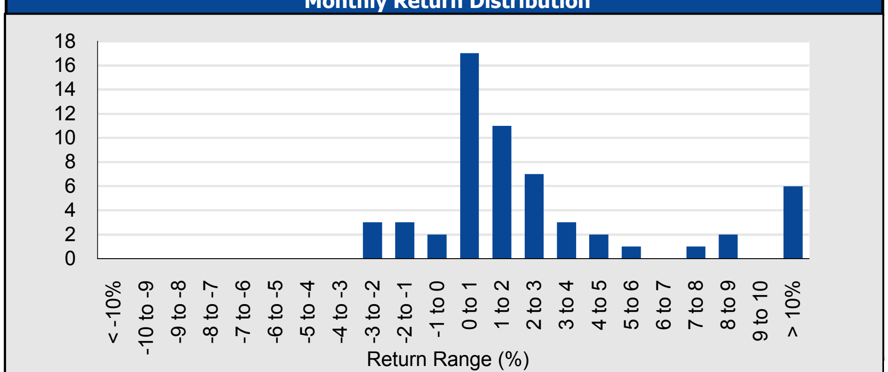
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	(0.28)	(0.17)	(0.37)	(0.35)
MSCI North Am	(0.26)	(0.16)	(0.35)	(0.34)
MSCI Asia	(0.24)	(0.13)	(0.35)	(0.28)
MSCI Europe	(0.18)	(0.11)	(0.31)	(0.31)
DXY	0.00	0.13	0.00	0.16
S&P GSCI	(0.00)	(0.09)	(0.01)	(0.25)
ML High Yield	(0.25)	(0.17)	(0.26)	(0.28)
ML Treasury 10+	0.42	0.29	0.36	0.40
VIX	0.00	0.00	0.24	0.39
HFRI Composite	(0.54)	(0.36)	(0.30)	(0.29)
HFRI Fixed Income	(0.45)	(0.23)	(0.21)	(0.18)

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	58	56	53	47
Last Period	0.3%	(0.5%)	2.1%	11.9%
Avg Period Return	2.5%	8.0%	17.9%	43.0%
Average Gain	3.2%	9.0%	18.2%	43.0%
Average Loss	(1.7%)	(1.7%)	(0.5%)	
Best Period	13.3%	29.2%	63.9%	110.7%
Worst Period	(2.8%)	(3.3%)	(0.5%)	11.6%
Standard Deviation	4.0%	8.1%	15.7%	27.5%
Gain St Deviation	3.9%	7.9%	15.6%	27.5%
Loss St Deviation	1.0%	1.3%		
VaR 95%	(2.7%)	(0.9%)	2.1%	14.7%

Monthly Return Distribution



Shaw & Co., L.L.C.
Shaw Oculus International Fund

CLASSIFICATION:
Strategy: Global Macro
Sub-Strategy: both Systematic and Discretionary
Market Bias: Variable bias
Geography: North America, Europe, Asia, RoW

FIRM SUMMARY:

- Global investment and technology development firm founded in 1988 by David E. Shaw, Ph.D.
- Headquartered in New York, offices in North America, Europe, the Middle East, and Asia
- Unusually strong emphasis on quality and depth of personnel: more than 1650 employees worldwide, about half of whom are outside of the United States; a disproportionate number of the world's leading computer scientists, mathematicians, system architects, and financial engineers; approximately 130 Ph.D.'s, and a number of Rhodes, Fullbright, and Marshall Scholars

INVESTMENT STRATEGY:
Futures-Related strategies: the fund deploys a limited number of the systematic futures related forecasts based on 1.) econometric models that seek to exploit perceived inefficiencies using statistical analysis of primarily macroeconomic data or 2.) technical data, such as price and volume information

Equity Arbitrage strategies: the firm seeks to generate alpha by applying proprietary quantitative models focused on three broad categories of inefficiency: technical, event-driven, and fundamental

Discretionary Macro strategies: The firm attempts to identify investment opportunities on a discretionary basis, using both subjective and quantitative analysis in the formulation of investment decisions

Insurance and Reinsurance-Related activities: the firm entered the insurance space in 2004 via investments in catastrophe bonds and, later, passive investments in reinsurance contracts. In 2006, the firm started focusing on underwriting of various forms of property risk with the flexibility to structure deals to address counterparties' specific needs within a relatively short time frame

Asset-Backed Securities strategies: the firm may participate in whole loan, cash bond, synthetic single name, and synthetic index markets and seek to exploit investment opportunities in a broad range of ABS products, including agency and non-agency mortgage-backed securities and consumer assets

Energy-Related strategies: the firm conducts fundamental and quantitative analysis in an effort to identify inefficiently priced instruments related to the global energy markets, including markets in electricity, natural gas, crude oil and refined products, coal, and other energy products and instruments

DISTINGUISHING FEATURES:

- Launched in 2004, Oculus Fund is the DE Shaw group's "macro" investment fund
- Higher targeted return and higher targeted risk than DE Shaw Composite Fund
- Multiple strategies in Oculus Fund, including: Futures-Related strategies, Equity Arbitrage strategies, Discretionary Macro strategies, Insurance- and Reinsurance-Related activities, Assed-Backed Securities strategies, Energy-Related strategies
- Synergies among groups: the Oculus Fund team interacts extensively with many of the firm's other investment areas, including the energy, credit, and reinsurance groups
- Successful six-year track record characterized by high risk-adjusted returns

TEAM:

Anne Dinning, Co-PM

- Managing Director jointly responsible for management, trading, and risk analysis of all of the D. E. Shaw group's proprietary trading strategies with additional focus on the firm's Fixed Income-Related Strategies, Energy-Related Strategies, and Long/Short Equities Strategies, as well as the firm's Long-Only Equity Strategies and certain other strategies
- Ph.D. in Computer Science from NYU's Courant Institute of Mathematical Sciences (Howard Grad Memorial Award for Outstanding Ph.D. candidate) in 1990

Max Stone, Co-PM

- Managing Director responsible for the firm's Fixed Income-Related Strategies, formerly responsible for management and trading of all of the D. E. Shaw group's proprietary trading strategies
- B.A. from Brown University (Phi Beta Kappa and magna cum laude) in 1991

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DE Shaw Oculus

PRISMA CAPITAL PARTNERS

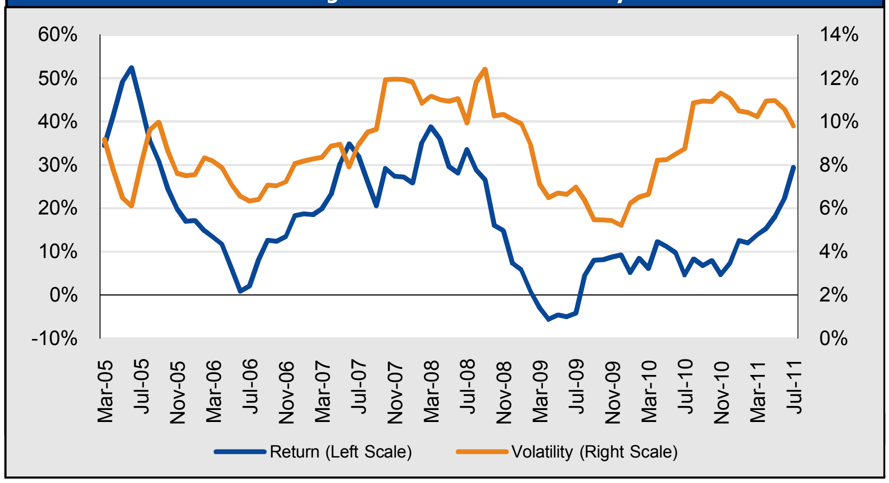
Performance Summary
Strategy: Global Macro

Start Date: April 2004
End Date: July 2011

Monthly Performance (%)													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**
2011	1.96%	2.23%	0.81%	6.89%	2.65%	2.20%	3.56%						22.03%
2010	-2.70%	2.71%	-0.85%	5.50%	0.26%	-1.25%	-2.18%	7.60%	-0.70%	0.91%	-2.30%	0.70%	7.39%
2009	1.10%	-0.49%	1.38%	-0.31%	1.23%	0.09%	2.60%	3.93%	0.75%	-0.19%	0.74%	-1.81%	9.27%
2008	2.52%	4.50%	5.26%	2.45%	0.12%	0.57%	1.78%	-4.75%	-2.59%	-0.26%	0.12%	-2.20%	7.29%
2007	3.70%	-2.72%	2.50%	4.54%	5.06%	1.72%	-2.38%	-1.20%	-0.79%	8.65%	1.23%	4.68%	27.26%
2006	3.29%	-2.51%	1.30%	1.77%	-0.75%	-1.68%	-0.38%	3.40%	3.89%	1.43%	2.69%	4.77%	18.30%

Fund Statistics	3 Year	ITD
Annualized Return	9.1%	18.4%
Jensen's Alpha to S&P 500	8.0%	15.6%
Annualized Standard Deviation	9.1%	9.2%
Sharpe Ratio	0.89	1.69
Sortino Ratio	3.36	3.93
Skewness	0.62	0.25
Kurtosis	0.81	(0.21)
Percent Profitable Months	61%	68%
Auto Correlation	0.23	0.02

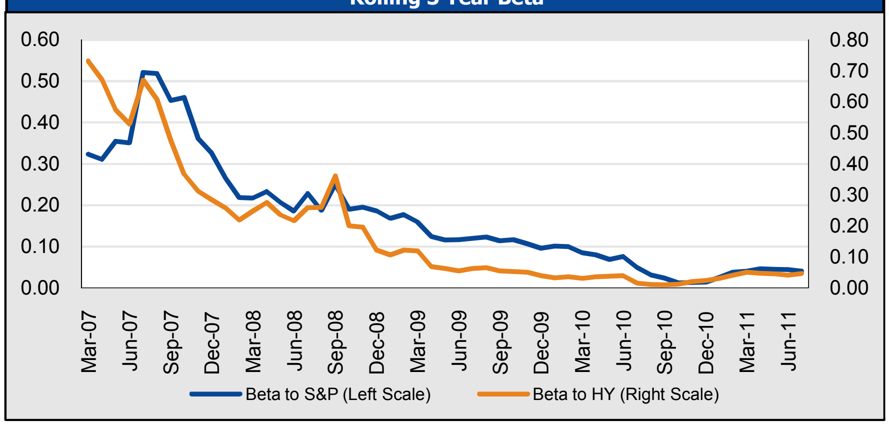
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	**Length**	**Recovery**	**Peak**	**Valley**
(9.4%)	5	9	Jul-08	Dec-08
(4.5%)	2	3	Nov-09	Jan-10
(4.3%)	3	1	Jun-07	Sep-07

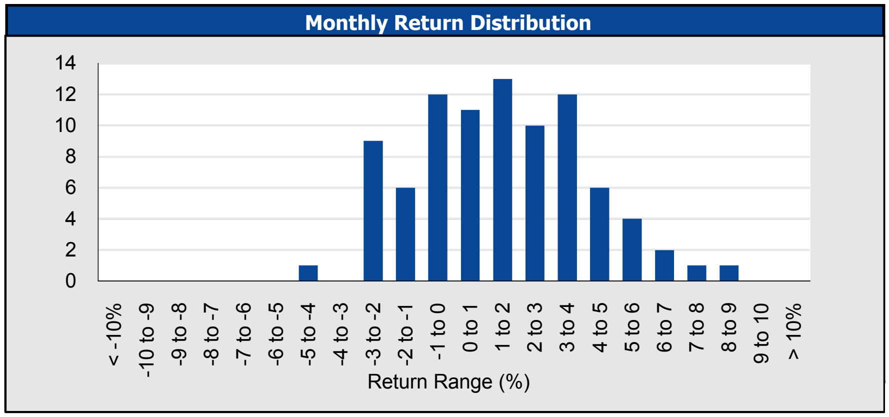
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.07	0.04	0.12	0.09
MSCI North Am	0.08	0.04	0.13	0.10
MSCI Asia	0.05	0.05	0.10	0.12
MSCI Europe	0.08	0.05	0.17	0.15
DXY	(0.15)	(0.14)	(0.14)	(0.18)
S&P GSCI	0.03	0.07	0.09	0.21
ML High Yield	0.06	0.05	0.08	0.08
ML Treasury 10+	0.09	0.09	0.10	0.14
VIX	(0.00)	(0.00)	(0.24)	(0.25)
HFRI Composite	0.30	0.25	0.22	0.23
HFRI Global Macro	0.55	0.53	0.32	0.32

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	88	86	83	77
Last Period	3.6%	8.6%	19.7%	29.5%
Avg Period Return	1.5%	4.5%	9.1%	17.5%
Average Gain	2.8%	6.9%	11.2%	19.1%
Average Loss	(1.5%)	(2.5%)	(3.3%)	(4.5%)
Best Period	8.6%	16.6%	29.8%	52.5%
Worst Period	(4.7%)	(7.5%)	(8.4%)	(5.6%)
Standard Deviation	2.7%	5.6%	8.8%	13.2%
Gain St Deviation	1.9%	4.3%	7.7%	12.2%
Loss St Deviation	1.1%	1.7%	2.8%	1.0%
VaR 95%	(2.5%)	(3.8%)	(4.3%)	(4.2%)

Monthly Return Distribution



Discovery Capital Management, LLC
Discovery Global Macro Fund L.P.

CLASSIFICATION:
Strategy: Global Macro
Sub-Strategy: Discretionary
Market Bias: Emerging Markets Focused

FIRM SUMMARY:
The Firm was started by Robert Citrone and Harry Krensky in April 1999 following Citrone's time at Tiger and Fidelity. Harry, who has now left the Firm, runs the Discovery Atlas Fund which was launched in 2004. The Firm AUM (as of July 2011) is approximately $6 billion.

INVESTMENT STRATEGY:
The Global Macro Fund ("the Fund"), which will incept on September 1, 2011, will be a discretionary global macro fund with a broad mandate, including a strong bias toward themes and investments in the emerging markets. The strategy will invest long and short in liquid instruments across equity indices, local rates, sovereign credit and foreign exchange along identical themes to those employed by its flagship counterpart, the $5.1 billion Discovery Global Opportunity Fund. However, unlike the flagship fund, the Fund will not invest in individual stocks and/or corporate bonds. The source of trade ideas and themes is deep fundamental analysis coupled with information flow from a wide network of on the ground contacts. The Fund will benefit from the same sound risk management processes as are applied to the flagship fund, thereby producing a similar performance volatility profile.

DISTINGUISHING CHARACTERISTICS:
- Rob Citrone has significant experience and a huge network of contacts within EM
- Team is quite deep, but portfolio is run by a single portfolio manager
- Impressive performance with 10 year track record
- Strategy has a bias towards emerging markets but manager still did well in most times when the emerging markets went through crisis – not afraid to be short
- Combines micro and macro effectively and focuses only on liquid trades (less than 3 days' trading volume) and no privates
- Fund will employ all of the same themes as are contained in the flagship fund; the principal difference will be trade expression (i.e., no individual stocks or corporate bonds)
- Risk is spread across multiple asset classes. Risk management has been effective – maximum stop/loss of 15% on a monthly basis

TEAM:
Robert Citrone, PM, Risk Manager
Robert Citrone is a founding partner of Discovery Capital Management LLC. Mr. Citrone has been advising and managing emerging market portfolios for the past 20 years. He joined Tiger Management in January 1995 to head global emerging market investments. As a Managing Director of Tiger, he had been responsible for the strategic investment recommendations on currencies, fixed income, and equities in emerging markets. Mr. Citrone originated and built the Emerging Market Fixed Income and Currency Group at Fidelity Investments in 1990. Mr. Citrone holds an MBA from the Darden School at the University of Virginia where he graduated as a Shermit Scholar (top 10 in his class). Mr. Citrone has an undergraduate degree in Honors Math and Economics from Hampden-Sydney College.

Finisterre Capital LLP
Finisterre Global Opportunity Fund

CLASSIFICATION:
Strategy: Global Macro
Sub-strategy: Discretionary
Geography: Emerging Markets Focus

FIRM SUMMARY:
Finisterre Capital LLP ("the Firm") was established in October 2002 and launched its first fund called the Finisterre Sovereign Debt Fund. It has since launched the Finisterre Global Opportunity Fund ("GOF") in April 2006 and the Finisterre Credit Fund in July 2007. In July 2007, Finisterre sold a stake of its business to XL Capital, one of the world's leading providers of global insurance and reinsurance, in return for a significant investment. As of February 2011, the firm had $1.5bn in assets split among the funds. GOF is the largest of Finisterre Capital's funds, representing $915mm of the total firm assets. Finisterre employs 27 staff members in total and has staff to support most key roles with a Chief Operating Office, Chief Compliance Officer, risk manager, and operations head. Partners of the Firm include Yan Swiderski (CEO), Rafael Biosse Duplan (Portfolio Manager), Paul Crean (CIO), Frode Foss-Skiftesvik (COO), and Xavier Corin-Mick (Portfolio Manager).

INVESTMENT STRATEGY:
GOF is focused exclusively on macro trading in the emerging markets ("EM") and is very active on both the long and short side and does not have a materially long bias. In fact, many of the best ideas include being neutral to EM risk overall and being positioned long and short in individual countries and asset classes. GOF can trade all asset classes but tends to focus on rates and credit and then to a lesser extent EM foreign exchange and will take smaller positions in commodities and has a 30% maximum allocation to equities. While the focus of GOF is EM, many trades (such as foreign exchange) will have a developed market position. While the Firm does a lot of fundamental analysis, ultimately a lot of the value in the GOF is driven by shorter term trading decisions based on news and fund flow information. The trading is almost exclusively centered on a long term fundamental theme. The clear objective of this style of trading coupled with the Firm's risk management procedure is to create a long volatility payoff pattern. The target holding period for trades is between one and three months. This time horizon can be realized with winners but losing trades are generally cut quickly.

DISTINGUISHING CHARACTERISTICS:
- GOF has performed well, relative to peers, through very challenging markets (in particular during late 2008)
- Historically strong performance since April 2006: 12% annualized and a Sharpe ratio over 1
- Very liquid fund from both an investor and fund terms perspective
- GOF has only one risk taker
- Transparency is also good
- Asset size remains small at just under $1bn enabling the manager to remain very tactical in deploying capital

TEAM:
Paul Crean, Partner/CIO/Portfolio Manager - Finisterre Sovereign Debt Fund
Prior to co-founding Finisterre, Mr. Crean had 22 years of experience in a wide spectrum of Emerging Markets. Previously, he was Executive Director and Global Head of Hard Currency Emerging Market Trading at West LB, managing a team of 12 traders in London, New York and Singapore. From 1993 to 1997 he was Executive Director and Head of Emerging Market Sales at Union Bank of Switzerland, London. He helped to establish the new Emerging Market debt business and was instrumental in building market share for the Bank. From 1986 to 1993 Mr. Crean was with Banque Paribas where he was initially hired to set up a Financial Futures capability. Subsequent to this he ran a G7 Fixed Income and Foreign Exchange Proprietary Trading desk from 1988 to 1991. In 1991, Mr. Crean joined the Emerging Market Debt Group at Banque Paribas, London. Here he was responsible for global distribution of the product. Mr. Crean's first introduction to the financial markets in 1980 was with CAL Futures where he dealt in a range of commodity futures as well as Precious Metals, Currencies and Financial and Stock Index futures. Mr. Crean holds a BA (Hons) degree in Economic and Social History from the University of York.

Yan Swiderski, Partner/CEO/Portfolio Manager - Finisterre Global Opportunity Fund
Prior to co-founding the Investment Manager, Mr. Swiderski was a Director of Emerging Market Fixed Income Sales at Salomon Brothers International in London. He joined Salomon Brothers in New York in 1993 where for two years he was responsible for sales to investors in Argentina, Brazil and selected US institutions. In 1995 he relocated to Salomon London where he later managed the Emerging Market Sales team. From 1988 to 1993, Mr. Swiderski was at Westpac Banking Corporation. From 1992 he was a Senior Manager in Singapore in charge of the fixed income, FX and derivative sales teams. Before this he was at Westpac London with responsibility for developing and trading various structured products including commodity swaps, asset swaps and dual currency bonds. From 1986 to 1988 Mr. Swiderski was a Manager in the Corporate Finance department at Mitsubishi Finance International in London advising Scandinavian borrowers on liability management and Eurobond issuance. From 1983 to 1986 Mr. Swiderski was Managing Director of Aquaman (UK) Limited, a marine electronics accessory business he founded and then sold. Mr. Swiderski has an MA in Law from Cambridge University.

Frode Foss-Skiftesvik, Partner/COO
Prior to co-founding Finisterre, Mr. Foss-Skiftesvik was a co-founder of DePfa Investment Bank conceived as a specialist institution dedicated to Emerging Markets. From 1988 until 2002, Mr. Foss-Skiftesvik served in a variety of positions, including General Manager of DePfa Investment Bank, Managing Director at DePfa USA/UK, member of the Investment Committee and as a member of the Board of Directors of DePfa Investment Bank. In April 2003 DePfa Bank purchased the partners 40 per cent share in DePfa Investment Bank. Prior to joining DePfa Fank in 1998, Mr. Foss-Skiftesvik was co-founder and a principal of several specialist emerging markets private investment companies. From 1986 to 1989, Mr. Foss-Skiftesvik was at Manufacturers Hanover Trust in New York. Prior to joining the bank in 1986, he held positions as Corporate Controller of Arabian Bulk Trade Group in Saudi Arabia and Audit Senior with Price Waterhouse in Norway. Mr. Foss-Skiftesvik holds a BA in Business Organisation from Heriot-Watt University and a MBA from Thunderbird School of Global Management.

Finisterre

Performance Summary
Strategy: Global Macro

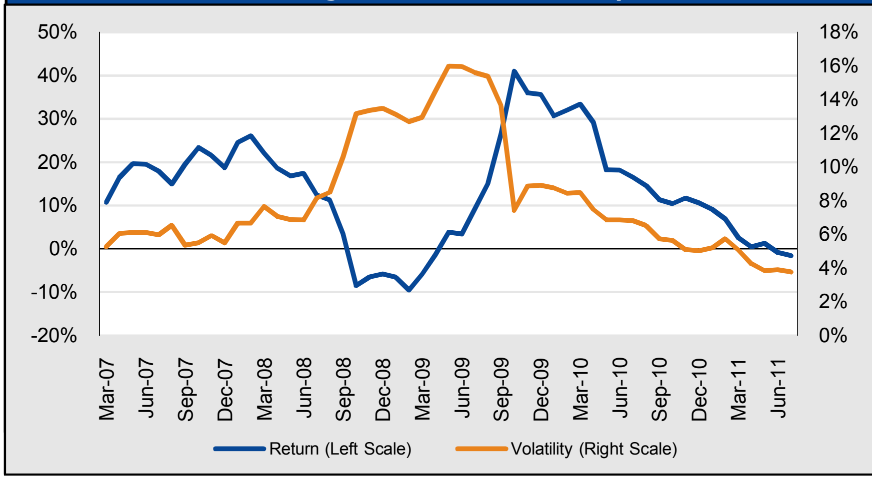
Start Date: April 2006
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-0.47%	-1.70%	-0.91%	0.69%	-1.51%	-1.13%	0.24%						-4.72%
2010	0.87%	0.34%	3.26%	2.83%	-2.30%	0.97%	0.94%	1.42%	1.00%	1.02%	-0.83%	0.70%	10.59%
2009	4.65%	-0.65%	2.18%	6.17%	6.80%	0.99%	2.39%	3.07%	3.98%	1.88%	-2.02%	1.75%	35.59%
2008	5.45%	2.57%	-1.80%	1.39%	1.40%	1.44%	-3.04%	-2.22%	-5.52%	-8.48%	1.61%	2.02%	-5.87%
2007	0.49%	1.31%	1.43%	4.42%	2.93%	0.89%	1.35%	-1.24%	1.59%	3.48%	-0.56%	1.31%	18.70%
2006				-0.68%	0.19%	0.94%	2.76%	1.31%	-2.24%	0.19%	0.97%	3.70%	7.24%

Fund Statistics	3 Year	ITD
Annualized Return	7.8%	10.6%
Jensen's Alpha to S&P 500	6.3%	8.0%
Annualized Standard Deviation	10.0%	8.7%
Sharpe Ratio	0.68	0.90
Sortino Ratio	0.93	1.12
Skewness	(0.70)	(0.69)
Kurtosis	2.38	2.69
Percent Profitable Months	67%	72%
Auto Correlation	0.38	0.47

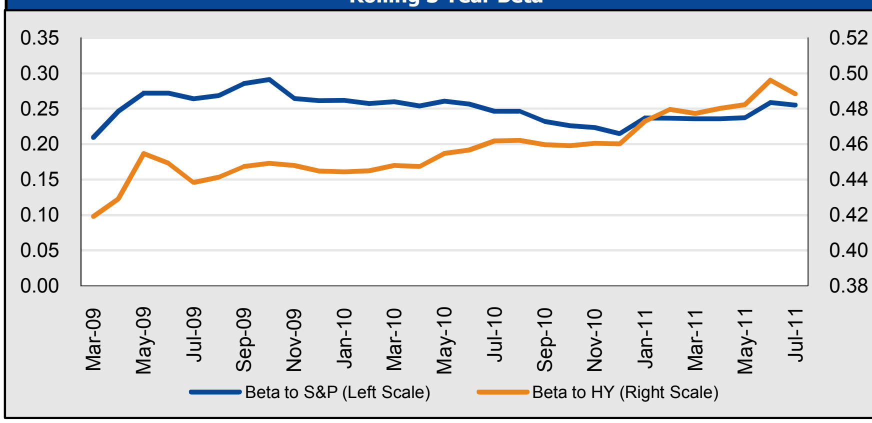
Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(18.0%)	4	7	Jun-08	Oct-08
(5.1%)	8		Oct-10	Jun-11
(2.3%)	1	3	Apr-10	May-10

Rolling 1 Year Return and Volatility



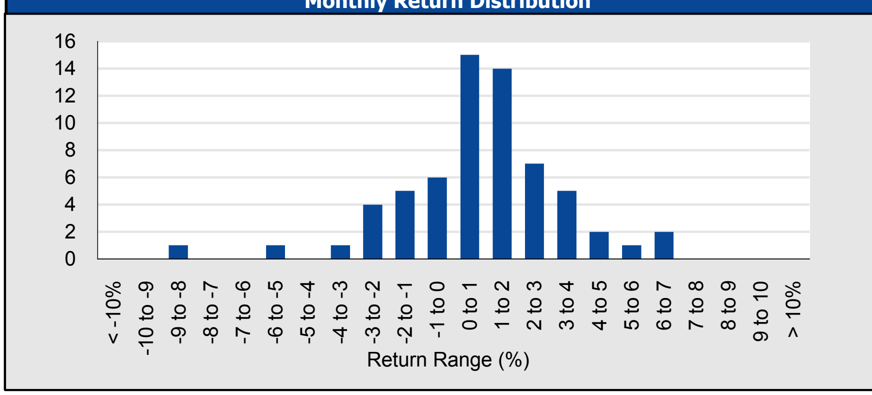
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.21	0.26	0.41	0.54
MSCI North Am	0.22	0.26	0.45	0.57
MSCI Asia	0.27	0.33	0.59	0.76
MSCI Europe	0.20	0.23	0.52	0.65
DXY	(0.36)	(0.39)	(0.40)	(0.46)
S&P GSCI	0.16	0.18	0.51	0.54
ML High Yield	0.44	0.49	0.67	0.82
ML Treasury 10+	(0.07)	(0.07)	(0.09)	(0.10)
VIX	(0.00)	(0.00)	(0.14)	(0.12)
HFRI Composite	0.80	0.93	0.67	0.78
HFRI Global Macro	0.56	0.44	0.36	0.25

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	64	62	59	53
Last Period	0.2%	(2.4%)	(4.3%)	(1.5%)
Avg Period Return	0.9%	2.8%	6.0%	13.5%
Average Gain	2.0%	5.2%	9.6%	17.3%
Average Loss	(2.1%)	(3.9%)	(6.8%)	(5.2%)
Best Period	6.8%	15.9%	25.7%	41.0%
Worst Period	(8.5%)	(15.5%)	(15.7%)	(9.5%)
Standard Deviation	2.5%	5.5%	9.1%	12.5%
Gain St Deviation	1.6%	3.5%	6.2%	9.9%
Loss St Deviation	2.0%	4.6%	5.4%	3.2%
VaR 95%	(2.3%)	(5.1%)	(15.0%)	(6.6%)

Monthly Return Distribution



Astenbeck Holdings LLC
Astenbeck Offshore Commodities Fund II Ltd

CLASSIFICATION:
Strategy: Global Macro (Commodities)
Market Bias: Neutral or Long
Geography: Global, U.S.-bias

FIRM SUMMARY:
Phibro was founded in 1901 and is a global commodities dealer and trader now led by Andrew Hall. Until recently, the firm was a wholly owned subsidiary of Citi, and has been sold to Occidental Petroleum with the deal expected to close by year end. Phibro received a lot of unwanted notoriety after it became public that Andrew Hall was going to be paid 100MM while on Citi's payroll. The deal with Occidental provides the team with ownership in the firm. Phibro began trading third party capital in 2007 when Blackstone came to them with a GSCI mandate, and the hedge fund was started shortly thereafter.

INVESTMENT STRATEGY:
The strategy is to trade different commodity classes primarily from the long side. The book typically consists of about 5-6 different themes at any one time. Time frames can range from 6 to 9 months or shorter if they reach their price target sooner. Astenbeck does not like to be short commodities because of the inherent event risk, e.g., war breaks in the Middle East. Thus, long positions will typically be reduced or taken off if they feel the prices are unjustified.

Asset classes the Fund trades include oil, natural gas, agriculture, metals, commodity related equities, and opportunistically coal and power. They execute primarily in futures and other listed markets, and to a lesser extent through swaps. Astenbeck will use options if they feel they are cheap but not as a matter of normal course. Crack and calendar spreads are used but these are generally a smaller part of the book.

DISTINGUISHING CHARACTERISTICS:
- Current management team has worked together for 25 years and the average tenure of the firm's 86 employees is 17 years
- Trading activities have generated profits for the past 25 years
- Thoughtful, risk managed approach to determining downside risk.
- Information flow that arises out of Astenbeck's substantial presence in physical trading markets.

TEAM:
Andrew Hall, Chairman and President and CEO. Andrew has been with Phibro/Astenbeck for 27 years. Prior to Phibro, he worked for British Petroleum for 9 years. He graduated from Oxford and holds an MBA from INSEAD.

John Petti, Vice Chairman, Senior Proprietary Trader. John has been with Phibro for a total of 16 years. He originally joined Phibro in 1986, left in 2002 to work at Sempra Energy Trading until 2009, and rejoined Phibro this year. Prior to 1986, he worked for Goldman Sachs. He is a graduate of Fairfield University.

Malcolm McAvity, Vice Chairman and Senior Oil Trader. Malcolm has been with Phibro for 23 years. Prior to Phibro, he held several shipping and trading positions at several companies including Conoco. He is a graduate of Stanford University and Harvard Business School.

Gerard Del Grosso, Head of Risk Management and Product Control. Gerard has been with Phibro for 19 years. Prior to Phibro, he was a financial analyst with Nestle. He holds an MBA from the Hagan School of Business.

Astenbeck

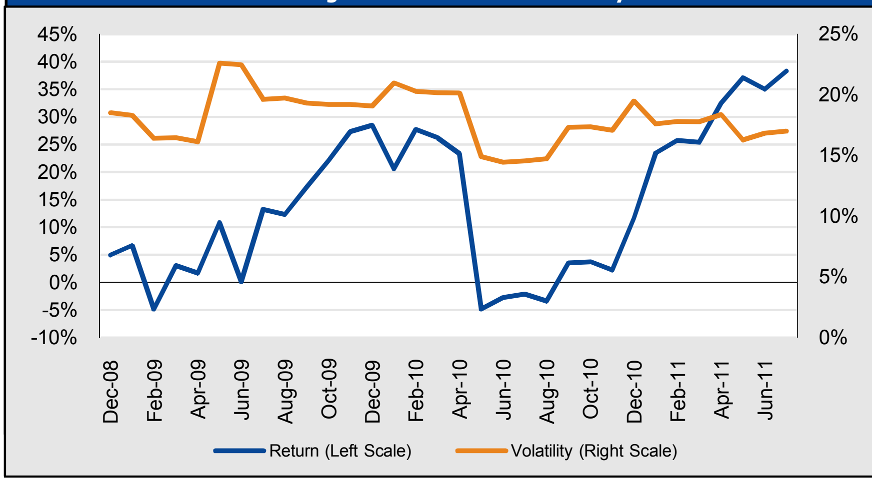
Performance Summary Start Date: January 2008
Strategy: Global Macro End Date: July 2011

Monthly Performance (%)													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**
2011	3.15%	4.56%	2.61%	6.79%	-6.33%	-3.67%	5.12%						12.09%
2010	-6.71%	2.60%	2.90%	1.07%	-9.46%	-2.20%	2.60%	-2.65%	8.97%	3.44%	2.55%	9.68%	11.62%
2009	-0.63%	-3.13%	4.11%	3.48%	17.34%	-4.30%	1.94%	-1.40%	1.72%	3.21%	4.04%	0.47%	28.45%
2008	-2.23%	8.64%	-3.88%	4.84%	7.62%	5.99%	-9.87%	-0.60%	-2.58%	-0.87%	-0.23%	-0.40%	4.97%

Fund Statistics	3 Year	ITD
Annualized Return	15.3%	15.7%
Jensen's Alpha to S&P 500	13.4%	15.5%
Annualized Standard Deviation	17.2%	18.2%
Sharpe Ratio	0.83	0.79
Sortino Ratio	1.58	1.42
Skewness	0.66	0.30
Kurtosis	2.25	1.14
Percent Profitable Months	58%	58%
Auto Correlation	(0.05)	0.03

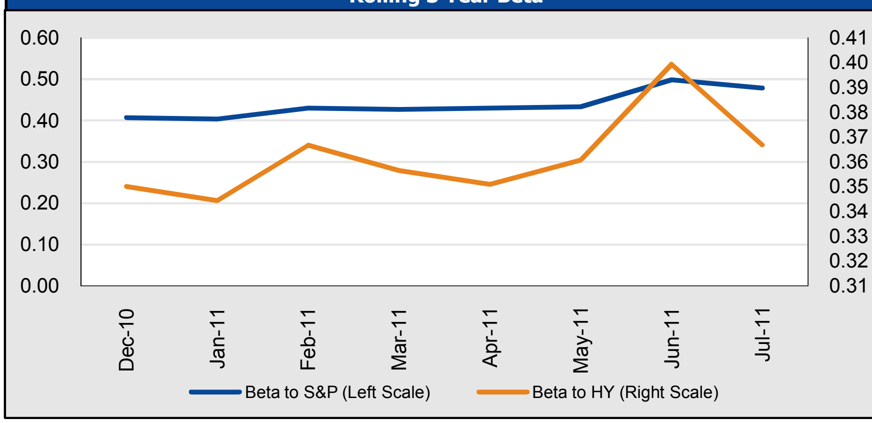
Drawdown Analysis - 3 Worst Periods				
Drawdown	**Length**	**Recovery**	**Peak**	**Valley**
(17.2%)	8	3	Jun-08	Feb-09
(12.0%)	8	3	Dec-09	Aug-10
(9.8%)	2		Apr-11	Jun-11

Rolling 1 Year Return and Volatility



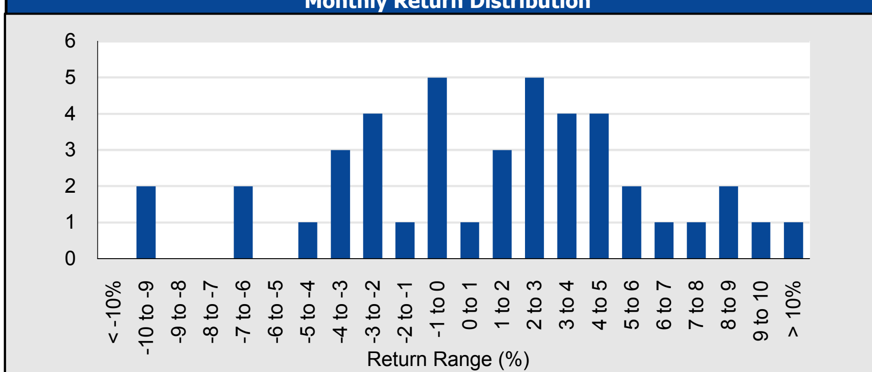
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.43	0.48	0.48	0.59
MSCI North Am	0.45	0.48	0.51	0.60
MSCI Asia	0.44	0.46	0.54	0.60
MSCI Europe	0.37	0.38	0.55	0.62
DXY	(0.87)	(0.90)	(0.53)	(0.63)
S&P GSCI	0.46	0.42	0.76	0.73
ML High Yield	0.37	0.37	0.32	0.36
ML Treasury 10+	(0.38)	(0.35)	(0.28)	(0.29)
VIX	(0.00)	(0.00)	(0.18)	(0.19)
HFRI Composite	1.48	1.37	0.67	0.67
HFRI Global Macro	2.34	2.24	0.75	0.73

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	43	41	38	32
Last Period	5.1%	(5.2%)	8.7%	38.3%
Avg Period Return	1.4%	4.0%	8.5%	14.6%
Average Gain	4.8%	10.3%	15.2%	18.0%
Average Loss	(3.4%)	(4.7%)	(6.1%)	(3.6%)
Best Period	17.3%	26.4%	36.7%	38.3%
Worst Period	(9.9%)	(12.7%)	(14.0%)	(4.9%)
Standard Deviation	5.3%	9.3%	13.3%	13.6%
Gain St Deviation	3.6%	6.7%	10.2%	12.0%
Loss St Deviation	3.0%	3.2%	4.5%	1.2%
VaR 95%	(6.7%)	(9.1%)	(11.9%)	(4.9%)

Monthly Return Distribution



CCP Quantitative Fund LP
CCP Quantitative Fund ("Cantab")

CLASSIFICATION:
Strategy: Global Macro
Sub-Strategy: Systematic
Market Bias: Directional
Asset classes: Rates, equities, FX, commodities, EM

FIRM SUMMARY:
The Fund is a systematic macro fund that invests across rates, equities, FX, and commodities utilizing futures, forwards and to a lesser extent options. The strategy has roughly equal exposure to momentum, mean reversion, carry and high frequency trading.

Cantab was founded by Ewan Kirk in 2006 and he is the majority owner of the company. The firm has two other partners, Chris Pugh (COO) and Mr. Erich Schlaikjer (CTO). The firm has 17 employees with its sole office in Cambridge England. The firm runs one investment strategy offered at two volatility levels and in managed account form. The low volatility fund is called Babbage and the higher volatility fund is called Archimedes. The company is also 20% owned by Goldman Sachs. This ownership was given in return for access to Goldman Sachs' technology platform that was used, and expanded upon, by Cantab's founders. Cantab uses the research platform, data, and technology infrastructure of Goldman Sachs. Their code is ring fenced / encrypted so that Goldman Sachs personnel do not have access.

INVESTMENT STRATEGY
The Fund employs a systematic macro approach mainly based on market data, as opposed to fundamental earnings and GDP information. The Fund has four basic types of investment strategies (or sources of return) across four asset classes as summarized in the table below.

	FX	Commod	Rates	Eq Indices
Momentum	Yes	Yes	Yes	Yes
Mean Reversion	Yes	Yes	Yes	Yes
Carry	Yes	Yes	Yes	No
High Frequency	Yes	No	Yes	Yes

DISTINGUISHING FEATURES
- Experience in combining different investment styles (momentum, carry, and mean reversion) to create a diversified return stream
- Ewan Kirk has worked with his CTO and the GS systems for an extended time prior to Cantab
- GS provides a robust research and execution platform to the Fund including such items as pricing models and data cleaning
- References have been favorable
- Favorable location for access to both professors and students to aid in the research process
- Low correlation with other macro funds within Prisma's portfolio
- Transparency of process and of positions is well above average for this strategy

TEAM:
Dr Ewan Kirk, CEO and Founder
Ewan ran the 120 strong Goldman Sachs Strategies Group in Europe as the partner in charge. This group of mathematicians, physicists and computer scientists were responsible for all of Goldman Sachs' quantitative technology across Commodities, Currencies, Interest Rates, Credit and Equities. During his 14 year career at Goldman Sachs, Ewan gained extensive experience of derivatives, trade design and risk management and a long

track record of extracting value from the market using quantitative techniques. Ewan retired from Goldman Sachs in 2005.

Erich Schlaikjer, CTO
Erich was a Managing Director and European CTO of the Quantitative Strategies Group at Goldman Sachs. During his 17 year career at Goldman Sachs, Erich was responsible for much of the Goldman Sachs technology. Erich is a 'hands on' programmer who understands the strategic and commercial drivers behind the construction of tools which help quants develop profitable strategies as efficiently and effectively as possible. Erich retired from Goldman Sachs in 2005.

Chris Pugh, COO
Chris is the Chief Operations Officer. Prior to joining CCP, Chris was an Executive Director and Chief Operations Officer at KBC Alternative Investment Management (2001 to 2005) and was one of the founding members of the firm, growing it from a launch of $50m up to $5bn. Chris was also the Chief Operations Officer of KBC Alpha Asset Management, KBC's Asian focused fund of funds, and again he was one of the founding members, growing it from $25m at launch to over $500m. Previously Chris was head of special projects at D. E. Shaw & Co., which he joined in 1995.

One Penn Plaza, Suite 3515, New York, NY 10119
t: 212.590.0800 | f: 212.590.0810

PRISMA CAPITAL PARTNERS

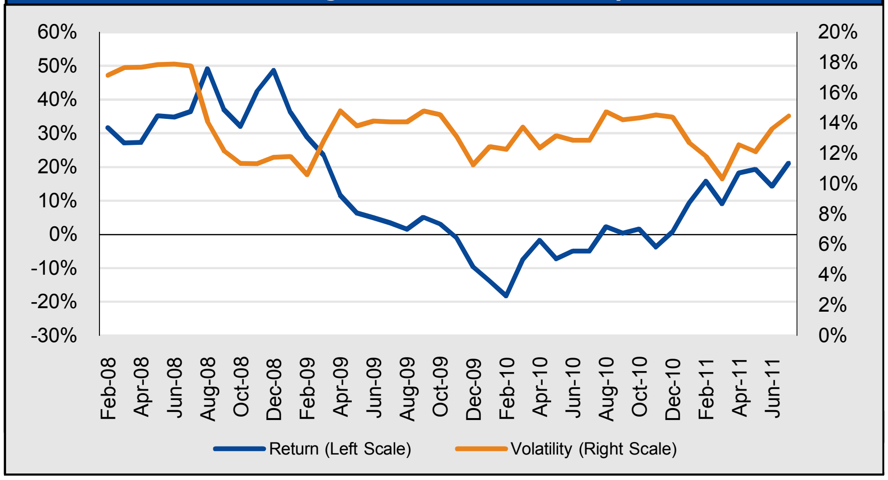
Cantab

Performance Summary | Start Date: March 2007
Strategy: Global Macro | End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	1.89%	2.11%	0.35%	8.12%	-3.89%	-5.04%	6.23%						9.44%
2010	-6.13%	-3.58%	6.54%	-0.22%	-4.82%	-0.83%	0.21%	6.86%	2.75%	2.24%	-3.14%	1.78%	0.72%
2009	-1.53%	1.65%	-5.88%	-6.08%	0.83%	-3.16%	0.15%	-0.65%	4.72%	0.98%	2.24%	-2.75%	-9.62%
2008	7.41%	7.48%	-1.76%	3.90%	5.88%	-1.84%	1.66%	1.14%	1.11%	2.95%	6.58%	6.43%	48.68%
2007			1.82%	3.71%	-0.25%	-1.61%	0.40%	-7.48%	10.10%	6.83%	-1.23%	1.99%	14.06%

Fund Statistics	3 Year	ITD
Annualized Return	6.0%	12.6%
Jensen's Alpha to S&P 500	5.1%	10.4%
Annualized Standard Deviation	13.8%	14.4%
Sharpe Ratio	0.36	0.72
Sortino Ratio	1.47	1.35
Skewness	0.05	0.04
Kurtosis	(0.71)	(0.55)
Percent Profitable Months	61%	62%
Auto Correlation	0.07	0.12

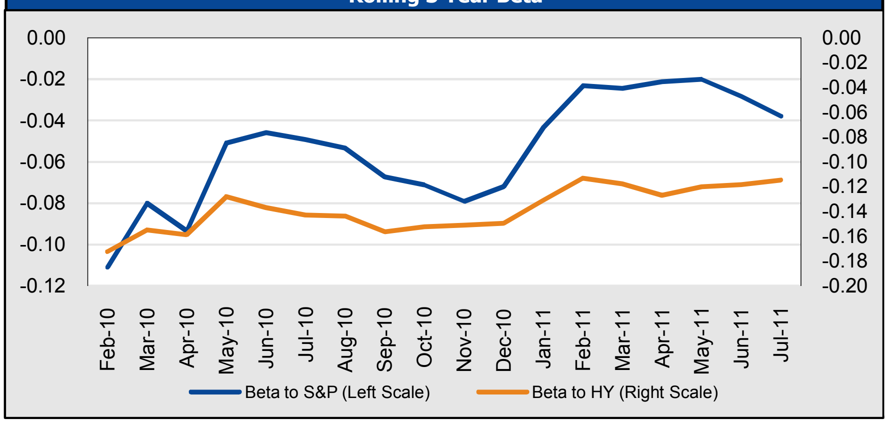
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(18.3%)	12	14	Feb-09	Feb-10
(8.8%)	4	1	Apr-07	Aug-07
(8.7%)	2		Apr-11	Jun-11

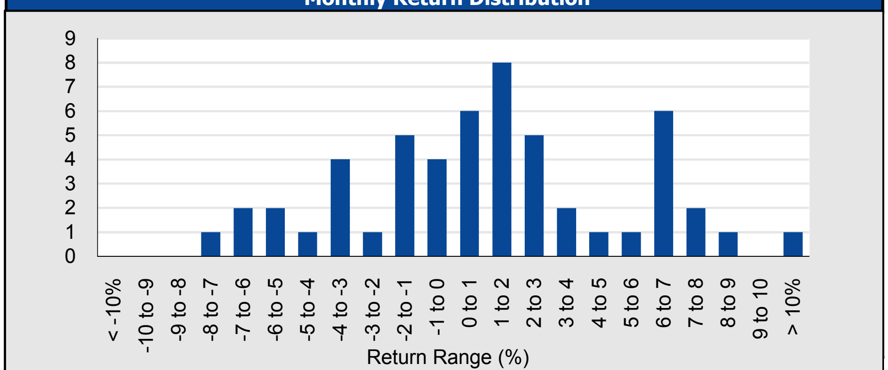
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	(0.01)	(0.04)	(0.02)	(0.06)
MSCI North Am	0.00	(0.04)	0.00	(0.06)
MSCI Asia	0.06	0.00	0.09	0.00
MSCI Europe	0.07	0.04	0.12	0.08
DXY	(0.41)	(0.31)	(0.29)	(0.27)
S&P GSCI	0.08	(0.01)	0.16	(0.02)
ML High Yield	(0.09)	(0.11)	(0.09)	(0.14)
ML Treasury 10+	0.22	0.29	0.19	0.30
VIX	(0.00)	0.00	(0.04)	0.05
HFRI Composite	0.30	0.06	0.16	0.04
HFRI Global Macro	1.69	1.68	0.69	0.69

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	53	51	48	42
Last Period	6.2%	(3.0%)	7.4%	21.1%
Avg Period Return	1.1%	3.1%	6.6%	13.5%
Average Gain	3.6%	6.9%	11.6%	19.9%
Average Loss	(3.1%)	(5.9%)	(7.0%)	(7.3%)
Best Period	10.1%	17.7%	36.8%	49.2%
Worst Period	(7.5%)	(12.0%)	(14.1%)	(18.3%)
Standard Deviation	4.2%	7.3%	10.9%	17.9%
Gain St Deviation	2.8%	4.7%	7.8%	15.3%
Loss St Deviation	2.2%	3.4%	4.4%	5.4%
VaR 95%	(6.1%)	(10.1%)	(12.1%)	(9.6%)

Monthly Return Distribution



Scout Capital Partners, LP
Scout Capital Fund, Ltd.

CLASSIFICATION:
Strategy: Long/Short Equity
Sub-Strategy: Media/Telecom, Healthcare Services, Financial, and Consumer/Retail
Market Bias: Variable / Long
Geography: United States

FIRM SUMMARY:
Scout Capital, LLC was co-founded in 1999 by Mr. Adam Weiss and Mr. James Crichton. Adam Weiss and James Crichton are the Managing Members and owners of the General Partner. Each individual owns a 50% stake of the G.P., as well as being an inside shareholder of the Fund. As of January 2005, the Fund has approximately $1.1 billion in assets under management. In addition to Mr. Weiss and Mr. Crichton, the Fund has two traders and five analysts. Finally, Mr. Weiss and Mr. Crichton anticipate that over time certain strategic team members may be admitted to the General Partner. The majority of the General Partner's liquid net worth is held in the Fund.

INVESTMENT STRATEGY:
The Fund is a long/short equity fund focused primarily on the media/telecommunications, health care services, financial, and consumer & retail sectors. The Fund is invested primarily in U.S. equities, but has the ability to invest globally, and can invest in distressed debt (up to 10% of the portfolio). The investment team is catalyst-focused and analyzes corporate events such as spin-offs, post-bankruptcies, and transformative mergers. In addition, the investment team also evaluates company-specific business initiatives such as new product introductions or changes in distribution, capital allocation, accounting, management or incentives, and changes in a business or industry fundamental that is not yet fully reflected in expectations such as pricing, regulatory and competitive dynamics.

DISTINGUISHING FEATURES:
- Investment team's edge is derived from its industry expertise combined with extensive primary research network, proprietary screens, rigorous adherence to a work plan that focuses on special situations, and special situations/securities that have analytical complexity.
- A rigorous and independent analysis of potential investments.
- A strict discipline of waiting for the expected catalyst
- A clear exposition of what scenarios would help or hurt them: best is a flat or trending environment in which investors pay attention to specific companies; worst is big systemic changes in volatility and/or forced hedge fund liquidations during which company-specific information is largely irrelevant.
- They get real-time P&L and use Bloomberg and Barra for analyzing betas and calculating industry and sector exposures.
- Good liquidity, they hold no more than 5 days of trading volume for 80% of their portfolio.

TEAM:
James Crichton – Managing Member
- BS degree in Engineering from the United States Military Academy at West Point. Mr. Crichton received the Superintendent's Award Recipient, the school's highest academic distinction (upper 2% of class).
- MBA degree from Harvard Business School.
- Joined DLJ as an associate in the firm's Mergers and Acquisitions group. While at DLJ, Mr. Crichton performed complex leveraged buyout and breakup valuation analyses, including transaction structuring and financing, and extensive due diligence on both buyer and seller advisory assignments.
- Joined Zweig-DiMenna Associates, LLC, a long/short investment partnership, as a research analyst, where Mr. Crichton researched and recommended short and long positions across multiple industries.

Adam Weiss – Managing Member
- AB Degree in Fine Arts from Harvard College. Mr. Weiss was elected to Phi Beta Kappa and named a John Harvard Scholar.

- Joint Law and MBA degrees from Columbia University. Mr. Weiss was designated a Kent Scholar and Beta Gamma Sigma.
- Joined DLJ as an associate in the firm's Merchant Banking group. While at DLJ, Mr. Weiss performed complex leveraged buyout analyses for private and public companies that were potential acquisition targets for DLJ's fund.
- Joined Third Point Advisors, an event-driven investment partnership, as a research analyst and portfolio manager, where Mr. Weiss managed short and long equity positions across multiple industries.

Scout

PRISMA CAPITAL PARTNERS

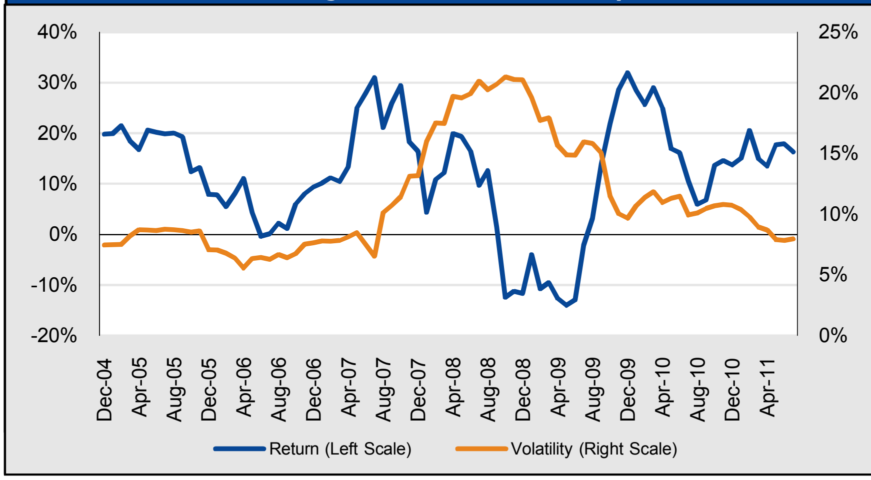
Performance Summary
Strategy: L/S Equity

Start Date: January 2004
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-1.58%	2.63%	0.40%	1.90%	1.41%	-1.59%	0.10%						3.23%
2010	-2.64%	-2.13%	5.32%	3.21%	-2.25%	-1.76%	1.49%	-1.76%	5.26%	4.40%	2.70%	1.64%	13.76%
2009	0.07%	0.03%	2.59%	6.53%	4.47%	-1.06%	6.64%	2.45%	4.47%	-1.94%	1.87%	2.42%	32.04%
2008	-7.97%	7.55%	1.27%	10.28%	6.18%	-2.27%	-5.13%	-2.86%	-5.31%	-8.40%	-3.44%	-0.25%	-11.69%
2007	2.66%	1.28%	0.06%	3.14%	6.72%	0.13%	0.76%	-5.43%	5.20%	6.09%	-4.75%	0.27%	16.46%
2006	1.98%	0.26%	0.78%	0.47%	-3.19%	-2.22%	-1.60%	2.31%	1.25%	3.13%	4.24%	1.88%	9.41%

Fund Statistics	3 Year	ITD
Annualized Return	8.0%	11.3%
Jensen's Alpha to S&P 500	6.2%	8.0%
Annualized Standard Deviation	11.6%	11.5%
Sharpe Ratio	0.60	0.75
Sortino Ratio	1.15	1.13
Skewness	(0.35)	(0.16)
Kurtosis	0.23	0.59
Percent Profitable Months	61%	68%
Auto Correlation	0.19	0.41

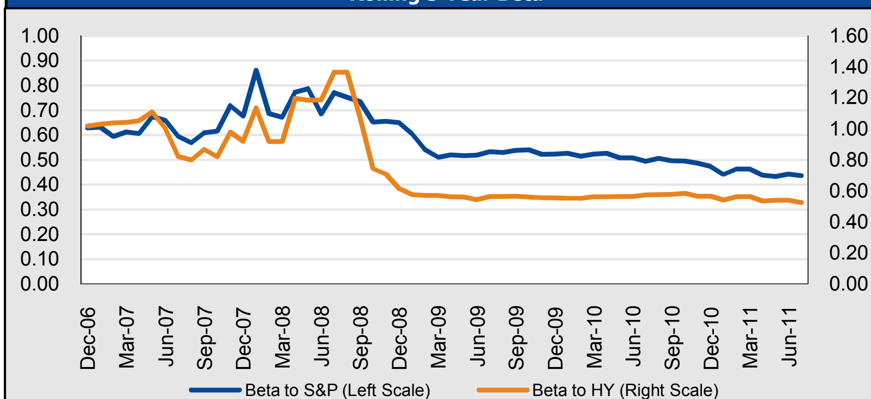
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(24.8%)	7	16	May-08	Dec-08
(12.1%)	3	3	Oct-07	Jan-08
(6.9%)	3	4	Apr-06	Jul-06

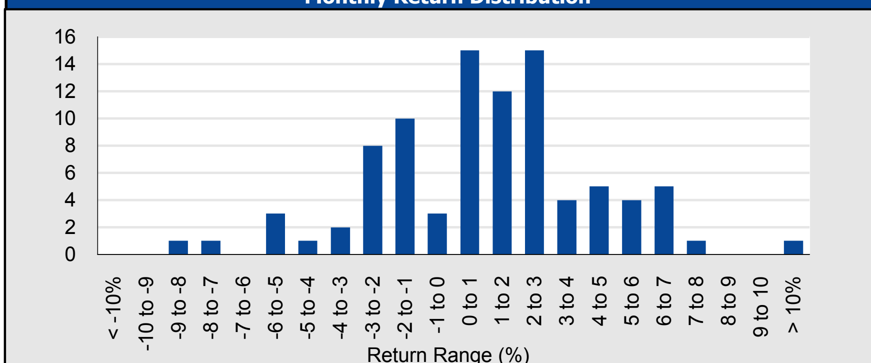
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.50	0.44	0.65	0.80
MSCI North Am	0.51	0.44	0.68	0.82
MSCI Asia	0.45	0.41	0.70	0.80
MSCI Europe	0.38	0.32	0.67	0.78
DXY	(0.42)	(0.51)	(0.32)	(0.53)
S&P GSCI	0.20	0.26	0.45	0.65
ML High Yield	0.59	0.52	0.57	0.76
ML Treasury 10+	(0.23)	(0.21)	(0.21)	(0.25)
VIX	(0.00)	(0.00)	(0.29)	(0.42)
HFRI Composite	1.37	1.22	0.79	0.88
HFRI L/S Equity	1.04	0.91	0.79	0.90

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	91	89	86	80
Last Period	0.1%	(0.1%)	4.9%	16.3%
Avg Period Return	1.0%	3.0%	6.1%	12.0%
Average Gain	2.7%	5.7%	9.2%	15.4%
Average Loss	(2.8%)	(5.0%)	(8.8%)	(9.2%)
Best Period	10.3%	20.1%	25.7%	32.0%
Worst Period	(8.4%)	(16.2%)	(24.6%)	(14.0%)
Standard Deviation	3.3%	6.7%	9.5%	11.4%
Gain St Deviation	2.2%	4.6%	6.1%	7.8%
Loss St Deviation	2.0%	5.3%	8.8%	4.8%
VaR 95%	(5.1%)	(11.8%)	(16.4%)	(11.7%)

Monthly Return Distribution



Tremblant Capital LP
Tremblant Partners LP

CLASSIFICATION:
Strategy: Long/Short Equity
Market Bias: Moderate
Geography: Global

FIRM SUMMARY:
Tremblant Capital, L.P. ("Tremblant") was founded in 2001 by Mr. Brett Barakett. Prior to founding Tremblant, Mr. Barakett was a portfolio manager for Moore Capital Management, where he managed a consumer and retail sector portfolio from 1997-2001. Tremblant Partners ("the Fund") has $1.2 billion in assets under management and the total firm assets are $1.6 billion, distributed across a broad investor base. Employees, as a group, make up approximately 10% of the Tremblant funds' assets. The firm consists of approximately 45 employees and is headquartered in New York with offices in California and Connecticut.

INVESTMENT STRATEGY:
The Fund seeks to preserve capital and earn long-term, absolute, risk-adjusted returns irrespective of market direction. This is achieved through investments in equity securities, globally, both long and short. The focus of the portfolio is in the consumer and retail sectors in the U.S. Tremblant currently does not trade bonds, currencies, or commodities. The Fund takes a fundamental and research-driven approach to investing where returns are derived from security selection and not market direction. The Fund's maximum gross exposure is 200% and net long exposure ranges from 20% to 60%. The Fund has 30 to 50 core long positions and 40 to 60 core short positions. Long positions will not exceed 8% of NAV and short positions will not exceed 3% of NAV.

DISTINGUISHING CHARACTERISTICS:

- Longer-term investment horizon of 2-3 years to capitalize on secular trends and inefficiencies created by investors with shorter timeframes;
- Tremblant's investment team draws on operating, management and investment experience
- The firm's network and knowledge base provides unique and varied sources of ideas
- Risk management focus is on ensuring that portfolio risks reflect active investment ideas, not unintended exposures

TEAM:
Brett Barakett, Portfolio Manager and Managing Member

Prior to founding Tremblant in July 2001, Mr. Barakett was a Portfolio Manager at Moore Capital Management, where he managed a consumer and retail sector portfolio (1997-2001). Mr. Barakett's previous professional experience includes Salomon Brothers Inc.; Equity Research Analyst for the Apparel, Footwear, & Textile industries where he was ranked as an Institutional Investor "Up & Comer" (1996-1997); Reebok International: Global Director, Reebok Classic, with profit responsibility for Reebok's largest business unit with over $600M in sales (1993-1996); and, Procter & Gamble Inc.: Brand Manager, with assignments in Canada and Eastern Europe (1988-1991). Mr. Barakett received an M.B.A. from the Harvard Business School and an H.B.A. (Honors Business) from the University of Western Ontario.

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PRISMA CAPITAL PARTNERS

Tremblant

Performance Summary
Strategy: L/S Equity

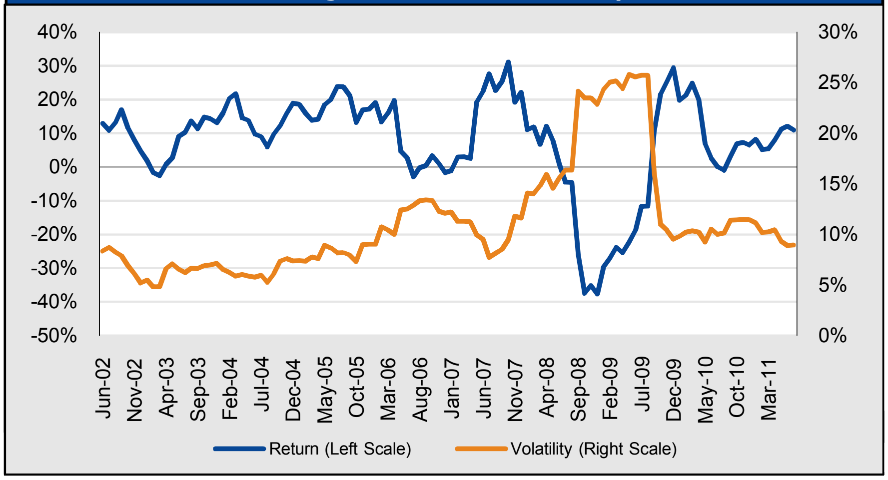
Start Date: July 2001
End Date: July 2011

Monthly Performance (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-0.81%	2.27%	3.95%	2.49%	-1.12%	-3.92%	-0.04%						2.63%
2010	-2.36%	5.22%	3.70%	0.09%	-4.11%	-4.59%	0.93%	-1.77%	5.20%	2.43%	1.78%	0.38%	6.49%
2009	5.48%	3.94%	0.70%	4.10%	7.76%	-0.63%	3.51%	-0.73%	1.07%	-1.21%	1.43%	1.09%	29.45%
2008	-6.44%	0.30%	-3.74%	6.48%	3.50%	-5.02%	-4.87%	-0.86%	-19.17%	-10.25%	-1.65%	-1.99%	-37.64%
2007	2.87%	-0.45%	0.99%	1.36%	7.63%	1.49%	0.49%	-0.82%	4.30%	6.16%	-5.21%	1.98%	22.15%
2006	2.35%	-4.36%	0.93%	1.82%	-7.51%	-1.22%	-3.54%	3.20%	2.08%	1.48%	4.26%	-0.43%	-1.61%

Fund Statistics	3 Year	ITD
Annualized Return	(0.6%)	6.7%
Jensen's Alpha to S&P 500	(2.5%)	4.2%
Annualized Standard Deviation	16.5%	12.3%
Sharpe Ratio	(0.10)	0.34
Sortino Ratio	0.25	0.36
Skewness	(2.05)	(1.65)
Kurtosis	7.10	7.54
Percent Profitable Months	56%	64%
Auto Correlation	0.24	0.40

Rolling 1 Year Return and Volatility



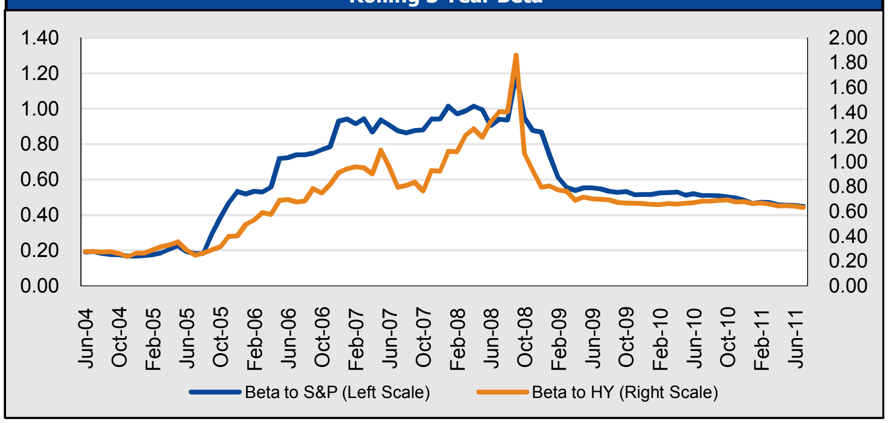
Drawdown Analysis - 3 Worst Periods

Drawdown	Length	Recovery	Peak	Valley
(39.7%)	14	0	Oct-07	Dec-08
(13.4%)	6	9	Jan-06	Jul-06
(4.5%)	2	10	May-02	Jul-02

Benchmark Comparison

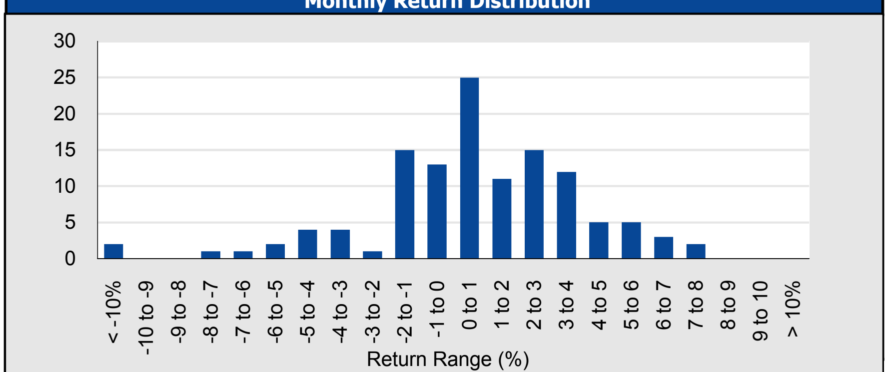
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.43	0.45	0.55	0.58
MSCI North Am	0.45	0.46	0.58	0.61
MSCI Asia	0.41	0.46	0.60	0.63
MSCI Europe	0.34	0.34	0.55	0.59
DXY	(0.25)	(0.51)	(0.18)	(0.37)
S&P GSCI	0.19	0.35	0.39	0.64
ML High Yield	0.59	0.63	0.53	0.65
ML Treasury 10+	(0.22)	(0.31)	(0.19)	(0.26)
VIX	(0.00)	(0.00)	(0.30)	(0.33)
HFRI Composite	1.48	1.59	0.76	0.81
HFRI L/S Equity	1.13	1.16	0.77	0.80

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	121	119	116	110
Last Period	(0.0%)	(5.0%)	3.5%	11.0%
Avg Period Return	0.6%	2.0%	4.1%	7.5%
Average Gain	2.5%	5.3%	8.7%	13.0%
Average Loss	(2.7%)	(6.5%)	(9.2%)	(15.6%)
Best Period	7.8%	13.0%	23.1%	31.2%
Worst Period	(19.2%)	(28.7%)	(36.1%)	(37.6%)
Standard Deviation	3.6%	7.2%	10.5%	14.4%
Gain St Deviation	1.9%	3.5%	5.2%	7.5%
Loss St Deviation	3.4%	7.5%	10.7%	13.5%
VaR 95%	(4.9%)	(10.4%)	(20.2%)	(26.0%)

Monthly Return Distribution



Pelham Capital Management LLP
Pelham Long/Short Master Fund LTD

CLASSIFICATION:
Strategy: Long/Short Equity
Sub-Strategy: Chemicals/Transportation/Utilities
Market Bias: Variable bias
Geography: Europe

FIRM SUMMARY:
Pelham manages a fundamental European long/short equity fund with Ross Turner as Chief Investment Officer. Turner previously was made an equity partner of Lansdowne Partners and at the end of January 2007 he resigned to found Pelham Capital Management. Pelham Capital Management LLP, Pelham Capital Services Ltd and Pelham Capital Management (Isle of Man) Ltd (collectively "Pelham Capital") were established by Turner. Hadyn Cunningham, Simon Martyn, Daniel Martin and Pablo Morales are all equity partners in Pelham. There are no outside shareholders at Pelham. The team launched the fund on November 1, 2007. The relatively concentrated portfolio is constructed in a manner to best take advantage of Ross Turner's strength as a risk taker.

INVESTMENT STRATEGY:
The fund's investment strategy focuses rigorous fundamental research conducted on a relatively select group of potential companies. The fund invests across all market capitalizations and most sectors (financials and biotech exposure will be negligible). The portfolio is managed in a relatively concentrated fashion with options and industry baskets utilized to mitigate permanent capital loss. The portfolio is broken down into core "low risk" longs (80%) and "high risk" longs (20%). The mixture of approximately 80% of the fund invested in stable underlying cash flow companies and 20% in higher risk investments provides an attractive mix.

DISTINGUISHING FEATURES:
- Turner was youngest equity partner at Lansdowne, successfully managing a sub portfolio of the Lansdowne Europe Fund from 2003 to 2006 (most profitable book)
- Unlike many stylistic competitors, plans to keep the fund smaller and more nimble to take advantage of all market capitalizations while maintaining a flexible liquidity profile
- Detailed attention to portfolio construction and risk management with the goal of optimizing the portfolio to generate strong returns and minimize permanent capital loss

TEAM:
Ross Turner, CIO
- Portfolio manager, Lansdowne Partners European from 2003 to 2006; analyst, Lansdowne Partners European from 2003-2003
- B.A. Hons Economics, Nottingham University

Hadyn Cunningham, CEO
- Managing Director, Equities at Merrill Lynch; co-head of International Pan European Sales at ABN Amro
- Portfolio manager at Balyasny Asset Management from mid-2003 to January 2007; senior analyst at Harvest Management from the end of 1997 through July 2003; analyst at The Blackstone Group, Restructuring and Reorganization group
- B.Sc. Honours, City University

PRISMA CAPITAL PARTNERS

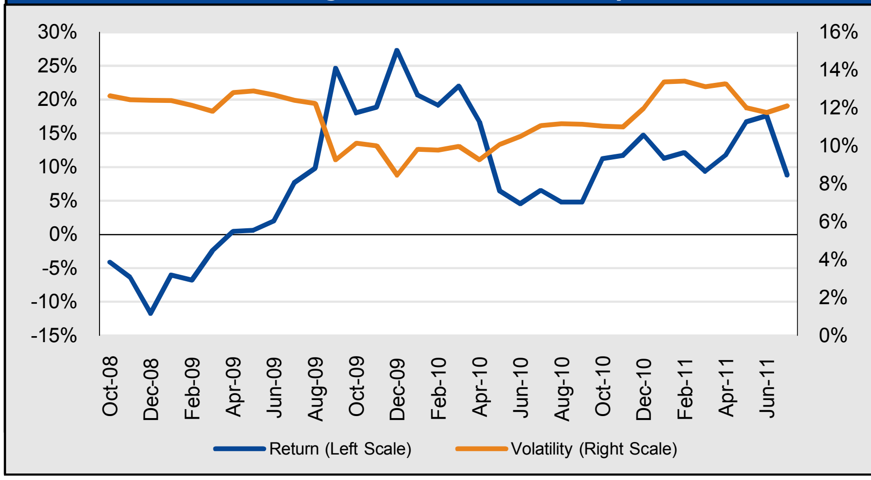
Pelham

Performance Summary | Start Date: November 2007
Strategy: L/S Equity | End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-5.91%	2.05%	1.03%	2.89%	-0.21%	-1.95%	-3.31%						-5.58%
2010	-2.98%	1.28%	3.59%	0.67%	-4.44%	-2.68%	4.46%	-0.83%	5.27%	3.49%	0.56%	6.13%	14.79%
2009	2.38%	2.57%	1.20%	5.18%	4.80%	-0.92%	2.54%	0.80%	5.30%	-2.51%	0.13%	3.30%	27.36%
2008	-3.82%	3.40%	-3.32%	2.22%	4.58%	-2.27%	-2.87%	-1.16%	-7.24%	2.99%	-0.58%	-3.57%	-11.68%
2007											1.83%	2.24%	4.11%

Fund Statistics	3 Year	ITD
Annualized Return	7.7%	6.6%
Jensen's Alpha to S&P 500	6.3%	6.1%
Annualized Standard Deviation	11.5%	11.4%
Sharpe Ratio	0.58	0.44
Sortino Ratio	0.70	0.78
Skewness	(0.43)	(0.36)
Kurtosis	(0.38)	(0.64)
Percent Profitable Months	61%	60%
Auto Correlation	(0.15)	(0.10)

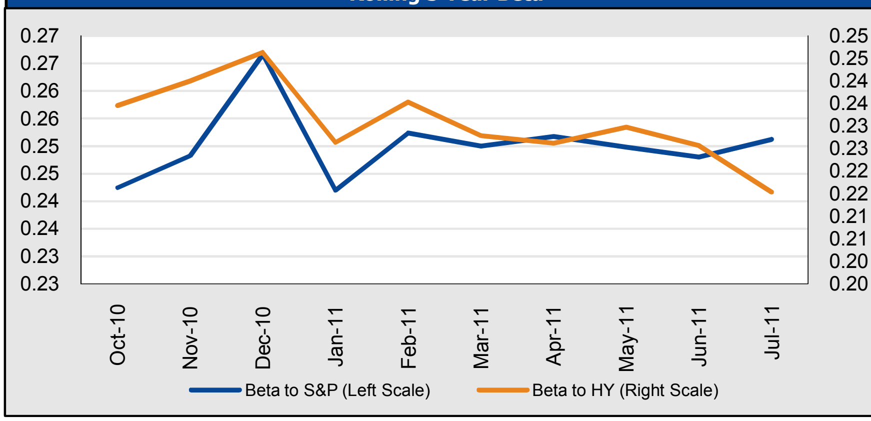
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(14.1%)	7	5	May-08	Dec-08
(7.0%)	2	3	Apr-10	Jun-10
(5.9%)	1		Dec-10	Jan-11

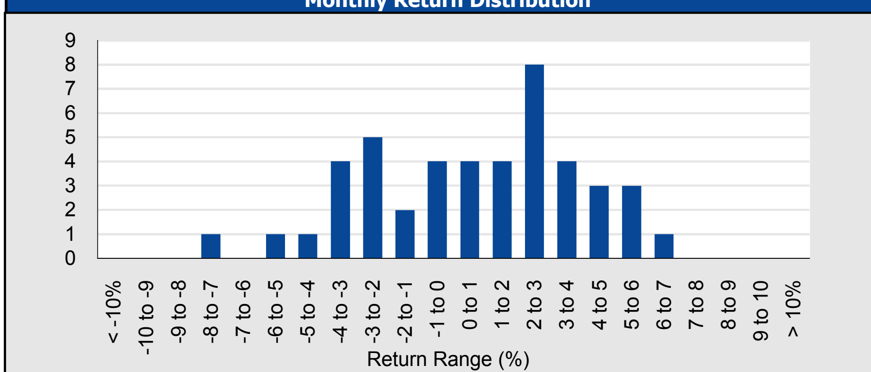
Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.26	0.25	0.46	0.46
MSCI North Am	0.27	0.25	0.48	0.48
MSCI Asia	0.24	0.22	0.47	0.44
MSCI Europe	0.22	0.20	0.51	0.50
DXY	(0.21)	(0.25)	(0.20)	(0.26)
S&P GSCI	0.16	0.15	0.41	0.40
ML High Yield	0.23	0.22	0.32	0.31
ML Treasury 10+	(0.38)	(0.37)	(0.44)	(0.45)
VIX	(0.00)	(0.00)	(0.10)	(0.09)
HFRI Composite	0.90	0.83	0.64	0.60
HFRI L/S Equity	0.67	0.62	0.65	0.61

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	45	43	40	34
Last Period	(3.3%)	(5.4%)	0.4%	8.9%
Avg Period Return	0.6%	1.9%	4.2%	8.9%
Average Gain	2.8%	4.5%	7.2%	12.2%
Average Loss	(2.8%)	(4.1%)	(6.4%)	(6.2%)
Best Period	6.1%	11.5%	20.4%	27.4%
Worst Period	(7.2%)	(11.0%)	(12.1%)	(11.7%)
Standard Deviation	3.3%	5.2%	7.7%	9.7%
Gain St Deviation	1.7%	3.6%	5.6%	7.2%
Loss St Deviation	1.8%	2.9%	3.4%	3.1%
VaR 95%	(4.4%)	(6.2%)	(7.3%)	(6.8%)

Monthly Return Distribution



Charter Bridge Capital Partners
Charter Bridge Capital Master Fund, LP

CLASSIFICATION:
Strategy: Long/Short Equity
Sub-strategy: Consumer and retail sectors
Geography: Global

FIRM SUMMARY:
Charter Bridge was founded in May 2010, by Mr Brian Zied, as a global long/short equity hedge fund investing in the consumer and retail sectors and was launched on October 1, 2010. Before starting Charter Bridge, Mr. Zied, was most recently a Partner and Advisory Committee Member and the Consumer/Retail Sector Head at Maverick Capital for over 10 years.

INVESTMENT STRATEGY:
Charter Bridge is a fundamental long/short equity fund focused on the global consumer and retail sectors. The Fund's investment universe will be consumer and retail companies with market capitalizations in excess of $500 million. The Fund's gross and net exposures will be approximately 140- 180% and 20-50% net long respectively with target fund volatility of half the S&P 500's volatility. The Fund will focus on finding equities that are mispriced by the market and the Fund's fundamental research leads the investment team to conclude that the market has significantly erred in assessing the intrinsic value of those companies. Charter Bridge will be fairly concentrated with 20-30 long positions and 20- 30 short positions and will have a longer term holding period for long positions, typically 6-24 months, and for short positions, typically 3-12 months.

DISTINGUISHING FEATURES*:*

- Deep industry knowledge and relationships gained over 15+ years at highly successful long/short equity funds Maverick and Omega, where he served as a Partner.
- Experience in all major sub-sectors of consumer and retail.
- As a sector head at Maverick, Mr. Zied has developed extensive experience in hiring and training analysts as well as working closely with them on idea generation, the investment process, follow up, and maintenance of existing investments.
- Strong references from former colleagues as well as senior people at very prominent long/short equity hedge funds such Lone Pine and Viking.

TEAM:
Brian Zied – CEO and Portfolio Manager
Prior to founding Charter Bridge Capital Management, L.P., Mr. Zied was a Partner at Maverick Capital, with responsibility for managing the Consumer/Retail portfolio. He recruited and hired a team of investment professionals and managed the process of stock research and long/short portfolio management within the Consumer/Retail sector. Mr. Zied worked with the team members to derive an idea generation strategy and a consistent process for research and evaluation of individual stock ideas. He also played an important role in the growth of Maverick since his arrival in 1998, serving on the Advisory Committee which studied key strategic issues for the firm and helped to shape key decisions over that time. Prior to Maverick, Mr. Zied worked at Omega Advisors for 3 years, with responsibility for consumer and retail stocks. Brian graduated from the University of Pennsylvania's Management & Technology Program with a B.S. from the Wharton school and a B.A.S. from the Moore School of Engineering.

Charter Bridge

PRISMA CAPITAL PARTNERS

Performance Summary
Strategy: L/S Equity

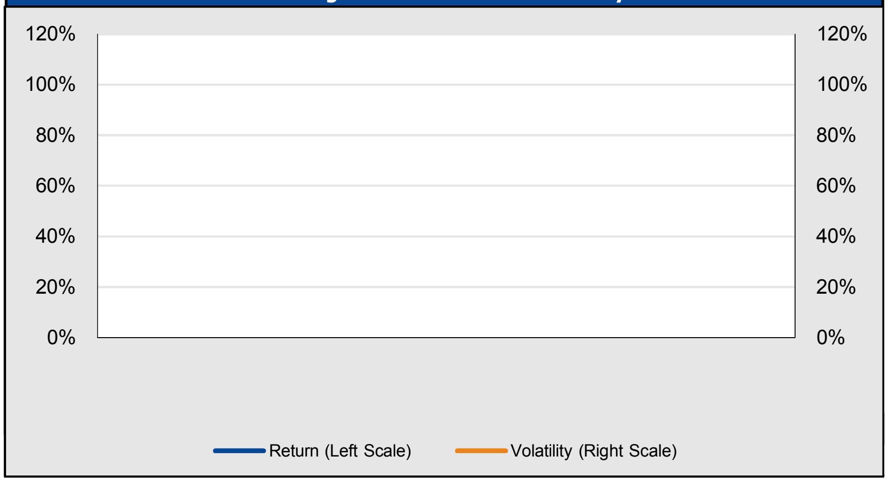
Start Date: October 2010
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-0.46%	3.90%	1.05%	2.05%	2.81%	1.73%	-0.38%						11.13%
2010										1.02%	2.34%	4.39%	7.92%

Fund Statistics	3 Year	ITD
Annualized Return	24.4%	24.4%
Jensen's Alpha to S&P 500	15.7%	15.7%
Annualized Standard Deviation	5.6%	5.6%
Sharpe Ratio	4.30	4.30
Sortino Ratio	92.48	92.48
Skewness	0.06	0.06
Kurtosis	(0.69)	(0.69)
Percent Profitable Months	80%	80%
Auto Correlation	(0.56)	(0.56)

Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(0.5%)	1	1	Dec-10	Jan-11
(0.4%)	1		Jun-11	Jul-11

Rolling 1 Year Return and Volatility

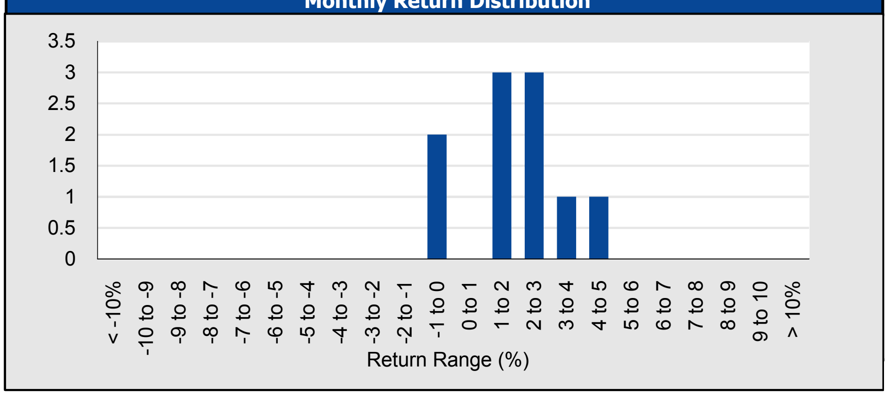


Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.27	0.27	0.48	0.48
MSCI North Am	0.27	0.27	0.49	0.49
MSCI Asia	0.21	0.21	0.32	0.32
MSCI Europe	0.07	0.07	0.24	0.24
DXY	0.04	0.04	0.07	0.07
S&P GSCI	0.04	0.04	0.13	0.13
ML High Yield	(0.18)	(0.18)	(0.13)	(0.13)
ML Treasury 10+	(0.09)	(0.09)	(0.16)	(0.16)
VIX	(0.00)	(0.00)	(0.45)	(0.45)
HFRI Composite	0.32	0.32	0.26	0.26
HFRI L/S Equity	0.34	0.34	0.34	0.34

Rolling 3 Year Beta

Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	10	8	5	
Last Period	(0.4%)	4.2%	11.6%	
Avg Period Return	1.8%	6.4%	12.9%	
Average Gain	2.4%	6.4%	12.9%	
Average Loss	(0.4%)			
Best Period	4.4%	8.0%	14.5%	
Worst Period	(0.5%)	4.2%	11.6%	
Standard Deviation	1.6%	1.4%	1.3%	
Gain St Deviation	1.2%	1.4%	1.3%	
Loss St Deviation	0.1%			
VaR 95%	(0.5%)	4.2%	11.6%	

Monthly Return Distribution



Force Capital II LLC
Force Capital II Ltd

CLASSIFICATION:
Strategy: Long/Short Equity
Sub-Strategy: Focused on Financials, Consumer/Retail, and Industrials sectors
Market Bias: Moderate Long Bias
Geography: North America

FIRM SUMMARY:
Force Capital is a value-oriented, catalyst driven long/short equity fund with a focus on the consumer, financial, and industrial sectors. The Fund combines in-depth fundamental research with tactical trading around core positions.

INVESTMENT STRATEGY:
The Fund is a long/short equity fund focused on the financial, consumer/retail, and industrials sectors. It does not invest in energy, technology, or health care. The Fund employs a fundamental approach to investing, and the strategy is a derivation of the SAC Capital Management model, where Mr. Jaffe spent the majority of his career. In that strategy, the objective is to identify catalysts and exit positions upon catalyst realization. The Fund manager seeks to buy excellent businesses where positive catalysts are identifiable and short bad businesses/balance sheets where the Fund management team has identified an event. Opportunities are created for long/short investing when the Fund management team identifies important events that are not yet appreciated by the market. The Fund also exploits very short term trading opportunities when the market participants "misinterpret" company-specific events. The Fund management has numerous idea sources such as private equity contacts, strategic investors, consultants, industry contacts, sell-side analysts, proprietary desks of Wall Street firms, and various members of the hedge fund community. The Fund management team, in analyzing potential investments, seeks to understand the industry and the event that will serve as the catalyst to realize value. In addition, they seek to understand their competitive advantage in analyzing the investment as well as determining whether other market participants are misunderstanding the event. The Fund manager always frames the investment with a quantifiable downside and a quantifiable time horizon.

DISTINGUISHING CHARACTERISTICS:

- The portfolio manager, Robert Jaffe, has a very strong background as a portfolio manager going back to 1993 both at Force Capital and at SAC Capital, where he was SAC's Director of Research. In fact, he joined SAC in 1993 when the Fund had only $50 million in AUM.
- The Fund employs a more active trading approach, which involves trading around existing positions, than other funds in the Prisma long/short equity universe. In addition, the Fund focuses on different sectors than both the sector-specific funds as well as the more broad-based long/short equity funds in Prisma's long/short equity stable of funds.
- The Force Capital II fund is a long/short equity fund with the exact same positions as Force Capital but with 2x leverage.

TEAM:
Robert Jaffe – is the principal of the Managing Member. From June 2001 until the inception of the Managing member in December 2002, Mr. Jaffe was a manager and principal of CJS Capital management LLC. From October 1999 until March 2001, Mr. Jaffe was Director of Research for SAC Capital Management. Prior to that time, he was a partner and co-founder of JL Advisors from October 1997 until October 1999. From July 1993 to October 1997, Mr. Jaffe was an analyst and Portfolio manager, at SAC Capital Management. Mr. Jaffe received a BS degree from Cornell University in 1984 and an MBA degree from Harvard Business School in June 1992.

Force II

Performance Summary
Strategy: L/S Equity

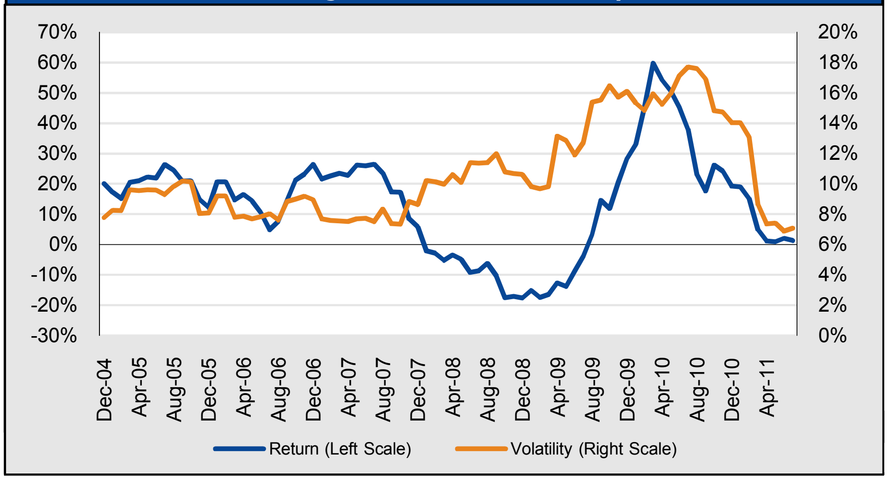
Start Date: January 2004
End Date: July 2011

Monthly Performance (%)													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Year**
2011	0.84%	3.15%	0.32%	0.99%	-1.85%	-2.44%	-1.99%						-1.11%
2010	0.99%	6.55%	10.27%	4.69%	-1.63%	-3.53%	-1.28%	-3.38%	1.55%	0.63%	1.93%	1.79%	19.22%
2009	-2.53%	-2.33%	0.16%	8.50%	0.72%	0.00%	3.87%	8.39%	6.25%	-6.15%	3.53%	6.03%	28.41%
2008	-5.44%	0.43%	-0.96%	3.76%	2.07%	-5.66%	-1.32%	0.98%	-4.30%	-3.87%	-3.85%	-0.57%	-17.64%
2007	2.22%	1.21%	1.55%	1.76%	3.65%	-1.13%	-1.85%	-1.81%	0.21%	4.47%	-4.26%	-0.03%	5.80%
2006	6.24%	0.45%	0.86%	2.26%	0.94%	-1.01%	-2.24%	0.55%	5.53%	4.57%	3.44%	2.46%	26.44%

Fund Statistics	3 Year	ITD
Annualized Return	10.4%	11.3%
Jensen's Alpha to S&P 500	8.6%	7.9%
Annualized Standard Deviation	13.7%	11.1%
Sharpe Ratio	0.68	0.77
Sortino Ratio	1.55	1.50
Skewness	0.58	0.37
Kurtosis	(0.18)	0.38
Percent Profitable Months	58%	63%
Auto Correlation	0.26	0.38

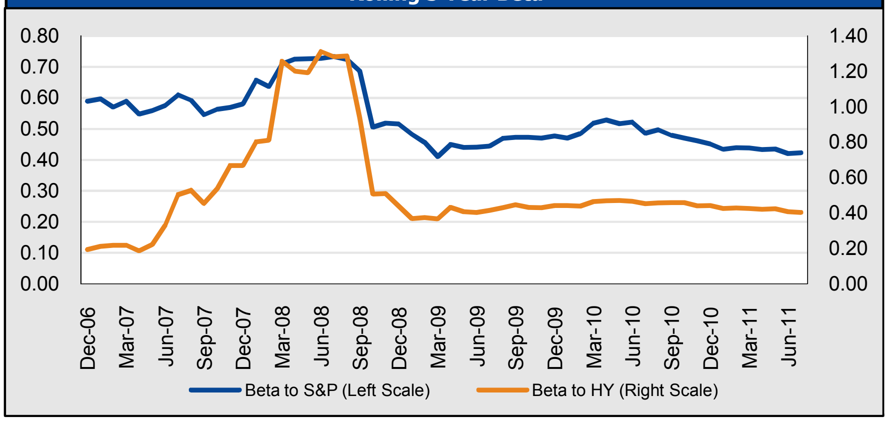
Drawdown Analysis - 3 Worst Periods				
Drawdown	**Length**	**Recovery**	**Peak**	**Valley**
(25.1%)	21	10	May-07	Feb-09
(9.5%)	4	7	Apr-10	Aug-10
(6.2%)	3		Apr-11	Jul-11

Rolling 1 Year Return and Volatility



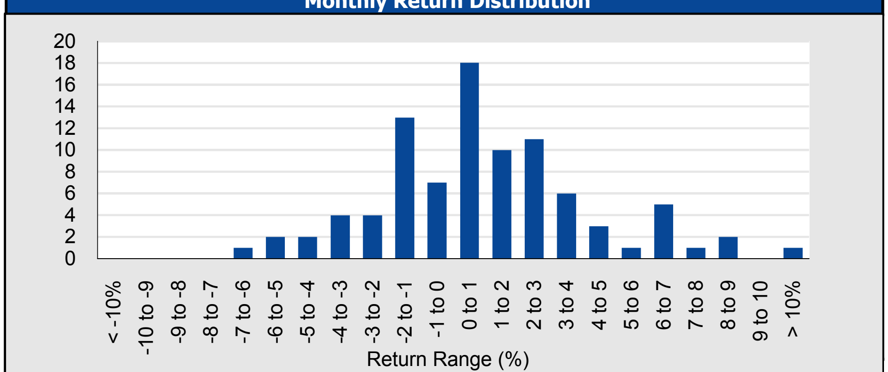
Benchmark Comparison				
	Beta	**3Yr Beta**	**Correl**	**3Yr Corr**
S&P 500	0.48	0.42	0.65	0.65
MSCI North Am	0.47	0.41	0.65	0.65
MSCI Asia	0.31	0.31	0.50	0.52
MSCI Europe	0.31	0.26	0.55	0.53
DXY	(0.13)	(0.18)	(0.11)	(0.16)
S&P GSCI	0.08	0.17	0.19	0.36
ML High Yield	0.45	0.40	0.45	0.49
ML Treasury 10+	(0.29)	(0.24)	(0.28)	(0.25)
VIX	(0.00)	(0.00)	(0.35)	(0.42)
HFRI Composite	1.02	0.99	0.61	0.60
HFRI L/S Equity	0.80	0.76	0.63	0.63

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	91	89	86	80
Last Period	(2.0%)	(6.2%)	(1.9%)	1.3%
Avg Period Return	0.9%	3.0%	6.3%	13.2%
Average Gain	2.7%	6.4%	10.8%	20.5%
Average Loss	(2.2%)	(4.5%)	(6.7%)	(10.2%)
Best Period	10.3%	23.0%	36.4%	59.8%
Worst Period	(6.1%)	(11.5%)	(16.8%)	(17.6%)
Standard Deviation	3.2%	6.6%	10.5%	17.1%
Gain St Deviation	2.4%	4.7%	7.7%	12.2%
Loss St Deviation	1.6%	2.9%	4.9%	5.6%
VaR 95%	(4.3%)	(7.1%)	(12.4%)	(16.5%)

Monthly Return Distribution



Ayer Capital Management, LP
Ayer Capital Partners Fund, Ltd

CLASSIFICATION:
Strategy: Equity Long/Short
Sub-strategy: Healthcare sector
Market Bias: Moderate / Long
Geography: Global

FIRM SUMMARY:
Ayer Capital Partners Fund, LP, is a Delaware limited partnership. Ayer Capital Partners, LLC, a Delaware limited liability company, is the general partner of the Fund. Ayer Capital Management, LP, a Delaware limited partnership, shall serve as the Fund's Investment Manager. Jay Venkatesan, M.D., is the founder and sole principal of both the General Partner and the Investment Manager. The Fund was launched on July 1, 2008.

INVESTMENT STRATEGY:
Ayer Capital is a fundamental long/short equity fund focused on the global health care sector. Prior to launching Ayer, the fund manager, Jay Venkatesan, was the health care co-sector head at Brookside Capital, the hedge fund group of Bain Capital. The Fund focuses on health care sub-sectors including biopharmaceuticals, devices/diagnostics, and services/facilities/managed care. The Fund seeks to generate alpha on both the long and the short side while maintaining low correlation to the health care index (S&P Health Care) and the overall market (S&P 500).

DISTINGUISHING FEATURES:
- Deep industry knowledge and relationships gained over 15+ years in clinical medicine, research, consulting, venture capital, operations, and public investing.
- Experience in all major sub-sectors of health care.
- Portfolio Manager Jay Venkatesan has over 5 years of experience at Brookside Capital and left maintaining an excellent relationship with the firm.

TEAM:
Jay Venkatesan
Jay Venkatesan M.D. is the portfolio manager. He was previously the co-sector head for health care at Brookside Capital. Prior to Brookside, he was involved in health care venture investing at Patricof & Co. Ventures and consulting at McKinsey. He has an MBA from Wharton and an M.D. from the University of Pennsylvania.

David Shin
David Shin M.D. is a senior analyst. He was previously a senior director at Clearview Projects, a strategic advisory firm to health care companies. Prior to Clearview, he was Director of Technology at ThermoFisher-Scientific. He holds a M.D. from the University of Pennsylvania, where he also trained in Ophthalmology.

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PRISMA CAPITAL PARTNERS

Ayer

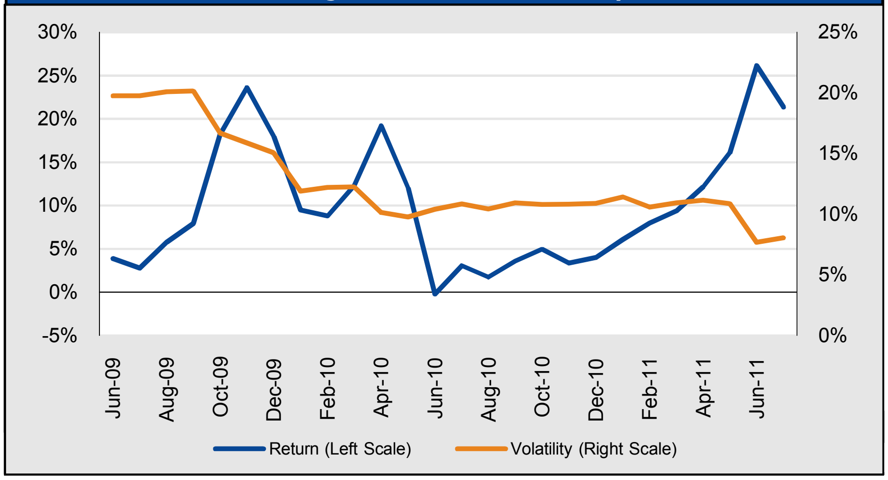
Performance Summary
Strategy: L/S Equity

Start Date: July 2008
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	4.12%	-3.38%	3.94%	3.06%	2.06%	2.38%	-0.85%						11.65%
2010	2.11%	-5.11%	2.61%	0.49%	-1.36%	-5.80%	3.07%	2.72%	3.97%	-0.01%	-0.44%	2.24%	4.00%
2009	10.04%	-4.49%	-0.65%	-5.34%	4.99%	5.76%	-0.20%	4.03%	2.15%	-1.31%	1.08%	1.62%	17.99%
2008							0.87%	1.09%	0.09%	-9.89%	-3.33%	6.45%	-5.36%

Fund Statistics	3 Year	ITD
Annualized Return	8.7%	8.8%
Jensen's Alpha to S&P 500	7.4%	7.5%
Annualized Standard Deviation	13.6%	13.4%
Sharpe Ratio	0.57	0.58
Sortino Ratio	0.77	0.77
Skewness	(0.44)	(0.45)
Kurtosis	0.83	0.93
Percent Profitable Months	61%	62%
Auto Correlation	0.02	0.02

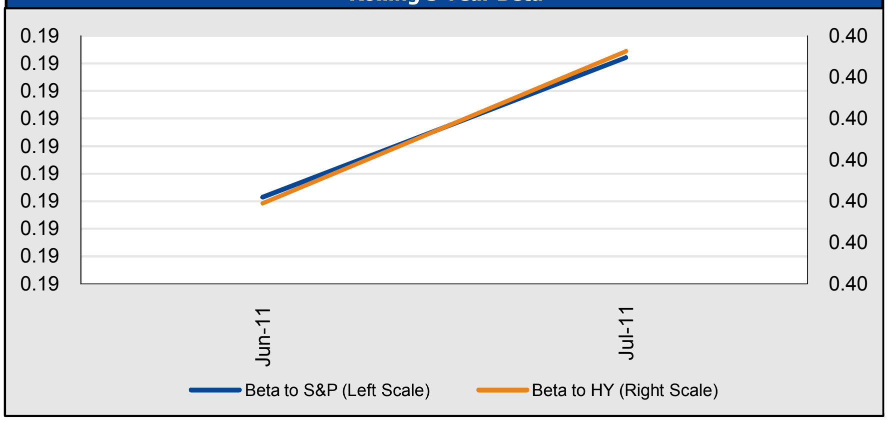
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(12.9%)	2	2	Sep-08	Nov-08
(10.2%)	3	4	Jan-09	Apr-09
(9.1%)	5	3	Jan-10	Jun-10

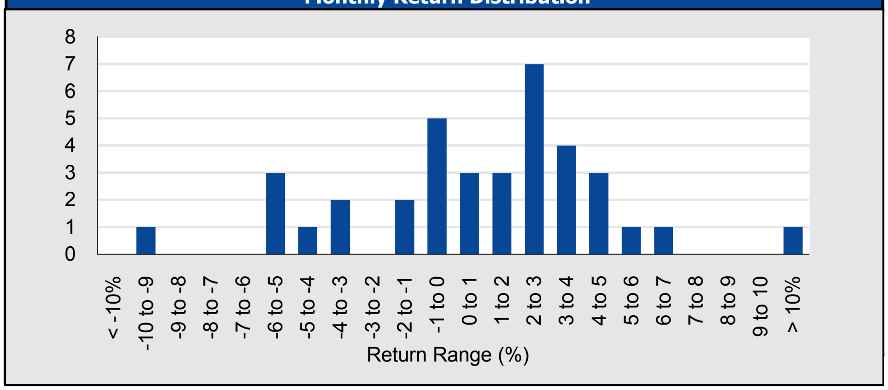
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.19	0.19	0.30	0.30
MSCI North Am	0.19	0.19	0.30	0.31
MSCI Asia	0.19	0.19	0.32	0.33
MSCI Europe	0.15	0.15	0.31	0.31
DXY	(0.34)	(0.35)	(0.30)	(0.30)
S&P GSCI	0.12	0.13	0.27	0.28
ML High Yield	0.40	0.40	0.50	0.50
ML Treasury 10+	(0.11)	(0.11)	(0.11)	(0.11)
VIX	(0.00)	(0.00)	(0.37)	(0.37)
HFRI Composite	0.58	0.60	0.37	0.37
HFRI L/S Equity	0.41	0.42	0.35	0.36

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	37	35	32	26
Last Period	(0.8%)	3.6%	7.2%	21.4%
Avg Period Return	0.8%	2.3%	5.0%	10.1%
Average Gain	3.1%	5.7%	7.1%	10.5%
Average Loss	(3.0%)	(5.1%)	(4.2%)	(0.2%)
Best Period	10.0%	13.2%	16.2%	26.2%
Worst Period	(9.9%)	(12.8%)	(7.2%)	(0.2%)
Standard Deviation	3.9%	6.3%	6.3%	7.3%
Gain St Deviation	2.2%	3.5%	4.8%	7.2%
Loss St Deviation	2.9%	4.3%	2.6%	
VaR 95%	(5.8%)	(10.2%)	(6.3%)	1.8%

Monthly Return Distribution



Newland Capital Management, LLC
Newland Onshore Fund, LP

CLASSIFICATION:
Strategy: Long/Short Equity
Sub-Strategy: Industrials/Cyclicals
Market Bias: Variable bias
Geography: North America

FIRM SUMMARY:
The fund launched on July 2nd, 2007 with $170 million. The fund managers are Ken Brodkowitz and Mike Vermut, previously two of the five partners at Balyasny Asset Management. The Fund managers invested $5 million of their own capital into the Fund on June 1st 2007 to make sure their systems were running smoothly. Ken Brodkowitz and Mike Vermut each own 50% of Newland Capital Management, LLC and co-manage the Fund. James Gentile and Igor Maryasis are the two of the fund's analysts, and are well-known to the portfolio managers.

INVESTMENT STRATEGY:
The Fund is a fundamental long/short equity fund focused primarily on industrials/cyclicals and catalyst-driven situations. The Fund also trades actively around its core positions. The Fund invests across all market capitalizations with 95% of their investments in North American securities. The Fund is variable bias with net exposures expected to be between 50% net short and 50% net long (average net exposure expected to be 20-25% net long). The gross exposure will not exceed 200% and is expected to average 140%- 150% initially (and will likely climb over time).

DISTINGUISHING FEATURES:

- Ken Brodkowitz and Mike Vermut compiled an outstanding track record with substantially the same strategy at Balyasny Asset Management
- In-depth fundamental research and trading
- Portfolio has 30-50 long positions and 20-50 short positions
- The top 10 positions will account for no more than 40% of the overall fund

TEAM:
Ken Brodkowitz, Co-Portfolio Manager
• Portfolio manager at Balyasny Asset Management from mid-2003 to January 2007; trader/portfolio manager at the Galleon Group from March 2001 to May 2003; co-head of Equity proprietary trading at Goldman Sachs from 2000 to 2001
• M.B.A., Kellogg School of Management at Northwestern University, B.A., Johns Hopkins University

Michael Vermut, Co-Portfolio Manager
• Portfolio manager at Balyasny Asset Management from mid-2003 to January 2007; senior analyst at Harvest Management from the end of 1997 through July 2003; analyst at The Blackstone Group, Restructuring and Reorganization group
• B.S.E., The Wharton School, University of Pennsylvania, Finance & Accounting, magna cum laude

Prisma Capital Partners

Newland

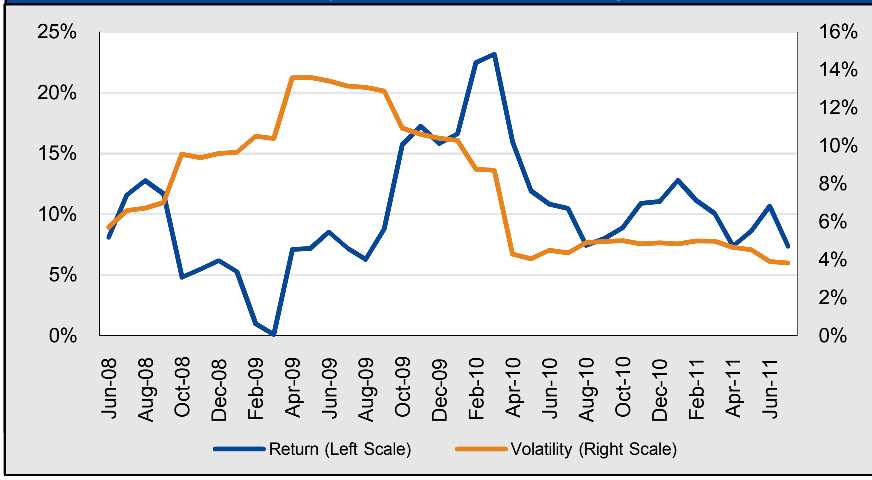
Performance Summary Start Date: July 2007
Strategy: L/S Equity End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	1.57%	-0.26%	0.47%	0.01%	0.73%	0.42%	-0.69%						2.25%
2010	0.02%	1.23%	1.44%	2.52%	-0.45%	-1.40%	2.35%	-1.51%	1.33%	1.33%	1.30%	2.50%	11.07%
2009	-0.65%	-3.63%	0.88%	8.86%	3.18%	-0.43%	2.69%	1.26%	0.81%	0.51%	-0.53%	2.34%	15.84%
2008	0.20%	0.45%	1.78%	1.73%	3.12%	-1.67%	3.95%	2.13%	-1.52%	-5.52%	-1.80%	3.57%	6.18%
2007							0.70%	1.07%	-0.54%	0.64%	-2.39%	2.88%	2.30%

Fund Statistics	3 Year	ITD
Annualized Return	8.3%	9.1%
Jensen's Alpha to S&P 500	6.8%	8.2%
Annualized Standard Deviation	8.1%	7.6%
Sharpe Ratio	0.91	0.95
Sortino Ratio	1.28	1.39
Skewness	0.57	0.44
Kurtosis	4.29	3.79
Percent Profitable Months	67%	69%
Auto Correlation	0.08	0.19

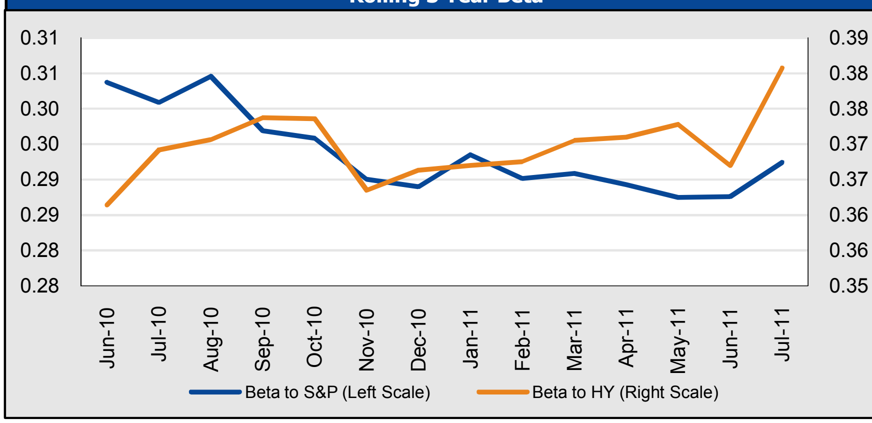
Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(9.4%)	6	3	Aug-08	Feb-09
(2.4%)	1	1	Oct-07	Nov-07
(1.8%)	2	1	Apr-10	Jun-10

Rolling 1 Year Return and Volatility



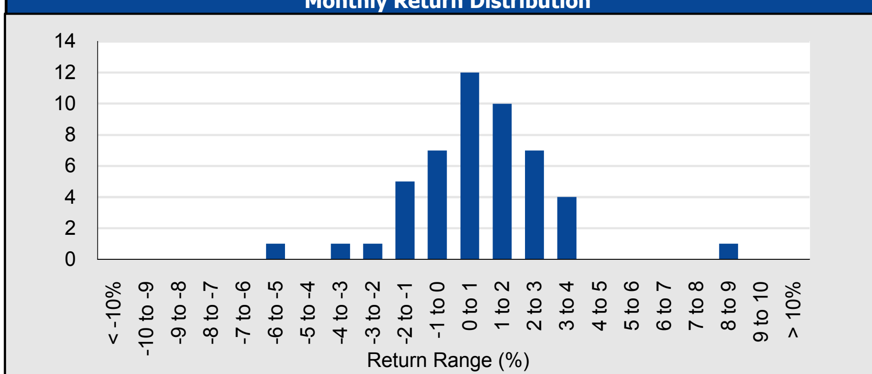
Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.28	0.29	0.71	0.77
MSCI North Am	0.27	0.29	0.72	0.77
MSCI Asia	0.24	0.28	0.68	0.79
MSCI Europe	0.19	0.21	0.66	0.73
DXY	(0.24)	(0.30)	(0.34)	(0.44)
S&P GSCI	0.09	0.13	0.35	0.48
ML High Yield	0.36	0.38	0.71	0.79
ML Treasury 10+	(0.16)	(0.12)	(0.26)	(0.21)
VIX	(0.00)	(0.00)	(0.36)	(0.39)
HFRI Composite	0.54	0.66	0.57	0.68
HFRI L/S Equity	0.44	0.52	0.62	0.73

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	49	47	44	38
Last Period	(0.7%)	0.5%	0.7%	7.4%
Avg Period Return	0.8%	2.3%	5.0%	10.2%
Average Gain	1.8%	3.4%	6.1%	10.2%
Average Loss	(1.5%)	(3.5%)	(6.3%)	
Best Period	8.9%	13.3%	17.3%	23.2%
Worst Period	(5.5%)	(8.6%)	(9.4%)	0.1%
Standard Deviation	2.2%	3.7%	5.3%	4.9%
Gain St Deviation	1.6%	2.8%	4.1%	4.9%
Loss St Deviation	1.4%	2.8%	2.5%	
VaR 95%	(2.4%)	(3.9%)	(4.6%)	1.0%

Monthly Return Distribution



Veritas Asset Management (UK) Limited
The Real Return Funds PLC

CLASSIFICATION:
Strategy: Equity Long/Short
Market Exposure: Moderate Net
Sub-Strategy: Equity Oriented; Fundamental, Thematic and Trading Driven
Geography: Asia, including Japan and Australia

FIRM SUMMARY:
Veritas Asset Management (UK) Limited ("Veritas") is an independent investment firm established in 1993 by Stuart Newton and Charles Richardson. As of December 2010, Veritas managed about $5+ billion in assets across long-only (Global and Asia), long/short (Global, Asia, and China), and bespoke high net worth mandates ($500 million). Veritas has broad-based equity ownership with over 19 employees as partners. The portfolio manager of the Asian funds, Ezra Sun, owns roughly 15% of the firm.

INVESTMENT STRATEGY:
The Real Return Asian Fund, managed by Ezra Sun, invests in equities in the Asia Pacific region, covering Japan, China, Australia, India, Hong Kong, Singapore, Malaysia, Thailand, Indonesia, Pakistan, Korea and Taiwan. The fund's investments tend to be led by macro and micro themes seeking to identify companies which will be subject to positive or negative dynamics over the medium to long term. Within this framework, the fund divides the portfolio into two parts: core and trading. The core portfolio tends to have low beta, modest growth, and good dividend yield with the target minimum of 15% annualized returns. The trading portfolio seeks to take advantage of shorter-term movements in stocks (and markets) based on earnings momentum, macro views, and near-term trends. The split of capital in these two books can change over-time depending on the market cycle.

Gross and net exposure management is very flexible and can change quickly. Over the history of the fund, gross exposure has ranged from 50% to 230% and net exposure has ranged from around 0% to 100%. The fund manager has a strong belief in diversification which permeates position sizing, sector, theme, and country exposure. As of December 2010, all longs are 2% or less and all shorts are 1.5% or less. In the history of the fund, the largest short position has been 4%. Country allocation is also dynamic, however, net exposure is kept to 25% or less of the portfolio.

DISTINGUISHING FEATURES:

- In aggregate, the current investment team has a long track record of investing in Asian bull and bear markets - Ezra Sun since 1995 and Raymond Foo since 1992.
- The Fund is macro and micro thematic focused, relying less on stock dispersion and more on country, sector, theme, and market timing.
- Active management of gross and net exposure with a successful history of avoiding significant draw-downs and capturing market upside with moderate volatility.
- Broad-based equity ownership with 19 partners. Ezra owns about 15% of Veritas Asset Management

TEAM:
Ezra Sun, Portfolio Manager

- Fund Manager of the Real Return Asian Fund. Joined the company in 2004.
- Newton Investment Management 1995 to 2004. Director of Investment Management and Investment Leader Asia. In charge of Newton's Asia Pacific fund range including Newton Oriental Fund and Mellon Asia Equity Fund.
- Education: BA, (Nankai University, China), MA (Nankai University, China), Research Student Cambridge University.

Raymond Foo, Senior Asian Analyst

- Senior Asian Analyst of the Real Return Asian Fund, based in Hong Kong. Joined the company in 2009.

- Chief Asian Strategist of Brevan Howard Asset Management and Asian Portfolio Manager of Brevan Howard Emerging Market Strategies Fund 2006 to 2009.
- Head of Asian Equity Strategy and Economics at BNP Paribas Peregrine Securities 1998 to 2006 and awarded top rated equity strategist by Asia Money and Institutional Investor during that period.
- Education: BEcons (Honors), University of Western Australia.

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Veritas

PRISMA CAPITAL PARTNERS

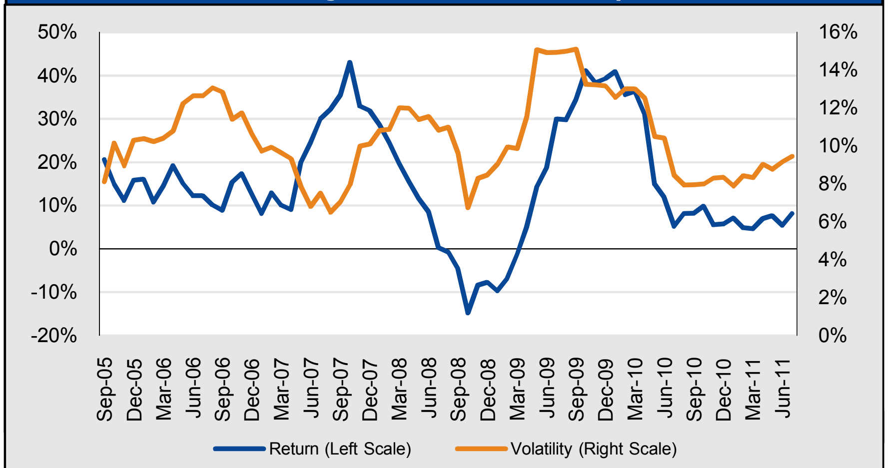
Performance Summary
Strategy: L/S Equity

Start Date: October 2004
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-1.43%	-2.50%	2.63%	4.13%	-2.82%	-2.03%	2.87%						0.59%
2010	-2.71%	-0.49%	2.95%	1.85%	-3.41%	0.00%	0.24%	0.56%	4.69%	1.64%	-1.95%	2.53%	5.73%
2009	-3.86%	3.39%	2.40%	5.99%	10.10%	2.76%	6.58%	-2.18%	4.65%	0.08%	2.05%	2.40%	39.27%
2008	-1.75%	0.19%	-3.28%	-0.35%	1.21%	-1.14%	-2.69%	-2.01%	1.02%	-4.67%	4.13%	1.70%	-7.69%
2007	0.77%	3.47%	0.59%	3.33%	4.70%	1.70%	5.30%	-0.98%	5.06%	6.77%	-3.22%	0.98%	31.90%
2006	4.98%	-0.91%	3.22%	4.28%	-4.83%	-2.00%	0.87%	-2.58%	2.47%	1.08%	4.15%	1.78%	12.67%

Fund Statistics	3 Year	ITD
Annualized Return	14.0%	14.6%
Jensen's Alpha to S&P 500	12.5%	11.3%
Annualized Standard Deviation	11.4%	10.6%
Sharpe Ratio	1.14	1.10
Sortino Ratio	2.54	2.26
Skewness	0.37	0.15
Kurtosis	0.16	(0.28)
Percent Profitable Months	64%	66%
Auto Correlation	0.05	0.06

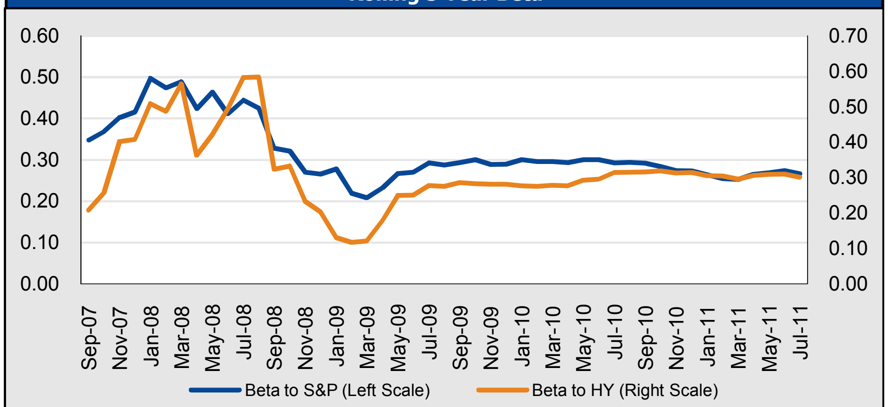
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(14.8%)	12	7	Oct-07	Oct-08
(8.3%)	4	4	Apr-06	Aug-06
(4.8%)	2		Apr-11	Jun-11

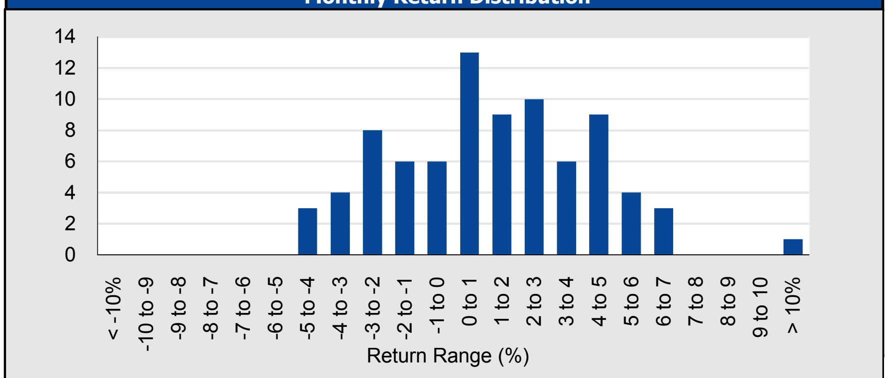
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.29	0.27	0.43	0.50
MSCI North Am	0.30	0.27	0.46	0.52
MSCI Asia	0.38	0.32	0.65	0.65
MSCI Europe	0.28	0.24	0.56	0.60
DXY	(0.53)	(0.59)	(0.46)	(0.63)
S&P GSCI	0.17	0.20	0.43	0.53
ML High Yield	0.31	0.30	0.35	0.44
ML Treasury 10+	(0.05)	0.02	(0.05)	0.02
VIX	(0.00)	(0.00)	(0.10)	(0.02)
HFRI Composite	1.00	0.82	0.65	0.61
HFRI L/S Equity	0.74	0.60	0.63	0.60

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	82	80	77	71
Last Period	2.9%	(2.1%)	2.0%	8.2%
Avg Period Return	1.2%	3.6%	7.2%	15.2%
Average Gain	2.9%	6.5%	10.6%	18.0%
Average Loss	(2.2%)	(2.4%)	(3.9%)	(6.7%)
Best Period	10.1%	20.6%	35.3%	43.1%
Worst Period	(4.8%)	(5.9%)	(8.1%)	(14.8%)
Standard Deviation	3.1%	5.9%	9.6%	13.5%
Gain St Deviation	2.1%	4.9%	8.3%	11.5%
Loss St Deviation	1.3%	1.8%	2.4%	4.6%
VaR 95%	(3.4%)	(4.0%)	(6.0%)	(7.7%)

Monthly Return Distribution



JAT Capital Management, L.P.
JAT Capital Offshore Fund, Ltd

CLASSIFICATION:
Strategy: Long/Short Equity
Sub-Strategy: Telecommunications, Media and Technology ("TMT") and consumer sectors
Market Bias: Variable Biased
Geography: Global

FIRM SUMMARY:
The Fund launched on November 1st, 2007 with approximately $250 million in AUM. Shumway Capital, Chris Shumway, and John Thaler invested a total of $125 million at launch. John Thaler and his affiliates, along with Shumway Capital Partners, LLC are the sole owners of the Investment Manager. Shumway Capital Partners, LLC owns a 10% stake in the Investment Manager. The firm is located in New York, New York.

INVESTMENT STRATEGY:
The Fund is a fundamentally driven, global long/short equity fund with an initial focus on telecom, media and technology ("TMT") and consumer sectors. The consumer sector will be a smaller part of the portfolio (10-20%). JAT will employ a "private equity-like" approach to investing, taking a longer-term, fundamentally-oriented perspective when evaluating investments. The Fund's gross exposure will range from 150% to 250% and its net exposure will range from 0% to 50% net long. The Fund will typically have 50-70 positions and actively seek to have long and short positions within sub-sectors, market capitalizations, and geographies. The intent is also to have long and short positions in companies with similar business risks. The Fund will be global and expects 50% invested in US companies and 50% in non-US companies.

DISTINGUISHING FEATURES*:*
- The Fund manager, John Thaler, is well-known to Prisma and highly regarded because of his previously prominent role at Shumway Capital.
- Mr. Thaler has already managed a fund called SCP Omni (under the Shumway Capital umbrella), which followed the same strategy as will be employed at JAT. The SCP Omni fund generated strong returns in 2006. In addition, he managed a team of two analysts.
- Specialist manager focusing on telecom, media and technology ("TMT") and consumer sectors

TEAM:
John A. Thaler, Founder and Portfolio Manager
John Thaler is the Founder and Portfolio Manager of JAT Capital. Mr. Thaler has over 8 years of investment experience, with 5+ in public market investing. Mr. Thaler has focused primarily on the Telecommunication, Media and Technology sectors, and has an extensive network of contacts that he draws upon to source and research ideas. Most recently, Mr. Thaler was a Portfolio Manager at Shumway Capital Partners, a global long/short equity fund based in Greenwich, CT. Mr. Thaler was a pre-launch member of the SCP team, starting as the analyst covering TMT in 2002, and was made a Managing Director of the firm in 2003. As Managing Director, Mr. Thaler was responsible for the TMT exposure of the fund, along with Mr. Shumway. In 2006, Mr. Thaler managed the SCP Omni Fund, a separately managed and funded, TMT focused vehicle, and in 2007 Mr. Thaler was made a Portfolio Manager of the main funds. Earlier in his career, Mr. Thaler covered the TMT sectors as an Associate at Spectrum Equity Investors and prior to that as an Analyst at Merrill Lynch. He has a BA in Economics from the University of Chicago (1997).

JAT

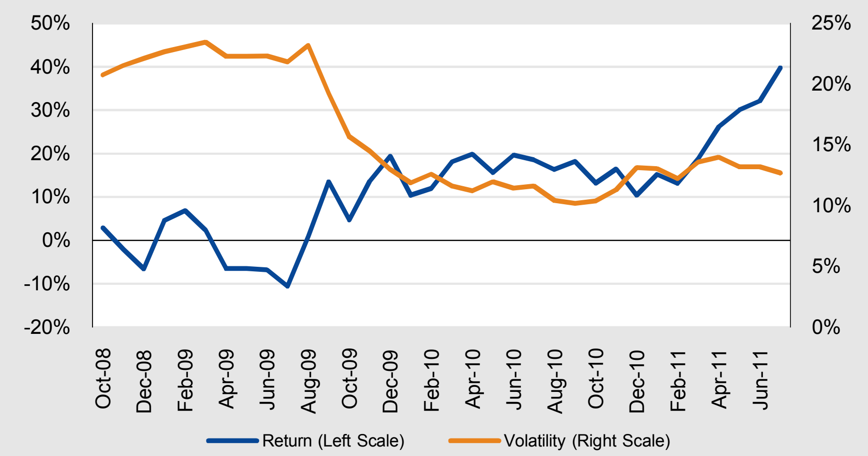
Performance Summary Strategy: L/S Equity

Start Date: November 2007
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	3.02%	5.11%	7.03%	5.59%	0.37%	3.04%	4.50%						32.26%
2010	-1.23%	7.03%	1.80%	-0.49%	-2.58%	1.40%	-1.25%	6.15%	0.79%	-1.29%	5.76%	-5.38%	10.40%
2009	6.79%	5.55%	-3.45%	-1.99%	0.99%	-2.00%	-0.33%	8.22%	-0.82%	3.03%	2.81%	-0.21%	19.37%
2008	-4.55%	3.27%	0.82%	7.26%	0.99%	-1.70%	3.91%	-4.13%	-11.79%	11.67%	-5.26%	-5.00%	-6.55%
2007											-0.44%	-0.46%	-0.90%

Fund Statistics	3 Year	ITD
Annualized Return	14.0%	13.6%
Jensen's Alpha to S&P 500	13.3%	11.7%
Annualized Standard Deviation	16.4%	15.5%
Sharpe Ratio	0.79	0.78
Sortino Ratio	1.15	1.23
Skewness	(0.25)	(0.20)
Kurtosis	0.43	0.52
Percent Profitable Months	56%	56%
Auto Correlation	(0.19)	(0.20)

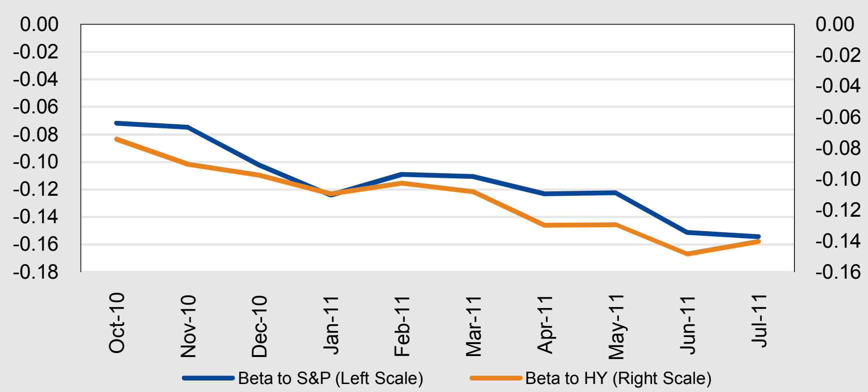
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(15.4%)	2	14	Jul-08	Sep-08
(5.4%)	3	3	Oct-07	Jan-08
(5.4%)	1	2	Nov-10	Dec-10

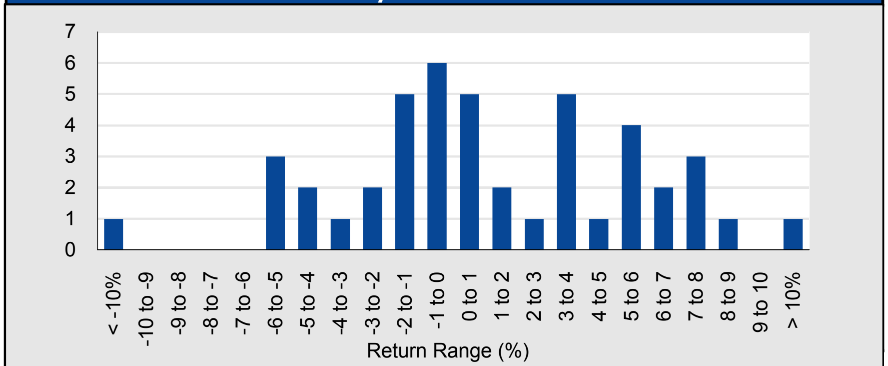
Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	(0.08)	(0.15)	(0.10)	(0.20)
MSCI North Am	(0.07)	(0.14)	(0.09)	(0.19)
MSCI Asia	(0.05)	(0.15)	(0.07)	(0.20)
MSCI Europe	(0.04)	(0.09)	(0.06)	(0.15)
DXY	0.30	0.27	0.21	0.20
S&P GSCI	0.01	0.01	0.03	0.03
ML High Yield	(0.09)	(0.14)	(0.09)	(0.14)
ML Treasury 10+	(0.35)	(0.31)	(0.30)	(0.27)
VIX	(0.00)	(0.00)	(0.07)	(0.07)
HFRI Composite	0.14	0.02	0.07	0.01
HFRI L/S Equity	0.07	(0.04)	0.05	(0.03)

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	45	43	40	34
Last Period	4.5%	8.1%	28.4%	39.8%
Avg Period Return	1.2%	3.3%	6.7%	11.6%
Average Gain	4.3%	7.3%	9.7%	15.4%
Average Loss	(2.7%)	(3.4%)	(5.5%)	(6.5%)
Best Period	11.7%	18.8%	28.4%	39.8%
Worst Period	(11.8%)	(12.1%)	(11.7%)	(10.6%)
Standard Deviation	4.5%	6.4%	8.7%	11.8%
Gain St Deviation	2.8%	4.2%	6.6%	9.1%
Loss St Deviation	2.8%	3.0%	4.1%	2.7%
VaR 95%	(5.3%)	(5.6%)	(8.6%)	(6.8%)

Monthly Return Distribution



Flowering Tree Investment Management Pte. Ltd.
Ashoka Offshore Fund

CLASSIFICATION:
Strategy: Equity Long/Short
Sub-strategy: Pan-Asia Fundamental Equity
Geography: Pan Asia

FIRM SUMMARY:
Flowering Tree Investment Management Pte Ltd ("FTIM") was founded in Singapore in August 2008 by Rajesh Sachdeva, but formally started managing the Ashoka Fund(s) in May 2009 (external investors in June). Mr. Sachdeva owns 100% of Flowering Tree; however, members of the investment and non-investment team have economic interests in the firm of roughly 30% (Mr. Sachdeva has expressed his intention to increase this to 60% overtime with an additional 10% going to his US-based foundation). Given the difficult capital raising environment, Mr. Sachdeva has set aside $4 million dollars in working capital to fund the business for two years.

INVESTMENT STRATEGY:
The Ashoka Funds employ a bottom-up approach using Pan-Asian equities in a modestly long-biased strategy. Deep fundamental research is core to the process and idea generation relies on Mr. Sachdeva's experience and the analysts charged with following 30-50 companies each in depth (proprietary models, Porter's style research, etc). Given Mr. Sachdeva's experience investing in the region, he tends to invest in companies/management teams with which he has at least 5-7 years of history.

The portfolio will be managed with net exposures typically between +35% to +60%, but has the flexibility to range from -20% to +80%. Gross exposure will range from 100% to 180%. The portfolio invests across all market caps. Mr. Sachdeva also has the flexibility to have 20-50% of short exposure through indices, baskets, and options for hedging purposes. In general, risk management is more of a philosophy centered on guidelines rather than a rigid quantitative methodology.

DISTINGUISHING CHARACTERISTICS:
- Mr. Sachdeva has had the benefit of being a partner at a successful and large Asian hedge fund, Sansar Capital. He has taken critical lessons with him in launching Flowering Tree.
- Mr. Sachdeva has created a broad economic partnership approach in establishing Flowering Tree to help foster teamwork, a sense of ownership and aid in organizational stability.
- The business was funded with $4 million and has also purchased the 3600 square foot office space.

TEAM:
Rajesh Sachdeva founded FTIM and will manage the firm's portfolios. From 2005 to 2008 he was a co-founder and partner at Sansar Capital, an Asian equity markets hedge fund adviser based in New York. Mr. Sachdeva played an integral role in growing the firm to a more than 35 person team which managed in excess of $3 billion and was the president of Sansar Capital in Singapore. For the first 11 years of his career, he focused on Asian investments both on the buy-side (as an investment analyst with Kingdon Capital and Alliance Capital) and on the sell-side (including as a director, Asian equity sales, for Citigroup GlobalMarkets in New York). He received an MBA from XLRI Institute of Management in 1993 and a B.S. in mechanical engineering from IIT Delhi in 1991.

Flowering Tree

PRISMA CAPITAL PARTNERS

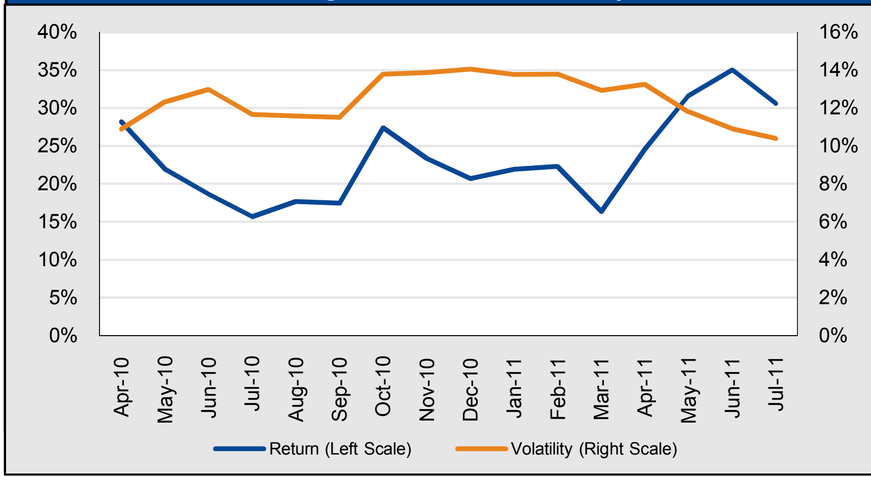
Performance Summary
Strategy: L/S Equity

Start Date: May 2009
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-1.42%	2.94%	1.04%	5.66%	1.80%	0.02%	2.12%						12.66%
2010	-2.43%	2.66%	6.18%	-1.31%	-3.63%	-2.52%	5.57%	1.68%	4.96%	9.11%	-0.03%	-0.41%	20.68%
2009					1.32%	0.22%	8.25%	-0.03%	5.16%	0.57%	3.27%	1.78%	22.15%

Fund Statistics	3 Year	ITD
Annualized Return	25.3%	25.3%
Jensen's Alpha to S&P 500	14.2%	14.2%
Annualized Standard Deviation	11.2%	11.2%
Sharpe Ratio	2.21	2.21
Sortino Ratio	5.51	5.51
Skewness	0.48	0.48
Kurtosis	(0.26)	(0.26)
Percent Profitable Months	70%	70%
Auto Correlation	(0.04)	(0.04)

Rolling 1 Year Return and Volatility



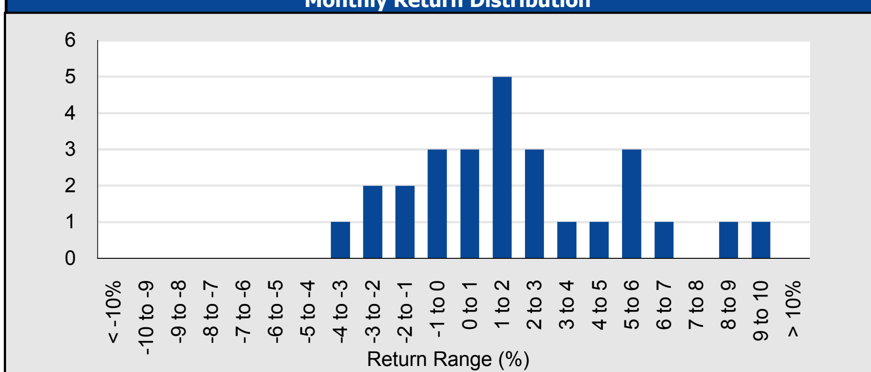
Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(7.3%)	3	3	Mar-10	Jun-10
(2.4%)	1	1	Dec-09	Jan-10
(1.8%)	3	1	Oct-10	Jan-11

Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.51	0.51	0.66	0.66
MSCI North Am	0.50	0.50	0.67	0.67
MSCI Asia	0.43	0.43	0.55	0.55
MSCI Europe	0.32	0.32	0.62	0.62
DXY	(0.52)	(0.52)	(0.47)	(0.47)
S&P GSCI	0.16	0.16	0.30	0.30
ML High Yield	0.72	0.72	0.50	0.50
ML Treasury 10+	(0.27)	(0.27)	(0.24)	(0.24)
VIX	(0.00)	(0.00)	(0.31)	(0.31)
HFRI Composite	1.13	1.13	0.59	0.59
HFRI L/S Equity	0.83	0.83	0.59	0.59

Rolling 3 Year Beta

Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	27	25	22	16
Last Period	2.1%	4.0%	14.3%	30.6%
Avg Period Return	1.9%	6.1%	11.7%	23.3%
Average Gain	3.4%	7.4%	12.3%	23.3%
Average Loss	(1.5%)	(3.3%)	(1.4%)	
Best Period	9.1%	16.4%	22.4%	35.0%
Worst Period	(3.6%)	(7.3%)	(1.4%)	15.7%
Standard Deviation	3.2%	5.5%	6.0%	5.8%
Gain St Deviation	2.7%	4.4%	5.4%	5.8%
Loss St Deviation	1.3%	3.5%		
VaR 95%	(2.5%)	(1.8%)	2.9%	15.7%

Monthly Return Distribution



White Elm Capital LLC
White Elm Capital Onshore, LP

CLASSIFICATION:
Strategy: Equity Long/Short
Market Bias: Moderate / Long
Geography: North America, Europe and EM

FIRM SUMMARY:
White Elm Capital, LLC is the Investment Manager of the Fund and a Delaware limited liability company. Matthew Iorio is Managing Member of the Investment Manager. Matthew Iorio will control the Investment Manager but will broadly distribute economic interest in both the Investment Manager and the Funds to eligible employees. The Fund's launch date was September 1, 2007.

INVESTMENT STRATEGY:
White Elm is a fundamentally driven, global, long/short equity fund initially focused on financials, business services, and consumer-related companies. The Fund invests across all market capitalizations. The ideal long positions generate high returns on capital, have competitive economic moats surrounding the franchise, generate significant (and growing) free cash flow and are run by smart, owner-oriented management teams. The ideal short positions are companies that are poorly managed, generate returns on capital below their cost of capital, have weak competitive positions and/or weak balance sheets, declining end markets, and/or misrepresenting the underlying economics of their business.

The Fund's portfolio typically invests approximately 50% in the U.S. and 50% outside the U.S. The Fund typically has 20-30 long positions (1-8% positions) and 30-100 short positions (0.25-2.50% positions). The maximum long position is 10% and the maximum short position is 5%. The holding period for the long positions is typically 2 years and greater, while the short positions have a holding period of 6-18 months. The Fund's gross exposure range is 100-200% and is typically between 150% and 180%. The Fund's net exposure range is 20-75% net long and is typically between 30% and 60% net long. The Fund will never be net short and will never be 100% net long.

DISTINGUISHING FEATURES:
- The Fund manager, Matt Iorio, was one of five senior analysts at Lone Pine Capital who had portfolio management responsibilities, and had an equity ownership in the management company and the Funds. He had the authority at Lone Pine to go directly to the trading desk to establish and size positions as well as trade around in existing positions.
- The employees of White Elm, collectively, are one of the largest investors in the Funds.

TEAM:
Matthew Iorio, Portfolio Manager
Prior to launching White Elm, Mr. Iorio was a Managing Director for Lone Pine Capital LLC, a $14.0 billion global long / short equity hedge fund based in Greenwich, CT from 2001 through 2006. While at Lone Pine, Mr. Iorio was responsible for sourcing, researching and executing investments in both the financial services and business services industries. Prior to joining Lone Pine, Mr. Iorio spent one year at Oppenheimer Capital in 2000 and two years at T. Rowe Price from 1997 through 1999 as a buy-side research analyst. From 1993 to 1996, Mr. Iorio worked as an investment banker for Salomon Brothers Inc in the Financial Institutions Group. Mr. Iorio received a B.S. with Distinction from the University of Virginia's McIntire School of Commerce in 1993 and received an MBA from the Amos Tuck School at Dartmouth College in 1998.

White Elm

Prisma Capital Partners

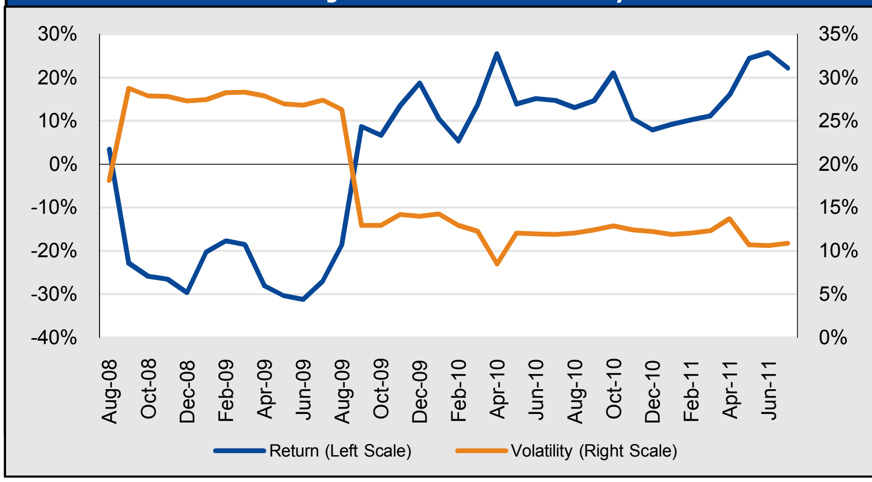
Performance Summary
Strategy: L/S Equity

Start Date: September 2007
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-1.82%	2.59%	4.54%	7.14%	-0.02%	1.75%	-0.47%						14.23%
2010	-2.97%	1.62%	3.63%	2.66%	-6.76%	0.66%	2.52%	-0.69%	4.83%	5.20%	-2.85%	0.49%	7.92%
2009	4.27%	6.58%	-3.95%	-7.05%	2.76%	-0.43%	2.95%	0.74%	3.41%	-0.45%	6.50%	2.89%	18.77%
2008	-7.90%	3.21%	-2.95%	5.24%	6.12%	0.80%	-2.95%	-9.69%	-22.54%	1.45%	0.07%	-1.62%	-29.58%
2007									3.84%	5.63%	0.96%	2.66%	13.68%

Fund Statistics	3 Year	ITD
Annualized Return	0.8%	4.1%
Jensen's Alpha to S&P 500	(0.6%)	3.1%
Annualized Standard Deviation	18.9%	18.0%
Sharpe Ratio	(0.01)	0.13
Sortino Ratio	0.12	0.13
Skewness	(2.29)	(2.15)
Kurtosis	7.93	7.43
Percent Profitable Months	61%	64%
Auto Correlation	0.20	0.25

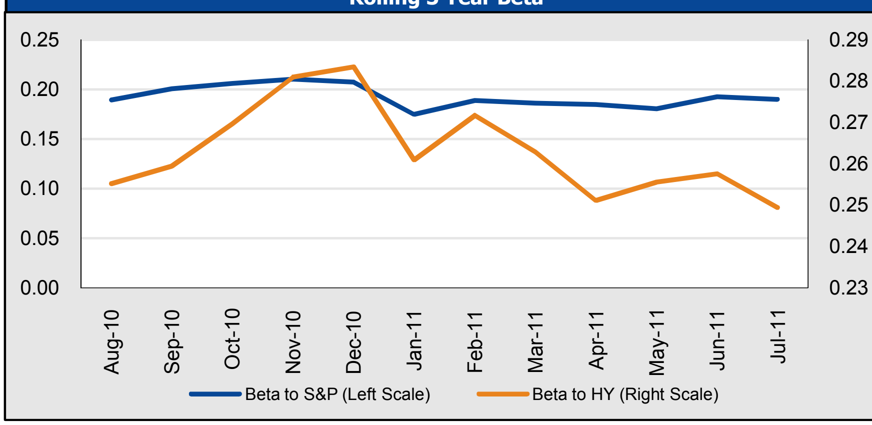
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(32.7%)	10	0	Jun-08	Apr-09
(7.9%)	1	4	Dec-07	Jan-08

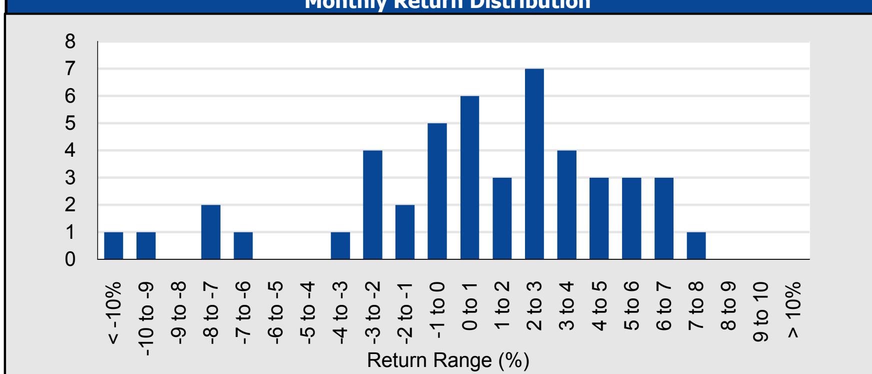
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	0.22	0.19	0.25	0.21
MSCI North Am	0.25	0.20	0.28	0.23
MSCI Asia	0.28	0.23	0.34	0.28
MSCI Europe	0.25	0.22	0.37	0.32
DXY	(0.45)	(0.49)	(0.27)	(0.31)
S&P GSCI	0.25	0.22	0.41	0.35
ML High Yield	0.28	0.25	0.23	0.22
ML Treasury 10+	(0.28)	(0.22)	(0.20)	(0.17)
VIX	(0.00)	(0.00)	(0.25)	(0.21)
HFRI Composite	1.19	1.08	0.54	0.48
HFRI L/S Equity	0.82	0.72	0.50	0.44

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	47	45	42	36
Last Period	(0.5%)	1.3%	16.3%	22.1%
Avg Period Return	0.5%	1.3%	1.7%	1.1%
Average Gain	3.3%	6.6%	7.4%	14.0%
Average Loss	(4.4%)	(9.3%)	(16.7%)	(24.7%)
Best Period	7.1%	14.9%	17.0%	25.8%
Worst Period	(22.5%)	(32.1%)	(32.2%)	(31.2%)
Standard Deviation	5.2%	9.9%	12.7%	19.4%
Gain St Deviation	2.0%	3.6%	5.1%	6.3%
Loss St Deviation	5.5%	10.1%	12.5%	4.9%
VaR 95%	(7.9%)	(21.4%)	(27.1%)	(30.3%)

Monthly Return Distribution



Graham Capital Management
Graham K4D-15V

CLASSIFICATION:
Strategy: Managed Futures
Sub-Strategy: Systematic

FIRM SUMMARY:
The macro-oriented alternative investment firm was founded in 1994 by Kenneth G. Tropin. As of April 1, 2010, the Fund's AUM was $6.1 billion, including more than $1 billion in proprietary capital. The firm is located in Rowayton, CT, with over 150 employees and is a Registered Commodity Trading Advisor and Commodity Pool Operator with the NFA and CFTC.

INVESTMENT STRATEGY:
The Fund is a managed futures strategy that invests across global interest rates, FX, global stock indices and commodities. The portfolio utilizes 44 proprietary quantitative programs primarily across long-term, intermediate-term, and short-term/high frequency time horizons. The majority of the Fund's risk is in trend-following, tactical trend-following, short-term momentum, ranking models and mean reversion. A small portion of the Fund's risk is in relative value, fundamental, pattern recognition and spread trading.

DISTINGUISHING FEATURES*:*
- The Firm has been in business since 1994 and has developed a great culture
- Top decile performance over the past 3-years among CTAs (shorter track record used to reflect material changes to the models that occurred in 2007)
- Excellent transparency of both process and positions
- Models and processes have evolved with the markets, particularly in the past 4-years
- Models post 2007 are well diversified and do not arbitrage just one effect, asset class or time horizon yet still emphasize trend following
- Sub $2bn asset base balances transaction cost minimization with team tenure/size
- Very good liquidity terms: monthly liquidity on 3 days notice

TEAM:
Kenneth G. Tropin (Chairman, Founder, Principal).
Former President and CEO of John W. Henry & Company, Inc. (1989-1993) and Senior Vice President and Director of Managed Futures at Dean Witter Reynolds (1981-1989). Mr. Tropin has also served as Chairman of the Managed Funds Association and its predecessor organization, which he was instrumental in founding during the 1980's.

Paul Sedlack (Chief Executive Officer, General Counsel, Principal).
Former Partner at the law firm of McDermott, Will & Emery in New York, focusing on securities and commodities laws pertaining to the investment management and related industries. Mr. Sedlack began his career at the law firm of Coudert Brothers in New York in 1986 and was resident in Coudert's Singapore office from 1988 to 1989. Mr. Sedlack received a J.D. from Cornell Law School in 1986 and an M.B.A. in Finance in 1983 and B.S. in Engineering in 1982 from State University of New York at Buffalo.

Graham

Performance Summary
Strategy: Managed Futures

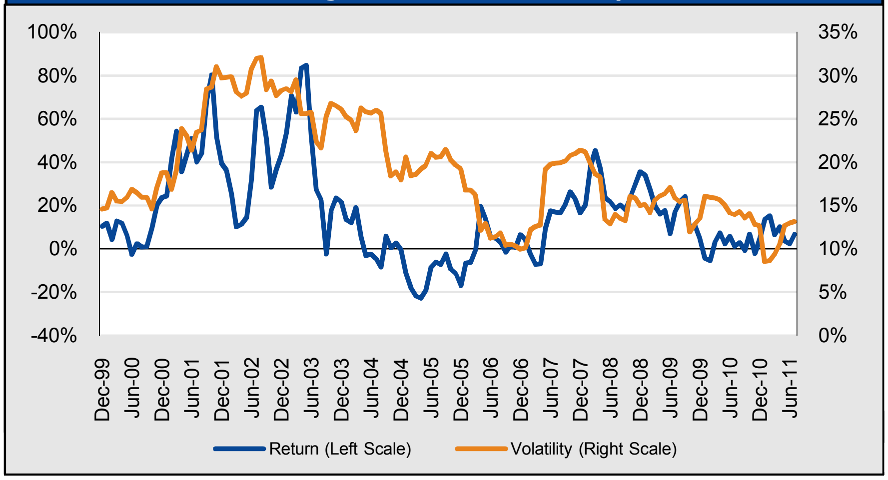
Start Date: January 1999
End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-0.53%	2.26%	-3.88%	5.52%	-6.22%	-2.97%	3.10%						-3.22%
2010	-8.29%	0.59%	4.16%	1.90%	-0.31%	-1.67%	-1.22%	3.70%	0.77%	4.99%	-2.50%	3.16%	4.62%
2009	0.62%	1.89%	-4.53%	-2.26%	4.63%	-4.89%	3.29%	1.91%	4.54%	-2.57%	6.45%	-3.41%	4.95%
2008	1.77%	7.49%	1.35%	0.91%	3.04%	4.63%	-5.39%	-2.24%	2.54%	11.75%	4.03%	1.99%	35.63%
2007	-1.29%	-6.49%	-3.68%	7.17%	14.25%	6.23%	-3.00%	-3.60%	4.37%	6.81%	-0.79%	-2.53%	16.57%
2006	1.23%	-0.43%	1.32%	6.89%	-2.99%	-0.85%	-2.54%	-3.39%	0.95%	1.94%	2.08%	2.68%	6.64%

Fund Statistics	3 Year	ITD
Annualized Return	8.1%	13.5%
Jensen's Alpha to S&P 500	7.3%	10.2%
Annualized Standard Deviation	14.1%	19.5%
Sharpe Ratio	0.51	0.53
Sortino Ratio	1.39	0.97
Skewness	0.10	0.24
Kurtosis	0.41	0.52
Percent Profitable Months	58%	60%
Auto Correlation	0.14	(0.07)

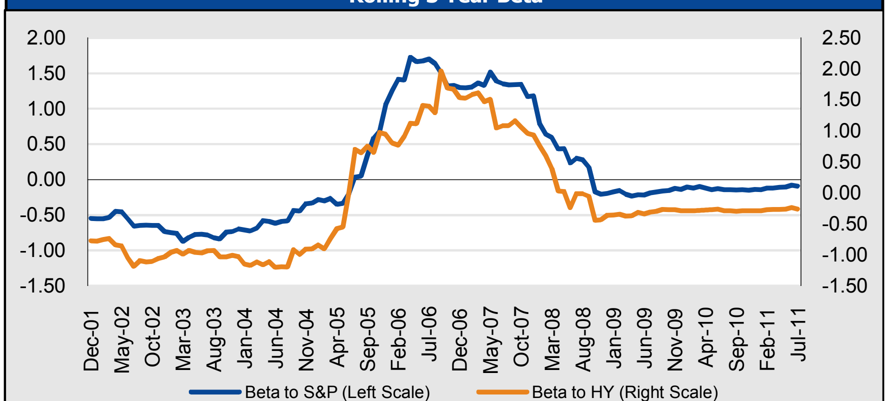
Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(30.5%)	14	34	Feb-04	Apr-05
(17.6%)	4	3	May-03	Sep-03
(16.4%)	6	2	Oct-01	Apr-02

Rolling 1 Year Return and Volatility



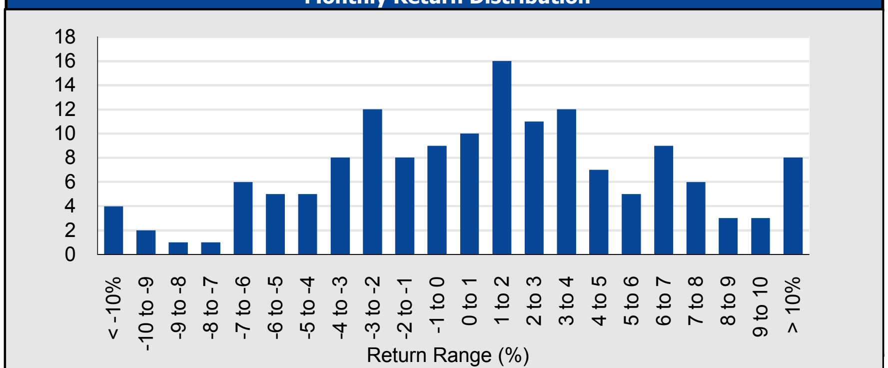
Benchmark Comparison	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	(0.21)	(0.09)	(0.17)	(0.13)
MSCI North Am	(0.19)	(0.08)	(0.16)	(0.13)
MSCI Asia	(0.12)	(0.08)	(0.11)	(0.13)
MSCI Europe	(0.11)	(0.02)	(0.11)	(0.04)
DXY	(0.21)	(0.10)	(0.09)	(0.08)
S&P GSCI	0.04	(0.07)	0.05	(0.14)
ML High Yield	(0.38)	(0.26)	(0.20)	(0.31)
ML Treasury 10+	0.15	0.00	0.08	0.00
VIX	0.00	0.00	0.19	0.28
HFRI Composite	(0.04)	(0.07)	(0.02)	(0.04)
HFRI Global Macro	1.56	1.95	0.47	0.78

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	151	149	146	140
Last Period	3.1%	(6.2%)	(2.7%)	6.8%
Avg Period Return	1.2%	3.8%	7.7%	16.5%
Average Gain	4.8%	9.9%	13.2%	23.0%
Average Loss	(4.0%)	(5.1%)	(6.7%)	(7.4%)
Best Period	19.2%	43.9%	55.0%	84.8%
Worst Period	(13.6%)	(16.7%)	(21.0%)	(22.8%)
Standard Deviation	5.6%	10.9%	14.3%	21.8%
Gain St Deviation	3.9%	9.7%	12.7%	19.9%
Loss St Deviation	3.0%	4.3%	6.2%	6.4%
VaR 95%	(7.9%)	(12.0%)	(11.0%)	(9.4%)

Monthly Return Distribution



Kingsford Capital Management, LLC
Kingsford International

CLASSIFICATION:
Strategy: Short Bias
Sub-Strategy: Small to Mid-Cap
Market Bias: Short
Geography: U.S.

FIRM SUMMARY:
Kingsford Capital Management, LLC ("Kingsford"), a California limited liability company, was formed in 2001. Michael I. Wilkins and J. David Scially both have a 50% interest in Kingsford. Both portfolio managers have a substantial portion of their net worth in the Kingsford Funds and devote 100% of their time to management and investment activities of the funds. The managers had worked together as a team for West Highland Capital, dedicated to the short side of the market, since the beginning of 1997. Two funds were started in 2001 under the West Highland corporate umbrella, but were legally separated from West Highland at the end of 2001, and are now run by Kingsford Capital Management, LLC, an entity created for this purpose.

INVESTMENT STRATEGY:
The Fund's objective and investment strategy is dedicated selling short U.S. publicly traded securities, with a focus on small to mid-cap stocks. The Fund has maintained, on average, a significant net short exposure of 75%, with the remaining portion in cash for defensive purposes, although the Fund may run at lower levels depending on the General Partners' assessment of market risk and limited short opportunities. The Fund's source of returns is generated primarily from stock selection, even in a favorable, bullish market environment. On a limited basis, the Fund may take long positions in certain debt and equity securities but does so primarily as a hedge against a short position. The strategy focuses on small capitalization stocks in the US equity market.

DISTINGUISHING CHARACTERISTICS:
- Diversification is the primary risk management tool at Kingsford. A standard position would be 1% of invested capital.
- Will be short roughly 100 names at any one point, which means that being wrong in one or two positions should not dramatically impact performance
- The managers tend to short smaller cap companies than many other short bias funds. This means that the names may not get as 'crowded,' and more importantly, the companies tend to be small enough so that one or two individuals doing research on that company can yield information not widely known by the market.

TEAM:
Michael I. Wilkins
Business Background
11/2001 – Present: Kingsford Capital Management, LLC, Point Richmond, CA; Investment Adviser; Manager.
1/1998-200: Estero Partners, LLC, Greenbrae, CA; Investment Adviser; Member.
3/1995-12/2001: West Highland Capital, Inc., Greenbrae, CA; Investment Adviser; Associate.
1977 – 1981: Stanford University, Stanford, CA; A.B. in Philosophy.
1985: Stanford Graduate School of Business, Stanford, CA; M.B.A. in Business.

J. David Scially
11/2001 – Present: Kingsford Capital Management, LLC, Point Richmond, CA; Investment Adviser; Manager.
1/1999-12/2001: Estero Partners, LLC, Greenbrae, CA; Investment Adviser; Member.
1/1997-12/2001: West Highland Capital, Inc., Greenbrae, CA; Investment Adviser; Equity Analyst.
1985 – 1990: Temple University, Philadelphia, PA; B.A. in History.

Kingsford

Prisma Capital Partners

Performance Summary
Strategy: Short Bias

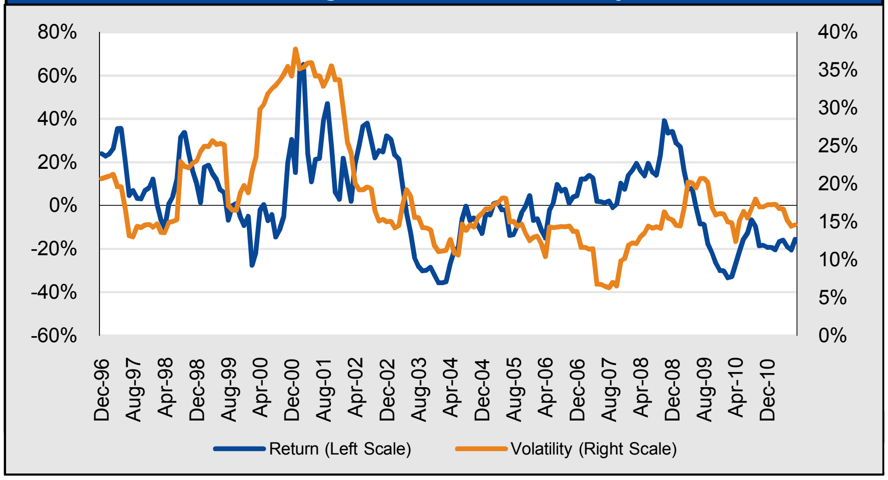
Start Date: January 1996
End Date: July 2011

Monthly Performance (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	2.13%	-3.56%	-1.52%	-2.46%	2.46%	2.28%	1.96%						1.10%
2010	2.18%	-2.08%	-5.82%	-3.36%	6.16%	4.44%	-4.21%	5.50%	-8.45%	-4.69%	-2.88%	-6.61%	-19.24%
2009	2.46%	2.42%	-6.50%	-10.75%	-2.14%	-2.50%	-7.10%	-1.57%	-5.27%	5.64%	-2.98%	-5.70%	-30.05%
2008	6.87%	3.80%	2.49%	-3.61%	-2.70%	6.23%	0.62%	-1.47%	5.11%	11.21%	3.36%	-0.99%	34.33%
2007	0.65%	1.74%	-0.23%	-0.49%	-0.81%	0.98%	4.33%	-0.31%	-2.88%	-1.53%	7.87%	-1.69%	7.41%
2006	-6.27%	1.76%	-1.67%	0.61%	9.59%	1.30%	4.68%	-1.16%	0.22%	-2.98%	-1.78%	0.96%	4.50%

Fund Statistics	3 Year	ITD
Annualized Return	(12.4%)	1.5%
Jensen's Alpha to S&P 500	(12.0%)	0.6%
Annualized Standard Deviation	16.7%	19.5%
Sharpe Ratio	(0.80)	(0.11)
Sortino Ratio	(0.23)	(0.20)
Skewness	0.29	0.40
Kurtosis	(0.18)	0.83
Percent Profitable Months	39%	48%
Auto Correlation	0.09	0.17

Rolling 1 Year Return and Volatility



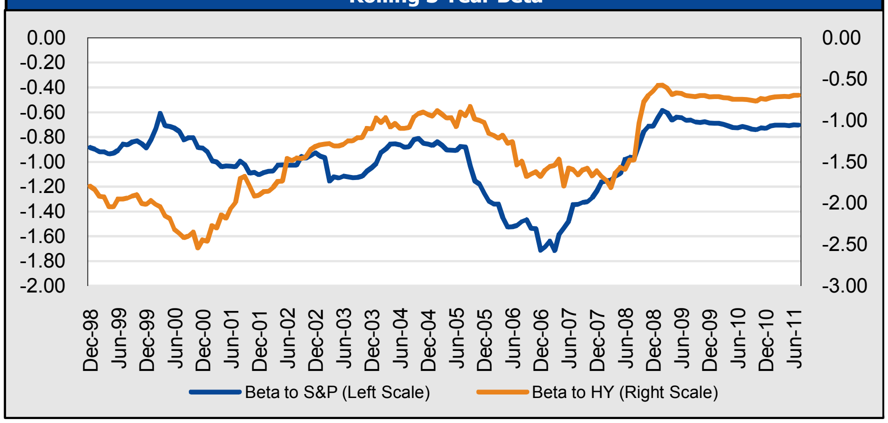
Drawdown Analysis - 3 Worst Periods

Drawdown	Length	Recovery	Peak	Valley
(53.1%)	103	0	Sep-02	Apr-11
(34.4%)	18	9	Aug-98	Feb-00
(16.0%)	3	3	Mar-01	Jun-01

Benchmark Comparison

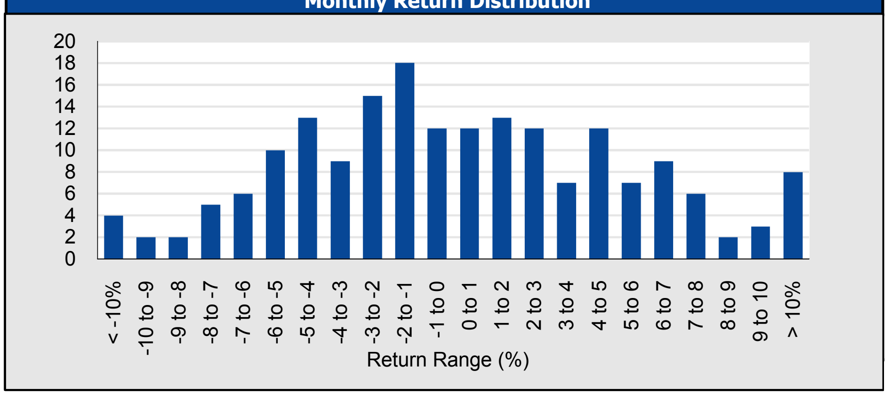
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	(0.84)	(0.70)	(0.70)	(0.90)
MSCI North Am	(0.83)	(0.69)	(0.70)	(0.90)
MSCI Asia	(0.64)	(0.58)	(0.65)	(0.79)
MSCI Europe	(0.63)	(0.47)	(0.60)	(0.80)
DXY	0.32	0.73	0.14	0.52
S&P GSCI	(0.17)	(0.35)	(0.20)	(0.63)
ML High Yield	(1.03)	(0.70)	(0.51)	(0.70)
ML Treasury 10+	0.34	0.29	0.17	0.25
VIX	0.00	0.00	0.21	0.42
HFRI Composite	(2.08)	(1.63)	(0.79)	(0.82)
HFRI Short Bias	0.91	1.07	0.89	0.97

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	187	185	182	176
Last Period	2.0%	6.8%	(1.0%)	(15.6%)
Avg Period Return	0.3%	0.8%	1.6%	3.1%
Average Gain	4.8%	8.3%	11.3%	16.7%
Average Loss	(4.0%)	(7.4%)	(10.0%)	(14.8%)
Best Period	18.2%	34.8%	36.9%	65.0%
Worst Period	(16.4%)	(23.8%)	(29.6%)	(35.7%)
Standard Deviation	5.6%	10.1%	13.6%	19.8%
Gain St Deviation	4.0%	7.0%	9.0%	13.3%
Loss St Deviation	3.0%	5.3%	7.8%	10.3%
VaR 95%	(7.5%)	(14.8%)	(22.0%)	(30.0%)

Monthly Return Distribution



Kynikos Associates LP
Ursus International Limited

CLASSIFICATION:
Strategy: Short Bias Equity
Market Bias: Short
Geography: U.S.

FIRM SUMMARY:
Started in 1985 by James Chanos, Kynikos Associates provides investment management services for both domestic and offshore clients. Through investment partnerships, corporations and managed accounts, both domestic and offshore, Kynikos Associates maintains a portfolio of overpriced securities for clients. Mr. Chanos, the managing member of the General Partner, believes that significant investment opportunities arise over the long-term due to sound fundamental research of individual securities and that overvalued securities often present similar or greater investment opportunities in comparison to undervalued securities. As a result, short selling will be employed actively as such opportunities present themselves. This short selling strategy is dedicated only to short positions and avoids taking long exposure, either individual securities or indices. As a result of this discipline, volatility over time can be high relative to other strategies and the Manager does not attempt to dampen volatility or produce returns by taking such long exposure.

INVESTMENT STRATEGY:
The Manager's investment philosophy is based on extensive fundamental research of both companies and industries. Through this research the Manager seeks to identify and sell short equities which will be revalued downward from then current prices due to deteriorating profit outlook, unsustainable growth, increased industry competition, or lack of a viable long term business model. The Manager employs many analytical techniques: balance sheet analysis, income statement analysis, flow of funds statement analysis, and the important interactions between the three. The Manager also scrutinizes the quality of corporate earnings and a company's return on invested capital.

DISTINGUISHING FEATURES:
- Fundamental research driven stock selection, primarily from non-Wall Street sources
- Industry leader with extensive track record of success short selling as well as managing a portfolio of short positions
- Net short market positioning provides unique alpha source along with substantial net negative beta which reduces overall portfolio risk at the fund of funds level

TEAM:
James S. Chanos, President
• Found/evaluated overpriced securities at Paine Webber, Gilford Securities and Deutsche Bank prior to founding Kynikos Associates in 1985
• B.A., Yale University

Ursus

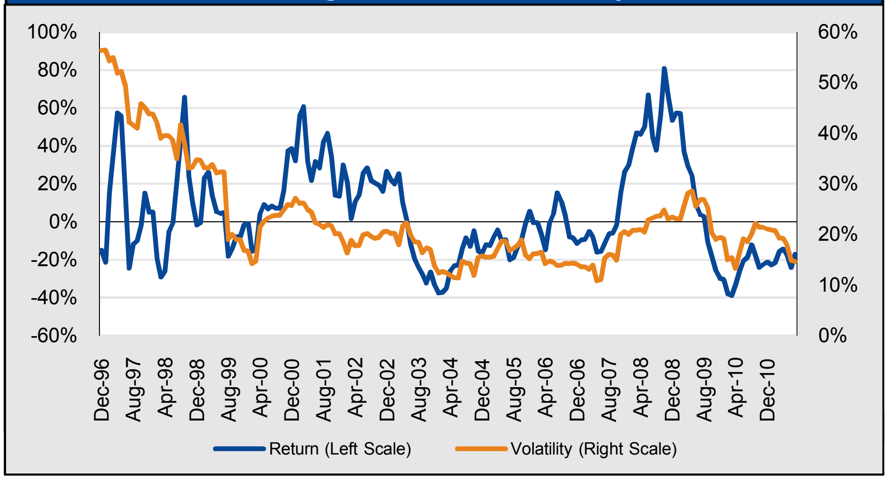
PRISMA CAPITAL PARTNERS

Performance Summary Start Date: January 1996
Strategy: Short Bias End Date: July 2011

Monthly Performance (%)													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011	-1.00%	-1.97%	-2.42%	-0.55%	2.32%	-0.63%	2.06%						-2.26%
2010	1.10%	-3.50%	-9.06%	-2.30%	6.40%	7.77%	-6.33%	6.10%	-11.03%	-3.73%	-1.85%	-5.09%	-21.17%
2009	2.24%	8.08%	-7.62%	-11.20%	-3.30%	0.16%	-8.40%	-1.90%	-4.70%	4.10%	-4.00%	-6.54%	-29.78%
2008	-0.30%	8.20%	6.10%	-5.80%	0.70%	14.01%	-3.90%	-1.12%	9.95%	14.24%	5.04%	-1.10%	53.49%
2007	-3.00%	1.10%	0.34%	-5.40%	-1.80%	2.35%	10.80%	4.00%	-2.92%	-1.50%	13.90%	7.51%	26.24%
2006	-5.10%	0.80%	-4.13%	-2.10%	7.40%	1.84%	5.20%	-1.30%	-3.42%	-5.80%	-3.13%	-1.51%	-11.50%

Fund Statistics	3 Year	ITD
Annualized Return	(11.3%)	(0.4%)
Jensen's Alpha to S&P 500	(10.5%)	(0.5%)
Annualized Standard Deviation	20.3%	26.1%
Sharpe Ratio	(0.60)	(0.15)
Sortino Ratio	(0.35)	(0.29)
Skewness	0.46	0.72
Kurtosis	0.12	1.64
Percent Profitable Months	36%	48%
Auto Correlation	0.10	0.21

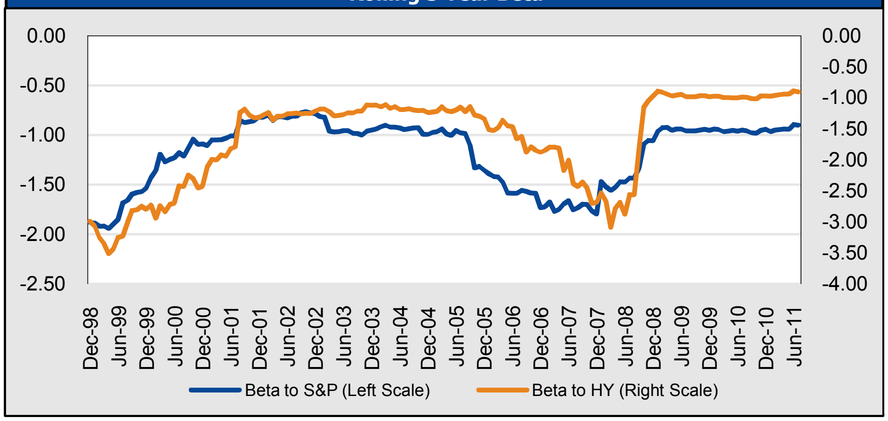
Rolling 1 Year Return and Volatility



Drawdown Analysis - 3 Worst Periods				
Drawdown	Length	Recovery	Peak	Valley
(53.9%)	56	21	Sep-02	May-07
(52.8%)	26		Feb-09	Apr-11
(41.9%)	4	10	Jan-96	May-96

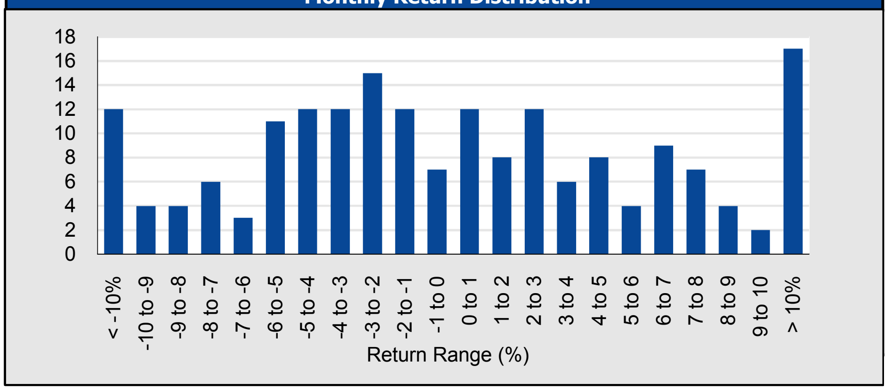
Benchmark Comparison				
	Beta	3Yr Beta	Correl	3Yr Corr
S&P 500	(1.11)	(0.90)	(0.68)	(0.94)
MSCI North Am	(1.09)	(0.88)	(0.68)	(0.94)
MSCI Asia	(0.72)	(0.75)	(0.67)	(0.84)
MSCI Europe	(0.80)	(0.60)	(0.56)	(0.84)
DXY	0.30	0.93	0.10	0.55
S&P GSCI	(0.18)	(0.45)	(0.16)	(0.65)
ML High Yield	(1.26)	(0.90)	(0.46)	(0.74)
ML Treasury 10+	0.53	0.37	0.19	0.26
VIX	0.00	0.00	0.28	0.50
HFRI Composite	(2.45)	(2.06)	(0.69)	(0.85)
HFRI Short Bias	1.05	1.30	0.77	0.96

Rolling 3 Year Beta



Time Window Analysis	1 Month	3 Month	6 Month	12 Month
Number of Periods	187	185	182	176
Last Period	2.1%	3.8%	(1.3%)	(17.3%)
Avg Period Return	0.2%	0.8%	1.8%	4.4%
Average Gain	6.3%	11.9%	16.0%	26.5%
Average Loss	(5.2%)	(9.2%)	(11.2%)	(15.9%)
Best Period	28.9%	43.9%	45.8%	80.9%
Worst Period	(20.7%)	(33.7%)	(38.3%)	(39.0%)
Standard Deviation	7.5%	13.4%	16.9%	26.0%
Gain St Deviation	5.8%	9.6%	12.0%	19.1%
Loss St Deviation	3.9%	6.7%	7.8%	10.0%
VaR 95%	(11.0%)	(18.7%)	(22.2%)	(30.6%)

Monthly Return Distribution



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Investments in hedge funds and funds of hedge funds are speculative and involve special risks, and there can be no assurance that a fund's investment objectives will be realized or that suitable investments may be identified.

Underlying fund performance presented herein represents the actual performance of the relevant funds. The performance is based on the actual unaudited performance returns provided by the underlying managers, which Prisma believes to be reliable, but makes no representations or warranties as to their accuracy or completeness. The returns are net of fees and expenses at the underlying fund level. There can be no assurances that the underlying hedge fund managers will meet their investment objectives.

The hedge fund managers included within this report represents the initial portfolio as of September 1, 2011.

Past performance is not necessarily indicative of future results. Forecasts contained herein are based upon subjective estimates and assumptions about circumstances and events that may not yet have taken place and may never do so.

The **S&P 500 TR** ("S&P 500") has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over US$ 3.5 trillion benchmarked, with index assets comprising approximately US$ 915 billion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities.

The **MSCI North America Index** ("MSCI North Am") is a capitalization-weighted index that monitors the performance of stocks from the continent of North America.

The **MSCI AC Asia Index** ("MSCI Asia") is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia. As of January 2009 the

MSCI AC Asia ex Japan Index consisted of the following 10 developed and emerging market country indices: China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

The **MSCI Europe Index** (“MSCI Europe”) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

The **U.S. Dollar Index** (“DXY”) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and 6 major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

The **S&P GSCI** is a world production weighted index, the analogue to market capitalization weighting for equities. Currently, the GSCI includes 24 commodity futures contracts in the 5 major commodity groups. SSgA's Goldman Sachs Commodities Index Strategy (GSCI Strategy) aims to provide investors with daily, low-cost access to the returns of the commodities futures market by investing in a combination of GSCI futures contracts, individual commodity futures, and swaps.

The **ML High-Yield Master II Bond Index** (“ML High Yield”) is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The **ML 10+ Year Treasury Index** (“ML Treasury 10+”) is a subset of the ML Treasury Master Index. The index measure the total return performance of U.S. Treasury bonds with an outstanding par that is greater than or equal to $25 million. The maturity range of these securities is greater than ten years.

The **CBOE Volatility Index** (“VIX”) is based on real-time prices of options on the S&P 500 Index, listed on the Chicago Board Options Exchange (Symbol: SPX), and is designed to reflect investors' consensus view of future (30-day) expected stock market volatility.

The **HFRI Fund Weighted Composite Index** (“HFRI Composite”) is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

The **HFRI Fund of Funds Composite Index** (“HFRI FoF Composite”) is an equal-weighted index includes over 800 constituent fund of funds included in the HFR database. Funds within the index must have at least $50 million under management or have been actively trading for at least twelve (12) months.

EXHIBIT 27

Fund Weights - 2011

Newport Colonels, LLC

PACIFIC ALTERNATIVE ASSET MANAGEMENT COMPANY

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Report Run Date: 1-Sep-11 **Data As of:** 1-Sep-11

		Fund%
Convertible Bond Hedging		
Northwest Investment Management	Northwest China Opportunities Fund	1.20%
Overland Advisors, LLC	OC 521 Offshore Fund, Ltd (Overland)	2.30%
Tamalpais Asset Management, LP	Tamalpais Global Partners, Ltd	1.50%
Tenor Capital Management Company, LP	Tenor Opportunity Fund, Ltd	2.00%
Convertible Bond Hedging Subtotal		**7.00%**
Fixed Income Relative Value		
Iron Peak Capital	Black Diamond Structured Opportunities Ltd	1.40%
Concordia Advisors, LLC	Concordia Institutional Multi-Strategy, Ltd	3.75%
Onslow Capital Management	PM Manager Fund, SPC - Segregated Portfolio 27 (Onslow)	2.50%
Fixed Income Relative Value Subtotal		**7.65%**
Distressed Debt		
Altai Capital Management	Altai Capital Partners Offshore Ltd	2.45%
Altai Capital Management	Altai Capital PV1 Offshore Fund, Ltd.	0.20%
Altai Capital Management	Altai Capital SF Offshore Fund, Ltd.	0.25%
Perella Weinberg Partners	Perella Weinberg Partners Xerion Offshore Fund LTD.	2.10%
Serengeti Asset Management LLC	Serengeti Opportunities Ltd	3.00%
SkyTop Capital Management, LLC	SkyTop OC Offshore Fund, Ltd	2.00%
Standard General	Standard General OC Offshore Fund Ltd	2.50%
Distressed Debt Subtotal		**12.50%**
Long/Short Credit		
BHR Capital	BHR OC Offshore Fund, Ltd.	3.50%
Brigade Capital Management LLC	Brigade Credit Offshore Fund I Ltd	3.50%
Candlewood Investment Group	CWD OC 522 Offshore Fund, Ltd.	1.30%
Brigade Capital Management LLC	Loan Value OC Fund Ltd.	3.00%
Mast Capital Management, LLC	Mast OC I, Ltd	4.50%
Seawall Capital Management, LLC	Seawall OC Fund, Ltd.	3.00%
Solus Alternative Asset Management, LP	SMS Ltd	2.00%
Southpaw Asset Management, LP	Southpaw Credit Opportunity Fund (FTE), Ltd	3.50%
Solus Alternative Asset Management, LP	Ultra OC, Ltd	2.50%
Long/Short Credit Subtotal		**26.80%**
Equity Market Neutral		
Menta Capital, LLC	Menta Global Offshore, Ltd	1.00%
Greenway Trading LLC	PM Manager Fund, SPC - Segregated Portfolio 8 (Greenway)	1.00%
Equity Market Neutral Subtotal		**2.00%**
Event-Driven Equity		
Luxor Capital Group, LLC	OC 19 Offshore Fund, Ltd. - LCG	1.75%
Tiedemann Investment Group	PM Manager Fund, SPC - Segregated Portfolio 14 (Tiedemann)	1.25%
Adar Investment Management, LLC	PM Manager Fund, SPC - Segregated Portfolio 21 (ADAR)	1.25%
Amber Capital Investment Management	PM Manager Fund, SPC - Segregated Portfolio 22 (Amber)	2.50%
Octavian Advisors	Tiberius OC Fund, Ltd	1.75%
Event-Driven Equity Subtotal		**8.50%**

Long/Short Equity		
Alydar Capital, LLC	Alydar Fund, Ltd	1.00%
Alydar Capital, LLC	Alysheba Fund, Ltd	1.75%
Philadelphia Financial Management of San Francisco,LLC	Boathouse Row Offshore Regatta, Ltd	2.00%
Pictet Asset Management UK, Ltd	Corto European Fund, Ltd	1.50%
Constellation Asset Management	OC 520 Offshore Fund, Ltd. (Constellation)	1.50%
J & W Seligman & Co, Inc	PM Manager Fund, SPC - Segregated Portfolio 5 (Seligman Healt	1.75%
J & W Seligman & Co, Inc	PM Manager Fund, SPC - Segregated Portfolio 6 (Seligman Tech	2.25%
JANA Partners, LLC	PM Manager Fund, SPC - Segregated Portfolio 13 (JANA)	2.00%
Lancaster Investment Management	PM Manager Fund, SPC - Segregated Portfolio 15 (Lancaster)	1.75%
RK Capital Management, LLC	PM Manager Fund, SPC - Segregated Portfolio 16 (RK Capital)	1.85%
Newbrook Capital Advisors, LP	PM Manager Fund, SPC - Segregated Portfolio 17 (Newbrook)	1.50%
Deutsche Asset Management (UK) Limited	PM Manager Fund, SPC - Segregated Portfolio 19 (DB Equilibria	1.75%
FSI Capital, LLC	PM Manager Fund, SPC - Segregated Portfolio 23 (Elbrook Holdi	0.50%
ACK Asset Partners, LP	PM Manager Fund, SPC - Segregated Portfolio 25 (ACK	1.75%
Neuberger Berman Asia Limited	PM Manager Fund, SPC - Segregated Portfolio 26 (NB)	1.50%
Serengeti Asset Management LLC	Serengeti Rapax Fund, Ltd	1.50%
Long/Short Equity Subtotal		**25.85%**

Opportunistic Investments		
Attunga Capital Pty Ltd	Henderson Agricultural Fund Limited	1.00%
LibreMax Capital, LLC	LibreMax OC Offshore Fund, Ltd	3.50%
PIMCO, LLC	PIMCO Multi-Asset Volatility Offshore Fund	2.30%
Opportunistic Investments Subtotal		**6.80%**

Totals by Strategy	
Convertible Bond Hedging	7.00%
Fixed Income Relative Value	7.65%
Distressed Debt	12.50%
Long/Short Credit	26.80%
Equity Market Neutral	2.00%
Event-Driven Equity	8.50%
Long/Short Equity	25.85%
Opportunistic Investments	6.80%

EXHIBIT 28

Blackstone Henry Clay Fund, LLC

	9/1 Allocations	Port. %
Equity		
Fundamental		
Moneda Abs Ret Ltd	12,000,000	3.58%
Pershing Square, L.P	16,500,000	4.93%
VK Viking Wrapper LP	18,500,000	5.52%
	47,000,000	14.03%
Opportunistic Trading		
Samlyn LP	5,000,000	1.49%
	5,000,000	1.49%
Arbitrage, Credit, and Event		
Multistrategy		
DE Shaw Graphite LLC	20,000,000	5.97%
Fir Tree Value LP	15,000,000	4.48%
HBK II LP	16,500,000	4.93%
Mason Capital LP	15,000,000	4.48%
Strategic Opp LPFeed	14,525,000	4.34%
	81,025,000	24.19%
Credit-Mortgages		
CRM Cerberus Wrap LP	24,000,000	7.16%
	24,000,000	7.16%
Credit-Structured/ABS		
Mariner Tricadia LP	18,500,000	5.52%
	18,500,000	5.52%
Credit-Opportunistic		
BMA Special Opp LP	12,000,000	3.58%
Caspian Focus Opp LP	12,000,000	3.58%
EJF Debt Opps II LP	3,500,000	1.04%
	27,500,000	8.21%
Credit-Relative Value		
Chatham Asset HY LP	16,500,000	4.93%
Mast Select Opp LP	18,500,000	5.52%
	35,000,000	10.45%
Hedging		
WAMCO CDS LLC	868,000	0.26%
	868,000	0.26%
Fixed Income Relative Value		
Commodities		
Astenbeck PH Wrap LP	12,000,000	3.58%
Blenheim Macro LP	12,000,000	3.58%
Lubben Fund LP	6,500,000	1.94%
Taylor Woods LP	10,000,000	2.99%
	40,500,000	12.09%
Global Macro/FI Trading		
FI Trading Pod LP	35,000,000	10.45%
	35,000,000	10.45%
Managed Futures		
CTA Pod LP	20,000,000	5.97%
	20,000,000	5.97%
Cash (Other)	607,000	0.18%
	607,000	0.18%
Total	**335,000,000**	**100.00%**

Blackstone Henry Clay Fund is actively managed and allocations are subject to ongoing revision.

As of 8/31/2011 12:56:02 PM

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In connection with your consideration of an investment in any Blackstone Funds, you should be aware of the following risks:

• The Blackstone Funds may be leveraged and their portfolios may lack diversification, thereby increasing the risk of loss. The Blackstone Funds may invest in instruments that are highly illiquid and extremely difficult to value, which may limit an investor's ability to redeem or transfer its investment or delay receipt of redemption proceeds. The Blackstone Funds' are speculative, involve a high degree of risk and their performance may be volatile. An investor may lose some or all of its investment. Blackstone has total investment authority over the Blackstone Funds, which could result in a lack of diversification and, consequently, higher risk. There is no secondary market for investors' interests in the Blackstone Funds. There are restrictions on withdrawal and transfer of interests in the Blackstone Funds. The Blackstone Funds' fees and expenses, and those of underlying portfolio funds, are substantial and will negatively impact performance.

• Investments in the Blackstone Funds are not subject to the same regulatory requirements or governmental oversight as mutual funds. Blackstone Funds and their underlying managers may purchase instruments that are traded on exchanges located outside the United States that are "principal markets" and are subject to the risk that the counterparty will not perform with respect to contracts. Furthermore, since there is generally less government supervision and regulation of foreign exchanges, Blackstone Funds and their underlying managers are also subject to the risk of the failure of the exchanges and there may be a higher risk of financial irregularities and/or lack of appropriate risk monitoring and controls.

• Investment managers and general partners of Blackstone Funds are not required to provide their Investors with periodic pricing or valuation information and any information provided is generally unaudited. Investors in Blackstone Funds generally will have limited rights with respect to their investment interest, including limited voting rights and limited participation in the management of the Funds. Blackstone Funds may involve complex tax and legal structures.

• Investment in any of the Blackstone Funds is only suitable for sophisticated investors for which such an investment does not constitute a complete investment program and which fully understand and are willing to assume the risks involved in such Funds. We strongly encourage Investors to obtain independent advice from their own tax, accounting and legal advisers regarding any investment in any Blackstone Fund. Investors are also urged to take appropriate advice regarding any applicable legal requirements and any applicable taxation and exchange control regulations in the country of their citizenship, residence or domicile which may be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any Blackstone Funds.

This communication is exempt from the restriction on the promotion

EXHIBIT 29

To: Schelling, Chris (KRS)[chris.schelling@kyret.ky.gov]; Masthay, Thomas (KRS)[thomas.masthay@kyret.ky.gov]
From: Sobczak, Iliana[Iliana.Sobczak@Blackstone.com]
Sent: Fri 10/14/2011 4:20:19 PM (UTC-04:00)
Subject: BAAM Quarterly Portfolio Calls
Blackstone Disclaimer.txt

Chris and Tom,

As previously discussed, I propose that we schedule re-occuring calls with Steve Sullens and me on a regular basis to conduct a review of the Henry Clay portfolio, performance, positioning etc. I believe that we agreed that to start with, quarterly calls work and if you decide that more frequent ones are needed (monthly), we'll adjust. We can also pull in other investment folks on the calls periodically as it makes sense (such as Greg Geiling re BSOF opportunities, Kristen Eshak re commodities, etc).

If it works on your calendars, let's pencil in the following 3rd Wednesdays of the months following each quarter end in 2012 (I can also have my assistant send you calendar invites once you confirm these work):

- Jan 18th
- Apr 18th
- Jul 18th
- Oct 17th

Furthermore, it would be great to schedule a call in the next few weeks (after Nov 3rd per your suggestion) to review September performance, positioning etc. Would either one of the below work for you:

- Thursday, November 10th - anytime
- Friday, November 11th - anytime between 11 am - 2 pm OR after 3 pm
- Tuesday, November 15th - anytime, except 10am -12 pm (this date may be best in terms of having the most finalized October returns as well)

Apologies for the multiple dates and times - if you have an assistant, I can have mine coordinate with yours going forward as well.

Best regards - Iliana

Iliana Nikolova Sobczak, CFA
Vice President
Blackstone Alternative Asset Management L.P.
345 Park Avenue, 28th Floor
New York, NY 10154
Ph: (212) 390-2421
Iliana.Sobczak@Blackstone.com

EXHIBIT 30

From:	Do, Kim - Prisma[KDO@prismapartners.com]
Attendees:	Rodgers, Helenmarie; Reddy, Girish; Nagarajan, Shankar; 'tj.carlson@kyret.ky.gov'; 'chris.schelling@kyret.ky.gov'; Lloyd, Nicole; Gordon, Priscilla; Diercksen, John; Mason, Emily
Location:	Dial in: 212.590.0891 Pass code: 089100 and NY small conference room
Importance:	Normal
Subject:	Kentucky Retirement and Prisma monthly portfolio review
Start Time:	Wed 1/11/2012 3:00:00 PM (UTC-05:00)
End Time:	Wed 1/11/2012 4:00:00 PM (UTC-05:00)
Required Attendees:	Rodgers, Helenmarie; Reddy, Girish; Nagarajan, Shankar; Carlson, TJ (KRS); Schelling, Chris (KRS)
Optional Attendees:	Lloyd, Nicole; Gordon, Priscilla; Diercksen, John; Mason, Emily

When: Occurs day 11 of every 1 month effective 1/11/2012 from 3:00 PM to 4:00 PM (GMT-05:00) Eastern Time (US & Canada).
Where: Dial in: 212.590.0891 Pass code: 089100 and NY small conference room

Note: The GMT offset above does not reflect daylight saving time adjustments.

~~*~*~*~*~*~*~*~*

This is a monthly review of the Daniel Boone portfolio which will transpire on the 11th of each month and rescheduled to accommodate schedules when necessary.

Participants include: TJ Carlson, Chris Schelling, Girish Reddy, Shankar Nagarajan and HM Rodgers.

Documents will be sent in advance of the call to TJ and Chris.

EXHIBIT 31

To: Carlson, TJ (KRS)[TJ.Carlson@kyret.ky.gov]; Schelling, Chris (KRS)[Chris.Schelling@kyret.ky.gov]; Murnighan, Bill (KRS)[bill.murnighan@kyret.ky.gov]; Masthay, Thomas (KRS)[Thomas.Masthay@kyret.ky.gov]
Cc: Kevin Williams[kwilliams@paamco.com]; Sam Diedrich[sdiedrich@paamco.com]
From: Sean Niu[sniu@paamco.com]
Sent: Thur 3/22/2012 1:37:54 PM (UTC-04:00)
Subject: Meeting invitation: Newport Colonels New Managers 4/1 Call

Hi TJ, Chris, Tom, and Bill,

Please see below for the invitation details to our conference call next week. If you have any questions, please let me know. We look forward to discussing these new managers with the KRS team and we will provide the annex and manager profiles for both managers ahead of the call.

On behalf of Pacific Alternative Asset Management, Sean Niu invites you to attend this meeting.
Topic: Newport Colonels New Managers 4/1 Call
Date: Thursday, March 29, 2012
Time: 11:00 am, Pacific Daylight Time (San Francisco, GMT-07:00)

To join the audio portion of the Personal Conference meeting

Call-in toll-free number (US/Canada): 1-866-469-3239
Call-in toll number (US/Canada): 1-650-429-3300
Call-in toll number (US/Canada)*: 1-408-856-9570
Global call-in numbers: https://paamco.webex.com/paamco/globalcallin.php?serviceType=MC&ED=179065302&tollFree=1
Toll-free dialing restrictions: http://www.webex.com/pdf/tollfree_restrictions.pdf

Attendee access code: 218 566 14

* Call-in toll number (US/Canada) should only be used if the primary number does not work.

To join the online portion of the Personal Conference meeting
----
1. Go to https://paamco.webex.com/paamco/j.php?ED=179065302&UID=0&PW=NYzg1OGM4NDRl&RT=MiM0
2. If a password is required, enter the Meeting Password: 21856614

To view in other time zones or languages, please click the link:
https://paamco.webex.com/paamco/j.php?ED=179065302&UID=0&PW=NYzg1OGM4NDRl&ORT=MiM0

For assistance
----
1. Go to https://paamco.webex.com/paamco/mc
2. On the left navigation bar, click "Support".

You can contact me at:
sniu@paamco.com

To add this meeting to your calendar program (for example Microsoft Outlook), click this link:
https://paamco.webex.com/paamco/j.php?ED=179065302&UID=0&ICS=MI&LD=1&RD=2&ST=1&SHA2=iVGsRtiTCwn942uKBLU81zYWv0DjU8JmqMgzBWO0Fs4=&RT=MiM0

Best,

Sean

Sean Niu, Analyst CAIA
Pacific Alternative Asset Management Company, LLC
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tel +1 949 261 4900 *fax* +1 949 261 4903

www.paamco.com | sniu@paamco.com

EXHIBIT 32

To: 'vlang@kcjea.org'[vlang@kcjea.org]
Cc: Burnside, Mike (KRS)[mike.burnside@kyret.ky.gov]; Olt, Schuyler (KRS)[Schuyler.Olt@kyret.ky.gov]
From: Tosh, Adam (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=ADAM.TOSH]
Sent: Thur 10/15/2009 8:54:08 AM (UTC-04:00)
Subject: FW: Meeting next week w/ Chris Tobe

Vince:

Below, please see the email from a fund-of-funds manager (Dorchester) in which KRS has been evaluating for a potential absolute return mandate of upwards of $100 million.

In the 2 ½ plus years that I have worked at KRS, I am not aware of any KRS Board of Trustee Member, other than Chris Tobe, having any contact with our managers or potential managers outside of the open and transparent public settings that exists with KRS' Board/Committee Meetings. I cannot think of any reason why, in a KRS Board Member's capacity, why they would need to request a meeting with a potential manager in which KRS' Investment Staff was not informed.

Given today's national public pension fund environment and all the scandals surrounding "pay-to-play", I find this kind of meeting highly suspicious.

The Investment Staff has a difficult job already in trying to meet the investment goals and objectives of KRS in a very difficult market, funding, and economic environment, without having to be concerned about the independence and merits of our analysis being compromised by interference from a KRS Board Member. This type of Board Member involvement has the potential to place undue pressure on Staff and potentially jeopardize the integrity of KRS' investment process. Mr. Tobe's opaque actions make me highly circumspect of his intentions and I feel it is my fiduciary responsibility to bring this to your attention. I hope that my suspicions are unfounded and proven to be incorrect.

This situation and its adverse implications makes me extremely uncomfortable and I am seeking guidance . Please advise.

Thank you,
Adam

Adam C. Tosh, CFA
Chief Investment Officer
Kentucky Retirement Systems

From: Sean Gannon [mailto:SGannon@dorchestercapital.com]
Sent: Wednesday, October 14, 2009 4:50 PM
To: Tosh, Adam (KRS)
Subject: Meeting next week w/ Chris Tobe

Adam:

RE: GAIM Conference meeting w/ Chris Tobe

Mark Zucker and I will be in New York next week at the GAIM Conference where Mark is speaking. The conference plays match-maker and coordinates meetings between investors and managers. I was pleasantly surprised to see that Chris Tobe has requested a meeting with us and I am just wondering if you asked him to do so. Let me know if there is something in particular you would like us to focus on in the meeting.

Regards,

Sean Gannon
Dorchester Capital Advisors, LLC
11111 Santa Monica Blvd, Ste 1250
Los Angeles, CA 90025
Tel: (310) 402-5074
Mobile: (310) 801-3433
Fax: (310) 402-5091
www.dorchestercapital.com

EXHIBIT 33

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Sobczak, Iliana[Iliana.Sobczak@Blackstone.com]
Sent: Mon 6/7/2010 3:13:26 PM (UTC-04:00)
Subject: RE: Meeting this Wednesday USM
Blackstone Disclaimer.txt

2 pm is indeed correct. Well, let's hope he does not stand us up - not that your company is not enough! Tell him that we have exciting risk transparency facts to share with him! Ha.

We'll give you our thoughts on the carried interest change....certainly a big topic of discussion these days.

See you on Wednesday - Iliana

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Monday, June 07, 2010 3:05 PM
To: Sobczak, Iliana
Subject: RE: Meeting this Wednesday USM

2:00 on Wednesday correct? Just to give you fair warning there is a lot going on this week and I can see Adam standing us up. I'm not saying he will; just be prepared for that possibility. There has been no progress on the FOF search. I would be interested in hearing if the carried interest change will have an effect on managers.

thanks

David Peden
Kentucky Retirement Systems | Director Fixed Income Assets
☎ 502.696.8485 | **Fax** 502.696.8805 | ✉david.peden@kyret.ky.gov

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From: Sobczak, Iliana [mailto:Iliana.Sobczak@Blackstone.com]
Sent: Monday, June 07, 2010 1:33 PM
To: Peden, David (KRS)
Subject: Meeting this Wednesday

Hi David,

I hope you enjoyed the weekend (and hopefully it wasn't as muggy and humid as NYC was).

I thought I'd drop you a note regarding our meeting this Wednesday - I wanted to see if you thought there was anything else specific that we should be ready to discuss in addition to risk transparency and our latest initiatives/enhancements in that area. I wasn't sure if any of the recent regulatory noise surrounding potential tax changes may be of interest to talk about or anything else that you and Adam have on your minds these days.

How is the FOF search process coming along by the way?

Best - Iliana

Iliana Nikolova Sobczak, CFA
Vice President
Blackstone Alternative Asset Management L.P.
345 Park Avenue, 28th Floor
New York, NY 10154
Ph: (212) 390-2421
iliana.sobczak@blackstone.com

EXHIBIT 34

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Sobczak, Iliana[Iliana.Sobczak@Blackstone.com]
Sent: Fri 7/23/2010 10:16:43 AM (UTC-04:00)
Subject: Massive Changes Loom for Troubled State Plan
Blackstone Disclaimer.txt

FYI on the article below, you may have seen this already.

By the way, I'm thinking about potential candidates that may be a good fit to consider for KY. My former boss at Mercer (he ran the entire Midwest office and was even offered the national role) even mentioned that consultants at some of the firms with offices in the Midwest may be a good source as a result of all the merger activity in addition to lots of them being tired from the constant traveling etc.

I will let you know if I hear of anyone that would be worth considering.

Have a great weekend - Iliana

Iliana Nikolova Sobczak, CFA
Vice President
Blackstone Alternative Asset Management L.P.
345 Park Avenue, 28th Floor
New York, NY 10154
Ph: (212) 390-2421
iliana.sobczak@blackstone.com

Massive Changes Loom for Troubled State Plan

By Paul O'Dowd July 23, 2010

The $13.8 billion **Kentucky Retirement Systems** could be forced to revert to a more traditional and conservative asset allocation due to its severely underfunded status. Specifically, the fund's $4 billion state employee's retirement pension – one of several pensions under the KRS umbrella – may be forced to shed part of its 12% allocation to alternatives to ensure a more liquid state.

"The severe underfunding of the state portion of the retirement systems has created liquidity issues for our fund," says pension trustee **Chris Tobe**. "These liquidity issues will make it more difficult to invest in less liquid alternative investments than we would have liked." Tobe declines further comment.

According to **Jim Voytko**, president of consulting firm **R.V. Kuhns & Associates**, the state pension – under a worst-case scenario – could run out of funds in 2019 if contributions remain inadequate and market investments remain poor. Voytko, the primary consultant to the pension, gives this scenario a 5% chance of occurring.

"More likely, by 2018, the fund will pay out nearly half of its assets every year for retiree benefits, making it difficult to get the high returns it needs from large, long-term investments," states the Lexington Herald-Leader, citing pension officials.

What this means is that the state will have fewer options when it comes to diversifying its overall portfolio to alternative investments, due to its increasing need for liquid investments.

A source familiar with the situation says the system had been considering bumping its alternatives portfolio to as high as 20% prior to the market crash and the pension's funding issues becoming more severe. Now, however, the fund must maintain enough liquidity to ensure retiree benefits are paid and may very well lower its alternatives allocation – bad news for its alternatives managers.

Voytko explains that the fund may have to make "difficult decisions" to its $500 million alternatives portfolio to ensure liquidity. That could mean Kentucky looks to the secondary markets to sell its private equity holdings, or it could simply limit new private equity exposure.

These decisions, however, have yet to be made. To get to that point, R.V. Kuhns recently completed an asset/liability study on the pension and is now looking into potential asset allocation changes.

The committee is expected to meet with the firm Aug. 12 to discuss potential changes to the overall portfolio. But Voytko warns that while decisions from board members are sometimes made on the spot, that may not be the case here. “This could take one or two quarters [to decide],” he says, adding that the actual implementation of any decisions could take some time as well as the fund properly sets itself up to meet payments.

As for actual changes to the asset allocation, Voytko declines to make any predictions. “I expect the liquidity concerns to be front and center,” he says, meaning the fund may choose investments that can be purchased and sold in short order, such as stocks, bonds and liquid alternatives.

While this news appears to be good news for traditional asset managers looking to pick up business from the pension, it could be that the fund would simply place excess cash in index funds.

The state employees pension currently targets 30% of its allocation to domestic equities, 20% to international equities, 35% to fixed income, 12% to alternative investments and 3% to cash equivalents.

The funding problem has been a long time coming. Over the past two decades the Kentucky legislature has “sweetened retirement benefits for state workers, many of whom could leave after 27 years with a lifetime pension and free health insurance,” according to the Herald-Leader. “But it failed to put enough money in the pension fund to honor its obligations.”

Voytko adds that over the next 10 years the state fund will pay out more money in retiree benefits than it will receive in state contributions.

The Kentucky pension, which has an unfunded liability of $16.6 billion, has averaged a 3.59% return on its overall portfolio over the last decade, an amount much smaller than its goal of 7.75% per year, notes the paper.

EXHIBIT 35

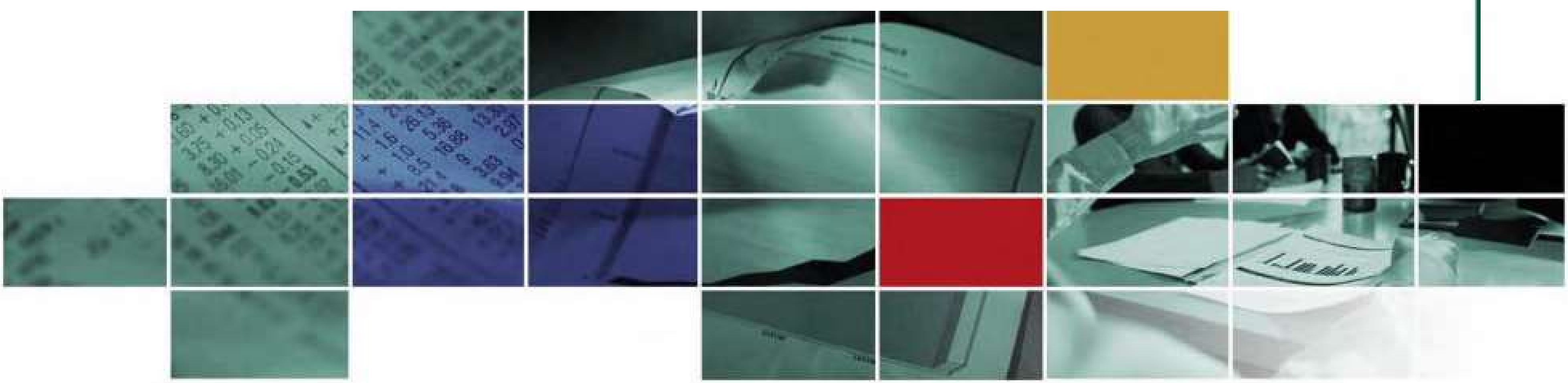
RVKuhns & ASSOCIATES, INC.

Kentucky Retirement Systems

Investment Manager Search

Absolute Return Strategies

Performance Data as of June 30, 2010



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General Information

Strategy Name	Year Firm Established	Year First Fund of Hedge Funds Launched	Firm AUM ($mil)	Fund AUM ($mil)	Percentage Employee Owned	RIA Status
Aurora Offshore Fund Ltd. II	1988	1988	$9,651	$2,000	0%	Yes
Crestline Offshore Fund	1997	1997	$5,500	$491	100%	Yes
GAM Diversity	1983	1989	$15,000	$3,265	0%	Yes
Grosvenor Institutional Partners, L.P.	1971	1971	$22,935	$5,895	70%	Yes
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	1990	1990	$12,416	$1,137	92%	Yes
Pacific Hedged Strategies, LLC	2000	2000	$9,650	$543	100%	Yes
Prisma Spectrum Fund Ltd	2004	2005	$4,500	$666	43%	Yes

Personnel / Number of Investment Professionals

Strategy Name	Total Employees	Portfolio Managers	Research Analysts	Other Investment Professionals	Fund Team	Average # of Years Portfolio Managers Have Worked Together
Aurora Offshore Fund Ltd. II	87	3	10	74	Anne Marie Morley; David E. Kuenzi; Gregory D. Schneiderman; Patrick C. Sheedy; Peter S. Hamet; Justin D. Sheperd; Scott C. Schweighauser; Roxanne M. Martino;	14
Crestline Offshore Fund	61	2	23	36	John Cochran; Caroline Cooley; Doug Bratton;	20
GAM Diversity	86	11	15	60	Arvin Soh; Jeffrey Rose; Amir Madden; Chi Keong Lee; Andrew Hutson; Jennifer Drake; Catherine Cripps; Kier Boley; David Smith;	6
Grosvenor Institutional Partners, L.P.	219	4	31	184	Brian A. Wolf, CFA; David S. Richter; David B. Small; Michael J. Sacks;	17
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	100	7	30	63	Mark Kulpins; Eric Siegel; Tom Macina; Brian Cornell; Howard Rossman; Steve Vogt; Marty Kaplan;	5
Pacific Hedged Strategies, LLC	135	12	23	100	Neale Safaty; Judith Posnikoff; Kemmy Koh; Bill Knight; Alper Ince; Jane Buchan; Charles Armendarez; James Berens;	8
Prisma Spectrum Fund Ltd	44	7	6	31	James Welch; Peter Zakowich; Dan Lawee; Michael Rudzik; Donna Heitzman; Eric Wolfe; William Cook;	6

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Fund of Hedge Fund Assets Under Management (Millions)

Strategy Name	Total	Corporate	Public	Taft-Hartley	Endowment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other
Aurora Offshore Fund Ltd. II	$9,651	$2,220	$2,702	$290	$772	$2,316	$0	$1,351
Crestline Offshore Fund	$5,500	$1,265	$1,485	$825	$165	$385	$55	$1,320
GAM Diversity	$15,000	$1,155	$1,110	$0	$90	$0	$1,380	$11,265
Grosvenor Institutional Partners, L.P.	$22,935	$4,082	$4,105	$3,761	$1,353	$1,674	$5,390	$2,569
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	$12,416	$2,483	$2,483	$1,490	$869	$869	$1,987	$2,235
Pacific Hedged Strategies, LLC	$9,650	$2,413	$4,922	$97	$676	$386	$290	$869
Prisma Spectrum Fund Ltd	$4,500	$671	$221	$0	$18	$212	$2,534	$846

* GAM's "Other" column consists of assets invested directly in their mutual funds.

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Specific Fund Assets Under Management (Millions)

Strategy Name	Total	Corporate	Public	Taft-Hartley	Endowment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other
Aurora Offshore Fund Ltd. II	$2,000	$600	$700	$100	$400	$200	$0	$0
Crestline Offshore Fund	$491	$76	$201	$31	$94	$1	$0	$89
GAM Diversity	$3,265	$330	$686	$0	$147	$0	$40	$2,062
Grosvenor Institutional Partners, L.P.	$5,895	$965	$1,175	$2,683	$337	$115	$0	$620
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	$1,137	$175	$40	$808	$37	$12	$41	$25
Pacific Hedged Strategies, LLC	$543	$0	$210	$0	$248	$0	$0	$85
Prisma Spectrum Fund Ltd	$666	$153	$54	$0	$56	$2	$317	$84

* GAM's "Other" column consists of assets invested directly in their mutual fund.

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Underlying Investment Manager Information

Strategy Name	Amount Invested by General Partners ($mil)	Current Number of Underlying Managers	Range of # of Underlying Managers	Maximum Weighting of any Manager*	Frequency of Communication with Underlying Managers	Manager Turnover	Ratio of Current Managers to Research Analysts
Aurora Offshore Fund Ltd. II	$100	45	40 - 50	10.0%	Regular/Constant	18%	7:1
Crestline Offshore Fund	$23	44	50 - 60	10.0%	Monthly	17%	5:1
GAM Diversity	$0	47	40 - 70	7.0%	Constant	15%	3.4:1
Grosvenor Institutional Partners, L.P.	$304	41	21 - 67	10.0%	Monthly	13%	2.5:1
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	$398	56	25 - 90	5.0%	Monthly	15%	2:1
Pacific Hedged Strategies, LLC	$15	57	45 - 65	5.0%	Monthly	20%	1.7:1
Prisma Spectrum Fund Ltd	$71	43	21 - 48	3.9%	Monthly	17%	14:1

* Mesirow's figure of 5% is not an absolute maximum but represents their general target for largest manager allocations.

Current Allocation by Strategy

Strategy Name	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other*
Aurora Offshore Fund Ltd. II	37%	13%	0%	0%	19%	0%	0%	0%	14%	17%
Crestline Offshore Fund	24%	0%	2%	5%	8%	3%	0%	2%	2%	53%
GAM Diversity	32%	0%	35%	0%	1%	0%	0%	2%	0%	30%
Grosvenor Institutional Partners, L.P.	33%	2%	0%	0%	0%	1%	0%	0%	3%	61%
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	27%	5%	0%	0%	27%	2%	0%	0%	2%	37%
Pacific Hedged Strategies, LLC	29%	0%	0%	6%	10%	11%	4%	9%	0%	31%
Prisma Spectrum Fund Ltd	33%	2%	6%	4%	25%	2%	0%	11%	15%	3%

* Aurora's "Other" column consists of their Multi-Strategy Opportunistic strategy.
* Crestline's "Other" column consists of allocations to Credit Arbitrage, Origination, Multiple Strategy, Bank Loans and Cash.
* GAM's "Other" column consists of allocations to Long/Short Credit, ABS, Relative Value and Event Driven.
* Grosvenor's "Other" column consists of allocations to Long/Short Credit, Directional Credit, Event Driven, Relative Value, Multi-Strategy and Cash.
* Pacific's "Other" consists of allocations to Long/Short Credit and a cash balance that ranges from 1-8%.

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Allocation by Region

Strategy Name	U.S.	Developed Europe	Japan	Emerging Mkts	Other*
Aurora Offshore Fund Ltd. II	54%	21%	3%	7%	15%
Crestline Offshore Fund	66%	23%	1%	5%	4%
GAM Diversity	43%	28%	8%	9%	12%
Grosvenor Institutional Partners, L.P.	65%	16%	3%	4%	12%
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	79%	10%	3%	2%	7%
Pacific Hedged Strategies, LLC	71%	16%	4%	4%	6%
Prisma Spectrum Fund Ltd	59%	20%	13%	4%	5%

* Aurora's "Other" column consists of Global allocations.
* GAM's "Other" columns consists of allocations to Asia Pacific.
* Grosvenor's "Other" column consists of allocations to Australia, Hong Kong, New Zealand and Singapore.
* Mesirow's "Other" column consists of allocations to Asia ex-Japan.

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General Product Information

Strategy Name	Inception Date	Onshore/Offshore	Is UBTI Likely?	3.C.1 or 3.C.7?	Accepting ERISA Clients?	Historical Leverage Range (look-through)
Aurora Offshore Fund Ltd. II	7/1/2002	Offshore	No	3c7	Yes	1x - 2.6x
Crestline Offshore Fund	11/1/2001	Offshore	No	3c7	Yes	1x - 1.2x
GAM Diversity	12/31/1989	Offshore	No	3c7	Yes	1x - 3x
Grosvenor Institutional Partners, L.P.	1/1/2000	Onshore	No	3c7	Yes	1.09x - 2.8x
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	4/1/2004	Onshore	No	3c7	Yes	1.27x - 2.33x
Pacific Hedged Strategies, LLC	1/1/2002	Onshore	No	3c7	No	0.93x - 1.66x
Prisma Spectrum Fund Ltd	5/1/2005	Offshore	No	3c7	Yes	1x - 3.5x

Minimum and Fee Information

Strategy Name	Subscription Frequency	Lock-Up Period	Redemption Frequency	Notice Period	Minimum Investment (millions)	Annual Management Fee*	Performance Fee	Hurdle Rate	High Water Mark?
Aurora Offshore Fund Ltd. II	Monthly	No	Quarterly	95 Days	$1	1.0%	10.0%	No	Yes
Crestline Offshore Fund	Monthly	12 Months	Quarterly	95 Days	$1	1.3%	0.0%	No	No
GAM Diversity	Weekly	No	Quarterly	95 Days	$3	1.1%	0.0%	No	No
Grosvenor Institutional Partners, L.P.	Monthly	No	Quarterly	70 Days	$5	First $10 Million: 1.4% Next $15 Million: 1.2% Next $25 Million: 1.0% Next $50 Million: 0.8% Over $100 Million: 0.6%	0.0%	No	No
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	Monthly	No	Quarterly	95 Days	$5	1.0%	10.0%	5.0%	Yes
Pacific Hedged Strategies, LLC	Monthly	12 Months	Quarterly	90 Days	$5	1.0%	5.0%	No	Yes
Prisma Spectrum Fund Ltd	Monthly	12 Months	Quarterly	65 Days	$1	1.0%	5.0%	13 Wk US T-Bill	Yes

* Mesirow also offers the following fee structure options for the following mandate sizes:
Less than $50mm: 100 bps mgmt fee, 10% performance fee over a 5% hurdle rate or 115 bps flat.
$50-100mm: 90 bps mgmt fee, 10% performance fee over a 5% hurdle or 105 bps flat
$100-200mm: 80 bps mgmt fee, 10% performance over a 5% hurdle or 95 bps flat
Greater than $200mm: 70 bps mgmt fee, 10% performance fee over a 5% hurdle or 85 bps flat.

Investment Performance - Trailing as of June 30, 2010 (Net)

Firm/Product	Current Quarter	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Aurora - Aurora Offshore II	-2.5	0.5	10.5	-0.7	4.2	4.9	NA
Aurora - Aurora LP*	-2.4	0.6	9.8	0.0	5.1	6.5	7.6
Crestline Offshore Fund, Ltd.	-0.8	1.7	8.1	-2.5	3.3	4.1	NA
GAM Diversity	-5.7	-5.1	-0.7	-5.2	2.7	3.5	4.7
Grosvenor - Inst. Partners L.P.	-2.0	0.3	9.6	-2.6	2.8	4.0	5.1
Mesirow - Inst. Multi-Strategy Fund, LP	-2.2	0.1	9.7	0.1	4.4	NA	NA
Mesirow - Multi-Strategy Comp.*	-2.1	-0.1	7.3	-1.3	3.8	4.7	5.6
PAAMCO - Pacific Hedged Strategies	-1.6	0.5	9.2	0.2	5.0	5.3	NA
PAAMCO - Mod Multi Strat Comp.*	-1.5	0.7	9.7	0.2	5.0	5.2	NA
Prisma Spectrum Fund, Ltd.	-2.3	0.1	9.5	1.1	4.8	NA	NA
S&P 500 Index	*-11.4*	*-6.7*	*14.4*	*-9.8*	*-0.8*	*2.8*	*-1.6*
BC Aggregate Bond	*3.5*	*5.3*	*9.5*	*7.5*	*5.5*	*5.0*	*6.5*
Merrill Lynch - T-Bills +5%	*1.3*	*2.5*	*5.2*	*6.6*	*7.9*	*7.5*	*7.8*
HFN FoF Multi-Strategy Average	*-2.7*	*-1.4*	*3.7*	*-4.2*	*1.9*	*3.3*	*4.2*

* Aurora LP, Mesirow Multi-Strategy Composite and PAAMCO Multi-Strategy Composite are included for long term performance comparison only.

Investment Performance - Calendar Year (Net)

Firm/Product	2009	2008	2007	2006	2005	2004	2003
Aurora - Aurora Offshore II	20.6	-22.5	13.3	9.1	9.5	6.5	9.5
Aurora - Aurora LP*	18.1	-20.5	14.9	11.0	9.5	9.5	15.1
Crestline Offshore Fund, Ltd.	11.0	-19.6	9.5	12.2	6.0	6.5	12.3
GAM Diversity	5.9	-15.0	6.4	15.3	9.1	4.8	13.2
Grosvenor - Inst. Partners L.P.	13.9	-20.9	10.7	9.4	6.8	6.9	11.0
Mesirow - Inst. Multi-Strategy Fund, LP	18.3	-15.7	8.7	9.8	5.3	NA	NA
Mesirow - Multi-Strategy Comp.*	14.1	-16.2	9.1	10.4	6.0	7.9	10.4
PAAMCO - Pacific Hedged Strategies	18.4	-21.8	17.4	10.8	5.1	6.0	14.3
PAAMCO - Mod Multi Strat Comp.*	18.4	-21.8	17.1	11.0	5.0	6.6	13.3
Prisma Spectrum Fund, Ltd.	17.3	-16.5	13.4	8.4	NA	NA	NA
S&P 500 Index	*26.5*	*-37.0*	*5.5*	*15.8*	*4.9*	*10.9*	*28.7*
BC Aggregate Bond	*5.9*	*5.2*	*7.0*	*4.3*	*2.4*	*4.3*	*4.1*
Merrill Lynch - T-Bills +5%	*5.2*	*7.2*	*10.3*	*10.1*	*8.2*	*6.4*	*6.2*
HFN FoF Multi-Strategy Average	*9.7*	*-20.6*	*9.9*	*9.8*	*6.8*	*6.8*	*11.9*

Five Year Risk Analysis - as of June 30, 2010

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - Aurora Offshore II	4.2	7.5	0.2	5.0	-8.3	42.0	18.0
Crestline Offshore Fund, Ltd.	3.3	5.4	0.1	2.3	-5.4	43.0	17.0
GAM Diversity	2.7	6.3	0.0	3.8	-4.7	36.0	24.0
Grosvenor - Inst. Partners L.P.	2.8	6.2	0.0	2.7	-6.9	43.0	17.0
Mesirow - Inst. Multi-Strategy Fund, LP	4.4	5.5	0.3	3.8	-6.3	40.0	20.0
PAAMCO - Pacific Hedged Strategies	5.0	7.7	0.3	5.1	-8.6	43.0	17.0
Prisma Spectrum Fund, Ltd.	4.8	6.5	0.3	4.4	-7.8	42.0	18.0
S&P 500 Index	-0.8	16.8	-0.2	9.6	-16.8	38.0	22.0
BC Aggregate Bond	5.5	3.7	0.7	3.7	-2.4	40.0	20.0
HFN FoF Multi-Strategy Average	1.9	6.6	-0.1	3.1	-6.6	38.0	22.0

MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora Offshore II	2.6	0.3	48.4	43.1	10.3	27.6	-5.5
Crestline Offshore Fund, Ltd.	1.1	0.2	33.0	27.0	6.5	15.1	-3.0
GAM Diversity	0.6	0.2	24.4	30.6	7.3	21.5	-4.3
Grosvenor - Inst. Partners L.P.	0.8	0.2	36.6	30.4	7.3	20.9	-4.2
Mesirow - Inst. Multi-Strategy Fund, LP	2.3	0.2	32.9	33.2	8.0	16.6	-3.3
PAAMCO - Pacific Hedged Strategies	3.2	0.3	33.5	39.6	9.5	20.5	-4.1
Prisma Spectrum Fund, Ltd.	2.7	0.2	26.1	33.9	8.1	15.3	-3.1
S&P 500 Index	0.0	1.0	100.0	100.0	23.9	100.0	-20.0
BC Aggregate Bond	2.9	0.0	3.7	15.2	3.6	-9.2	1.8
HFN FoF Multi-Strategy Average	0.1	0.3	44.4	32.9	7.9	27.6	-5.5

MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora Offshore II	0.9	0.2	1.0	56.9	4.8	20.0	-0.5
Crestline Offshore Fund, Ltd.	0.7	-0.1	0.4	34.0	2.9	-14.2	0.4
GAM Diversity	0.2	-0.1	0.3	26.8	2.3	-16.3	0.4
Grosvenor - Inst. Partners L.P.	-0.1	0.0	0.1	37.4	3.2	12.4	-0.3
Mesirow - Inst. Multi-Strategy Fund, LP	1.3	0.1	0.6	48.8	4.1	-9.6	0.3
PAAMCO - Pacific Hedged Strategies	1.8	0.1	0.5	56.8	4.8	-7.5	0.2
Prisma Spectrum Fund, Ltd.	1.8	0.1	0.4	51.3	4.3	-17.2	0.5
S&P 500 Index	-5.9	0.9	3.7	79.8	6.7	264.4	-7.0
BC Aggregate Bond	0.0	1.0	100.0	100.0	8.4	100.0	-2.7
HFN FoF Multi-Strategy Average	-1.1	0.1	0.2	28.7	2.4	18.4	-0.5

Seven Year Risk Analysis - as of June 30, 2010

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - Aurora LP*	6.5	6.2	0.7	4.7	-8.1	62.0	22.0
Crestline Offshore Fund, Ltd.	4.1	4.7	0.4	2.3	-5.4	61.0	23.0
GAM Diversity	3.5	5.8	0.2	3.8	-4.7	52.0	32.0
Grosvenor - Inst. Partners L.P.	4.0	5.4	0.3	2.7	-6.9	63.0	21.0
Mesirow - Multi-Strategy Comp.*	4.7	4.6	0.5	3.2	-6.4	58.0	25.0
PAAMCO - Mod MultiStrat Comp.*	5.2	6.6	0.4	5.0	-8.5	61.0	23.0
S&P 500 Index	2.8	14.9	0.0	9.6	-16.8	55.0	29.0
BC Aggregate Bond	5.0	3.9	0.6	3.7	-3.4	57.0	27.0
HFN FoF Multi-Strategy Average	3.3	5.9	0.1	3.1	-6.6	57.0	27.0

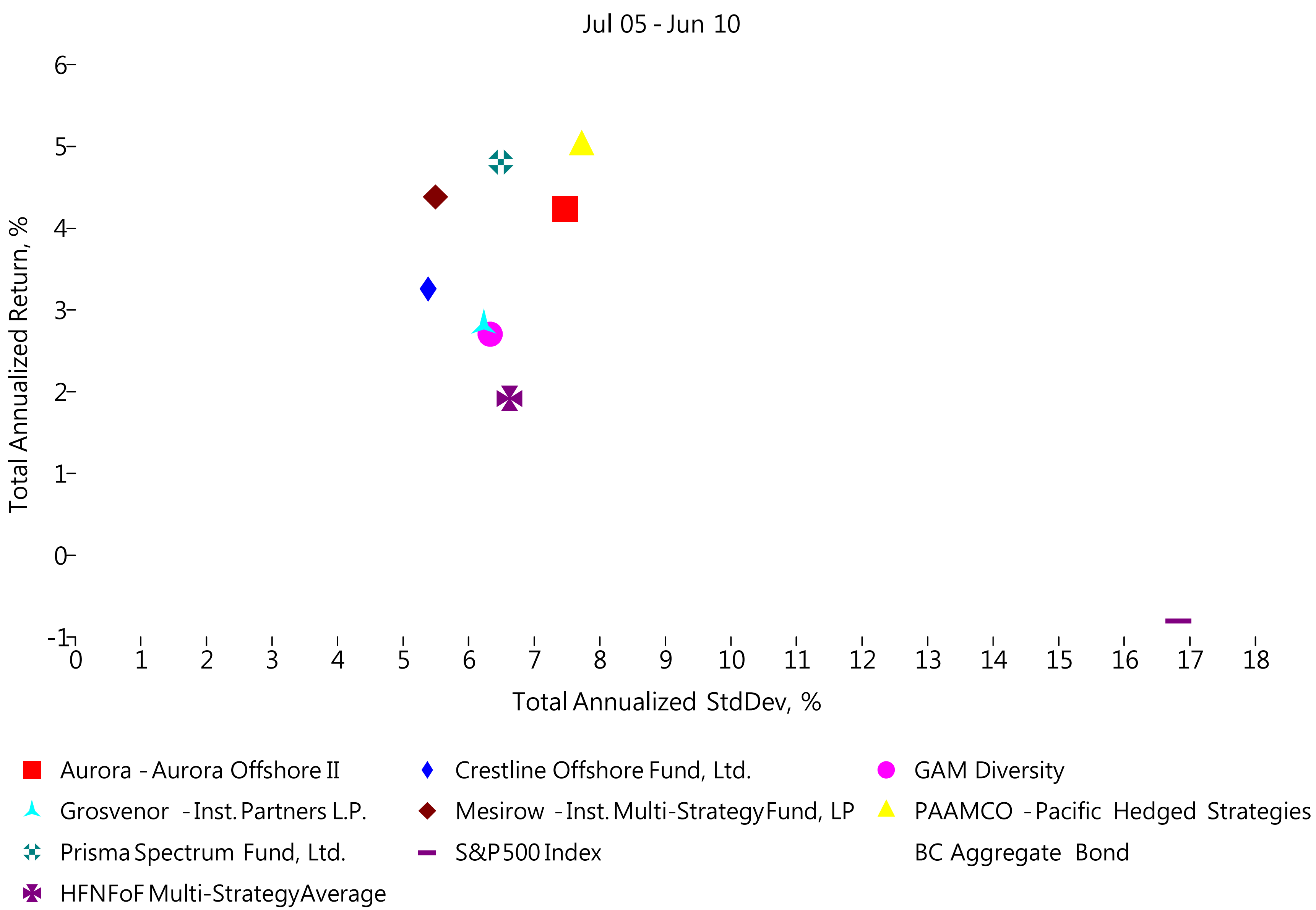
MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora LP*	3.9	0.3	46.0	43.2	9.9	19.2	-3.1
Crestline Offshore Fund, Ltd.	1.6	0.2	33.3	27.4	6.3	12.6	-2.1
GAM Diversity	1.0	0.2	25.5	30.7	7.0	20.3	-3.3
Grosvenor - Inst. Partners L.P.	1.5	0.2	37.7	31.5	7.2	18.4	-3.0
Mesirow - Multi-Strategy Comp.*	2.2	0.2	32.9	31.1	7.1	13.8	-2.3
PAAMCO - Mod MultiStrat Comp.*	2.7	0.3	33.7	37.4	8.6	18.8	-3.1
S&P 500 Index	0.0	1.0	100.0	100.0	23.0	100.0	-16.4
BC Aggregate Bond	2.5	0.0	1.4	13.7	3.1	-10.8	1.8
HFN FoF Multi-Strategy Average	0.8	0.3	44.8	33.9	7.8	25.5	-4.2

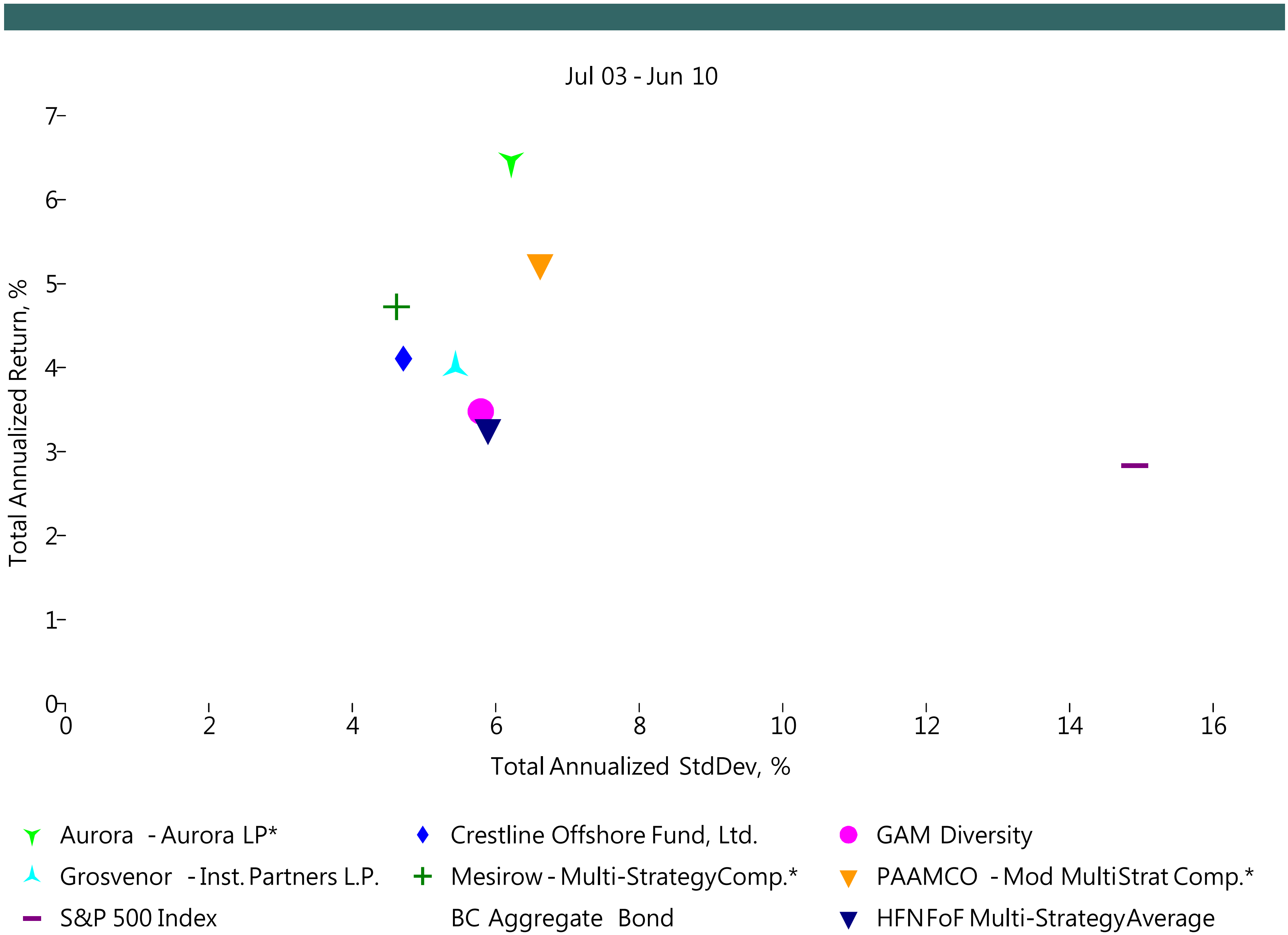
MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - Aurora LP*	3.6	0.2	1.4	71.8	6.1	-12.0	0.4
Crestline Offshore Fund, Ltd.	1.8	0.0	0.1	40.2	3.4	-21.6	0.7
GAM Diversity	1.2	-0.1	0.1	33.1	2.8	-20.8	0.7
Grosvenor - Inst. Partners L.P.	1.6	0.0	0.0	42.8	3.6	-11.9	0.4
Mesirow - Multi-Strategy Comp.*	2.2	0.0	0.1	47.9	4.0	-20.6	0.7
PAAMCO - Mod MultiStrat Comp.*	2.6	0.1	0.3	54.6	4.6	-19.0	0.6
S&P 500 Index	-0.7	0.4	1.4	78.5	6.6	110.5	-3.5
BC Aggregate Bond	0.0	1.0	100.0	100.0	8.4	100.0	-3.2
HFN FoF Multi-Strategy Average	0.7	0.1	0.3	37.8	3.2	-2.9	0.1

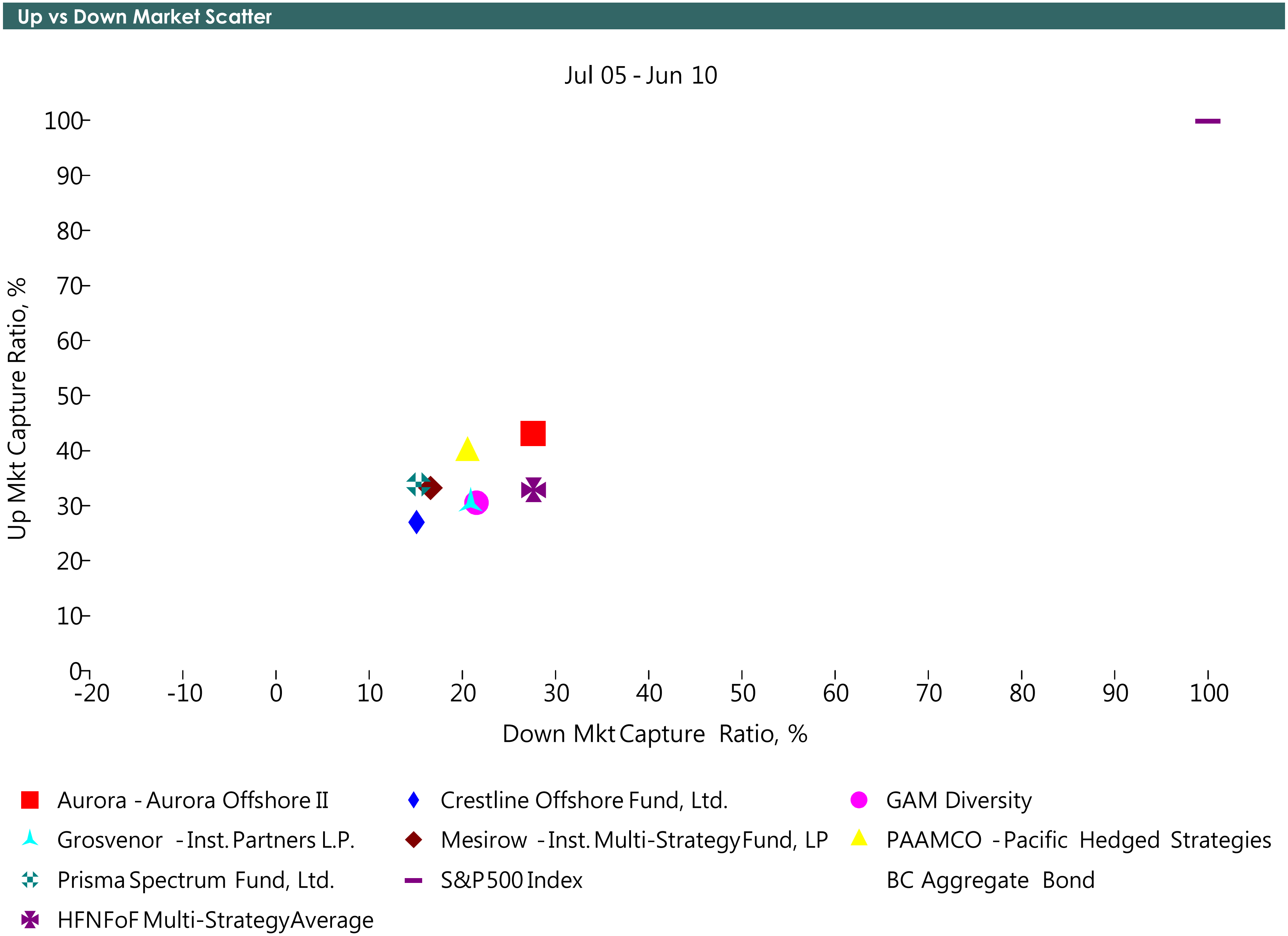
Return vs. Risk (last 5 years)



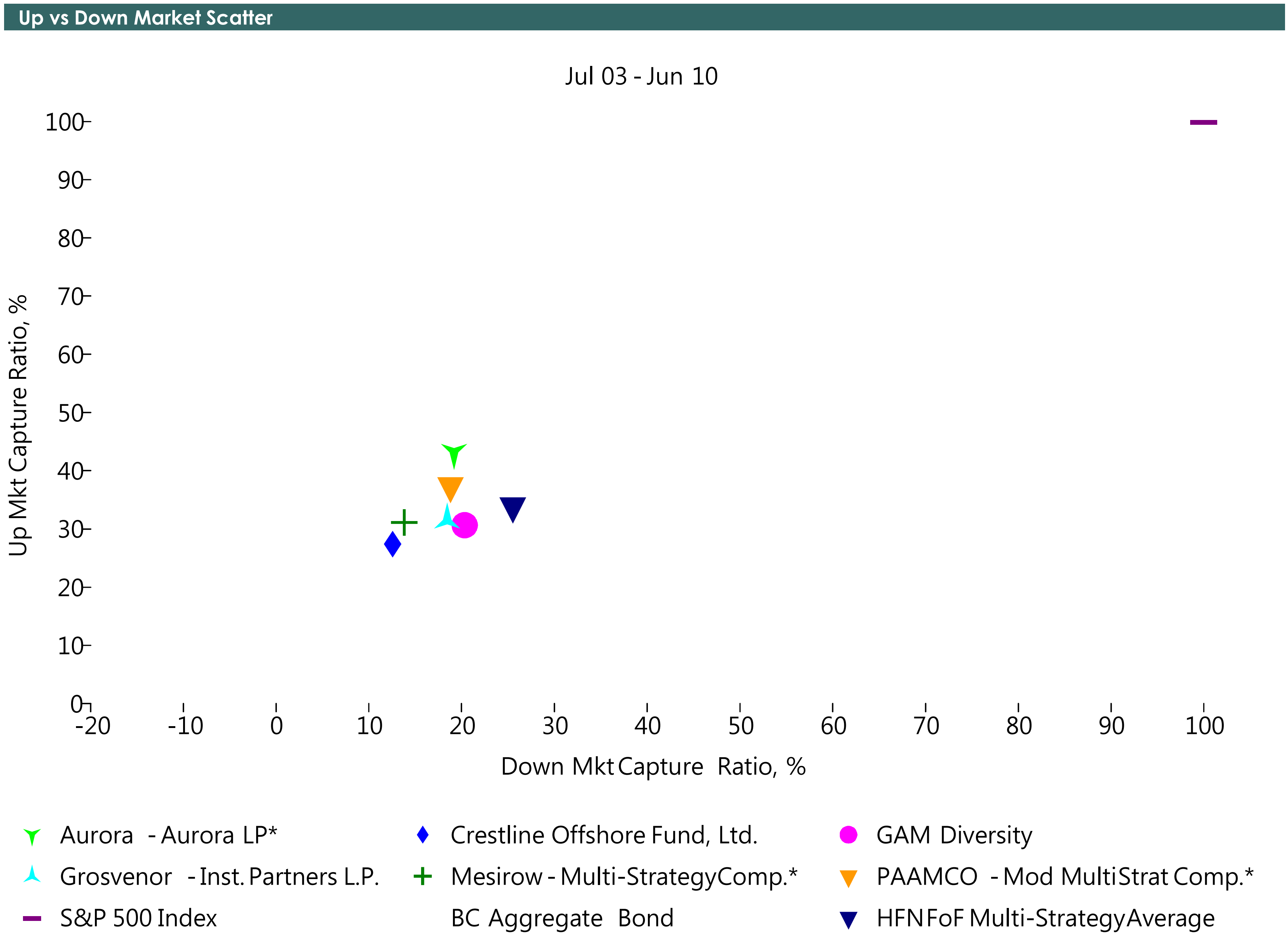
Return vs. Risk (last 7 years)



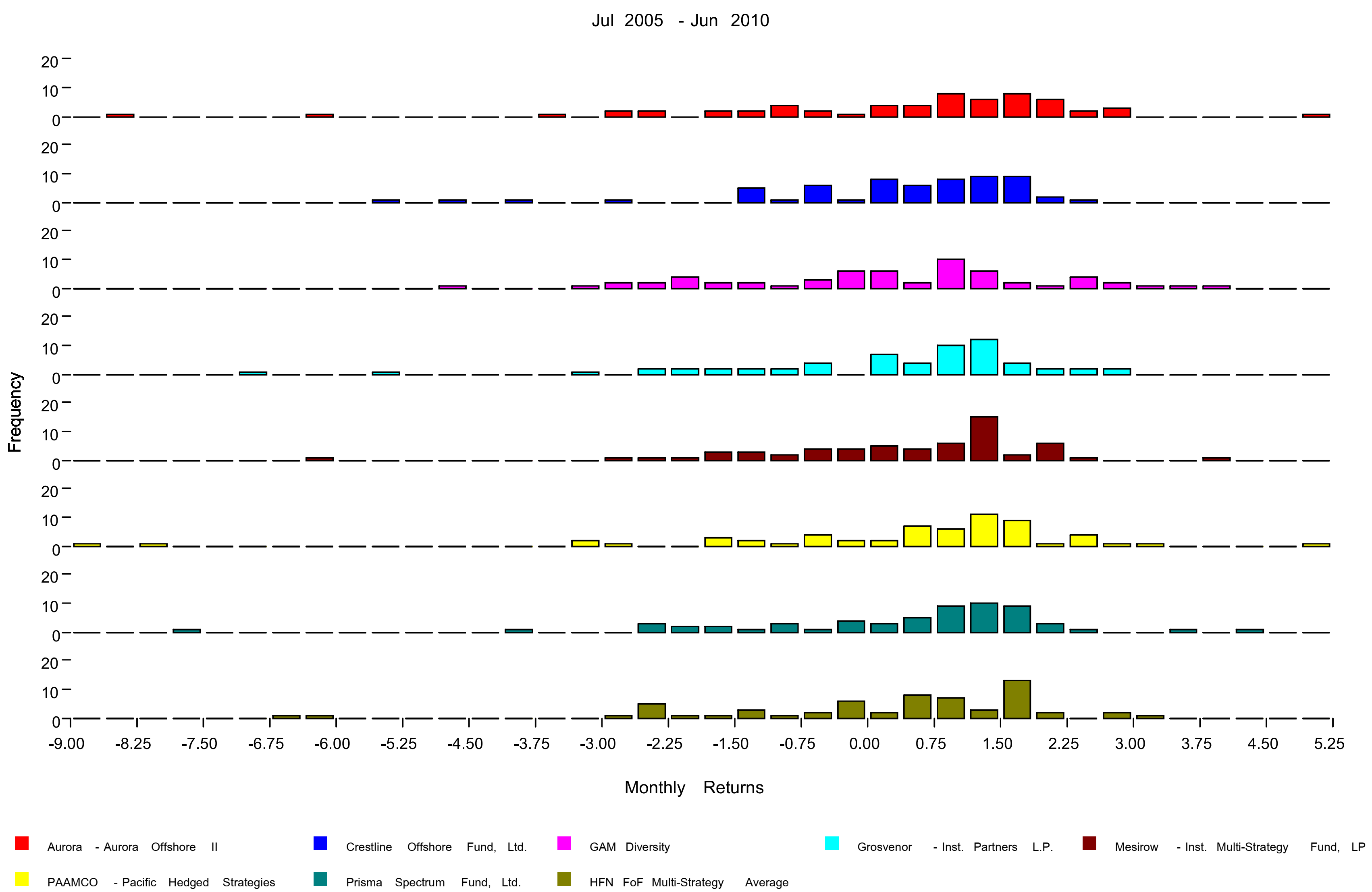
Upside vs. Downside Market Capture (last 5 years)



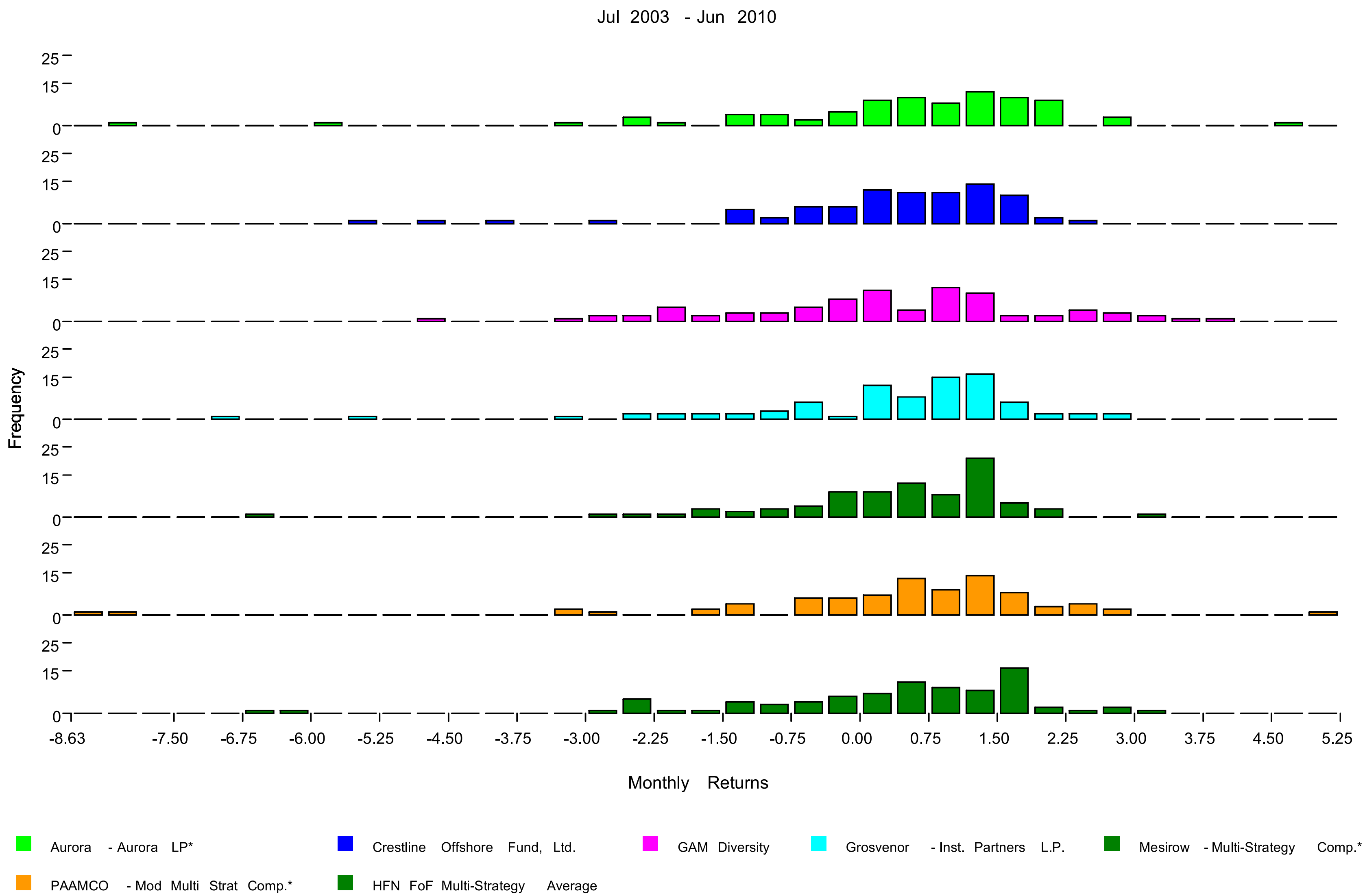
Upside vs. Downside Market Capture (last 7 years)



Distribution of Returns (last 5 years)



Distribution of Returns (last 7 years)



Correlation Of Returns - 5 Year Trailing

Direct Correlations

Correlation: Jul 2005 - Jun 2010	Aurora - Aurora Offshore II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Inst. Multi-Strategy Fund, LP	PAAMCO - Pacific Hedged Strategies	Prisma Spectrum Fund, Ltd.	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora Offshore II	1.00	0.90	0.78	0.96	0.94	0.93	0.93	0.70	0.08
Crestline Offshore Fund, Ltd.	0.90	1.00	0.78	0.95	0.89	0.90	0.89	0.57	-0.07
GAM Diversity	0.78	0.78	1.00	0.80	0.79	0.72	0.78	0.49	-0.05
Grosvenor - Inst. Partners L.P.	0.96	0.95	0.80	1.00	0.95	0.94	0.95	0.61	0.01
Mesirow - Inst. Multi-Strategy Fund, LP	0.94	0.89	0.79	0.95	1.00	0.88	0.93	0.58	0.04
PAAMCO - Pacific Hedged Strategies	0.93	0.90	0.72	0.94	0.88	1.00	0.93	0.58	0.06
Prisma Spectrum Fund, Ltd.	0.93	0.89	0.78	0.95	0.93	0.93	1.00	0.51	0.03
S&P500 Index	0.70	0.57	0.49	0.61	0.58	0.58	0.51	1.00	0.19
BC Aggregate Bond	0.08	-0.07	-0.05	0.01	0.04	0.06	0.03	0.19	1.00
HFN FoF Multi-Strategy Average	0.96	0.91	0.85	0.96	0.91	0.94	0.93	0.67	0.04

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Jul 2005 - Jun 2010	Aurora - Aurora Offshore II	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Inst. Multi-Strategy Fund, LP	PAAMCO - Pacific Hedged Strategies	Prisma Spectrum Fund, Ltd.	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora Offshore II	1.00	-0.02	-0.37	0.30	0.29	0.33	0.26	0.34	-0.15
Crestline Offshore Fund, Ltd.	-0.02	1.00	0.24	0.70	0.59	0.11	0.37	-0.29	0.44
GAM Diversity	-0.37	0.24	1.00	0.02	0.25	-0.46	0.06	-0.29	0.23
Grosvenor - Inst. Partners L.P.	0.30	0.70	0.02	1.00	0.72	0.34	0.63	-0.25	0.26
Mesirow - Inst. Multi-Strategy Fund, LP	0.29	0.59	0.25	0.72	1.00	0.04	0.60	-0.28	0.52
PAAMCO - Pacific Hedged Strategies	0.33	0.11	-0.46	0.34	0.04	1.00	0.37	-0.08	-0.16
Prisma Spectrum Fund, Ltd.	0.26	0.37	0.06	0.63	0.60	0.37	1.00	-0.42	0.21
S&P500 Index	0.34	-0.29	-0.29	-0.25	-0.28	-0.08	-0.42	1.00	-0.19
BC Aggregate Bond	-0.15	0.44	0.23	0.26	0.52	-0.16	0.21	-0.19	1.00

Correlation Of Returns - 7 Year Trailing

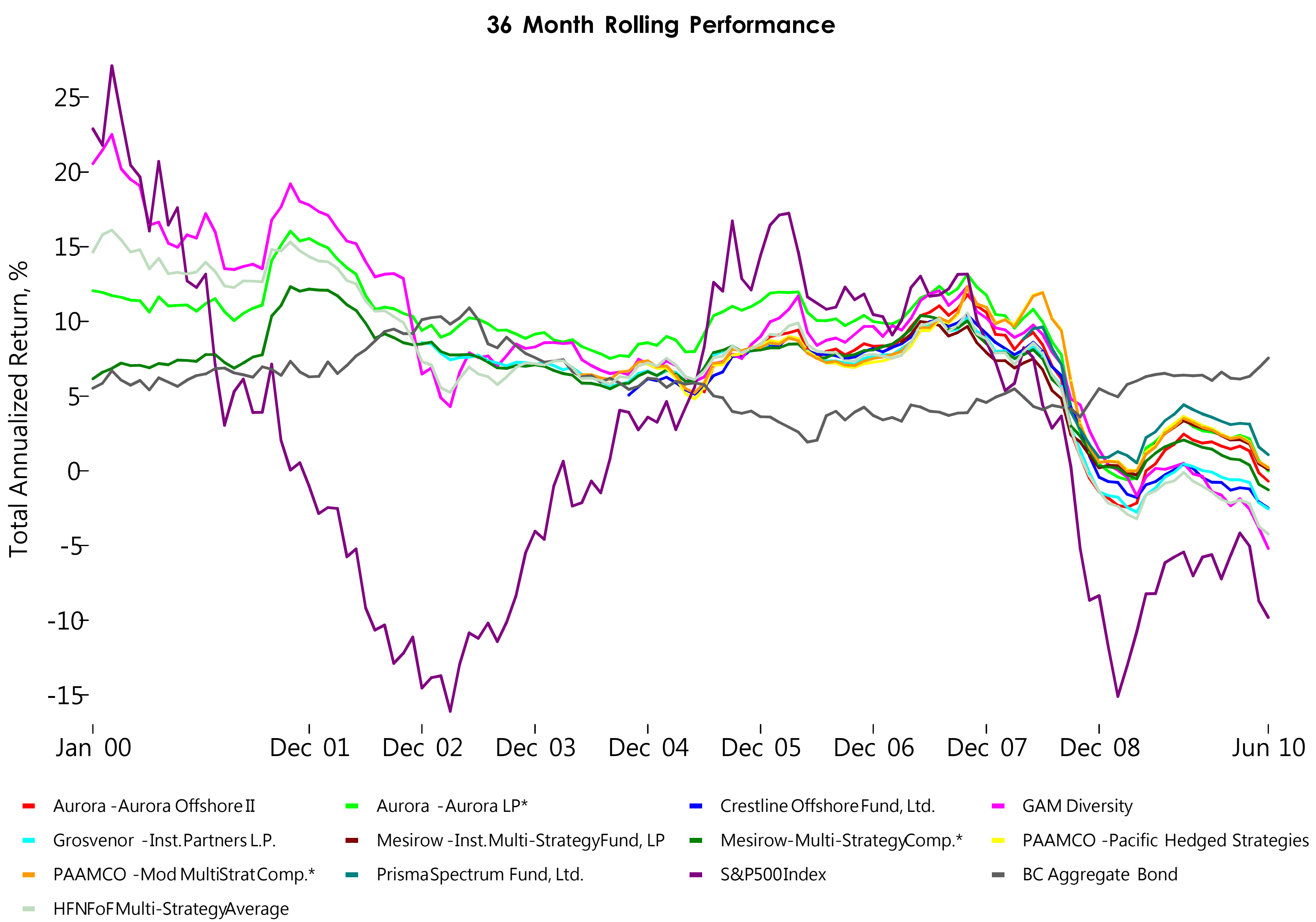
Direct Correlations

Correlation: Jul 2003 - Jun 2010	Aurora - Aurora LP*	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Multi-Strategy Comp.*	PAAMCO - Mod Multi Strat Comp.*	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora LP*	1.00	0.90	0.79	0.95	0.94	0.92	0.68	0.10
Crestline Offshore Fund, Ltd.	0.90	1.00	0.78	0.95	0.91	0.90	0.57	-0.04
GAM Diversity	0.79	0.78	1.00	0.80	0.80	0.72	0.50	-0.04
Grosvenor - Inst. Partners L.P.	0.95	0.95	0.80	1.00	0.96	0.94	0.61	-0.01
Mesirow - Multi-Strategy Comp.*	0.94	0.91	0.80	0.96	1.00	0.90	0.57	0.02
PAAMCO - Mod Multi Strat Comp.*	0.92	0.90	0.72	0.94	0.90	1.00	0.58	0.04
S&P 500 Index	0.68	0.57	0.50	0.61	0.57	0.58	1.00	0.11
BC Aggregate Bond	0.10	-0.04	-0.04	-0.01	0.02	0.04	0.11	1.00
HFN FoF Multi-Strategy Average	0.96	0.91	0.85	0.96	0.92	0.93	0.67	0.04

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Jul 2003 - Jun 2010	Aurora - Aurora LP*	Crestline Offshore Fund, Ltd.	GAM Diversity	Grosvenor - Inst. Partners L.P.	Mesirow - Multi-Strategy Comp.*	PAAMCO - Mod Multi Strat Comp.*	S&P 500 Index	BC Aggregate Bond
Aurora - Aurora LP*	1.00	0.15	-0.16	0.34	0.35	0.31	0.18	0.09
Crestline Offshore Fund, Ltd.	0.15	1.00	0.21	0.71	0.68	0.20	-0.30	0.43
GAM Diversity	-0.16	0.21	1.00	0.01	0.23	-0.40	-0.26	0.17
Grosvenor - Inst. Partners L.P.	0.34	0.71	0.01	1.00	0.75	0.40	-0.24	0.24
Mesirow - Multi-Strategy Comp.*	0.35	0.68	0.23	0.75	1.00	0.15	-0.33	0.53
PAAMCO - Mod Multi Strat Comp.*	0.31	0.20	-0.40	0.40	0.15	1.00	-0.10	-0.08
S&P 500 Index	0.18	-0.30	-0.26	-0.24	-0.33	-0.10	1.00	-0.22
BC Aggregate Bond	0.09	0.43	0.17	0.24	0.53	-0.08	-0.22	1.00

Rolling Returns



Aurora Offshore Fund Ltd. II

Information Effective as of: 12/31/2009

Organization:

Year Firm Established	1988
Year First Fund of Funds Launched	1988
Location	Chicago, IL
Number of Investment Professionals	69
Percentage Employee Owned	0%
Total AUM (millions)	$9,542

Investment Philosophy:

Please see response below:

Investment Process:

The Firm's mission statement is: "Aurora Investment Management L.L.C. is committed to being a premier investment firm focused on delivering consistently superior investment results within a collegial environment that encourages a culture of excellence, respect, teamwork and integrity."

In order to deliver consistently superior investment results, the Firm adheres to a disciplined investment process guided by experienced portfolio managers who manage funds of hedge funds that offer consistent long-term capital appreciation with low volatility and little correlation with equities and bonds. Believing that the most important factors guiding the selection of hedge fund managers are qualitative, not quantitative, the Firm performs thorough and wide-ranging analyses, comparisons and reviews, ultimately relying on the sound judgment that our portfolio management team has developed over the last 22 years. The key element of our investment process that differentiates us from others is our retention of critical judgments (i.e., inclusion/termination of a manager and on-site due diligence of managers) at the most senior level. In both the initial and ongoing due diligence process, we believe that the direct contact between our own Portfolio Management Team and the principals of the underlying managers results in the most accurate and timely assessment possible and allows for the establishment of a unique long-term peer-to-peer relationship. When managers consistently interact with the same senior decision-makers, we can be assured that important information will not be misinterpreted or overlooked. Moreover, we will not invest with any manager until each of our Portfolio Managers has met with the underlying manager and reached a unanimous decision to invest.

Another unique aspect of our investment process is that each Portfolio Manager is a generalist. This generalist perspective allows each Portfolio Manager to seek the best investment opportunities objectively and make logical, well-informed decisions in a consensus-driven manner. This process is in contrast to a "sector specialist" approach, wherein the Portfolio Manager might tend to promote inclusion of his/her own sector in the portfolio – regardless of whether that recommendation may generate the best investment outcome for the portfolio as a whole. This consensus-driven approach makes each Portfolio Manager an owner of each investment decision.

Our investment process also leverages our technology platform. We have developed extensive and sophisticated proprietary databases that house our entire manager due diligence, quantitative, and qualitative analyses, and serves as the centerpiece for all decisions. Each Portfolio Manager travels with the entire database on his/her laptop, creating a virtual office environment, synchronizing wirelessly, allowing for seamless and continuous communication.

The qualitative nature of our work also differentiates us from our peers. For Aurora, the most important factors guiding the final decision of selecting external investment managers is qualitative, not quantitative. While we perform thorough and wide-ranging quantitative analyses, comparisons, and reviews, when it comes to deciding who will receive an allocation of capital, we rely on the sound judgment that our team has developed over the last 21+ years. The accompanying document entitled "The Due Diligence Process" by Roxanne Martino elaborates on the qualitative aspects of our investment process.

Employees

Roxanne M. Martino

Title

Partner, President, Chief Executive Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1977

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Accounting (University of Notre Dame, 1977), MBA (University of Chicago, 1988)
Certified Public Accountant (1977)
Formerly a General Partner with Grosvenor Partners (1984-1990); and a Senior Manager with Coopers & Lybrand (1977-1984)
Thirty-two years industry experience
Joined Aurora Investment Management in 1990

Compensation Structure

N/A

Employees

Scott C. Schweighauser

Title

Partner, Chief Investment Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Mathematics (Williams College, 1983), MBA (University of Chicago, 1989)
Formerly Vice President for derivatives and interest rate product trading with ABN AMRO Bank (1993-1994); a Vice President and Managing Director with Continental Bank's Risk Management Trading Group (1986-1993); and Associate in Corporate Finance at Bankers Trust Co. (1983-1986)
Twenty-seven years industry experience
Joined Aurora Investment Management in 1994

Compensation Structure

N/A

Employees

Justin D. Sheperd

Title

Partner and Portfolio Manager

Location

Chicago

Industry Start Year:

1995

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Business Administration, Finance and Accounting (Miami University, 1994), MBA (University of Chicago, 2003)
Formerly Client Database Services Assistant with Information Resources Inc. (1995-1996)
CFA Charterholder
Fourteen years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Employees

Peter S. Hamet

Title
Head of Research

Location
Chicago

Industry Start Year:
1998

Firm Start Year:
2002

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
BBA in Finance and Accounting (Western Michigan University, 1998)
Formerly Business Director of Hotel Zelai in Spain (2000-2001); and an Analyst for CIBC Oppenheimer, Alternative Investments Group (1998-2000)
CFA Charterholder
Ten years industry experience
Joined Aurora Investment Management in 2002

Compensation Structure
N/A

Employees

Patrick C. Sheedy

Title

Strategy Head

Location

Chicago

Industry Start Year:

2001

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Government and International Relations (University of Notre Dame, 2001)
Formerly Associate Consultant and Head of Hedge Fund Research at Stratford Advisory Group (2001-2005)
Nine years industry experience
Joined Aurora Investment Management in 2005

Compensation Structure

N/A

Employees

Gregory D. Schneiderman

Title

Strategy Head

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Finance and Accounting (Washington University, 1999)
Formerly Director – Head of Absolute Return Manager Research, and Vice President – Senior Research Analyst at Guggenheim Wealth Management (2006-2008); Vice President – Senior Research Analyst and Senior Associate at Morgan Stanley Alternative Investment Partners (2002-2006); and Investment Banking Analyst at A.G. Edwards and Sons, Inc. (1999-2002)
CFA Charterholder
Eleven years industry experience
Joined Aurora Investment Management in 2008

Compensation Structure

N/A

Employees

David E. Kuenzi

Title
Director of Quantitative Research

Location
Chicago

Industry Start Year:
1994

Firm Start Year:
2009

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
BA (Western Michigan University, 1988), MFA (University of Iowa, 1990), MBA (University of Chicago, 2001), MS (University of Chicago, 2004)
Formerly Head of Risk Management and Quantitative Research with Man Investments USA Corp. (Glenwood Capital) (2003-2008); Vice President, Research, Development, and Risk Management with Nuveen Investments (1996-2003); Securities Analyst with Perritt Capital Management (1994-1995); and Adjunct Professor at Grand Valley State University (1991-1993)
CFA Charterholder
Sixteen years industry experience
Joined Aurora Investment Management in 2009

Compensation Structure
N/A

Employees

Anne Marie Morley

Title

Partner, Chief Financial Officer, and Treasurer

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Accounting (DePaul University, 1991), MS in Taxation (DePaul University, 2006)
Formerly a Senior Accountant with Grosvenor Partners (1988-1994); Chief Financial Officer of LaSalle Portfolio Management (1994-1995); and Assistant Controller with Edelman Public Relations (1995-1996)
Twenty-two years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Additional Manager Detail

Firm: **Aurora Investment Management L.L.C.**
Product Name: **Aurora Offshore Fund Ltd. II**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	37.0%	11.0%	0.0%	0.0%	23.0%	0.0%	0.0%	0.0%	12.0%	17.0%
12/31/2008	42.0%	12.0%	0.0%	0.0%	15.0%	0.0%	0.0%	0.0%	14.0%	17.0%
12/31/2007	45.0%	11.0%	0.0%	0.0%	11.0%	0.0%	0.0%	0.0%	12.0%	21.0%
12/31/2006	48.0%	10.0%	0.0%	0.0%	14.0%	0.0%	0.0%	0.0%	12.0%	16.0%
12/31/2005	46.0%	10.0%	0.0%	0.0%	12.0%	0.0%	0.0%	0.0%	15.0%	17.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$1,900	$7,200	$9,542	$9,542	204	230
12/31/2008	$1,800	$6,268	$9,053	$9,053	259	137
12/31/2007	$2,900	$9,068	$13,128	$13,128	194	69
12/31/2006	$2,400	$7,175	$9,624	$9,624	168	110
12/31/2005	$1,300	$5,562	$7,154	$7,154	124	112

Crestline Investors Offshore Fund

Information Effective as of: 06/30/2010

Organization:

Year Firm Established	1997
Year First Fund of Funds Launched	1997
Location	Fort Worth, Texas
Number of Investment Professionals	61
Percentage Employee Owned	100%
Total AUM (millions)	$5,500

Investment Philosophy:

Crestline's investment philosophy is that:
• Market inefficiencies exist.
• Harnessing these market inefficiencies can produce attractive returns with low net market exposure.
• Successful investing requires a forward-looking approach, not reliance on prior years' returns.
• Risk management is paramount to long-term performance.

There are three features to our investment approach which we believe are our edge and contribute most to alpha generation:

1. The first is our top-down, forward-looking approach to strategy selection. In an environment where large amounts of capital are attracted to the strategies that performed well last year, we believe the ability to understand the drivers of return going forward enables us to achieve better risk-adjusted returns.

2. The second is manager selection. Sourcing high quality managers is the way we implement our strategy views.

3. The third is our risk management process. Risk management is integral to our investment process and leads us to a well-diversified portfolio of absolute return strategies. Protecting the downside enables the portfolio to grow and compound over time.

Investment Process:

Our first step in the investment process is to evaluate the prospects for each of the hedge fund strategies. Our research team is comprised of strategy specialists who are responsible for identifying the opportunities within their strategy, quantifying the projected risk/reward and ranking the strategy. In constructing our portfolios, we draw heavily from strategies that we believe tend to have lower volatility and a demonstrated alpha.

The first step in the evaluation of a fund is a high level "Quick Look" analysis which will provide basic information on the fund including returns, strategy description, manager background and basic risk statistics.

The fund then moves to the Research stage and the analyst team will gather marketing materials, set up a call or an office meeting with the manager, begin reference checking, and perform a quantitative analysis of returns (conducted by Crestline's risk team).

When we move a manager into the due diligence process, we have done enough preliminary work to know whether we like the basic fundamentals of the manager, the strategy, the returns and the risk profile. Based on that information, the goal of our due diligence process is to find a reason not to invest with the manager.

Employees

Doug Bratton

Title

President / CIO

Location

Fort Worth

Industry Start Year:

1984

Firm Start Year:

1997

Firm End Date:

N/A

Email

dbratton@crestlineinc.com

Office Phone:

817-390-8796

Cell Phone

N/A

Bio

Mr. Bratton is founder and majority owner of Crestline Investors, Inc., the general partner of Crestline Management, L.P. & Crestline Associates, L.P., the investment manager and general partner, respectively, of the Crestline fund of funds products. He is the Chair of the Investment and Executive Committees. Mr. Bratton has been an investment professional with organizations utilizing alternative asset strategies since 1983. He has extensive experience in hedge fund management, multi-strategy portfolio construction, private equity and venture capital. Mr. Bratton has specific expertise in absolute return arbitrage strategies, having started his career in this business and later managed arbitrage groups. Since 1989, Mr. Bratton has managed portfolios using these alternative asset strategies on behalf of organizations associated with the Bass family. During this period, he has also negotiated hedge fund related joint ventures for Bass entities. These include: lift-outs of proprietary trading groups in merger arbitrage and convertible arbitrage ultimately employing $500 mm in capital; a collateralized loan obligation group managing $3 billion in bank loans; and an experienced distressed securities group. In addition, Mr. Bratton negotiated a $1 billion active investing joint venture. Since 1997, he has been President of Crestline Investors, Inc. Prior to founding Crestline Investors, he spent six years with Taylor & Company, an investment organization associated with members of the Bass family. From 1989 to 1991, Mr. Bratton was a partner of the Airlie Group, L.P. where he managed the merger arbitrage and special situation portfolio. From 1988 to 1989, Mr. Bratton was employed by Investment, L.P. (the predecessor firm of the Airlie Group) as a partner in the Merger Arbitrage group. From 1984 to 1988, Mr. Bratton served as Vice President in the Merger Arbitrage group for Smith Barney Harris Upham and Company. Mr. Bratton received a B.S. from North Carolina State University in 1981 and a Masters of Business Administration with Honors from Duke University in 1984.

Compensation Structure

Salary, fixed bonus and profits interest

Employees

Caroline Cooley

Title

Senior Portfolio Manager

Location

Fort Worth

Industry Start Year:

1985

Firm Start Year:

1998

Firm End Date:

N/A

Email

ccooley@crestlineinc.com

Office Phone:

817-339-7377

Cell Phone

N/A

Bio

Ms. Cooley is the senior portfolio manager in charge of our low volatility funds and leads the portfolio management team. She is a member of the Executive Committee. Ms. Cooley has over 25 years of experience in the investment industry, focusing almost exclusively in the absolute return arena. She has significant experience in proprietary trading as well as hedge fund risk management. Prior to joining the firm in April 1998, Ms. Cooley was a Managing Director for Culmen Group, L.P., an investment firm based in Fort Worth. From 1986 to 1997 she was an investment professional with Taylor & Company where she was active in equity derivatives and fixed income arbitrage. She has experience trading securities in both the U.S. and international markets. In addition, Ms. Cooley was responsible for the risk management of the various absolute return strategies employed by Taylor & Company, including monitoring and hedging equity, currency and interest rate exposure. Ms. Cooley began her career in the investment industry at Manufacturers Hanover Trust Company in New York and Chicago after receiving her B.A. in Economics from The College of William and Mary in 1983.

Compensation Structure

Salary, discretionary bonus and profits interest

Employees

John Cochran

Title

Chief Administrative Officer

Location

Fort Worth

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

jcochran@crestlineinc.com

Office Phone:

817-339-7379

Cell Phone

N/A

Bio

Mr. Cochran serves as the Chief Financial Officer/Chief Administrative Officer and manager of the firm's operational due diligence efforts for Crestline's fund of funds products. He is a member of the Executive Committee. Mr. Cochran has 22 years experience in various segments of the investment industry including private equity, venture capital and hedge funds. Prior to joining the firm in October 1998, he spent 10 years with KPMG L.L.P. ("KPMG"). During his employment at KPMG, Mr. Cochran received extensive industry experience through his position as an auditor and focus in the Merger and Acquisition area. During his tenure at KPMG, a majority of his time was spent working with various hedge funds, investment companies, private equity firms, venture capital groups and broker dealers. Mr. Cochran is a CPA and received a B.B.A. in Accounting from Texas Christian University in 1987.

Compensation Structure

Salary, discretionary bonus and profits interest

Additional Manager Detail

Firm: Crestline Investors, Inc.
Product Name: Crestline Offshore Fund

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	19.5%	0.0%	1.8%	2.6%	6.2%	4.6%	0.0%	3.4%	3.5%	58.5%
12/31/2008	19.3%	0.0%	1.9%	2.0%	6.5%	6.2%	0.0%	1.3%	4.1%	58.5%
12/31/2007	19.6%	0.0%	1.6%	4.1%	11.3%	5.4%	0.0%	1.4%	6.2%	50.4%
12/31/2006	17.1%	0.0%	0.9%	3.4%	10.5%	5.1%	0.0%	3.1%	11.1%	48.7%
12/31/2005	12.5%	0.0%	2.9%	3.4%	9.5%	4.2%	0.0%	4.4%	8.9%	54.2%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$499	$3,239	$5,500	$5,500	18	78
12/31/2008	$550	$2,520	$3,600	$3,600	93	13
12/31/2007	$585	$2,950	$4,300	$4,300	82	11
12/31/2006	$370	$1,950	$2,500	$2,500	49	20
12/31/2005	$260	$920	$1,500	$1,500	47	5

GAM Diversity

Information Effective as of: 06/30/2010

Organization:

Year Firm Established	1983
Year First Fund of Funds Launched	1983
Location	New York, NY
Number of Investment Professionals	86
Percentage Employee Owned	0%
Total AUM (millions)	$15,000

Investment Philosophy:

We believe that constructing hedge fund portfolios that consistently deliver attractive risk adjusted returns requires deep manager research and a multi-layered approach to risk management. Deep manager research is essential to identifying alpha, while an integrated approach to risk management is needed to control downside risk.

In terms of research, we believe that a global sourcing process is needed to identify hedge fund talent. Much of the growth in the hedge fund industry and, furthermore, most of the opportunity is now occurring outside the U.S. Additionally, investing in non-U.S. managers and markets can reduce the correlation of a hedge fund portfolio to traditional stock and bond indices. We also believe that research must be focused on “discovery” rather than “access”.

As to risk, we believe a comprehensive approach to risk management is needed in fund of hedge fund management. This belief has impacted our investment approach and process in several ways. First, GAM separates investment analysis from operational due diligence, employing a dedicated 6-person team to conduct this analysis. This team reports to the Chief Operating Officer and may “veto” an investment opportunity for operational reasons. Other examples include setting clear return, volatility, and correlation targets for every manager prior to investment and requiring weekly NAV’s from all of managers. Failure to provide the latter will exclude a manager from consideration. Finally, in terms of transparency, we have a strong bias toward strategies which are marked-to-market and require from all of our managers a high degree of holdings transparency. Specifically, for equity managers we require position-level detail, while for trading and arbitrage managers we have developed special templates which seek to isolate the risks specific to a given hedge fund strategy. Again, failure to provide such data will exclude a manager from consideration.

Investment Process:

GAM’s investment process provides discipline and risk control, which enables us to identify talented managers on a consistent basis.

We set clear return, risk and correlation objectives for each strategy and sub-strategy. These drive the strategy weights and tactical allocation ranges for our portfolios, thereby ensuring consistent decision-making throughout the process. We select managers using a highly discerning research process which includes mapping the global hedge fund universe, then evaluating the investment approach, operational integrity and performance expectations of the most talented managers. We combine those managers that we believe have a sustainable competitive edge into portfolios using bottom-up, qualitative conviction in tandem with forward-looking modeling tools and our previously defined portfolio weights and objectives. Risk control is threaded throughout this entire process to maximize the predictability of our results.

Our investment process proceeds through five stages: 1. Establish Objectives and Weights; 2. Identification of Talent; 3. Manager Evaluation; 4. Portfolio Construction; and 5. Risk Management & Monitoring. GAM believes that manager selection is most important when building a fund of hedge fund and assesses opportunities with this mind set and thus takes a bottom mentality.

Employees

David Smith

Title

Chief Investment Director

Location

London

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

David Smith (20 years' investment experience) is Chief Investment Director for GAM Multi-Manager. He is responsible for GAM' Diversity and co-manages several single strategy portfolios. Prior to joining GAM in April 1998, Mr. Smith was head of investment research and management at Buck Consultants. He joined Buck in 1992 from the actuarial investment consultancy division of a leading firm of consultants. Mr. Smith holds a BA (Hons) in Economics and has associate qualifications from IIMR and the Securities Institute. He is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.
The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.
From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Kier Boley

Title

Investment Manager

Location

London

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Kier Boley (14 years' investment experience) is an Investment Manager in GAM's Multi-Manager team. He is responsible for GAM's Emerging Markets and Asian Multi-Manager investments, as well as managing a commodities-focused fund of hedge funds. Prior to joining GAM in April 2000, Mr. Boley spent six years with City of London Investment Management where, as a director, he was responsible for its London investment team dealing in non-US traded emerging market and Asian funds. Prior to this, Mr. Boley worked in Asia for two years. He holds a BA (Hons) in Economics from Portsmouth University and an MSc in Economics from Southampton University and is a member of SIP. He is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.
The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.
From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Catherine Cripps

Title

Investment Manager

Location

London

Industry Start Year:

1992

Firm Start Year:

2006

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Catherine Cripps (18 years' investment experience) is an Investment Manager responsible for GAM's multi-manager investments in environmental and European strategies. She is also Head of Research for GAM's Multi-Manager team. Ms Cripps joined GAM in July 2006 from a multi-strategy fund of hedge fund manager, Aida Capital Limited, where she was CEO. Prior to joining Aida Capital, Ms Cripps held various positions in equity derivatives trading, risk management and product control at Credit Suisse, Chase Manhattan, ING Barings and Bankers Trust. Ms Cripps holds an MA in Physics from Oxford University and is a qualified Chartered Accountant. She is based in London.

Compensation Structure

Senior management executives receive a competitive base salary plus discretionary bonus payments and stock options.

The members of GAM's Multi-Manager team earn competitive salaries, a discretionary bonus and stock options. The investment managers and specialists within GAM's Multi-Manager team are held accountable and judged by their ability to cover managers within their respective universes and the accuracy of their manager return, volatility, correlation, and drawdown projections. As to the latter, investment managers and specialists are judged by the accuracy of forward looking projections of their respective hedge fund manager selections, rather than typical compensation structures where team members are paid based on magnitude of return, and therefore encouraged to take unnecessary or excessive risk. This compensation structure leads to a team-based approach to manager selection, with the common goal of delivering stated return objectives for the overall GAM hedge fund of fund portfolio. Successful investment managers who have been with GAM for a number of years can generally expect their bonuses to be a multiple of their basic salaries.

From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Jennifer Drake

Title

Investment Manager

Location

New York

Industry Start Year:

1997

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Jennifer Drake (11 years' investment experience) is an Investment Manager in GAM's Multi-Manager team and co-manages an arbitrage fund of hedge funds. Prior to joining GAM in September 2004, she worked at Nomura Securities, New York, where she was head analyst and portfolio manager of its proprietary convertible bond portfolios. Ms Drake started her career at Goldman Sachs, New York, as an analyst in mergers and acquisitions. She holds a BA (Hons) in Physics from Williams College, Williamstown, Massachusetts. She is based in New York.

Compensation Structure

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From time to time, certain members of the Multi-Manager investment team have been participants in long-term incentive programs based on the equity of the parent company. Numerous members of GAM's senior management have significant investments in GAM funds. In addition, all or substantially all of the contributions made by or on behalf of GAM's UK based senior management into company sponsored pension schemes are invested in GAM funds.

Employees

Andrew Hutson

Title

Investment Manager

Location

Hong Kong

Industry Start Year:

2000

Firm Start Year:

2000

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Andrew Hutson (8 years' investment experience) is an Investment Manager in GAM's Multi-Manager team, with a specific focus on hedge funds investing in Japan. Prior to joining GAM in November 2000, Mr. Hutson spent three years with Limehouse & Co. as an auditor, and prior to this worked in retail banking at Barclays. He holds a BA in Accounting, a BSc in Financial Services. Mr. Hutson is a Fellow of the Association of Chartered Certified Accountants and an Associate of the Charted Institute of Bankers. He is based in Hong Kong.

Compensation Structure

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From time to time, certain members of the Multi-Manager investment team have been participants

Employees

Chi Keong Lee

Title

Risk Manager

Location

London

Industry Start Year:

1995

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Chi Keong Lee (14 years' investment experience) is a Risk Manager for GAM Multi-Manager. He is responsible for monitoring investments, coordinating the risk process and developing the Multi-Manager risk systems. Prior to joining GAM in January 2008, Chi originated and structured credit derivatives at Morgan Stanley and before that was head of quantitative research at an Asian fund of funds (now part of LGT Capital). He started his career in 1995 in financial risk management consulting with Andersen and has also implemented a successful automated statistical arbitrage trading strategy for a family office. Chi holds an MBA in Finance from the Wharton School and a BA in Computer Science from Cambridge University.

Compensation Structure

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Employees

Amir Madden

Title

Investment Manager

Location

New York

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Amir Madden (8 years' investment experience) is an Investment Manager in GAM's Multi-Manager team, responsible for GAM's event driven multi-manager investments. He also co-manages a North American multi-manager fund. Prior to joining GAM in August 2002, he spent two years at JP Morgan Private Bank in the multi-manager investment advisory group as a due diligence specialist, having previously worked at Jennison Associates LLC. Mr. Madden holds an MBA in Banking and Finance from Hofstra University and a BBA in International Finance and Marketing from the University of Miami. He is based in New York.

Compensation Structure

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Employees

Jeffrey Rose

Title

Investment Manager

Location

New York

Industry Start Year:

2000

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Jeffrey Rose (8 years' investment experience) is an Investment Manager in GAM's Multi-Manager team. Prior to joining GAM in March 2008, Mr. Rose was a partner at US-based fund of hedge funds boutique, Condor Capital, having co-manager responsibility for the fund of hedge funds. Prior to Condor Capital's split from Conquest Capital in 2007, he was a co-manager of the fund of hedge funds portfolio. Mr. Rose is a CFA charterholder and holds an MBA in Finance from Columbia Business School, a JD from NYU School of Law, and a BA in Political Science and Legal/Political Communication from Queens College. Prior to obtaining his MBA, Mr. Rose spent seven years as a lawyer, including three years with Schulte Roth & Zabel LLP, where he advised hedge funds and investment advisers on legal issues. He is based in New York.

Compensation Structure

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Employees

Arvin Soh

Title

Investment Manager

Location

New York

Industry Start Year:

1994

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Arvin Soh (14 years' investment experience) is an Investment Manager in GAM's Multi-Manager team focusing on macro and managed futures strategies. Prior to joining GAM in February 2005, he was a manager at Pfizer with primary responsibility for manager selection in international equity, global macro and currency funds. Prior to this Mr. Soh was an assistant portfolio manager with a hedge fund and a vice president with Bankers Trust. He holds a BA in Economics from Cornell University and an MBA from the Wharton School of the University of Pennsylvania. He is based in New York.

Compensation Structure

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Additional Manager Detail

Firm: **GAM**
Product Name: **GAM Diversity, LP**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	32.0%	0.0%	33.1%	0.0%	2.2%	0.0%	1.5%	4.5%	0.0%	26.7%
12/31/2008	16.5%	0.0%	50.5%	0.0%	4.2%	0.7%	6.6%	6.0%	0.0%	15.5%
12/31/2007	47.9%	0.0%	26.4%	0.0%	3.3%	0.0%	7.3%	3.7%	0.0%	11.4%
12/31/2006	47.3%	0.0%	28.2%	0.0%	3.9%	3.0%	5.5%	0.0%	0.0%	12.1%
12/31/2005	48.2%	0.0%	27.8%	0.0%	3.6%	2.9%	5.0%	0.0%	0.0%	12.5%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$4,638	$5,459	$15,000	$40,696	49	36
12/31/2008	$5,814	$7,907	$15,688	$30,465	23	41
12/31/2007	$9,001	$13,251	$26,060	$57,314	65	26
12/31/2006	$5,388	$10,455	$20,365	$50,838	53	22
12/31/2005	$3,949	$8,171	$17,092	$40,434	27	28

Grosvenor Institutional Partners, L.P.

Information Effective as of: 12/31/2009

Organization:

Year Firm Established	1971
Year First Fund of Funds Launched	1971
Location	Chicago, IL
Number of Investment Professionals	220
Percentage Employee Owned	70%
Total AUM (millions)	$22,635

Investment Philosophy:

Grosvenor believes a properly constructed portfolio of proven alternative investment strategies, implemented by a carefully selected combination of talented investment managers, can produce competitive absolute returns and superior risk-adjusted returns with limited correlation to traditional equity and fixed income markets. Grosvenor implements this philosophy by: investing in absolute return strategies; allocating capital to superior investment managers; and systematically diversificating of portfolios.

Investment Process:

Grosvenor begins by establishing an investment policy and target strategy weightings for every portfolio. The Portfolio Managers select managers from an approved list, with selection driven by style, correlation, liquidity considerations and capacity. Typically, more than one manager is included for each strategy to take advantage of style differences, mitigate manager risk, and provide for future capacity.

The portfolio is statistically measured on both a historical and forward-looking basis. The historical simulation uses actual returns over a specific time period. The forward-looking analysis evaluates expected return, standard deviation, Severe Case Loss (SCL), and beta to S&P 500 of the portfolio.

The resulting portfolio is compared to its formal investment policy to ensure compliance. While Grosvenor does not attempt to "time" the market, but portfolios are frequently adjusted as new investment opportunities present themselves, as capital flows into or out of the portfolio or as managers are terminated.

Employees

Michael J. Sacks

Title

Chief Executive Officer, Managing Director

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1990

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sacks joined the firm in 1990 and is the firm's Chief Executive Officer. In addition to his management responsibilities, Mr. Sacks shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1988 through 1990, Mr. Sacks was associated with Harris Associates, L.P. Mr. Sacks graduated with his Bachelor of Arts in Economics from Tulane University in 1984 and received two degrees from Northwestern University in 1988: his Masters of Business Administration from the J.L. Kellogg Graduate School of Management and his Juris Doctorate from the School of Law. He is a member of the Illinois Bar.

Compensation Structure

Confidential.

Employees

David B. Small

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1987

Firm Start Year:

1994

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Small was a Consultant to Grosvenor from 1987 to 1993 and joined the firm full-time in 1994. He shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. Prior to joining Grosvenor, Mr. Small was the Founder and Chief Executive Officer of David Bruce & Co., a software firm specializing in the development of risk management systems for derivatives trading firms, from 1987 through 1994. From 1979 to 1982, Mr. Small was associated with Philadelphia Insurance Research Group, and from 1978 to 1979, he was associated with Rapidata. Mr. Small received his Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania in 1978 and his Masters of Business Administration in Finance and Econometrics from the University of Chicago's Graduate School of Business in 1985.

Compensation Structure

Confidential.

Employees

David S. Richter

Title
Managing Director - Investments, Investment Committee Member

Location
Chicago

Industry Start Year:
1988

Firm Start Year:
1994

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
Mr. Richter has been affiliated with Grosvenor since 1994 and joined the firm full-time in 2003. Mr. Richter is a member of the Firm's Investment Committee, a Portfolio Manager, and Director of Research. Mr. Richter supervises the Team Leaders within the Investments Department and shares responsibility for evaluation, selection, and monitoring of various investment strategies and managers. From 1994 to 2003, he was the Founder and Managing Partner of Chicago-based Waveland Capital Management, L.P., a U.S. long-short equity hedge fund. From 1988 to 1994, Mr. Richter was a Vice President of JMB Realty Corporation in the Corporate Acquisitions Group. Prior to 1988, Mr. Richter was a Manager of KPMG Peat Marwick. He graduated summa cum laude with his Bachelor of Science in Accountancy from the University of Illinois in 1983. Mr. Richter is a Certified Public Accountant and received the national AICPA Elijah Watt Sells Award from the American Institute of CPA's for his scores on the Uniform CPA Examination.

Compensation Structure
Confidential.

Employees

Brian A. Wolf, CFA

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Wolf joined the firm in 1995 and shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1993 to 1995, he was an Analyst and Trader for M&M Financial, a Chicago-based money management firm. He graduated summa cum laude with his Bachelor of Science in Finance from Bradley University in 1992 and earned his Masters of Business Administration magna cum laude from the University of Notre Dame in 1993. Mr. Wolf is a Chartered Financial Analyst and a member of the CFA Society of Chicago. Mr. Wolf is also the author of a chapter on hedged equity funds in the publication "Hedge Funds: Definitive Strategies and Techniques".

Compensation Structure

Confidential.

Employees

Paul Meister

Title

Chief Operating Officer, Member of the Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1991

Firm Start Year:

1991

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Meister joined the firm in 1991 and is the firm's Chief Operating Officer. In addition, Mr. Meister serves as Chair of the firm's Operations Committee. From 1987 to 1991, Mr. Meister was with the law firm of Barack, Ferrazzano, Kirschbaum & Perlman, except for a 12 month period from 1990 to 1991, when he managed the real estate operations for Sportmart, a Chicago-based retailer. He received his Bachelor of Science in Accounting from the University of Illinois in 1984 and his Juris Doctorate cum laude from Northwestern University School of Law in 1987, where he was a member of the Law Review and Order of the Coif. Mr. Meister is a Certified Public Accountant and a member of the Illinois Bar. Since 2000, Mr. Meister has served on the Law Board of Northwestern University School of Law and is currently a Vice Chair of its Executive Committee.

Compensation Structure

Confidential.

Employees

Eric Felton, CFA

Title

Chief Financial Officer, Member of Operations Committe, Managing Director

Location

Chicago

Industry Start Year:

1986

Firm Start Year:

2004

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Felton joined the firm in 2004 and is the firm's Chief Financial Officer. From 2002 to 2004, Mr. Felton was a Partner in the Financial Services Industry Practice for Ernst & Young, L.L.P. in their Chicago office. From 1986 to 2002, he was a Partner with Arthur Andersen, L.L.P. in their Chicago office. He graduated with High Distinction from Valparaiso University with his Bachelor of Science in Accounting in 1986, and earned his Masters of Business Administration with Honors from the University of Chicago in 1992. Mr. Felton is a Certified Public Accountant and a Chartered Financial Analyst. He is a member of the American Institute of Certified Public Accountants, The Illinois CPA Society, the CFA Institute, and the CFA Society of Chicago.

Compensation Structure

Confidential.

Employees

Joseph H. Nesler

Title

General Counsel, Chief Compliance Officer, Member of Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1982

Firm Start Year:

2004

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Nesler joined the firm in 2004 and serves as Grosvenor's General Counsel and Chief Compliance Officer. Prior to joining Grosvenor, Mr. Nesler practiced at Gardner, Carton & Douglass for two years. From 1996 to 2002, he served as a Partner in the Investment Products and Derivatives Group at Sidley Austin Brown & Wood, L.L.P. Between 1986 and 1996, Mr. Nesler practiced with Schiff Hardin & Waite in Chicago. From 1982 to 1986, he was an Associate with Gardner, Carton & Douglas. Mr. Nesler graduated magna cum laude from Amherst College in 1978 and received his Juris Doctorate from Yale University in 1982. He is a member of the Chicago Bar Association and former Co-Chairman of the subcommittee of its securities law committee on investment company regulation.

Compensation Structure

Confidential.

Employees

Joseph Gutman

Title

Managing Director - Client Group

Location

Chicago

Industry Start Year:

1981

Firm Start Year:

2005

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Gutman joined the firm in 2005 and is responsible for overseeing its client services operations. From 1981 to 2003, Mr. Gutman was associated with Goldman Sachs in various capacities. From 1996 to 2002, Mr. Gutman was a Partner of Goldman, and from 1998 to 2002, he was a Managing Director. From 1997 to 2002, Mr. Gutman was Co-Head of Goldman's Chicago office. Before holding that title, Mr. Gutman was Head of Goldman's Institutional Equities Business in the Midwest for five years and shared responsibility on the Leadership Team of Goldman's US Shares Business. From 1981 to 1984, Mr. Gutman spent time in Goldman's Private Client Business, and from 1984 to 1990, he spent time in Goldman's Institutional Equities Business, serving as Co-Head from 1990 to 1994. Mr. Gutman received his Bachelor of Science in Accounting from the University of Illinois in 1979 and his Masters of Business Administration in Finance from J.L. Kellogg Graduate School of Management at Northwestern University in 1981. Mr. Gutman is a Certified Public Accountant.

Compensation Structure

Confidential.

Additional Manager Detail

Firm: **Grosvenor Capital Management, L.P.**
Product Name: **Grosvenor Institutional Partners, L.P.**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	35.3%	2.4%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	61.1%
12/31/2008	25.1%	5.9%	0.0%	0.0%	0.0%	2.5%	0.0%	0.0%	0.0%	66.5%
12/31/2007	37.9%	6.2%	0.0%	0.0%	0.0%	3.2%	0.0%	0.0%	0.0%	52.7%
12/31/2006	39.4%	3.1%	0.0%	0.0%	0.0%	3.8%	2.4%	0.0%	0.0%	51.3%
12/31/2005	43.4%	2.2%	0.0%	0.0%	0.0%	1.1%	2.8%	0.0%	0.0%	50.6%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$5,619	$19,914	$22,635	$22,635	58	35
12/31/2008	$4,660	$18,675	$20,474	$20,474	120	38
12/31/2007	$5,039	$23,642	$25,322	$25,322	118	30
12/31/2006	$3,089	$17,595	$18,840	$18,840	86	37
12/31/2005	$2,549	$14,610	$15,580	$15,580	81	12

Mesirow Institutional Multi-Strategy Fund, LP (MIMSF)

Information Effective as of: 12/31/2009

Organization:

Year Firm Established	1990
Year First Fund of Funds Launched	1990
Location	Chicago, IL
Number of Investment Professionals	95
Percentage Employee Owned	92%
Total AUM (millions)	$11,961

Investment Philosophy:

We believe: (1) Investment management and risk management are inseparable endeavors, (2) Differentiating skill from luck is the foundation for sustainable value-added investment results, (3) Our independent verification processes are paramount to successful hedge fund investing, (4) Investment opportunities ebb and flow across geographies, strategies and sectors requiring dynamic allocation of capital, and (5) Incentive alignment is critical to investment and organizational success

Investment Process:

Prospective managers undergo detailed due diligence by our qualitative, quantitative, and operational due diligence professionals. We research managers across a number of areas including organizational structure, investment process, portfolio construction, and risk management. Our Investment Committee makes final decisions relating to manager hiring/redemption.

Portfolio construction is a combination of qualitative and quantitative tools. Our quantitative approach involves three steps: first, we model portfolios based on strategy and style characteristics. Second, we allocate to managers within the strategy groups. Finally, we apply qualitative analysis to this process, which focuses on identifying other characteristics to potentially modify asset allocation.

In regard to risk controls, we have developed various proprietary quantitative systems and would be happy to discuss these with you. We monitor a variety of exposures (individual manager and fund level) including gross/net, sector, market capitalization, regional, and exposure by asset class. We closely monitor aggregate leverage and liquidity as well.

Employees

Marty Kaplan

Title

Chief Executive Officer

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Marty Kaplan is the chief executive officer of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. He is responsible for developing and implementing key strategic initiatives for the business, including client service, new product development and building the operational infrastructure. In addition, he focuses on developing and implementing key strategic initiatives for Mesirow Advanced Strategies, Inc. Since 1995, he has helped coordinate the group's management and strategic initiatives and has been active in leading the research function. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Kaplan was an attorney with the law firm of Katten Muchin & Zavis, where he specialized in matters involving securities, mergers and acquisitions, venture capital and sports law. Mr. Kaplan received a B.B.A. in finance and real estate from the University of Texas at Austin and a J.D. from George Washington University - National Law Center. He was admitted to the Illinois Bar in 1993.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Steve Vogt

Title

Chief Investment Officer

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

1999

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Stephen Vogt is the chief investment officer of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. He is responsible for overseeing all aspects of research including portfolio management, risk management, manager due diligence and manager monitoring. He is also active in managing the day to day operations of Mesirow Advanced Strategies, Inc. Prior to joining Mesirow Advanced Strategies, Inc., Dr. Vogt was an associate professor of finance at DePaul University. His research focused on empirical tests of financial theories and has been published in both academic and trade journals. Dr. Vogt received a B.A. in economics and mathematics from Bemidji State University, and M.A. and Ph.D. degrees in economics from Washington University-St. Louis.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Howard Rossman

Title

Chairman

Location

Chicago

Industry Start Year:

1980

Firm Start Year:

1985

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Howard Rossman is the chairman and founder of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings, Inc.'s executive committee and board of directors and is a vice chairman of the parent company. He is responsible for developing and overseeing the strategic direction of the company with regard to research, asset allocation and client management. Since 1983, he has been responsible for providing institutional consulting and advisory services in the area of non-traditional investments and has developed funds utilizing alternative strategies. As the author of many articles on alternative strategies, Dr. Rossman has spoken at conferences on non-traditional investing and asset allocation. Dr. Rossman received an A.B. in sociology from Princeton University, an M.A. from the University of Oregon and a Ph.D. from The California Institute of Integral Studies.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Brian Cornell

Title

Senior Managing Director, Office of the Chairman

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1998

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Brian Cornell is a senior managing director of Mesirow Advanced Strategies, Inc. and is a member of the investment, executive and management committees. He is responsible for strategic planning for the business and coordinating special research projects for the CEO and CIO as well as actively participating in strategic business development efforts. In addition, he contributes to all aspects of fund management and product development. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Cornell developed fixed income arbitrage models, managed his own investment firm and built research departments at several organizations in the hedge fund of funds industry. Mr. Cornell received a B.A. in government/economics from Clark University and studied international economics and finance at the Patterson School, University of Kentucky.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Tom Macina

Title

President

Location

Chicago

Industry Start Year:

1992

Firm Start Year:

2003

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Tom Macina is president of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. He is responsible for manager due diligence, strategy analysis and manager monitoring. Previously, Mr. Macina was with a multi-strategy hedge fund, where he was responsible for investments in a variety of sectors. Prior to joining the hedge fund industry, Mr. Macina worked in strategy consulting with Bain & Company and in investment banking with Houlihan, Lokey, Howard and Zukin, Inc. Mr. Macina received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the J.L. Kellogg Graduate School of Management at Northwestern University. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Eric Siegel

Title

Senior Managing Director, Chief Operating Officer

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

2001

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Eric Siegel is a senior managing director and Chief Operating Officer of Mesirow Advanced Strategies, Inc. and is a member of its investment, executive and management committees. He is responsible for overseeing the implementation of business ideas and improvements within the various operating groups of Mesirow Advanced Strategies, Inc. He also is responsible for the operational due diligence reviews of managers and participates in portfolio analysis and ongoing manager monitoring. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Siegel was the Chief Financial Officer of two different Chicago based hedge funds. Previously, he worked in the audit department of Ernst & Young LLP focusing on hedge funds, mutual funds and derivative trading companies. Mr. Siegel received a B.S. cum laude in accounting from Syracuse University. In addition, he is a Certified Public Accountant (CPA) and CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Karl Frey

Title

Senior Managing Director

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2003

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Karl Frey is a senior managing director of Mesirow Advanced Strategies, Inc and is a member of its management committee. He is responsible for the firm's client management activities, including business development and client service functions. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Frey had senior marketing and business development responsibilities within the capital markets group of ABN AMRO Incorporated. Mr. Frey received a B.S.B.A. in accounting from Ohio State University and an M.B.A. from the Anderson School at UCLA. In addition, he is a Certified Public Accountant (CPA) and CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Carolyn Burke

Title

Managing Director, Chief Financial Officer

Location

Chicago

Industry Start Year:

1989

Firm Start Year:

2009

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Carolyn Burke is a managing director and chief financial officer of Mesirow Advanced Strategies, Inc. and is a member of its management committee. In this capacity, Carolyn manages and oversees all aspects of the firm's accounting and internal fund management activities. Prior to joining Mesirow Advanced Strategies, Inc., Ms. Burke was a managing director and Chief Administrative Officer with UBS Global Asset Management where she was responsible for managing the business operations for the Global Fixed Income team. Previously, she was a director with Brinson Partners. Ms. Burke received a B.A. in accounting from the University of Notre Dame and an M.B.A. from the University of Chicago. In addition, she is a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Greg Robbins

Title

Senior Managing Director, General Counsel

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Greg Robbins is the General Counsel and a senior managing director of Mesirow Advanced Strategies, Inc. He is responsible for the legal affairs of Mesirow Advanced Strategies, Inc., including providing legal advice with respect to all aspects of its business, directing relationships with external counsel, and assisting in maintaining its operations in compliance with relevant legal and regulatory requirements. Prior to joining Mesirow Advanced Strategies, Inc., Mr. Robbins was a partner in the Investment Funds, Advisers and Derivatives group at Sidley Austin LLP, where he specialized in providing legal advice to hedge fund managers and participants in the derivatives industry with respect to all aspects of their business and operations. Just after law school, and prior to joining Sidley, Mr. Robbins clerked for the Honorable Robert H. Henry on the U.S. Tenth Circuit Court of Appeals, and before law school he worked as a legislative assistant for U.S. Senator David L. Boren. Mr. Robbins received his B.A. from Yale University in 1991 and his J.D. (cum laude, Order of the Coif) from the University of Wisconsin in 1997.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Heather Wilken Byers

Title

Vice President

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

2007

Email

hbyers@mesirowfinancial.com

Office Phone:

312-595-7982

Cell Phone

773-677-2049

Bio

Heather Wilken Byers is a vice president for Mesirow Advanced Strategies, Inc. and a member of its management committee. She assists in the firm's marketing efforts, client service and business development. Prior to joining Mesirow Advanced Strategies, Inc., Ms. Byers was a senior investment relationship manager with Northern Trust Global Investments where she was responsible for business development and client service. Ms. Byers received a B.A. in finance from the University of Illinois at Urbana-Champaign. In addition, she is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Additional Manager Detail

Firm: Mesirow Advanced Strategies, Inc.
Product Name: Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	34.4%	5.0%	0.0%	0.0%	25.0%	2.6%	0.0%	0.0%	0.0%	33.0%
12/31/2008	30.9%	8.7%	0.0%	0.0%	21.9%	0.0%	0.0%	0.0%	0.0%	38.5%
12/31/2007	36.4%	5.7%	0.0%	0.0%	17.7%	0.0%	0.0%	0.0%	0.0%	40.2%
12/31/2006	33.1%	3.9%	0.0%	0.0%	13.5%	2.6%	0.0%	0.0%	0.0%	46.9%
12/31/2005	39.4%	3.0%	0.0%	0.0%	17.5%	2.0%	0.0%	0.0%	0.0%	38.2%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$1,034	$6,793	$11,961	$11,961	30	56
12/31/2008	$724	$8,692	$11,982	$11,982	28	46
12/31/2007	$672	$10,912	$16,046	$16,046	35	18
12/31/2006	$468	$8,519	$12,426	$12,426	32	31
12/31/2005	$245	$6,791	$9,735	$9,735	36	15

PAAMCO Pacific Hedged Strategies, LLC
Information Effective as of: 12/31/2009

Organization:

Year Firm Established	199
Year First Fund of Funds Launched	1990
Location	Irvine, CA
Number of Investment Professionals	133
Percentage Employee Owned	100%
Total AUM (millions)	$9,830

Investment Philosophy:

We are active managers and believe in active investment management.

We focus on returns which are expected/targeted to be independent of traditional markets and we build portfolios which aim to diversify sources of idiosyncratic returns.

We believe we must be open to new investment ideas—many new markets, managers, and securities offer attractive alpha opportunities.

We believe we need to be flexible and creative to outperform; experienced individuals, held accountable for their results, make better investment decisions than committees.

We believe investment decisions should be based on independent, fundamental assessments—position-level transparency gives us a solid base for our understanding.

We believe investment costs should be aggressively managed. We attempt to avoid conflicts and maintain the highest ethical standards in evaluating investment opportunities.

Investment Process:

PAAMCO's investment process for each of the eight sectors in which it invests is driven by a senior Sector Specialist and team with extensive investment and academic experience in the sector. The team is charged with identifying hedge fund managers in their sector, conducting due diligence, negotiating terms and then monitoring the managers on an ongoing basis.

PAAMCO's portfolio construction process integrates bottom-up manager selection with top-down strategy allocation and risk monitoring. The Strategy Allocation Committee (SAC) is responsible for providing allocation recommendations to the Investment Management Committee (IMC). PAAMCO's IMC ultimately determines the portfolio's strategy allocation which is formally reviewed quarterly. The lead Account Manager for a fund may tailor the strategy and/or manager allocations to reflect a client's specific risk/return objective.

PAAMCO's risk management process relies on position-level transparency and encompasses both traditional statistical models and proprietary behavioral models.

Employees

Charles Armendarez

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Irvine

Industry Start Year:

1998

Firm Start Year:

2000

Firm End Date:

N/A

Email

carmendarez@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Charles Armendarez, MBA, CFA is a Managing Director and a Sector Specialist responsible for evaluating hedge fund managers that focus on long/short equity and other opportunistic strategies in the various PAAMCO portfolios. In addition, he is responsible for overall management and supervision of the PAAMCO investment process. Charlie is a member of the Investment Management Committee. In addition, he directs the firm’s Investment Associate and Summer Associate Programs and is responsible for firm’s Associate recruiting efforts. Prior to joining PAAMCO, Charlie was a Portfolio Manager and Research Associate at Collins Associates, an institutional fund of hedge funds and consulting firm, where he performed research and due diligence on investment managers utilizing alternative investment strategies. At Collins, his focus was on evaluating managers employing the following strategies: directional long/short, distressed debt, merger arbitrage, convertible arbitrage, fixed income arbitrage, equal dollar-weighted long/short and emerging market equities. Charlie graduated from the University of Southern California with a B.A. in Economics and received his M.B.A. from the Amos Tuck School at Dartmouth. Charlie has fifteen years of investment management experience with institutional investors.

Compensation Structure

N/A

Employees

James Berens

Title
Managing Director, Sector Specialist Distressed Debt and Long/Short Credit

Location
Irvine

Industry Start Year:
1993

Firm Start Year:
2000

Firm End Date:
N/A

Email
jberens@paamco.com

Office Phone:
949-261-4900

Cell Phone
N/A

Bio
James Berens, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the distressed debt and long/short credit hedge funds in the various PAAMCO portfolios. Jim is also the Portfolio Manager for the commingled funds including Pacific Select Opportunities Fund, a customized fund of hedge funds for institutional investors designed to achieve higher absolute returns by targeting more inefficient sectors and utilizing less liquid investments. As a member of the Investment Management Committee, he is involved in all stages of the investment process. In addition, Jim is responsible for managing relationships with certain institutional investors. Jim also serves on the Risk Management Committee. Prior to forming PAAMCO, Jim was Co-Managing Partner at Collins Associates, an institutional fund of funds and consulting firm, with responsibilities for directional hedge fund strategies. He has written and published extensively on hedge funds and their applications for institutional investors; is a frequent guest speaker and panelist at investment conferences throughout the United States; and has taught investment management courses at the Graduate School of Management at the University of California, Irvine. Jim graduated from the University of Redlands with a B.A. in Economics and Political Science, received his M.A. from the University of California, Riverside in Financial Economics and received his Ph.D. in Administration (concentration in Finance) from the University of California, Irvine. Jim has seventeen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure
N/A

Employees

Jane Buchan

Title

Managing Director, Chief Executive Officer, Sector Specialist Convertible Bond Hedging and Fixed Income Realtive Value

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

jbuchan@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Jane Buchan, MA, PhD, CAIA is a Managing Director and the firm's Chief Executive Officer. As CEO, Jane is responsible for overall business strategy and firm direction. In addition, she is a Sector Specialist responsible for the evaluation and management of convertible bond hedging and fixed income relative value hedge funds in the various PAAMCO portfolios. Jane is also a member of the Investment Management, Risk Management and Account Management Committees. Prior to forming PAAMCO, Jane held various positions ranging from Director of Quantitative Analysis to CIO of non-directional strategies at Collins Associates, an institutional fund of funds and consulting firm. She began her career at J.P. Morgan Investment Management in the Capital Markets Group and has numerous professional publications in the field of market neutral and alternative investments strategies. She was an Assistant Professor of Finance at the Amos Tuck School of Business at Dartmouth. She currently sits on the Board of the Chartered Alternative Investment Analyst Association (CAIA). Jane graduated from Yale University with a B.A. in Economics and received both her M.A. and Ph.D. in Business Economics (Finance) from Harvard University. Jane has twenty-four years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Alper Ince

Title

Managing Director, Sector Specialist Long/Short Equity (Europe)

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

aince@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Alper Ince, MBA, CFA is a Managing Director and the Sector Specialist responsible for the coverage of long/short equity hedge fund managers in the various PAAMCO portfolios. He is also a member of the Investment Management and Strategy Allocation Committees where he focuses on establishing and assessing overall asset allocation and accompanying risk at both the sector and overall portfolio levels. Prior to joining PAAMCO, Alper was an Associate Director at BARRA RogersCasey, a major pension-consulting firm, where he led the firm's hedge fund investment and manager research efforts. Alper graduated from METU Ankara (Turkey) with a B.S. in Economics and received his M.B.A. in Finance from the University of Hartford. Alper has thirteen years of investment management and consulting experience with institutional investors.

Compensation Structure

N/A

Employees

Bill Knight

Title

Managing Director, Sector Specialist Event-Driven Equity

Location

Irvine

Industry Start Year:

1982

Firm Start Year:

2000

Firm End Date:

N/A

Email

bknight@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Bill Knight, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the event-driven equity hedge funds in the various PAAMCO portfolios. As chair of the firm's Investment Management Committee, Bill is involved in all stages of the investment process. In addition, he chairs the firm's Board of Director meetings. Prior to forming PAAMCO, Bill was Senior Portfolio Manager at Collins Associates, an institutional fund of funds and consulting firm, for two long-only domestic equity funds, two low-beta funds, and a short-biased equity fund. In addition, he has held the position of adjunct faculty member at several universities. Bill graduated from Vanguard University with a B.A. in Social Sciences (History), received his M.A. from California State University, Fullerton in Social Sciences (Sociology and Psychology), and received his Ph.D. in Education (concentration in Management) from the University of California, Riverside. Bill has twenty-eight years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Kemmy Koh

Title

Managing Director, Sector Specialist Long/Short Equity (Asia)

Location

Singapore

Industry Start Year:

2001

Firm Start Year:

2001

Firm End Date:

N/A

Email

kkoh@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

Kemmy Koh, MBA, CFA is a Managing Director and the Sector Specialist responsible for the evaluation and management of Asian long/short equity hedge funds in the various PAAMCO portfolios. Kemmy is also a Director of Pacific Alternative Asset Management Company Asia Pte Ltd. (Singapore). She is a member of the Investment Management and Risk Management Committees and previously served as the firm's Research Manager. She spent the summer of 2000 at the firm as a summer intern and joined PAAMCO full time in the summer of 2001. Prior to joining PAAMCO, Kemmy was a credit analyst for Banque Nationale de Paris (Singapore) and Development Bank of Singapore (Singapore) where she developed an extensive background in security and portfolio analysis. Kemmy graduated from the National University of Singapore with a Bachelor of Business Administration and received her M.B.A. from the University of California, Irvine. Kemmy has nine years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Maarten Nederlof

Title

Managing Director and Head of Portfolio Solutions

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2009

Firm End Date:

N/A

Email

mnederlof@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Maarten Nederlof is a Managing Director and Head of Portfolio Solutions at PAAMCO. He is a member of the Investment Management, Risk Management and Account Management Committees. Prior to joining PAAMCO, Maarten held various positions at Deutsche Bank Securities, Inc. and Deutsche Asset Management, including Managing Director and Global Co-Head of the Hedge Fund Capital Group and Global Head of the Pension Strategies Group. In addition, he was a Managing Director and Portfolio Manager at K2 Advisors, LLC, as well as Director and Head of Investor Risk Management at Capital Market Risk Advisors. Maarten began his career as a quantitative strategist at Salomon Brothers, Inc. He has twenty-four years of experience in investment management and portfolio construction with institutional investors. Maarten is a member of the Investment Committee of The John D. and Catherine T. MacArthur Foundation, as well as the Investor Risk Committee of the International Association of Financial Engineers (IAFE). He is a frequent lecturer and featured speaker at business schools, seminars and industry conferences.

Compensation Structure

N/A

Employees

Judith Posnikoff

Title

Managing Director, Sector Specialist Equity Market Neutral

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2000

Firm End Date:

N/A

Email

jposnikoff@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Judith Posnikoff, MBA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of equity market neutral hedge funds in the various PAAMCO portfolios. As a member of the Investment Management Committee, she is involved in all stages of the investment process. In addition, Judy specifically focuses on the complex customized portfolios of the firm's Asia/Pacific institutional accounts. She is also a member of the Account Management Committee. Prior to forming PAAMCO, Judy was Assistant Portfolio Manager/Research Associate at Collins Associates, an institutional fund of funds and consulting firm, where she focused on market neutral strategies in addition to directing large-scale quantitative research projects focusing on alternative strategies. She has numerous publications in the area of alternative investments and has taught at the University of California, Riverside, at California State University, Fullerton and most recently at the University of California, Irvine, where she held the position of adjunct faculty member at the Graduate School of Management. Judy graduated from the University of California, Riverside with a B.S. in Administrative Studies where she also received her M.B.A. and M.A. in Financial Economics and her Ph.D. in Financial and Managerial Economics. Judy has fifteen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Neale Safaty

Title

Managing Director, Sector Specialist Convertible Bond Hedging

Location

London

Industry Start Year:

1983

Firm Start Year:

2010

Firm End Date:

N/A

Email

nsafaty@paamco.com

Office Phone:

+44 (0)207 593 5360

Cell Phone

N/A

Bio

Neale Safaty is a Managing Director and the Sector Specialist for Convertible Bond Hedging in PAAMCO's Portfolio Management Group. Based in the firm's London office, Neale is also responsible for Pan Asia Alpha Strategies' business and client relationships. Before joining PAAMCO, he was Chief Investment Officer at KBC Alpha Asset Management, the Asian-focused fund of funds business of KBC Group. Prior to establishing KBC Alpha Asset Management in 2001, Neale was a Director and Head of Japanese Convertible Sales to UK and European clients at KBC Financial Products (formerly the investment banking subsidiary of D.E. Shaw & Co., a leading specialist in convertible securities and equity derivatives products). Before joining D.E. Shaw & Co., he was a Director at BZW responsible for Asian convertible and warrant sales to institutional clients. Neale began his career at Cresvale in 1983 where he initially focused on trading Japanese equity warrants and was London Head of Sales of Convertibles. He has a BSc (Hons) Business Studies degree from City University and holds the Association of International Bond Dealers Diploma (forerunner to ISMA).

Compensation Structure

N/A

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2009

Employees

Peter Stein

Title

Managing Director, Sector Specialist Less Liquid Strategies (PSO)

Location

Irvine

Industry Start Year:

1985

Firm Start Year:

2009

Firm End Date:

N/A

Email

pstein@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Peter Stein, CFA is a Managing Director and the Sector Specialist responsible for managing the less liquid strategies within PAAMCO's portfolio, including Pacific Strategic Opportunities (PSO) in conjunction with Jim Berens. In addition, as Chair of the Strategy Allocation Committee and a member of the Investment Management Committee, he is involved in all stages of the investment process. Prior to joining PAAMCO, Peter was the CIO of the University of Chicago, responsible for management of the University's $5 billion endowment, along with pension, self-insurance and other financial assets. He graduated from Brown University with an AB in Mathematics and began his professional career trading convertible bonds and warrants. Peter has twenty-five years of experience managing the portfolios of institutional investors.

Compensation Structure

N/A

Employees

Mayer Cherem

Title

Director, Sector Specialist Opportunistic Investments

Location

Irvine

Industry Start Year:

2004

Firm Start Year:

2004

Firm End Date:

N/A

Email

mcherem@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Mayer Cherem, MBS, CFA, CQF is a Director and the Sector Specialist responsible for the evaluation and management of opportunistic investments and offensive risk management initiatives. Mayer focuses on identifying new, uncorrelated sources of alpha through fundamental analysis and their optimal integration into client portfolios. He is also a member of the firm’s Strategy Allocation Committee where he focuses on assessing the impact of asset allocation on overall portfolio risk and performance. As a member of the Risk Committee, Mayer is involved in the ongoing development of the firm’s risk criteria and quantitative aspects of portfolio construction. Mayer graduated from the Universidad Simon Bolivar with a B.S. in Production Engineering and received an M.B.A. from Columbia Business School.

Compensation Structure

N/A

Employees

David Walter

Title

Director, Sector Specialist Pan Asia Portfolio Solutions

Location

Singapore

Industry Start Year:

1987

Firm Start Year:

2010

Firm End Date:

N/A

Email

dwalter@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

David Walter, MA is a Director in PAAMCO's Portfolio Management Group based in the firm's Singapore office. He is responsible for Asian focused investments and acts as Head of Research for Asia and the Pan Asia Portfolio Solutions' funds. Prior to joining PAAMCO, David performed a similar role for KBC Alpha Asset Management. Before KBC, he co-founded Arbiter Fund Managers where he established and managed a dedicated Japanese long/short equity fund. Previously, David worked at London and Oxford Capital Markets establishing and running a Japan-focused multi-strategy fund. Prior to that he was Head of Japanese Equity Product at Sanwa International Securities. David began his professional career in 1987 at Barings Far East Securities where he was employed as a Japanese convertible and warrant trader. He has twenty-four years of investment management experience. David graduated from Christ Church, Oxford with an MA (Hons) degree in Modern History.

Compensation Structure

N/A

Employees

Philippe Jorion

Title

Managing Director, Risk Management

Location

Irvine

Industry Start Year:

1983

Firm Start Year:

2006

Firm End Date:

N/A

Email

pjorion@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Philippe Jorion, MBA, PhD is a Managing Director in the Risk Management Group and is responsible for developing and implementing PAAMCO's offensively directed risk management concepts. He also oversees the PAAMCO infrastructure employed in evaluating individual hedge funds from a position level perspective, risk at the level of the various sectors as well as the risk structure of the overall PAAMCO portfolio. Philippe's work also includes developing approaches to evaluating new securities and new markets. Philippe is a member of the Risk Management and Strategy Allocation Committees. He also serves as the Chancellor's Professor of Finance at the Paul Merage School of Business at the University of California at Irvine. He is a frequent speaker at academic and professional conferences; and is on the editorial boards of a number of finance journals. Philippe has authored more than 90 publications on the topic of risk management and international finance. Some of his most notable work includes the Financial Risk Manager Handbook (Wiley 5th ed. 2009), which provides the core body of quantitative methods and tools for financial risk managers; Big Bets Gone Bad: Derivatives and Bankruptcy in Orange County (Academic Press 1995), the first account of the largest municipal failure in U.S. history; and Value at Risk: The New Benchmark for Managing Financial Risk (McGraw-Hill 3rd ed. 2006), the first definitive book on VAR. Philippe holds an M.B.A. and a Ph.D. from the University of Chicago and a degree in engineering from the University of Brussels. Philippe has twenty-seven years of experience in risk management and international finance.

Compensation Structure

N/A

Employees

Erik Bernhardt

Title

Associate Director, Portfolio Manager – Commingled Funds

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2003

Firm End Date:

N/A

Email

ebernhardt@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Erik Bernhardt, MBA, CFA is an Associate Director working in both Portfolio Management and Account Management. He serves as the Portfolio Manager for the firm's commingled funds, supervising overall portfolio construction as well as supporting the funds' clients. He is also a member of the firm's Strategy Allocation Committee which focuses on assessing the impact of asset allocation and accompanying risk at the hedge fund and overall portfolio levels. From October 2005 until February 2008, Erik was located in the firm's London office where he researched managers within the European credit space. He also was responsible for developing relationships with prospective clients and co-managing the firm's European institutional investor base. Prior to joining PAAMCO, Erik was a Senior Consulting Associate at Cambridge Associates, an investment-consulting firm, where he conducted in-depth studies on asset allocation and portfolio construction. Erik graduated with highest honors from Principia College in St. Louis with a B.A. in Business Administration and History and received his M.B.A. from the Anderson School of Business at the University of California, Los Angeles.

Compensation Structure

N/A

Additional Manager Detail

Firm: **Pacific Alternative Asset Management Company, LLC**
Product Name: **Pacific Hedged Strategies, LLC**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	27.0%	1.0%	0.0%	4.0%	9.0%	12.0%	5.0%	8.0%	0.0%	34.0%
12/31/2008	35.0%	3.0%	0.0%	5.0%	5.0%	10.0%	7.0%	5.0%	0.0%	30.0%
12/31/2007	36.0%	3.0%	0.0%	4.0%	6.0%	12.0%	6.0%	5.0%	0.0%	28.0%
12/31/2006	38.0%	3.0%	0.0%	5.0%	6.0%	15.0%	4.0%	2.0%	0.0%	27.0%
12/31/2005	36.0%	3.0%	0.0%	2.0%	4.0%	21.0%	5.0%	2.0%	0.0%	27.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$535	$8,169	$9,830	$9,830	16	11
12/31/2008	$440	$7,944	$8,640	$8,640	23	2
12/31/2007	$413	$8,371	$9,393	$9,393	16	4
12/31/2006	$236	$6,685	$7,949	$7,949	10	10
12/31/2005	$147	$5,275	$7,303	$7,303	7	6

Prisma Spectrum Fund, Ltd.

Information Effective as of: 06/30/2010

Organization:

Year Firm Established	2004
Year First Fund of Funds Launched	2004
Location	New York, NY
Number of Investment Professionals	44
Percentage Employee Owned	43%
Total AUM (millions)	$4,500

Investment Philosophy:

Prisma's investment philosophy is based on 5 main tenets:

Transparency: We believe in transparency and will not invest in any manager that does not provide what we consider to be sufficient transparency into its investment process, risk exposures, position sizes, and overall business. Similarly, we are committed to meeting the transparency requirements of our clients.

Investment Specialists: We believe that identifying and understanding the opportunities and risks inherent in complex hedge fund strategies requires dedicated investment "specialists" with significant asset management, trading, capital markets, risk, and operations experience.

Strategy Allocation: We believe that top-down strategy allocation can add significant value to the performance of our funds. Led by Gavyn Davies, former Chief Economist at Goldman Sachs, we analyze macroeconomic trends and allocate capital to what we believe are the most favorable hedge fund strategies.

Specialist Managers: We believe that specialist (single strategy or even sub-strategy) hedge fund managers can generate significant alpha, and have conducted research that shows that substantial value can be added by investing in earlier stage managers.

Three Separate Due Diligence Teams: We believe that proper manager due diligence should comprise independent assessments by separate teams: 1) investments, 2) risk management, and 3) operations, with each team having the ability to veto a potential investment.

Investment Process:

Prisma's investment process combines a top-down strategy allocation process with bottom-up manager selection to arrive at what Prisma believes is an optimal portfolio given a client's risk and return objectives. Risk management is closely integrated into each step of the investment process.

Our process begins with strategy allocation. Led by Mr. Davies, strategy allocation incorporates Prisma's top down economic views and forecasts for underlying hedge fund strategies to arrive at target allocations by hedge fund sector. Our manager selection process involves three separate layers of due diligence: 1) investment, 2) risk and 3) operations. Professionals from the investment, risk, and operations teams each conduct due diligence (including onsite visits) to produce a comprehensive evaluation of managers, with each team having a full veto right over any investment. Finally, portfolio construction uses optimization to integrate quantitatively the strategy allocation mix with the approved list of managers in an attempt to achieve the client's desired beta, volatility and liquidity constraints. Prisma's investment process also includes rigorous monthly portfolio monitoring.

Employees

Girish Reddy

Title

Managing Partner

Location

New York

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

greddy@prismapartners.com

Office Phone:

212-590-0801

Cell Phone

N/A

Bio

Mr. Reddy is a former partner of Goldman, Sachs & Co., where he was a co-head of equity derivatives. Prior to Goldman, he was the CIO of LOR Associates, a hedging and strategy advising firm based in Los Angeles, developing strategic alliances with other established asset managers like Wells Fargo and Aetna Insurance. Earlier in his career, he was a senior vice president of portfolio construction and asset allocation, at Travelers Investment Management Company, where he specialized in various overlay strategies for the firm using listed futures and options. Mr. Reddy is an elected member of and serves on the executive board of the Indian School of Business. He is also a former board member of Barra Inc.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Thomas Healey

Title

Advisory Partner

Location

New York

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

thealey@Prismapartners.com

Office Phone:

212-590-0800

Cell Phone

N/A

Bio

Thomas Healey is co-founder of Prisma Capital Partners LP. Mr. Healey is a former partner and head of pension services group of Goldman, Sachs & Co. While at Goldman Sachs & Co., he was a co-chairman of the Goldman Sachs retirement committee, with oversight of more than $3 billion in defined contribution plan assets, and also a co-chief investment officer of the $10 billion Central States Teamsters Pension Fund, managed by Goldman Sachs & Co. Mr. Healey is the chair of the investment committee of the Rockefeller Foundation and a board member of other charitable institutions. Earlier, he served as former assistant secretary of the Treasury under President Reagan. Mr. Healey was a senior fellow and is an adjunct lecturer at Harvard University's John F. Kennedy School of Government.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Gavyn Davies

Title

Advisory Partner

Location

London

Industry Start Year:

1981

Firm Start Year:

2004

Firm End Date:

N/A

Email

gxdavies@prismapartners.com

Office Phone:

N/A

Cell Phone

N/A

Bio

Garyn Davies is co-founder and chief economist at Primsa Capital Partners LP. Mr. Davies is a former partner and chief economist of Goldman, Sachs & Co. Prior to Goldman, he was the chairman of the British Broadcasting Corporation. Mr. Davies served as a member of H.M. Treasury's independent forecasting panel, and as an economic adviser to the House of Commons Select Committee on the Treasury and a visiting professor at the London School of Economics. He was appointed a fellow of The University of Wales, Aberystwyth and received a fellowship of Imperial College Faculty of Medicine.

Compensation Structure

Prisma’s compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual’s commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma’s funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

William Cook

Title

Senior Portfolio Manager

Location

London

Industry Start Year:

1981

Firm Start Year:

2004

Firm End Date:

N/A

Email

bscook@prismapartners.com

Office Phone:

212-590-0804

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Cook was the head of the capital market strategies group at AEGON USA Investment Management LLC. He was focusing on alternative investments, SBA loans, and special opportunities. Also at AEGON USA, Mr. Cook was the head of the derivatives group which was spun out of the public fixed income group. Prior, and also at AEGON USA, Mr. Cook was the head of public fixed income group where he led teams of six portfolio managers and a group of 15 employees. Previously, he was a partner at Cleveland Management, where he was a generalist with a specialty in fixed income for the high net worth oriented asset management firm. Earlier in his career, Mr. Cook was the director of fixed income at United Capital Management.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Eric Wolfe

Title

Senior Portfolio Manager

Location

New York

Industry Start Year:

1992

Firm Start Year:

2004

Firm End Date:

N/A

Email

ewolfe@prismapartners.com

Office Phone:

212-590-0802

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Wolfe was a vice president and leading portfolio manager of the hedge fund of funds group at Safra National Bank of New York. He managed the accounts group, and headed the research process to source hedge fund investments for fund-of-funds. Previously, he was the chief financial officer for Buyroad.com, where he co-managed a 20 employee web design team from pre-launch to a revenue producing entity serving the small/medium business market. Earlier, Mr. Wolfe was a vice president and global balanced portfolio manager at J.P. Morgan Investment Management, serving as portfolio manager of over $16 billion in global balanced assets. Also at J.P. Morgan, he was an analyst in the structured derivatives group of the asset management company.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Donna Heitzman

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

dheitzman@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Ms. Heitzman was a portfolio manager at AEGON USA Investment Management LLC; facilitating the portfolio's significant growth and broad diversification across all hedge fund strategies with a specialty in researching and implementing new strategies. She was also the director of private placements at AEGON USA Investment Management LLC. Prior, also at AEGON USA, she was the director of the financial division, where she was responsible for investment portfolio analysis. Previously, she was an audit supervisor at Coopers and Lybrand, specializing in the manufacturing and financial institution sectors of both publicly held and privately owned clients.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Michael Rudzik

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1987

Firm Start Year:

2004

Firm End Date:

N/A

Email

mrudzik@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Rudzik was a Portfolio Manager at AEGON USA Investment Management LLC, where he was responsible for hedge fund manager due diligence, selection, and monitoring with primary strategy focus on long/short equity, event-driven, multi-strategy arbitrage and private equity. Previously, he was the chief operating officer at Aeon Capital Management LLC, where he collaborated in the formation of a $50 million emerging markets hedge fund start-up for a European investment group. Earlier, he was a general partner at Tiedemann Investment Group, where he served as the head of the trading desk and in a portfolio management capacity. Earlier in his career, Mr. Rudzik was a financial analyst at Morgan Stanley.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Dan Lawee

Title

Portfolio Manager

Location

New York

Industry Start Year:

1994

Firm Start Year:

2008

Firm End Date:

N/A

Email

dlawee@prismapartners.com

Office Phone:

212-590-0841

Cell Phone

N/A

Bio

Aug 02 - Sept 08: Portfolio Manager - Northwater Capital Management Inc
Responsible for asset-backed and mortgage-backed securities arbitrage, fixed income arbitrage, reinsurance, and volatility arbitrage hedge fund strategies across Northwater's $4 billion in fund of hedge funds portfolios

Aug 87 - July 02: Vice President, Corporate Foreign Exchange Desk - TD Canada Trust

Aug 83 - April 95: Account Executive - Mortgage Department, Republic National Bank of New York

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Peter Zakowich

Title

Portfolio Manager

Location

London

Industry Start Year:

1999

Firm Start Year:

2006

Firm End Date:

N/A

Email

pzakowich@prismapartners.com

Office Phone:

20 7016-6495

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Zakowich was an associate portfolio manager at J.P. Morgan Alternative Investments, where he was responsible for investment selection, position sizing, and exposure monitoring. Previously, he was a media analyst at Edge Capital, a long/short equity hedge fund focusing in the media and entertainment sectors. Earlier, Mr. Zakowich was an investment associate in equity research at Putnam Investments where he provided global coverage of the media, advertising, and related technology sectors; and the automotive industry.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

James Welch

Title

Managing Director - Portfolio Manager

Location

New York

Industry Start Year:

1980

Firm Start Year:

2010

Firm End Date:

N/A

Email

jwelch@prismapartners.com

Office Phone:

212-590-0829

Cell Phone

N/A

Bio

Prior to Prisma, Mr Welch was a Managing Member of Kettle Cove Investors, LLC, a fund of hedge funds vehicle established for members of Mr. Welch's immediate family
CEO and Executive Director of Kisco Management Corporation, a financial services firm that was exclusively dedicated to serving a prominent U.S. high net worth family
Managing Director and Co-Head of Research and Portfolio Management at J.P. Morgan Alternative Asset Management, Inc., which is J.P. Morgan's fund of hedge funds investment firm
Held various positions of increasing responsibility within J.P. Morgan, primarily in the capital markets area, including roles in derivatives origination, structuring, and training

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Francis Conroy

Title

Chief Operating Officer

Location

New York

Industry Start Year:

1982

Firm Start Year:

2004

Firm End Date:

N/A

Email

fconroy@prismapartners.com

Office Phone:

212-590-0808

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Conroy was the chief financial officer at Mezzacappa Management, LLC, where he was responsible for all financial, accounting, compliance, personnel, and operational activities of a Registered Investment Adviser managing nine funds of hedge funds. Previously, he was a director and senior vice-president at Lazard Frères & Co. LLC, responsible for tax planning and compliance for their international investment bank with affiliates in 16 countries. Earlier, Mr. Conroy was the director of taxes at McKinsey & Company, Inc., responsible for global tax planning and compliance for the multinational consulting company with offices in 23 countries, and chief operating officer at Catalyst Energy Corporation, managing operations of two resource recovery facilities. He began his career at Arthur Andersen & Co., providing tax planning advice and overseeing tax compliance for broad range of high net worth individual, partnership, and corporate clients.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Mark DeGaetano

Title

Head of Operational Due Diligence

Location

New York

Industry Start Year:

1982

Firm Start Year:

2004

Firm End Date:

N/A

Email

mdegaetano@prismapartners.com

Office Phone:

212-590-0815

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. DeGaetano was a head of operations for the single manager and fund of funds platforms at Deutsche Bank in absolute return strategies, where he had global responsibility for operational due diligence. Previously, he was a vice president at Cross Mar a technology subsidiary of Citicorp, responsible for the building and successful implementation of a new B2B Trade Finance Solution. Prior, he was a vice president at Citibank Capital Markets LLC, providing management within a structured finance operations environment. Earlier in his career, Mr. DeGaetano was the head of business support in trading and capital markets at Skandinaviska Enskilda Banken, where he was responsible for middle office and trade support functions that processed the entire spectrum of financial products.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Queenie Chang

Title

Operational Due Diligence Senior Associate

Location

New York

Industry Start Year:

1993

Firm Start Year:

2009

Firm End Date:

N/A

Email

qchang@prismapartners.com

Office Phone:

212-590-0849

Cell Phone

N/A

Bio

Prior to Prisma, Queenie was a Vice President at DB Advisors Fund of Funds and Assistant Vice President at Julius Baer Investment Management LLC, responsible for global Operational Due Diligence

Accounting manager at SAGEN Asset Management, LLC, performed attribution analysis and performance reports for the family office

Senior Portfolio Accountant at The Bank of Bermuda (New York) Limited, provided portfolio valuations and financial statements for hedge funds

Credit Control Officer at The Bank of Bermuda Limited, Hong Kong Branch, assessed and monitored loan proposals for collective investment schemes, corporations, and individuals
Semi-Senior Auditor at Deloitte Touche Tohmatsu, Hong Kong

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Emanuel Derman

Title

Head of Risk Management

Location

New York

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

ederman@Prismapartners.com

Office Phone:

212-590-0800

Cell Phone

N/A

Bio

Prior to joining Prisma, Professor Derman was the managing director of firm-wide risk Goldman, Sachs & Co. Concurrently; he is the director of the MS program in financial engineering of Columbia University. Previously, he was the columnist for Risk Magazine and also a member of the editorial board for the Applied Mathematical Finance Journal. Additionally, he was an associate editor of The Journal of Derivatives and Journal of Risk. Professor Derman is an active member of the Courant Institute of Mathematical Sciences and he is a mathematical finance advisory board member for the Society of Quantitative Analysts. He was appointed the 'Global Finance Magazine Derivatives Superstar' in 1995 and 1996, and was profiled in the Global Finance December 1995 issue titled, "Portrait of a Rocket Scientist". He was the IAFE/Sungard Financial Engineer of the Year 2000, and included in the Risk Magazine hall of fame 2002.

Compensation Structure

Prisma’s compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual’s commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma’s funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Shankar Nagarajan

Title

Director of Risk Management

Location

New York

Industry Start Year:

1988

Firm Start Year:

2005

Firm End Date:

N/A

Email

snagarajan@Prismapartners.com

Office Phone:

212-590-0812

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Nagarajan was the managing partner of Risk Capital, LLC, where he was responsible for advising major companies on strategic and tactical risk management issues. He was formerly an adjunct professor of economics and finance of Columbia University. Previously, he was the senior manager & head of the valuation group at Deloitte & Touche. Earlier, he was a vice president of Bankers Trust Company where he advised clients on strategic and tactical risk management. Formerly, he was an associate professor of finance at McGill University in Montreal, Canada. Mr. Nagarajan was a consultant to the Federal Reserve and various other central banks. He was named Euromoney's Best Risk Advisor 2004.

Compensation Structure

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Employees

Kartik Patel

Title

Sr. Risk Associate

Location

New York

Industry Start Year:

1998

Firm Start Year:

2005

Firm End Date:

N/A

Email

kpatel@Prismapartners.com

Office Phone:

212-590-0823

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Patel completed an internship at Wooster Asset Management where he was implementing currency trading strategies and Applied Mean Variance Optimization to enhance the portfolio. Previously, he was a Signal Processing Consultant at Symbol Technologies. Earlier, Mr. Patel was a Software Engineer for AT&T Wireless Services.

Compensation Structure

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Employees

Anne Wynne

Title
General Counsel

Location
New York

Industry Start Year:
2001

Firm Start Year:
2010

Firm End Date:
N/A

Email
awynne@prismapartners.com

Office Phone:
212-590-

Cell Phone
N/A

Bio

Prior to Prisma, Ms. Wynne was a Senior Counsel & Vice President of Ivy Asset Management LLC, a registered investment advisor to funds of hedge funds and customized accounts

Associate at Seward & Kissel LLP, providing advice to clients including registered and unregistered investment advisors on a variety of issues related to general corporate and securities matters

Associate at Stroock & Stroock & Lavan LLP, providing advice to clients on general corporate and securities matters

Compensation Structure

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Employees

Ken Eagle

Title

Controller

Location

New York

Industry Start Year:

1999

Firm Start Year:

2005

Firm End Date:

N/A

Email

keagle@prismapartners.com

Office Phone:

212-590-0826

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Eagle was a manager at Rothstein, Kass & Company, where he provided audit and tax services to a variety of clients within the private investment industry. His responsibilities included valuation testing of portfolios, tax planning and tax return preparation.

Compensation Structure

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Employees

Helenmarie Rodgers

Title

Managing Director of Client Management

Location

New York

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

hmrodgers@prismapartners.com

Office Phone:

212-590-0808

Cell Phone

N/A

Bio

Prior to joining Prisma, Ms. Rodgers was a managing director of institutional client management, at J.P. Morgan Alternative Asset Management, a $6 billion hedge fund of funds manager. Previously, she was the managing director and head of worldwide marketing and product development for Chase Alternative Asset Management, the predecessor firm to JPMAAM. Earlier, she was a portfolio specialist for several hedge funds of funds and feeder funds at Union Bancaire Privee, a large Swiss investor in hedge funds. Ms. Rodgers was also a senior vice president for the World Gold Council in Geneva, Switzerland.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

John Stimpson

Title

Managing Director

Location

New York

Industry Start Year:

1993

Firm Start Year:

2009

Firm End Date:

N/A

Email

jstimpson@prismapartners.com

Office Phone:

212-590-0820

Cell Phone

N/A

Bio

Prior to Prisma, Mr. Stimpson was a Executive Director, Institutional Sales Group, UBP Asset Management (UBPAM), a fund of hedge funds; responsible for sales and marketing to public sector pension plans and other institutions in North America.

Vice President of Institutional Sales, Absolute Return Strategies Group of Deutsche Bank AG; responsible for consultant relations and direct sales of fund of hedge funds and single manager hedge funds to institutions.
Vice President of Sales and Client Service, The Torrey Funds, a long/short equity fund of hedge funds based in New York.

Associate, Public Finance Group, UBS Financial Services; provided investment banking services to state and local governments in the U.S.
Deputy Executive Director, Massachusetts Office of International Trade and Investment
Assistant to Massachusetts Governors William F. Weld and Paul Cellucci
Analyst, Massachusetts State Legislature

Compensation Structure

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Employees

Paul Roberts

Title

Managing Director

Location

London

Industry Start Year:

1985

Firm Start Year:

2005

Firm End Date:

N/A

Email

proberts@prismapartners.com

Office Phone:

44 20 70166485

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Roberts was a Managing Director and Co-Head of European Shares at Goldman Sachs. He also worked in the Equity Derivatives Group advising institutions on portfolio restructuring and hedging strategies. Mr. Roberts was the Head of Derivative Sales at SG Warburg and was responsible for the distribution of all listed and OTC products.

Compensation Structure

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Employees

James Walsh

Title

Managing Director

Location

New York

Industry Start Year:

1976

Firm Start Year:

2005

Firm End Date:

N/A

Email

jwalsh@prismapartners.com

Office Phone:

212-590-0825

Cell Phone

N/A

Bio

Co-founder of Walsh Advisors, LLC an advisory firm marketing alternative investment solutions to institutions and providing strategic financial advice to technology companies
Co-head of the European Banking Business Development Center at Zurich Financial Services, an initiative to establish European private banking and asset management business

COO Société Générale Securities Corporation; managed SG Cowen division that included private client, asset management and execution services business units.

Senior Vice President & Asia Pacific Regional Director of Prudential Securities Incorporated based in Tokyo overseeing capital markets and private client business throughout the region

Managing Director, The First Boston Corporation and Credit Suisse First Boston Limited, based in New York, London and Tokyo in various senior management positions in capital markets, investment management and distribution

Trustee of Stevens Institute of Technology and co-chair of the Finance & Investment Committee; Member of the Board of Directors, Foreign Policy Association

Compensation Structure

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Employees

Anthony Pennetti

Title

Managing Director

Location

New York

Industry Start Year:

1983

Firm Start Year:

2010

Firm End Date:

N/A

Email

apennetti@prismapartners.com

Office Phone:

212-590-0809

Cell Phone

N/A

Bio

Prior to Prisma, Mr. Pennetti was a Managing Director, Meridian Capital Partners, a fund of hedge funds; responsible for the firm's financial intermediary sales business

Director of Marketing, Deerfield Capital Management; responsible for sales and marketing of the firm's hedge fund strategies

Director, Marketing & Client Service, Lehman Brothers Alternative Investment Management
Managing Director, Donaldson, Lufkin & Jenrette; managed team responsible for placement of alternative investment solutions for the firm's asset management subsidiary
Vice President, JPMorgan, advising private clients in the bank's wealth management division

Compensation Structure

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Employees

Mark Faulkenberg

Title
Operational Due Diligence

Location
New York

Industry Start Year:
N/A

Firm Start Year:
2004

Firm End Date:
7/1/2006

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
N/A

Compensation Structure
N/A

Additional Manager Detail

Firm: Prisma Capital Partners LP
Product Name: Prisma Spectrum Fund Ltd

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2009	35.9%	2.7%	6.2%	2.0%	19.4%	3.3%	0.0%	11.9%	14.8%	3.8%
12/31/2008	33.3%	7.5%	1.4%	2.0%	18.1%	5.5%	0.0%	8.1%	17.9%	6.2%
12/31/2007	36.7%	7.3%	0.0%	1.9%	22.8%	4.6%	0.0%	5.0%	14.3%	7.6%
12/31/2006	39.9%	5.2%	0.0%	1.0%	16.9%	6.7%	0.0%	5.3%	16.5%	8.5%
12/31/2005	40.1%	3.1%	0.0%	0.7%	24.4%	5.3%	0.0%	6.9%	18.0%	1.4%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2009	$504	$2,938	$4,500	$4,500	10	30
12/31/2008	$547	$3,095	$4,200	$4,200	3	8
12/31/2007	$377	$3,498	$4,427	$4,427	1	17
12/31/2006	$156	$2,498	$3,227	$3,227	1	7
12/31/2005	$103	$1,861	$2,559	$2,559	0	39

Attachment E

R.V. Kuhns Fund of Hedge Funds Search Book
March 31, 2011

RVKuhns
& ASSOCIATES, INC.

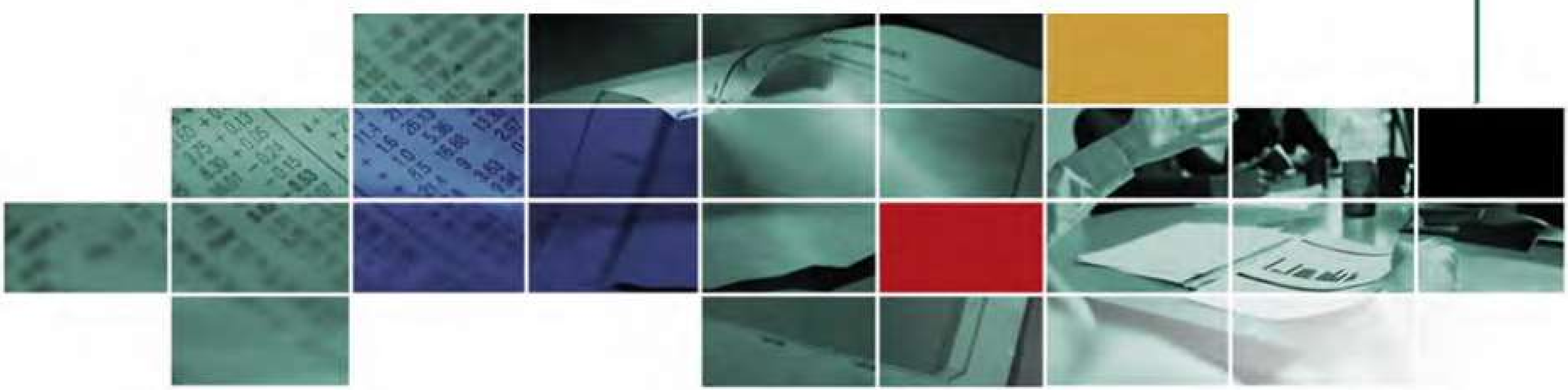
Kentucky Retirement Systems

Investment Manager Search

Absolute Return Strategies

Performance Data as of: March 2011

Performance Format: Net of Fees



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- Mesirow - MIMSF, LP
- PAAMCO - PHS
- Prisma Spectrum Fund, Ltd.
- Rock Creek Diversified 1

RVKuhns & ASSOCIATES, INC.

General Information

Strategy Name	Year Firm Established	Year First Fund of Hedge Funds Launched	Firm AUM ($mil)	Fund AUM ($mil)	Percentage Employee Owned	RIA Status
Aurora Offshore Fund Ltd. II	1988	1988	$10,468	$2,100	0%	Yes
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	1990	1990	$32,923	$5,782	74%	Yes
Crestline Offshore Fund, Ltd.	1997	1997	$5,800	$526	90%	Yes
Grosvenor Institutional Partners, L.P.	1971	1971	$24,045	$6,312	70%	Yes
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	1990	1990	$13,659	$1,277	93%	Yes
PAAMCO Pacific Hedged Strategies, LLC	2000	2000	$9,869	$602	73%	Yes
Prisma Spectrum Fund Ltd	2004	2005	$5,900	$942	43%	Yes
Rock Creek Diversified 1	2003	2003	$6,000	$4,250	100%	Yes

RVKuhns & ASSOCIATES, INC.

Personnel / Number of Investment Professionals

Strategy Name	Total Employees	Portfolio Managers	Research Analysts	Other Professionals	Fund Team	Average # of Years Portfolio Managers Have Worked Together
Aurora Offshore Fund Ltd. II	95	3	13	79	Anne Marie Morley; David E. Kuenzi; Gregory D. Schneiderman; Patrick C. Sheedy; Peter S. Hamet; Justin D. Sheperd; Scott C. Schweighauser; Roxanne M. Martino;	15
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	144	30	0	114	Stephen Sullens;	N/A
Crestline Offshore Fund, Ltd.	63	4	18	41	John Cochran; Caroline Cooley; Doug Bratton;	20
Grosvenor Institutional Partners, L.P.	234	9	33	192	Andrew T. Preda; Brad H. Meyers, CPA; David S. Richter, CPA; Michael J. Sacks, Esq.;	12
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	105	7	30	68	Mark Kulpins; Eric Siegel; Tom Macina; Brian Cornell; Howard Rossman; Steve Vogt; Marty Kaplan;	5
PAAMCO Pacific Hedged Strategies, LLC	131	10	19	102	Erik Bernhardt; Mayer Cherem; Neale Safaty; Judith Posnikoff; Kemmy Koh; Bill Knight; Alper Ince; Jane Buchan; Charles Armendarez; James Berens;	8
Prisma Spectrum Fund Ltd	48	8	6	34	James Welch; Peter Zakowich; Dan Lawee; Michael Rudzik; Donna Heitzman; Eric Wolfe; William Cook;	6
Rock Creek Diversified 1	37	5	12	20	Ronald J.P. van der Wouden; Alifia Doriwala; Kenneth G. Lay; Sudhir Krishnamurthi; Afsaneh Beschloss;	20

RVKuhns & ASSOCIATES, INC.

	Fund of Hedge Fund Assets Under Management ($Mil)							
Strategy Name	**Total**	**Corporate**	**Public**	**Taft-Hartley**	**Endowment/ Foundation**	**Individual/ Family Office**	**Financial Institutions/ Insurance**	**Other***
Aurora Offshore Fund Ltd. II	**$10,468**	**$2,512**	**$2,826**	**$314**	**$942**	**$2,408**	**$0**	**$1,466**
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	**$32,923**	**$12,511**	**$9,877**	**$658**	**$1,646**	**$2,305**	**$4,280**	**$1,646**
Crestline Offshore Fund, Ltd.	**$5,800**	**$1,334**	**$2,900**	**$986**	**$116**	**$406**	**$58**	**$0**
Grosvenor Institutional Partners, L.P.	**$24,045**	**$3,919**	**$4,328**	**$4,136**	**$1,467**	**$1,635**	**$5,675**	**$2,885**
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	**$13,659**	**$3,688**	**$2,459**	**$1,776**	**$683**	**$683**	**$2,322**	**$2,049**
PAAMCO Pacific Hedged Strategies, LLC	**$9,869**	**$2,763**	**$4,737**	**$99**	**$790**	**$296**	**$296**	**$888**
Prisma Spectrum Fund Ltd	**$5,900**	**$944**	**$413**	**$0**	**$177**	**$590**	**$2,773**	**$1,003**
Rock Creek Diversified 1	**$6,000**	**$1,200**	**$3,300**	**$300**	**$900**	**$0**	**$0**	**$300**

* Aurora's allocation to "Other" represents separate accounts.
* Blackstone's allocation to "Other" represents healthcare clients.
* Grosvenor's allocation to "Other" represents hospital/health care and non-pension government entities.
* Mesirow's allocation to "Other" represents sovereign entities and third party feeder funds/accounts.
* PAAMCO's allocation to "Other" represents offshore pension, other pension and employees.
* Prisma's allocation to "Other" represents Prisma employees and other non-US pension plans.
* Rock Creek's allocation to "Other" represents sovereign wealth funds.

RVKuhns & ASSOCIATES, INC.

Specific Fund Assets Under Management ($Mil)

Strategy Name	Total	Corporate	Public	Taft-Hartley	Endowment/ Foundation	Individual/ Family Office	Financial Institutions/ Insurance	Other*
Aurora Offshore Fund Ltd. II	**$2,100**	**$700**	**$700**	**$100**	**$400**	**$200**	**$0**	**$0**
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	**$5,782**	**$3,751**	**$0**	**$0**	**$464**	**$205**	**$454**	**$908**
Crestline Offshore Fund, Ltd.	**$526**	**$80**	**$195**	**$35**	**$80**	**$1**	**$0**	**$135**
Grosvenor Institutional Partners, L.P.	**$6,312**	**$1,050**	**$1,315**	**$2,790**	**$293**	**$134**	**$0**	**$730**
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	**$1,277**	**$228**	**$3**	**$926**	**$38**	**$11**	**$43**	**$27**
PAAMCO Pacific Hedged Strategies, LLC	**$602**	**$0**	**$235**	**$0**	**$285**	**$0**	**$0**	**$82**
Prisma Spectrum Fund Ltd	**$942**	**$212**	**$65**	**$0**	**$138**	**$3**	**$420**	**$104**
Rock Creek Diversified 1	**$4,250**	**$1,050**	**$2,250**	**$300**	**$650**	**$0**	**$0**	**$0**

* Blackstone's allocation to "Other" represents Blackstone Capital and employees, government institutions and distribution.
* Crestline's allocation to "Other" includes inter-fund investments.
* Grosvenor's allocation to "Other" represents hospital/health care and non-pension government entities.
* Mesirow's allocation to "Other" represents other pensions and pensions managed on behalf of hospitals.
* PAAMCO's allocation to "Other" represents religious organization pension plans.
* Prisma's allocation to "Other" represents Prisma employees and other non-US pension plans.

RVKuhns & ASSOCIATES, INC.

Underlying Investment Manager Information

Strategy Name	Amount Invested by General Partners ($mil)	Current Number of Underlying Managers	Range of Underlying Managers	Maximum Weighting of any Manager	Frequency of Communication with Underlying Managers	Manager Turnover	Ratio of Current Managers to Research Analysts
Aurora Offshore Fund Ltd. II	**$100**	**43**	**40 - 50**	**10.0%**	**Regular/Constant**	**19%**	**7:1**
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	**$1,416**	**93**	**92 - 103**	**4.4%**	**Monthly**	**8%**	**3:1**
Crestline Offshore Fund, Ltd.	**$31**	**46**	**42 - 60**	**10.0%**	**Monthly/quarterly with annual on-site visits**	**20%**	**5:1**
Grosvenor Institutional Partners, L.P.	**$316**	**43**	**21 - 67**	**10.0%**	**Monthly at a minimum.**	**14%**	**2:1**
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	**$414**	**57**	**25 - 90**	**N/A**	**Monthly**	**15%**	**2:1**
PAAMCO Pacific Hedged Strategies, LLC	**$15**	**53**	**45 - 65**	**5.0%**	**Monthly**	**20%**	**2:1**
Prisma Spectrum Fund Ltd	**$80**	**48**	**21 - 48**	**3.7%**	**Monthly**	**17%**	**14:1**
Rock Creek Diversified 1	**$10**	**50**	**25 - 50**	**6.0%**	**At least monthly**	**15%**	**10:1**

* Mesirow does not have specific limits on manager weightings. However, in many funds they strive to maintain a 5% allocation on any underlying fund position at time of purchase. Please note that this may fluctuate after time of purchase and is a general guideline.

RVKuhns & ASSOCIATES, INC.

Current Allocation by Strategy

Strategy Name	L/S Equity	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other*
Aurora Offshore Fund Ltd. II	34%	12%	0%	0%	21%	0%	0%	0%	15%	18%
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	22%	0%	23%	4%	1%	0%	0%	3%	9%	38%
Crestline Offshore Fund, Ltd.	23%	0%	2%	5%	9%	2%	0%	4%	2%	53%
Grosvenor Institutional Partners, L.P.	36%	2%	0%	0%	0%	1%	0%	0%	5%	57%
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	23%	4%	0%	0%	31%	2%	0%	0%	3%	38%
PAAMCO Pacific Hedged Strategies, LLC	28%	0%	0%	7%	11%	9%	4%	9%	0%	32%
Prisma Spectrum Fund Ltd	27%	2%	4%	2%	34%	5%	0%	10%	13%	3%
Rock Creek Diversified 1	38%	0%	0%	11%	23%	0%	0%	0%	15%	13%

* Aurora's allocation to "Other" represents their multi-strategy opportunistic strategy.
* Blackstone's allocation to "Other" represents multistrategy, credit–opportunistic, credit–mortgage, credit–structured/ABS, emerging markets, direct origination, credit – relative value, leveraged loans, and reinsurance.
* Crestline's allocation to "Other" represents credit arbitrage, origination, multiple strategy, bank loans, cash and other assets.
* Grosvenor's allocation to "Other" represents L/S credit, directional credit, event driven, relative value, multi-strategy and cash.
* Mesirow's allocation to "Other" represents event, relative value, multi-strategy, redeeming managers and cash.
* PAAMCO's allocation to "Other" represents Long/Short credit, opportunistic and a cash balance that ranges from 1-8%.
* Rock Creek's allocation to "Other" represents multi-strategy.

RVKuhns & ASSOCIATES, INC.

Allocation by Region

Strategy Name	U.S.	Developed Europe	Japan	Emerging Mkts	Other*
Aurora Offshore Fund Ltd. II	**54%**	**19%**	**5%**	**8%**	**14%**
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	**58%**	**23%**	**0%**	**13%**	**6%**
Crestline Offshore Fund, Ltd.	**65%**	**22%**	**6%**	**2%**	**5%**
Grosvenor Institutional Partners, L.P.	**66%**	**16%**	**3%**	**5%**	**10%**
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	**78%**	**11%**	**2%**	**2%**	**7%**
PAAMCO Pacific Hedged Strategies, LLC	**64%**	**19%**	**3%**	**4%**	**10%**
Prisma Spectrum Fund Ltd	**58%**	**21%**	**13%**	**2%**	**6%**
Rock Creek Diversified 1	**70%**	**10%**	**5%**	**15%**	**0%**

* Aurora's allocation to "Other" represents global allocations.
* Blackstone's allocation to "Other" represents Asia ex-Japan.
* Crestline's allocation to "Other" represents global allocations.
* Grosvenor's allocation to "Other" represents allocations to Australia, Hong Kong, New Zealand, Singapore and cash.
* Mesirow's allocation to "Other" represents Asia ex-Japan.
* PAAMCO's allocation to "Other" represents Canada, Hong Kong, Australia and Bermuda.
* Prisma's allocation to "Other" represents commodities and foreign exchange exposure.

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General Product Information

Strategy Name	Inception Date	Onshore/Offshore	Is UBTI Likely?	3c1 or 3c7?	Accepting ERISA Clients?	Historical Leverage Range (look-through)
Aurora Offshore Fund Ltd. II	7/1/2002	Offshore	No	3c7	Yes	1.0x - 2.6x
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	7/1/1996	Offshore	No	3c7	No	1.0x - 3.5x
Crestline Offshore Fund, Ltd.	11/1/2001	Offshore	No	3c7	Yes	1.0x - 1.2x
Grosvenor Institutional Partners, L.P.	1/1/2000	Onshore	No	3c7	Yes	1.1x - 2.8x
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	4/1/2004	Onshore	No	3c7	Yes	1.3x - 2.4x
PAAMCO Pacific Hedged Strategies, LLC	1/1/2002	Onshore	No	3c7	No	1.0x - 1.7x
Prisma Spectrum Fund Ltd	5/1/2005	Offshore	No	3c7	Yes	1.5x
Rock Creek Diversified 1	4/1/2003	Offshore	No	3c7	Yes	1.2x - 2.7x

RVKuhns & ASSOCIATES, INC.

Minimum and Fee Information

Strategy Name	Subscription Frequency	Lock-Up Period	Redemption Frequency	Notice Period	Minimum Investment ($mil)	Annual Management Fee*	Performance Fee	Hurdle Rate	High Water Mark?
Aurora Offshore Fund Ltd. II	Monthly	No	Quarterly	95 Days	$1	1.0%	10.0%	No	Yes
Blackstone Partners Offshore Fund Ltd. ("Partners OS")	Monthly	No	Annually	95 Days	$5	1.3%	0.0%	No	No
Crestline Offshore Fund, Ltd.	Monthly	12 Months	Quarterly	95 Days	$1	1.3%	0.0%	No	No
Grosvenor Institutional Partners, L.P.	Monthly	No	Quarterly	70 Days	$5	**	0.0%	No	No
Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)	Monthly	No	Quarterly	95 Days	$5	1.0%	10.0%	5.0%	Yes
PAAMCO Pacific Hedged Strategies, LLC	Monthly	12 Months	Quarterly	90 Days	$5	1.0%	5.0%	No	Yes
Prisma Spectrum Fund Ltd	Monthly	12 Months	Quarterly	65 Days	$1	1.0%	5.0%	Yes***	Yes
Rock Creek Diversified 1	Monthly	12 Months	Quarterly	90 Days	$5	0.8%	7.5%	Yes	Yes

* Fees are often negotiable for custom mandates in excess of $100M.
** Grosvenor fee schedule: first $10 Million: 1.4%, next $15 Million: 1.2%, next $25 Million: 1.0%, next $50 Million: 0.8%, over $100 Million: 0.6%. Effective July 1, 2011 Grosvenor fee schedule will change to first $25 Million: 1.25%, next $25 Million: 1.0%, next $50 Million: 0.8%, over $100 Million: 0.6%. Grosvenor has a minimum fee of 0.75%.
*** Prisma's hurdle rate is the performance of 13 Week US T-Bill.

Trailing Period Returns

RVKuhns & ASSOCIATES, INC.

As of March 2011

Firm/Product	Current Quarter	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Aurora - AOFL II	1.2	1.2	4.9	2.1	3.7	5.1	---
Blackstone Partners Offshore, Ltd.	1.7	1.7	6.4	3.2	5.1	5.9	5.9
Crestline Offshore Fund, Ltd.	2.2	2.2	5.8	0.0	2.6	3.9	---
Grosvenor - GIP, L.P.	1.8	1.8	5.8	0.2	2.6	4.0	4.8
Mesirow - MIMSF, LP	2.3	2.3	5.0	3.2	4.5	5.3	---
PAAMCO - PHS	2.0	2.0	5.9	1.1	4.5	5.1	---
Prisma Spectrum Fund, Ltd.	1.7	1.7	6.9	3.0	5.2	---	---
Rock Creek Diversified 1	1.1	1.1	6.3	3.1	3.4	5.0	---
HFN FoF Multi-Strategy Average	*0.7*	*0.7*	*4.1*	*-1.5*	*1.1*	*3.0*	*4.3*
BofA ML 3 Month T-Bill Index + 5%	*1.3*	*1.3*	*5.2*	*5.5*	*7.3*	*7.4*	*7.3*
BC Aggregate Bond Index	*0.4*	*0.4*	*5.1*	*5.3*	*6.0*	*4.8*	*5.6*
S&P 500 Index	*5.9*	*5.9*	*15.6*	*2.4*	*2.6*	*4.5*	*3.3*

Performance is Net of Fees

Calendar Year Returns

RVKuhns & ASSOCIATES, INC.

As of March 2011

Firm/Product				Calendar Year			
	2010	2009	2008	2007	2006	2005	2004
Aurora - AOFL II	6.9	20.6	-22.5	13.3	9.1	9.5	6.5
Blackstone Partners Offshore, Ltd.	7.4	15.6	-15.5	12.6	11.7	7.0	6.0
Crestline Offshore Fund, Ltd.	6.1	11.0	-19.6	9.5	12.2	6.0	6.5
Grosvenor - GIP, L.P.	6.5	13.9	-20.9	10.7	9.4	6.8	6.9
Mesirow - MIMSF, LP	5.0	18.3	-15.7	8.8	9.8	5.3	---
PAAMCO - PHS	6.1	18.4	-21.8	17.4	10.8	5.1	6.0
Prisma Spectrum Fund, Ltd.	7.6	17.3	-16.5	13.4	8.4	---	---
Rock Creek Diversified 1	8.8	16.6	-18.2	8.7	9.3	8.2	8.4
HFN FoF Multi-Strategy Average	*4.8*	*9.7*	*-20.6*	*9.9*	*9.8*	*6.8*	*6.8*
BofA ML 3 Month T-Bill Index + 5%	*5.1*	*5.2*	*7.2*	*10.3*	*10.1*	*8.2*	*6.4*
BC Aggregate Bond Index	*6.5*	*5.9*	*5.2*	*7.0*	*4.3*	*2.4*	*4.3*
S&P 500 Index	*15.1*	*26.5*	*-37.0*	*5.5*	*15.8*	*4.9*	*10.9*

Performance is Net of Fees

Three Year Risk Analysis

RVKuhns & ASSOCIATES, INC.

As of March 2011

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - AOFL II	2.1	8.5	0.2	5.0	-8.3	23.0	13.0
Blackstone Partners Offshore, Ltd.	3.2	5.7	0.5	3.3	-4.9	26.0	10.0
Crestline Offshore Fund, Ltd.	0.0	6.0	-0.1	1.9	-5.4	26.0	10.0
Grosvenor - GIP, L.P.	0.2	7.0	0.0	2.7	-6.9	25.0	11.0
Mesirow - MIMSF, LP	3.2	6.1	0.4	3.8	-6.3	25.0	11.0
PAAMCO - PHS	1.1	8.7	0.1	3.2	-8.6	27.0	9.0
Prisma Spectrum Fund, Ltd.	3.0	7.3	0.3	3.5	-7.8	27.0	9.0
Rock Creek Diversified 1	3.1	7.0	0.4	2.8	-6.8	25.0	11.0
S&P 500 Index	2.4	21.9	0.1	9.6	-16.8	24.0	12.0
BC Aggregate Bond Index	5.3	4.2	1.1	3.7	-2.4	24.0	12.0
HFN FoF Multi-Strategy Average	-1.5	7.0	-0.3	3.0	-6.6	21.0	15.0

MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	1.0	0.3	54.2	28.0	10.5	30.0	-7.7
Blackstone Partners Offshore, Ltd.	2.4	0.2	46.3	20.4	7.7	16.2	-4.1
Crestline Offshore Fund, Ltd.	-0.8	0.2	35.2	13.0	4.9	18.3	-4.7
Grosvenor - GIP, L.P.	-0.7	0.2	41.1	17.5	6.6	23.4	-6.0
Mesirow - MIMSF, LP	2.4	0.2	31.6	20.1	7.6	15.9	-4.1
PAAMCO - PHS	0.2	0.2	34.5	21.7	8.1	25.3	-6.5
Prisma Spectrum Fund, Ltd.	2.1	0.2	30.1	21.5	8.1	18.5	-4.7
Rock Creek Diversified 1	2.1	0.2	56.0	26.6	10.0	24.5	-6.3
S&P 500 Index	0.0	1.0	100.0	100.0	37.6	100.0	-25.6
BC Aggregate Bond Index	4.7	0.0	6.3	10.6	4.0	-4.9	1.2
HFN FoF Multi-Strategy Average	-2.5	0.2	54.7	16.8	6.3	28.7	-7.3

MPT Statistics vs. BC Aggregate Bond Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	-0.4	0.4	4.0	58.4	5.1	92.2	-2.9
Blackstone Partners Offshore, Ltd.	1.7	0.2	2.2	52.9	4.6	42.7	-1.3
Crestline Offshore Fund, Ltd.	-0.7	0.0	0.0	20.4	1.8	56.1	-1.7
Grosvenor - GIP, L.P.	-1.4	0.2	1.8	33.2	2.9	84.0	-2.6
Mesirow - MIMSF, LP	1.4	0.3	3.1	58.3	5.1	57.1	-1.8
PAAMCO - PHS	-1.2	0.4	3.4	43.1	3.7	80.6	-2.5
Prisma Spectrum Fund, Ltd.	1.2	0.3	2.1	49.1	4.3	40.1	-1.2
Rock Creek Diversified 1	0.9	0.3	4.2	59.1	5.1	62.2	-1.9
S&P 500 Index	-4.4	1.3	6.3	182.7	15.8	374.6	-11.6
BC Aggregate Bond Index	0.0	1.0	100.0	100.0	8.7	100.0	-3.1
HFN FoF Multi-Strategy Average	-3.6	0.3	3.8	18.7	1.6	99.0	-3.1

Five Year Risk Analysis

RVKuhns & ASSOCIATES, INC.

As of March 2011

Firm/Product	Return	Standard Deviation	Sharpe Ratio	Best Monthly Return	Worst Monthly Return	# of Up Market Months	# of Down Market Months
Aurora - AOFL II	3.7	7.4	0.2	5.0	-8.3	40.0	20.0
Blackstone Partners Offshore, Ltd.	5.1	5.2	0.5	3.3	-4.9	45.0	15.0
Crestline Offshore Fund, Ltd.	2.6	5.2	0.1	1.9	-5.4	44.0	16.0
Grosvenor - GIP, L.P.	2.6	6.1	0.1	2.7	-6.9	43.0	17.0
Mesirow - MIMSF, LP	4.5	5.4	0.4	3.8	-6.3	41.0	19.0
PAAMCO - PHS	4.5	7.6	0.3	5.1	-8.6	44.0	16.0
Prisma Spectrum Fund, Ltd.	5.2	6.5	0.5	4.4	-7.8	44.0	16.0
Rock Creek Diversified 1	3.4	6.8	0.2	2.8	-6.8	42.0	18.0
S&P 500 Index	2.6	17.9	0.0	9.6	-16.8	39.0	21.0
BC Aggregate Bond Index	6.0	3.6	1.1	3.7	-2.4	42.0	18.0
HFN FoF Multi-Strategy Average	1.1	6.4	-0.2	3.1	-6.6	37.0	23.0

MPT Statistics vs. S&P 500 Index

Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	1.3	0.3	49.8	33.8	9.7	27.1	-5.5
Blackstone Partners Offshore, Ltd.	2.8	0.2	39.3	27.7	8.0	13.2	-2.7
Crestline Offshore Fund, Ltd.	0.3	0.2	33.7	20.1	5.8	15.0	-3.0
Grosvenor - GIP, L.P.	0.3	0.2	37.8	24.3	7.0	20.0	-4.0
Mesirow - MIMSF, LP	2.2	0.2	32.1	27.0	7.8	15.1	-3.1
PAAMCO - PHS	2.1	0.2	32.3	31.0	8.9	20.1	-4.1
Prisma Spectrum Fund, Ltd.	2.9	0.2	27.6	29.2	8.4	14.4	-2.9
Rock Creek Diversified 1	1.0	0.3	43.3	32.0	9.2	26.4	-5.4
S&P 500 Index	0.0	1.0	100.0	100.0	28.7	100.0	-20.3
BC Aggregate Bond Index	3.8	0.0	3.2	13.7	4.0	-9.8	2.0
HFN FoF Multi-Strategy Average	-1.2	0.2	46.7	23.9	6.9	26.5	-5.4

MPT Statistics vs. BC Aggregate Bond Index

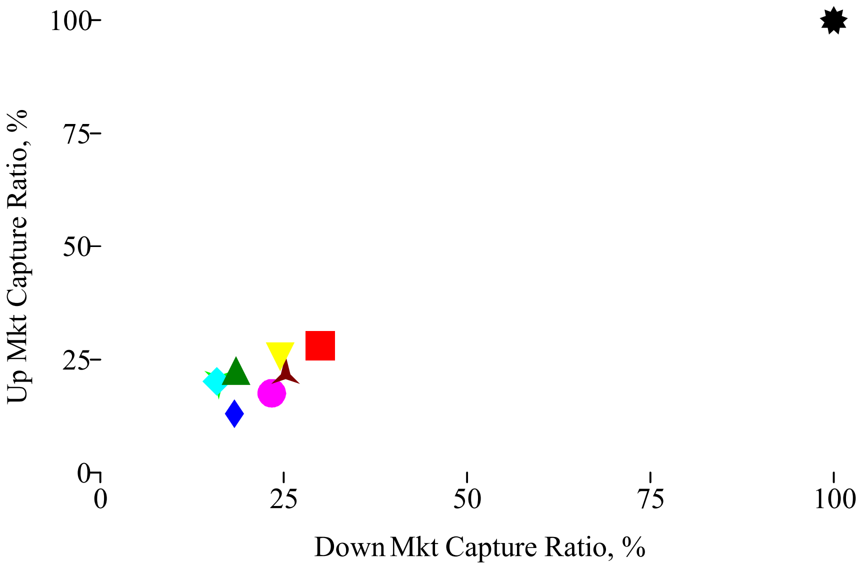
Firm/Product	Alpha	Beta	R-Squared	Up Market Capture	Up Market Return	Down Market Capture	Down Market Return
Aurora - AOFL II	0.6	0.2	1.1	51.1	4.3	27.6	-0.6
Blackstone Partners Offshore, Ltd.	2.6	0.1	0.2	54.3	4.6	-19.7	0.4
Crestline Offshore Fund, Ltd.	0.5	-0.1	0.2	30.5	2.6	1.1	0.0
Grosvenor - GIP, L.P.	0.2	0.1	0.1	36.3	3.1	18.7	-0.4
Mesirow - MIMSF, LP	1.8	0.1	0.5	50.1	4.3	-8.7	0.2
PAAMCO - PHS	1.6	0.2	0.7	54.2	4.6	5.5	-0.1
Prisma Spectrum Fund, Ltd.	2.6	0.1	0.3	57.6	4.9	-14.7	0.3
Rock Creek Diversified 1	0.7	0.1	0.4	38.1	3.2	-5.5	0.1
S&P 500 Index	-3.0	0.9	3.2	116.3	9.9	291.2	-6.6
BC Aggregate Bond Index	0.0	1.0	100.0	100.0	8.5	100.0	-2.3
HFN FoF Multi-Strategy Average	-1.6	0.1	0.5	22.4	1.9	34.4	-0.8

RVKuhns & ASSOCIATES, INC.

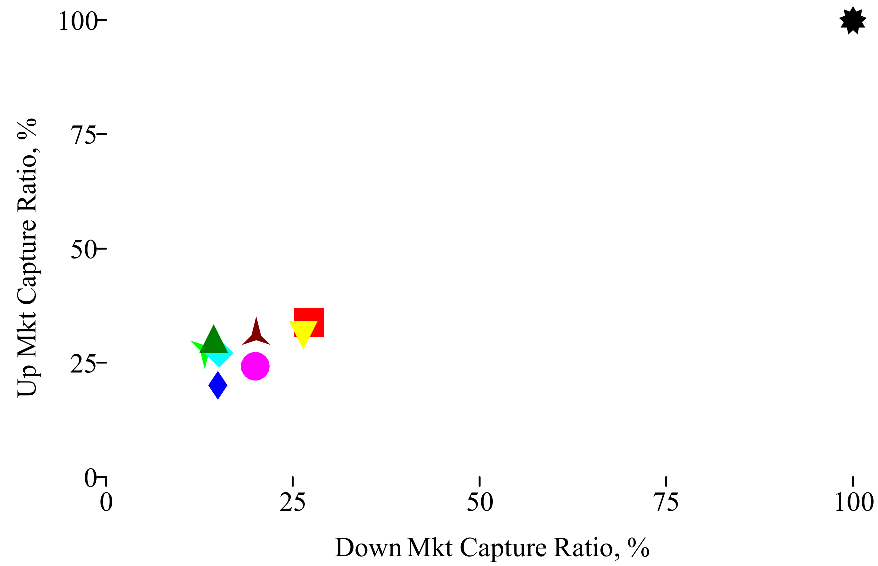
Up/Down Market Capture - Three and Five Year

As of March 2011 Benchmark: S&P 500 Index

Three Year Up/Down Market Capture Ratio



Five Year Up/Down Market Capture Ratio



Aurora - AOFL II · Blackstone Partners Offshore, Ltd. · Crestline Offshore Fund, Ltd. · Grosvenor - GIP, L.P. · Mesirow - MIMSF, LP
PAAMCO - PHS · Prisma Spectrum Fund, Ltd. · Rock Creek Diversified 1 · S&P 500 Index

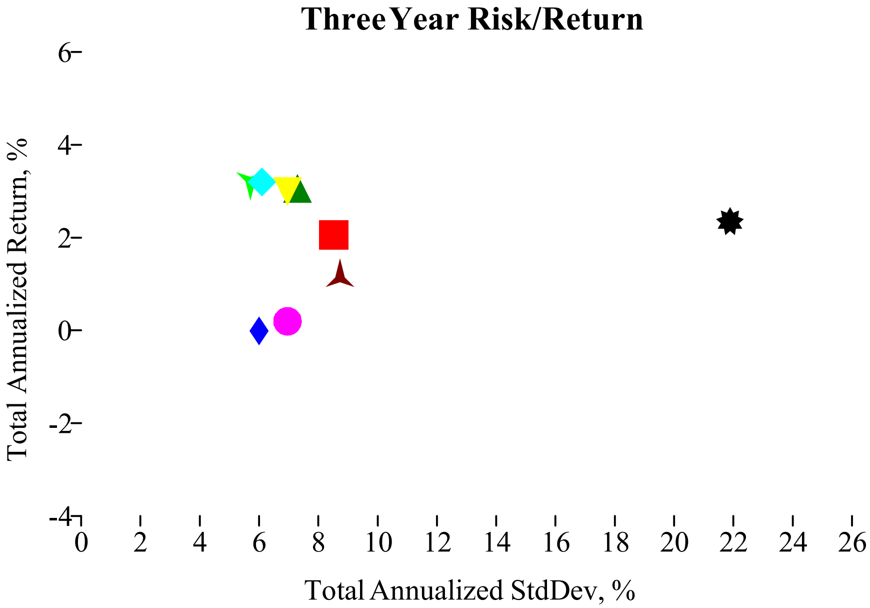
	Down Mkt Cap Ratio, %	Down Mkt Months	Up Mkt Cap Ratio, %	Up Mkt Months
Aurora - AOFL II	29.99	12	28.04	24
Blackstone Partners Offshore, Ltd.	16.16	12	20.37	24
Crestline Offshore Fund, Ltd.	18.28	12	13.04	24
Grosvenor - GIP, L.P.	23.40	12	17.51	24
Mesirow - MIMSF, LP	15.86	12	20.13	24
PAAMCO - PHS	25.27	12	21.65	24
Prisma Spectrum Fund, Ltd.	18.49	12	21.49	24
Rock Creek Diversified 1	24.52	12	26.61	24
S&P 500 Index	**100.00**	**12**	**100.00**	**24**

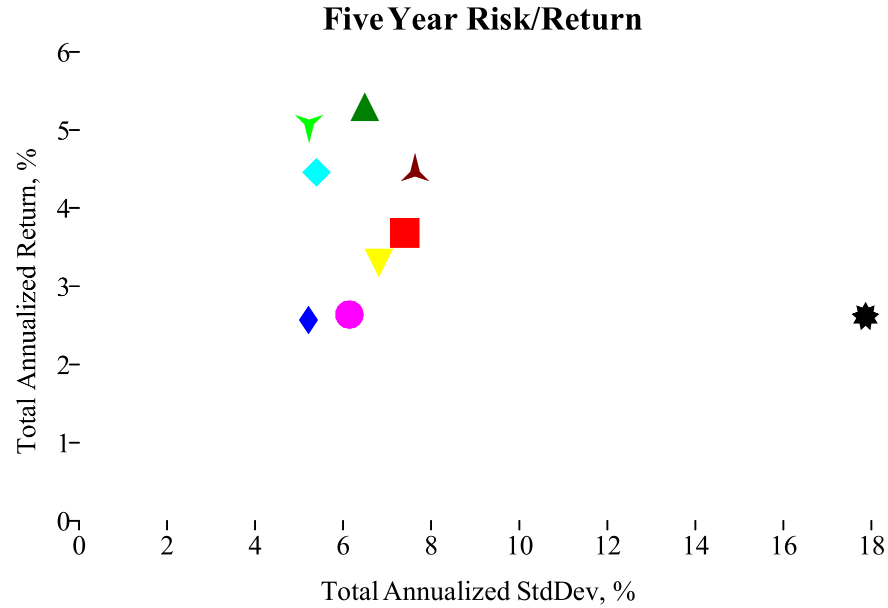
	Down Mkt Cap Ratio, %	Down Mkt Months	Up Mkt Cap Ratio, %	Up Mkt Months
Aurora - AOFL II	27.14	21	33.82	39
Blackstone Partners Offshore, Ltd.	13.19	21	27.70	39
Crestline Offshore Fund, Ltd.	14.96	21	20.09	39
Grosvenor - GIP, L.P.	19.96	21	24.26	39
Mesirow - MIMSF, LP	15.14	21	27.03	39
PAAMCO - PHS	20.08	21	30.98	39
Prisma Spectrum Fund, Ltd.	14.39	21	29.23	39
Rock Creek Diversified 1	26.39	21	32.04	39
S&P 500 Index	**100.00**	**21**	**100.00**	**39**

RVKuhns & ASSOCIATES, INC.

Risk/Return - Three and Five Year

As of March 2011 Benchmark: S&P 500 Index





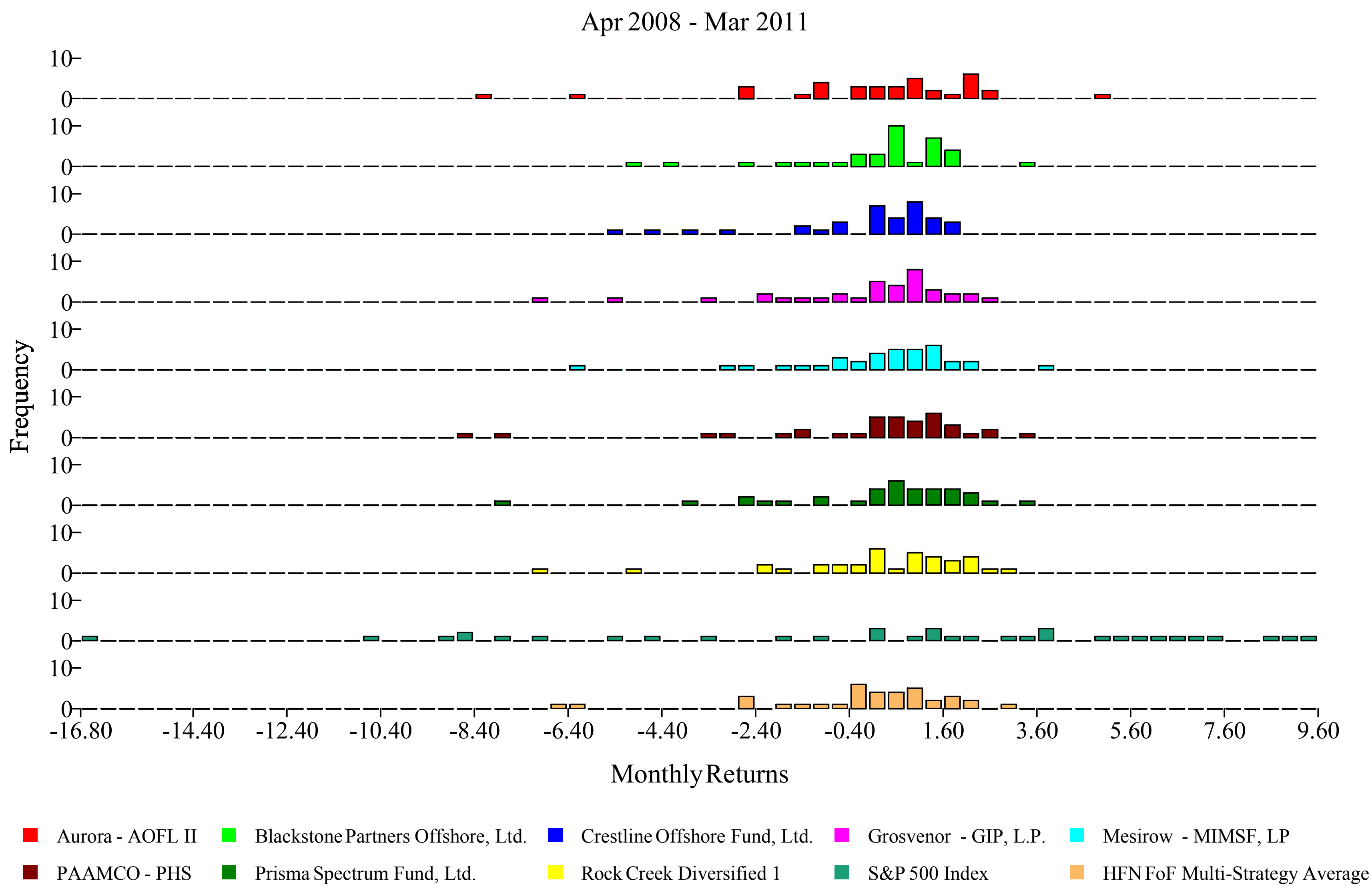
Aurora - AOFL II | Blackstone Partners Offshore, Ltd. | Crestline Offshore Fund, Ltd. | Grosvenor - GIP, L.P. | Mesirow - MIMSF, LP | PAAMCO - PHS | Prisma Spectrum Fund, Ltd. | Rock Creek Diversified 1 | S&P 500 Index

	Annualized Return	Annualized Std. Dev.
Aurora - AOFL II	2.05	8.53
Blackstone Partners Offshore, Ltd.	3.20	5.70
Crestline Offshore Fund, Ltd.	-0.01	6.00
Grosvenor - GIP, L.P.	0.20	6.96
Mesirow - MIMSF, LP	3.20	6.10
PAAMCO - PHS	1.14	8.73
Prisma Spectrum Fund, Ltd.	2.96	7.29
Rock Creek Diversified 1	3.09	6.96
S&P 500 Index	**2.35**	**21.89**

	Annualized Return	Annualized Std. Dev.
Aurora - AOFL II	3.68	7.41
Blackstone Partners Offshore, Ltd.	5.07	5.22
Crestline Offshore Fund, Ltd.	2.56	5.21
Grosvenor - GIP, L.P.	2.64	6.14
Mesirow - MIMSF, LP	4.46	5.40
PAAMCO - PHS	4.47	7.63
Prisma Spectrum Fund, Ltd.	5.24	6.50
Rock Creek Diversified 1	3.36	6.81
S&P 500 Index	**2.62**	**17.87**

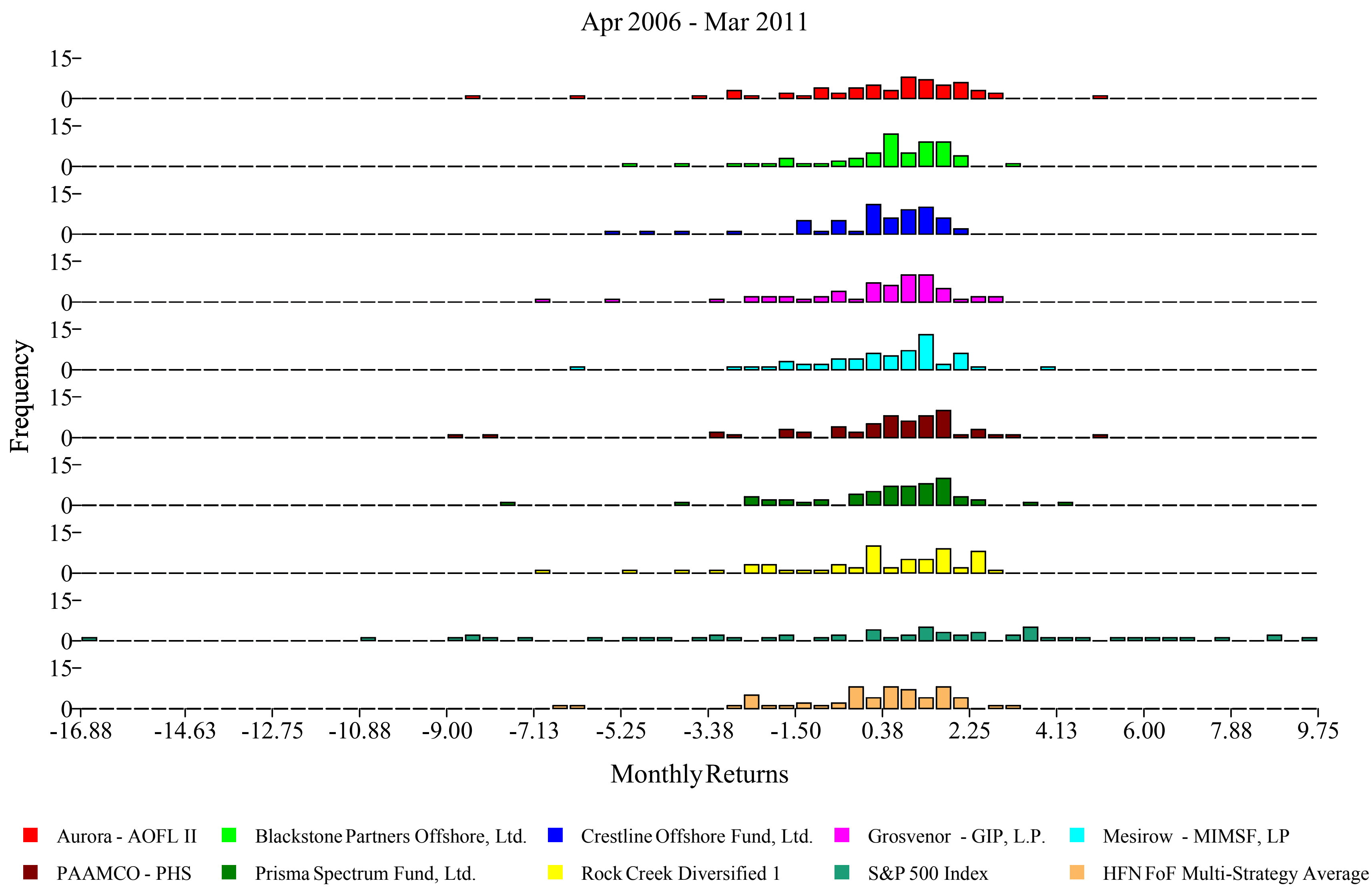
Distribution of Returns - 3 Year

As of March 2011



Distribution of Returns - 5 Year

As of March 2011



Correlation Of Returns - 3 Year

RVKuhns & ASSOCIATES, INC.

As of March 2011

Direct Correlations

Correlation: Apr 2008 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	0.97	0.91	0.95	0.94	0.93	0.94	0.97
Blackstone Partners Offshore, Ltd.	0.97	1.00	0.95	0.97	0.94	0.95	0.94	0.96
Crestline Offshore Fund, Ltd.	0.91	0.95	1.00	0.97	0.91	0.92	0.91	0.91
Grosvenor - GIP, L.P.	0.95	0.97	0.97	1.00	0.95	0.95	0.96	0.97
Mesirow - MIMSF, LP	0.94	0.94	0.91	0.95	1.00	0.90	0.95	0.93
PAAMCO - PHS	0.93	0.95	0.92	0.95	0.90	1.00	0.93	0.92
Prisma Spectrum Fund, Ltd.	0.94	0.94	0.91	0.96	0.95	0.93	1.00	0.94
Rock Creek Diversified 1	0.97	0.96	0.91	0.97	0.93	0.92	0.94	1.00
S&P 500 Index	0.74	0.68	0.59	0.64	0.56	0.58	0.54	0.75
BC Aggregate Bond Index	0.16	0.11	-0.03	0.09	0.13	0.15	0.10	0.16
HFN FoF Multi-Strategy Average	0.97	0.97	0.91	0.96	0.90	0.95	0.94	0.97

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Apr 2008 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	-0.03	-0.13	0.19	0.21	0.29	0.24	0.35
Blackstone Partners Offshore, Ltd.	-0.03	1.00	0.75	0.55	0.74	-0.09	0.28	0.27
Crestline Offshore Fund, Ltd.	-0.13	0.75	1.00	0.80	0.60	0.13	0.35	0.28
Grosvenor - GIP, L.P.	0.19	0.55	0.80	1.00	0.69	0.34	0.61	0.53
Mesirow - MIMSF, LP	0.21	0.74	0.60	0.69	1.00	0.03	0.65	0.55
PAAMCO - PHS	0.29	-0.09	0.13	0.34	0.03	1.00	0.33	-0.11
Prisma Spectrum Fund, Ltd.	0.24	0.28	0.35	0.61	0.65	0.33	1.00	0.36
Rock Creek Diversified 1	0.35	0.27	0.28	0.53	0.55	-0.11	0.36	1.00
S&P 500 Index	0.36	-0.50	-0.50	-0.37	-0.53	-0.20	-0.57	0.09
BC Aggregate Bond Index	-0.43	0.52	0.24	0.01	0.40	-0.36	-0.03	0.13

Correlation Of Returns - 5 Year

RVKuhns & ASSOCIATES, INC.

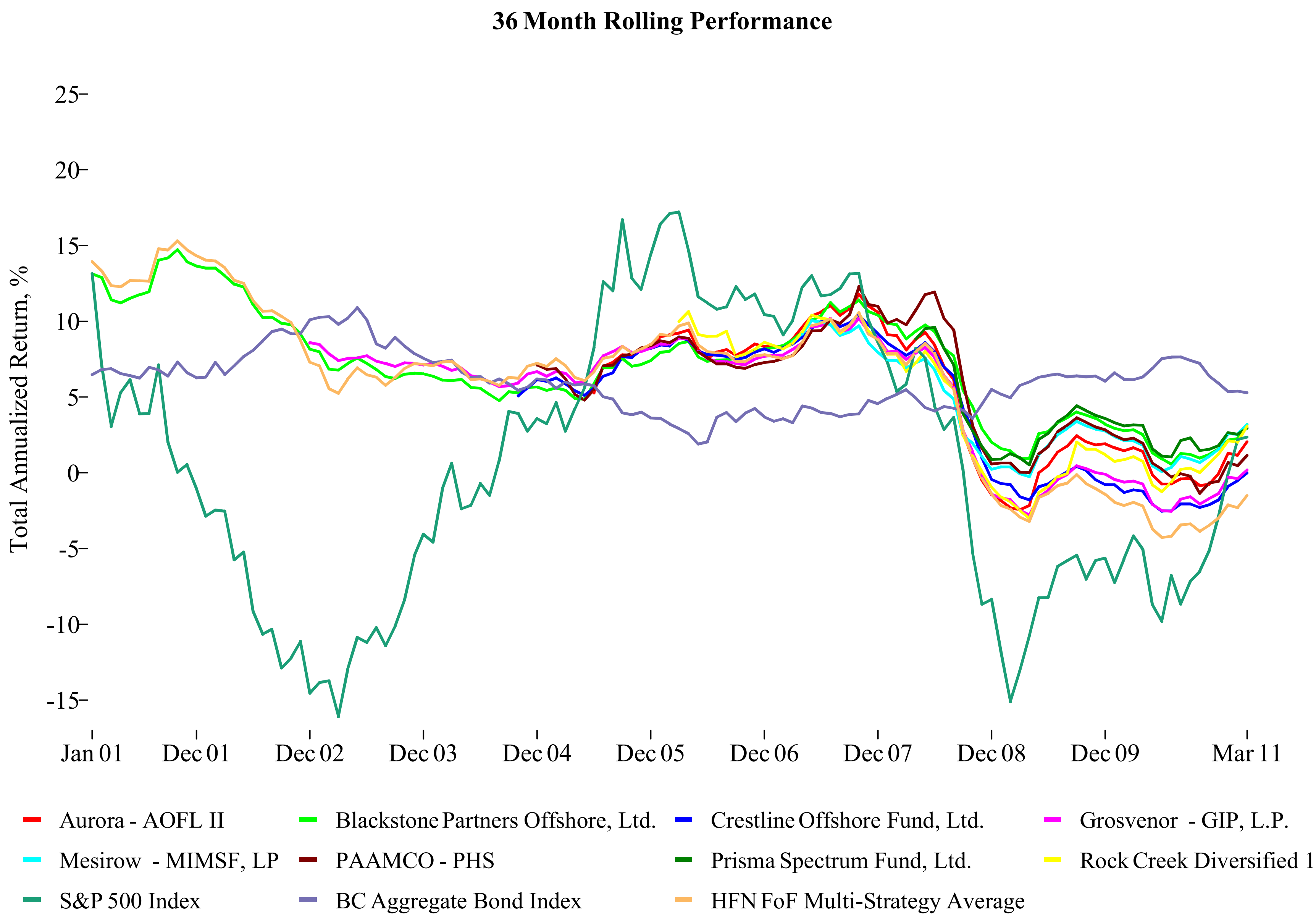
As of March 2011

Direct Correlations

Correlation: Apr 2006 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	0.96	0.90	0.95	0.94	0.92	0.93	0.91
Blackstone Partners Offshore, Ltd.	0.96	1.00	0.93	0.96	0.92	0.91	0.92	0.89
Crestline Offshore Fund, Ltd.	0.90	0.93	1.00	0.95	0.89	0.90	0.90	0.84
Grosvenor - GIP, L.P.	0.95	0.96	0.95	1.00	0.95	0.94	0.96	0.90
Mesirow - MIMSF, LP	0.94	0.92	0.89	0.95	1.00	0.88	0.93	0.89
PAAMCO - PHS	0.92	0.91	0.90	0.94	0.88	1.00	0.93	0.84
Prisma Spectrum Fund, Ltd.	0.93	0.92	0.90	0.96	0.93	0.93	1.00	0.88
Rock Creek Diversified 1	0.91	0.89	0.84	0.90	0.89	0.84	0.88	1.00
S&P 500 Index	0.70	0.62	0.57	0.61	0.56	0.56	0.52	0.66
BC Aggregate Bond Index	0.07	0.02	-0.06	0.00	0.03	0.06	0.03	0.02
HFN FoF Multi-Strategy Average	0.96	0.96	0.90	0.96	0.91	0.93	0.94	0.93

Excess Correlations (Using the HFN FOF - Multi-Strategy Average)

Excess Correlation: Apr 2006 - Mar 2011	Aurora - AOFL II	Blackstone Partners Offshore, Ltd.	Crestline Offshore Fund, Ltd.	Grosvenor - GIP, L.P.	Mesirow - MIMSF, LP	PAAMCO - PHS	Prisma Spectrum Fund, Ltd.	Rock Creek Diversified 1
Aurora - AOFL II	1.00	0.06	-0.04	0.24	0.23	0.28	0.20	0.13
Blackstone Partners Offshore, Ltd.	0.06	1.00	0.72	0.53	0.64	-0.05	0.26	0.02
Crestline Offshore Fund, Ltd.	-0.04	0.72	1.00	0.72	0.62	0.13	0.36	0.04
Grosvenor - GIP, L.P.	0.24	0.53	0.72	1.00	0.70	0.33	0.59	0.10
Mesirow - MIMSF, LP	0.23	0.64	0.62	0.70	1.00	0.04	0.54	0.26
PAAMCO - PHS	0.28	-0.05	0.13	0.33	0.04	1.00	0.34	-0.20
Prisma Spectrum Fund, Ltd.	0.20	0.26	0.36	0.59	0.54	0.34	1.00	0.06
Rock Creek Diversified 1	0.13	0.02	0.04	0.10	0.26	-0.20	0.06	1.00
S&P 500 Index	0.35	-0.36	-0.34	-0.29	-0.36	-0.15	-0.48	0.07
BC Aggregate Bond Index	-0.25	0.57	0.44	0.19	0.48	-0.19	0.11	0.01



36 Month Rolling Performance
Total Annualized Return, %
25
20
15
10
5
0
-5
-10
-15
Jan 01
Dec 01
Dec 02
Dec 03
Dec 04
Dec 05
Dec 06
Dec 07
Dec 08
Dec 09
Mar 11
Aurora - AOFL II
Blackstone Partners Offshore, Ltd.
Crestline Offshore Fund, Ltd.
Grosvenor - GIP, L.P.
Mesirow - MIMSF, LP
PAAMCO - PHS
Prisma Spectrum Fund, Ltd.
Rock Creek Diversified 1
S&P 500 Index
BC Aggregate Bond Index
HFN FoF Multi-Strategy Average

Aurora Offshore II Fund, Ltd.

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	1988
Year First Fund of Funds Launched	1988
Location	Chicago, IL
Number of Investment Professionals	27
Percentage Employee Owned	0%
Total AUM (millions)	$10,468

Investment Philosophy:

Please see response below:

Investment Process:

The Firm's mission statement is: "Aurora Investment Management L.L.C. is committed to being a premier investment firm focused on delivering consistently superior investment results within a collegial environment that encourages a culture of excellence, respect, teamwork and integrity."

In order to deliver consistently superior investment results, the Firm adheres to a disciplined investment process guided by experienced portfolio managers who manage funds of hedge funds that offer consistent long-term capital appreciation with low volatility and little correlation with equities and bonds. Believing that the most important factors guiding the selection of hedge fund managers are qualitative, not quantitative, the Firm performs thorough and wide-ranging analyses, comparisons and reviews, ultimately relying on the sound judgment that our portfolio management team has developed over the last 22 years. The key element of our investment process that differentiates us from others is our retention of critical judgments (i.e., inclusion/termination of a manager and on-site due diligence of managers) at the most senior level. In both the initial and ongoing due diligence process, we believe that the direct contact between our own Portfolio Management Team and the principals of the underlying managers results in the most accurate and timely assessment possible and allows for the establishment of a unique long-term peer-to-peer relationship. When managers consistently interact with the same senior decision-makers, we can be assured that important information will not be misinterpreted or overlooked. Moreover, we will not invest with any manager until each of our Portfolio Managers has met with the underlying manager and reached a unanimous decision to invest.

Another unique aspect of our investment process is that each Portfolio Manager is a generalist. This generalist perspective allows each Portfolio Manager to seek the best investment opportunities objectively and make logical, well-informed decisions in a consensus-driven manner. This process is in contrast to a "sector specialist" approach, wherein the Portfolio Manager might tend to promote inclusion of his/her own sector in the portfolio – regardless of whether that recommendation may generate the best investment outcome for the portfolio as a whole. This consensus-driven approach makes each Portfolio Manager an owner of each investment decision.

Our investment process also leverages our technology platform. We have developed extensive and sophisticated proprietary databases that house our entire manager due diligence, quantitative, and qualitative analyses, and serves as the centerpiece for all decisions. Each Portfolio Manager travels with the entire database on his/her laptop, creating a virtual office environment, synchronizing wirelessly, allowing for seamless and continuous communication.

The qualitative nature of our work also differentiates us from our peers. For Aurora, the most important factors guiding the final decision of selecting external investment managers is qualitative, not quantitative. While we perform thorough and wide-ranging quantitative analyses, comparisons, and reviews, when it comes to deciding who will receive an allocation of capital, we rely on the sound judgment that our team has developed over the last 21+ years. The accompanying document entitled "The Due Diligence Process" by Roxanne Martino elaborates on the qualitative aspects of our investment process.

Ownership Structure:

Aurora Investment Management L.L.C. is an indirect subsidiary of Natixis Global Asset Management, L.P. which owns, in addition to Aurora Investment Management, a number of other asset management and distribution and service entities. Natixis Global Asset Management, L.P. is part of Natixis Global Asset Management, an international asset management group based in Paris, France, that is principally owned by Natixis, a French investment banking and financial services firm. Natixis is principally owned by BPCE, France's second largest banking group. The group includes two autonomous and completely retail banking networks consisting of the Caisses d'Epargne regional savings banks and the Banque Populaire regional cooperative banks. Natixis and BPCE each owns, directly or indirectly, other investment advisers established in various jurisdictions.

Employees

Roxanne M. Martino

Title

Partner, President, Chief Executive Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1977

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Accounting (University of Notre Dame, 1977), MBA (University of Chicago, 1988)
Certified Public Accountant (1977)
Formerly a General Partner with Grosvenor Partners (1984-1990); and a Senior Manager with Coopers & Lybrand (1977-1984)
Thirty-three years industry experience
Joined Aurora Investment Management in 1990

Compensation Structure

N/A

Employees

Scott C. Schweighauser

Title

Partner, Chief Investment Officer, and Portfolio Manager

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Mathematics (Williams College, 1983), MBA (University of Chicago, 1989)
Formerly Vice President for derivatives and interest rate product trading with ABN AMRO Bank (1993-1994); a Vice President and Managing Director with Continental Bank's Risk Management Trading Group (1986-1993); and Associate in Corporate Finance at Bankers Trust Co. (1983-1986)
Twenty-eight years industry experience
Joined Aurora Investment Management in 1994

Compensation Structure

N/A

Employees

Justin D. Sheperd

Title

Partner and Portfolio Manager

Location

Chicago

Industry Start Year:

1995

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Business Administration, Finance and Accounting (Miami University, 1994), MBA (University of Chicago, 2003)
Formerly Client Database Services Assistant with Information Resources Inc. (1995-1996)
CFA Charterholder
Fifteen years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure

N/A

Employees

Peter S. Hamet

Title

Head of Research

Location

Chicago

Industry Start Year:

1998

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BBA in Finance and Accounting (Western Michigan University, 1998)
Formerly Business Director of Hotel Zelai in Spain (2000-2001); and an Analyst for CIBC Oppenheimer, Alternative Investments Group (1998-2000)
CFA Charterholder
Eleven years industry experience
Joined Aurora Investment Management in 2002

Compensation Structure

N/A

Employees

Patrick C. Sheedy

Title

Strategy Head - Long/Short Credit, Macro, Multi-Strategy Opportunistic & Event-Driven

Location

Chicago

Industry Start Year:

2001

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA in Government and International Relations (University of Notre Dame, 2001)
Formerly Associate Consultant and Head of Hedge Fund Research at Stratford Advisory Group (2001-2005)
Ten years industry experience
Joined Aurora Investment Management in 2005

Compensation Structure

N/A

Employees

Gregory D. Schneiderman

Title

Strategy Head - Long/Short Equities & Portfolio Hedge

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BS in Finance and Accounting (Washington University, 1999)
Formerly Director – Head of Absolute Return Manager Research, and Vice President – Senior Research Analyst at Guggenheim Wealth Management (2006-2008); Vice President – Senior Research Analyst and Senior Associate at Morgan Stanley Alternative Investment Partners (2002-2006); and Investment Banking Analyst at A.G. Edwards and Sons, Inc. (1999-2002)
CFA Charterholder
Twelve years industry experience
Joined Aurora Investment Management in 2008

Compensation Structure

N/A

Employees

David E. Kuenzi

Title

Director of Risk Management and Quantitative Research

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2009

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA (Western Michigan University, 1988), MFA (University of Iowa, 1990), MBA (University of Chicago, 2001), MS (University of Chicago, 2004)
Formerly Head of Risk Management and Quantitative Research with Man Investments USA Corp. (Glenwood Capital) (2003-2008); Vice President, Research, Development, and Risk Management with Nuveen Investments (1996-2003); Securities Analyst with Perritt Capital Management (1994-1995); and Adjunct Professor at Grand Valley State University (1991-1993)
CFA Charterholder
Seventeen years industry experience
Joined Aurora Investment Management in 2009

Compensation Structure

N/A

Employees

Anne Marie Morley

Title
Partner, Managing Director of Operational Due Diligence

Location
Chicago

Industry Start Year:
1988

Firm Start Year:
1996

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
BS in Accounting (DePaul University, 1991), MS in Taxation (DePaul University, 2006)
Formerly a Senior Accountant with Grosvenor Partners (1988-1994); Chief Financial Officer of LaSalle Portfolio Management (1994-1995); and Assistant Controller with Edelman Public Relations (1995-1996)
Twenty-three years industry experience
Joined Aurora Investment Management in 1996

Compensation Structure
N/A

Aurora Investment Management L.L.C.

Information Effective As Of 12/31/2010

Employees

Scott Craven Jones

Title

Chief Operating Officer & Chief Financial Officer

Location

Chicago

Industry Start Year:

1984

Firm Start Year:

2010

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

BA (Trinity College, 1984), JD (Northwestern University School of Law, 1989)
Formerly Executive Vice President and Chief Administrative Officer with Calamos Investments (2005-2008); Managing Director, Strategic Development (2004-2005), Global Chief Operating Officer – Quantitative Management (2003-2004), Senior Product Manager (2000-2003)with Northern Trust, Global Investments; Vice President and Product Manager (1993-2000), Associate Counsel (1992-1993) with Nuveen Investments; Associate Attorney (1989-1992) with Schiff, Hardin & Waite; and a Commercial Loan Officer with Connecticut National Bank (1984-1986).
CFA Charterholder
Twenty-one years industry experience
Joined Aurora Investment Management in 2010

Compensation Structure

N/A

A

Firm: Aurora Investment Management L.L.C.
Product Name: Aurora Offshore Fund Ltd. II

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	34.0%	12.0%	0.0%	0.0%	21.0%	0.0%	0.0%	0.0%	15.0%	18.0%
12/31/2009	37.0%	11.0%	0.0%	0.0%	23.0%	0.0%	0.0%	0.0%	12.0%	17.0%
12/31/2008	42.0%	12.0%	0.0%	0.0%	15.0%	0.0%	0.0%	0.0%	14.0%	17.0%
12/31/2007	45.0%	11.0%	0.0%	0.0%	11.0%	0.0%	0.0%	0.0%	12.0%	21.0%
12/31/2006	48.0%	10.0%	0.0%	0.0%	14.0%	0.0%	0.0%	0.0%	12.0%	16.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$2,100	$8,000	$10,468	$10,468	306	103
12/31/2009	$1,900	$7,200	$9,542	$9,542	204	230
12/31/2008	$1,800	$6,268	$9,053	$9,053	259	137
12/31/2007	$2,900	$9,068	$13,128	$13,128	194	69
12/31/2006	$2,400	$7,175	$9,624	$9,624	168	110

Blackstone Partners Offshore Fund Ltd.

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	1990
Year First Fund of Funds Launched	1990
Location	New York, NY
Number of Investment Professionals	61
Percentage Employee Owned	74%
Total AUM (millions)	$32,923

Investment Philosophy:

BAAM seeks to build and maintain portfolios diversified across alpha-generating hedge fund managers in order to maximize risk-adjusted returns. BAAM's portfolio management process combines top-down views and bottom-up manager analyses. It has been and will continue to be, shaped by the broad experience of BAAM's investment professionals.

Setting the Strategic Direction: In addition to weekly top-down identification of investment opportunities, BAAM performs ongoing analysis of short- and medium-term risk and expected returns by sector to help form asset allocation decisions and guide research efforts.

Finding Sources of Alpha: Each investment with a hedge fund manager is the culmination of BAAM's investment decision-making process. Managers are selected based upon a disciplined review and due diligence process that incorporates quantitative and qualitative analysis and operational and legal review. The goal is to create a pool of best-in-class managers from which BAAM can draw.

Inclusion in BAAM Portfolios: On a monthly basis, BAAM performs a review of its Funds that incorporates ongoing monitoring of existing investments, as well as the potential integration of newly approved managers. In addition, a variety of analytical approaches are employed throughout the year to monitor and manage risk levels. This includes, but is not limited to, peer group analysis, scenario modeling, stress testing, and beta analysis. Upon completion of BAAM's comprehensive due diligence process, which takes into consideration, among other areas, the macro-economic environment, a manager's strategy / style, track record, operational ability, and business plan, the manager will be sized appropriately according to their risk / return profile and proposed objective within the BAAM Fund.

Investment Process:

BAAM's investment process begins with the establishment of an investment strategy, objectives, and restrictions. Areas considered include, but are not limited to, volatility constraints, sector and strategy allocation limits, correlation to various indices, liquidity needs, and relevant regulatory issues.

Asset allocation suggestions are guided by a top-down assessment of opportunities across market sectors and refined to satisfy investment goals and restrictions. A bottom-up approach is then used to determine a combination of underlying hedge fund managers that reflect objectives. Managers are evaluated with respect to their individual performance, as well as their ability to add diversification value to the portfolio.

Further investment strategy analysis includes beta testing, as well as the use of BAAM's portfolio construction and asset allocation models. BAAM also performs scenario analysis and stress testing to help understand possible portfolio reactions in periods of market dislocation.

By the conclusion of the process, policies and procedures are defined and a portfolio is designed that targets the strategy's specific objectives and that reflects BAAM's macro outlook. Allocations to strategies and specific managers are continually reviewed and are dynamic based upon opportunities as they arise.

Ownership Structure:

Blackstone is a publicly traded limited partnership that has common units which trade on the New York Stock Exchange under the symbol "BX". Information about Blackstone, including certain ownership, governance, and financial information, is disclosed in the firm's periodic filings with the SEC which can be obtained from the firm's website at http://ir.blackstone.com/ or the SEC's website at www.sec.gov.

Employees

J. Tomilson Hill

Title

President and Chief Executive Officer of BAAM, Vice Chairman of Blackstone

Location

New York

Industry Start Year:

N/A

Firm Start Year:

1993

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Hill previously served as Co-Head of the Corporate and Mergers and Acquisitions Advisory group before assuming his role in BAAM. In his current capacity, Mr. Hill has been responsible for overseeing the day-to-day activities of the group, including investment management, client relationships, marketing, operations and administration. He also serves as a member of Blackstone's Management and Executive Committees.

Before joining Blackstone in 1993, Mr. Hill began his career at First Boston, later becoming one of the Co-Founders of the Mergers & Acquisitions Department. After running the Mergers & Acquisitions Department at Smith Barney, he joined Lehman Brothers as a Partner in 1982, serving as Co-Head and subsequently Head of Investment Banking. Later, he served as Co-Chief Executive Officer of Lehman Brothers and Co-President and Co-COO of Shearson Lehman Brothers Holding Inc.

Mr. Hill is a graduate of Harvard College and the Harvard Business School. He is a member of the Council on Foreign Relations where he chairs the Investment Committee, and is a member of the Board of Directors of Lincoln Center Theater, where he serves as Vice Chairman. Mr. Hill serves as Chairman of the Board of Trustees of the Smithsonian's Hirshhorn Museum and Sculpture Garden. He is a member of the Advisory Board of Christie's and the Board of Directors of OpenPeak Inc.

Compensation Structure

N/A

Employees

Stephen Sullens

Title

Head of Portfolio Management for BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2001

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sullens oversees portfolio management for all of BAAM's multi-manager programs. He is responsible for directing the manager research team in hedge fund manager selection and monitoring.

Before joining Blackstone in 2001, Mr. Sullens served as a Director with Citi Alternative Investment Strategies, Citigroup's hedge fund investment center. In that role, he was responsible for manager selection and monitoring, as well as portfolio management. Previously, Mr. Sullens served as Manager of Alternative Investments for The Walt Disney Company, where he directed the company's alternative investment program, including investments in private equity, real estate, venture capital and hedge funds. Prior to his six years at Disney, he was an analyst with Trammell Crow Ventures, a real estate investment advisory firm.

Mr. Sullens received both an MS in Industrial Engineering and a BA in Economics from Stanford University. He has earned the right to use the Chartered Financial Analyst designation.

Compensation Structure

N/A

Employees

Brian Gavin

Title

Chief Operating Officer of BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Gavin leads a cross-functional team charged with evaluating the operational and business risks of BAAM's underlying hedge fund managers. He is responsible for business management, administration, technology, operations and finance of BAAM, and for helping determine the strategic direction and growth of BAAM. He also serves on BAAM's Investment Committee.

Before joining Blackstone in 2002, Mr. Gavin was a Partner in Arthur Andersen's Hedge Fund Advisory and Capital Markets group.

Mr. Gavin received a BS in Accounting from New York University. He is a Certified Public Accountant.

Compensation Structure

N/A

Employees

Halbert Lindquist

Title

Chief Investment Strategist of BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

1996

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Lindquist focuses on setting BAAM's overall investment strategy and working with investors to structure portfolios to meet their objectives. Additionally, Mr. Lindquist has continuing involvement in all aspects of hedge fund manager evaluation, selection and monitoring, portfolio construction, portfolio management and risk management.

Before joining Blackstone in 1996, Mr. Lindquist was in charge of global risk management and proprietary trading at Bear, Stearns & Co. Inc. Prior to Bear, Stearns, he was employed by Carroll McEntee and McGinley, Inc.

Mr. Lindquist earned both a degree in Business Administration and an MBA from the University of Arizona. Currently, Mr. Lindquist is a Principal of Tucson Asset Management.

Compensation Structure

N/A

Employees

Gideon L. Berger

Title

Head of Risk Management for BAAM and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Berger is responsible for hedge fund manager risk analysis, as well as risk monitoring and analysis of the BAAM funds. He serves on BAAM's Investment Committee.

Before joining Blackstone in 2002, Mr. Berger was a founder and President of Ez-Ways, Incorporated, a technology startup, where he also served on the Board of Directors. Prior to that, Mr. Berger was a founder and Principal of a consulting firm specializing in the design and implementation of database and enterprise solutions.

Mr. Berger received a BA in Mathematics and Physics from Vassar College, an MS in Applied Physics from Columbia University and a PhD in Computer Science from the Courant Institute of Mathematical Sciences at New York University.

Compensation Structure

N/A

Employees

John McCormick

Title

Head of Global Business Strategy and a Senior Managing Director of The Blackstone Group

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. McCormick works closely with senior management and business group leadership to establish clear strategic priorities for the BAAM business globally and to ensure that those priorities are addressed on an ongoing basis.

Before joining Blackstone in 2005, Mr. McCormick was an associate principal at McKinsey & Company, where he worked with clients in the financial services industry on a wide variety of strategic and operational issues. Before joining McKinsey, Mr. McCormick practiced law in Davis Polk & Wardwell's investment management group, as corporate counsel at Reuters America, and as general counsel and VP of business development for Norbert Technologies. Mr. McCormick also served at the U.S. Department of the Treasury.

Mr. McCormick received a BA from Vassar College and a JD from Yale Law School.

Compensation Structure

N/A

Employees

Eric Perlyn

Title

Vice President, BAAM Investor Relations and Business Development

Location

New York

Industry Start Year:

N/A

Firm Start Year:

2007

Firm End Date:

N/A

Email

perlyn@blackstone.com

Office Phone:

212-583-5957

Cell Phone

N/A

Bio

Since joining Blackstone, Mr. Perlyn has been involved in new business and product development, as well as servicing existing client relationships.

Before joining Blackstone in 2007, Mr. Perlyn worked at Morgan Stanley as an Analyst in the Global Capital Markets Group and then as an Associate in the Wealth Management Investment Strategy and Asset Allocation Group.

Mr. Perlyn received a BA in Economics from Duke University and an MBA with a Concentration in Finance from the Wharton School at the University of Pennsylvania.

Compensation Structure

N/A

[redacted]

Firm: Blackstone Alternative Asset Management L.P.
Product Name: Blackstone Partners Offshore Fund L.P

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	22.0%	0.0%	23.0%	4.0%	1.0%	0.0%	0.0%	3.0%	9.0%	38.0%
12/31/2009	21.0%	0.0%	18.0%	3.0%	1.0%	0.0%	0.0%	4.0%	11.0%	42.0%
12/31/2008	23.0%	0.0%	22.0%	4.0%	0.0%	0.0%	0.0%	3.0%	7.0%	41.0%
12/31/2007	30.0%	0.0%	19.0%	4.0%	1.0%	0.0%	0.0%	2.0%	6.0%	38.0%
12/31/2006	28.0%	0.0%	18.0%	2.0%	1.0%	0.0%	0.0%	4.0%	5.0%	42.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$3,106	$10,863	$32,923	$32,923	77	26
12/31/2009	$2,418	$8,470	$27,095	$27,095	29	33
12/31/2008	$2,203	$7,331	$23,085	$23,085	75	24
12/31/2007	$2,124	$7,213	$26,922	$26,922	104	11
12/31/2006	$1,132	$3,445	$14,997	$14,997	47	17

Crestline Offshore Fund

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	1997
Year First Fund of Funds Launched	1997
Location	Fort Worth, TX
Number of Investment Professionals	29
Percentage Employee Owned	90%
Total AUM (millions)	$5,800

Investment Philosophy:

Crestline's investment philosophy is that:
• Market inefficiencies exist.
• Harnessing these market inefficiencies can produce attractive returns with low net market exposure.
• Successful investing requires a forward-looking approach, not reliance on prior years' returns.
• Risk management is paramount to long-term performance.

There are three features to our investment approach which we believe are our edge and contribute most to alpha generation:
1. The first is our top-down, forward-looking approach to strategy selection. In an environment where large amounts of capital are attracted to the strategies that performed well last year, we believe the ability to understand the drivers of return going forward enables us to achieve better risk-adjusted returns.
2. The second is manager selection. Sourcing high quality managers is the way we implement our strategy views.
3. The third is our risk management process. Risk management is integral to our investment process and leads us to a well-diversified portfolio of absolute return strategies. Protecting the downside enables the portfolio to grow and compound over time.

Investment Process:

Our first step in the investment process is to evaluate the prospects for each of the hedge fund strategies. Our research team is comprised of strategy specialists who are responsible for identifying the opportunities within their strategy, quantifying the projected risk/reward and ranking the strategy. In constructing our portfolios, we draw heavily from strategies that we believe tend to have lower volatility and a demonstrated alpha.

The first step in the evaluation of a fund is a high level "Quick Look" analysis which will provide basic information on the fund including returns, strategy description, manager background and basic risk statistics.

The fund then moves to the Research stage and the analyst team will gather marketing materials, set up a call or an office meeting with the manager, begin reference checking, and perform a quantitative analysis of returns (conducted by Crestline's risk team).

When we move a manager into the due diligence process, we have done enough preliminary work to know whether we like the basic fundamentals of the manager, the strategy, the returns and the risk profile. Based on that information, the goal of our due diligence process is to find a reason not to invest with the manager.

Ownership Structure:

Crestline Investors, Inc., a Delaware corporation, serves as the general partner of Crestline Management, L.P. and Crestline Associates, L.P., both Delaware limited partnerships. Crestline Management, L.P. is a federally registered investment adviser and serves as the investment manager to the domestic and offshore investment funds. Crestline Associates, L.P. serves as the general partner of the domestic limited partnership investment funds. As products were added within the past year, Crestline Offshore Associates, Ltd. began to serve as the general partner of offshore limited partnership investment funds. Crestline Management, L.P., Crestline

Associates, L.P., Crestline Offshore Associates, Ltd. and Crestline Investors, Inc. are collectively referred to herein as Crestline Investors, Crestline or the Firm.

The Firm is an employee-owned firm. Doug Bratton, Caroline Cooley, John Cochran, and Martin Bowen (a non-operating partner) are the principal owners. Additionally, Crestline shares ownership via phantom equity and profit sharing participation with its employees. Director-level professionals, along with minority principal owners, have phantom equity ownership and also participate in profit sharing of the Firm.

Employees

Doug Bratton

Title

President / CIO

Location

Fort Worth

Industry Start Year:

1984

Firm Start Year:

1997

Firm End Date:

N/A

Email

dbratton@crestlineinc.com

Office Phone:

817-390-8796

Cell Phone

N/A

Bio

Mr. Bratton is founder and majority owner of Crestline Investors, Inc., the general partner of Crestline Management, L.P. & Crestline Associates, L.P., the investment manager and general partner, respectively, of the Crestline fund of funds products. He is the Chair of the Investment and Executive Committees. Mr. Bratton has been an investment professional with organizations utilizing alternative asset strategies since 1983. He has extensive experience in hedge fund management, multi-strategy portfolio construction, private equity and venture capital. Mr. Bratton has specific expertise in absolute return arbitrage strategies, having started his career in this business and later managed arbitrage groups. Since 1989, Mr. Bratton has managed portfolios using these alternative asset strategies on behalf of organizations associated with the Bass family. During this period, he has also negotiated hedge fund related joint ventures for Bass entities. These include: lift-outs of proprietary trading groups in merger arbitrage and convertible arbitrage ultimately employing $500 mm in capital; a collateralized loan obligation group managing $3 billion in bank loans; and an experienced distressed securities group. In addition, Mr. Bratton negotiated a $1 billion active investing joint venture. Since 1997, he has been President of Crestline Investors, Inc. Prior to founding Crestline Investors, he spent six years with Taylor & Company, an investment organization associated with members of the Bass family. From 1989 to 1991, Mr. Bratton was a partner of the Airlie Group, L.P. where he managed the merger arbitrage and special situation portfolio. From 1988 to 1989, Mr. Bratton was employed by Investment, L.P. (the predecessor firm of the Airlie Group) as a partner in the Merger Arbitrage group. From 1984 to 1988, Mr. Bratton served as Vice President in the Merger Arbitrage group for Smith Barney Harris Upham and Company. Mr. Bratton received a B.S. from North Carolina State University in 1981 and a Masters of Business Administration with Honors from Duke University in 1984.

Compensation Structure

Salary, fixed bonus and profits interest

Employees

Caroline Cooley

Title

Senior Portfolio Manager

Location

Fort Worth

Industry Start Year:

1985

Firm Start Year:

1998

Firm End Date:

N/A

Email

ccooley@crestlineinc.com

Office Phone:

817-339-7377

Cell Phone

N/A

Bio

Ms. Cooley is the senior portfolio manager in charge of our low volatility funds and leads the portfolio management team. She is a member of the Executive Committee. Ms. Cooley has over 25 years of experience in the investment industry, focusing almost exclusively in the absolute return arena. She has significant experience in proprietary trading as well as hedge fund risk management. Prior to joining the firm in April 1998, Ms. Cooley was a Managing Director for Culmen Group, L.P., an investment firm based in Fort Worth. From 1986 to 1997 she was an investment professional with Taylor & Company where she was active in equity derivatives and fixed income arbitrage. She has experience trading securities in both the U.S. and international markets. In addition, Ms. Cooley was responsible for the risk management of the various absolute return strategies employed by Taylor & Company, including monitoring and hedging equity, currency and interest rate exposure. Ms. Cooley began her career in the investment industry at Manufacturers Hanover Trust Company in New York and Chicago after receiving her B.A. in Economics from The College of William and Mary in 1983.

Compensation Structure

Salary, discretionary bonus and profits interest

Employees

John Cochran

Title

Chief Administrative Officer

Location

Fort Worth

Industry Start Year:

1988

Firm Start Year:

1998

Firm End Date:

N/A

Email

jcochran@crestlineinc.com

Office Phone:

817-339-7379

Cell Phone

N/A

Bio

Mr. Cochran serves as the Chief Financial Officer/Chief Administrative Officer and manager of the firm's operational due diligence efforts for Crestline's fund of funds products. He is a member of the Executive Committee. Mr. Cochran has 22 years experience in various segments of the investment industry including private equity, venture capital and hedge funds. Prior to joining the firm in October 1998, he spent 10 years with KPMG L.L.P. ("KPMG"). During his employment at KPMG, Mr. Cochran received extensive industry experience through his position as an auditor and focus in the Merger and Acquisition area. During his tenure at KPMG, a majority of his time was spent working with various hedge funds, investment companies, private equity firms, venture capital groups and broker dealers. Mr. Cochran is a CPA and received a B.B.A. in Accounting from Texas Christian University in 1987.

Compensation Structure

Salary, discretionary bonus and profits interest

A

Firm: **Crestline Investors, Inc.**
Product Name: **Crestline Offshore Fund**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	23.0%	0.0%	2.0%	5.0%	9.0%	2.0%	0.0%	4.0%	2.0%	53.0%
12/31/2009	19.5%	0.0%	1.8%	2.6%	6.2%	4.6%	0.0%	3.4%	3.5%	58.5%
12/31/2008	19.3%	0.0%	1.9%	2.0%	6.5%	6.2%	0.0%	1.3%	4.1%	58.5%
12/31/2007	19.6%	0.0%	1.6%	4.1%	11.3%	5.4%	0.0%	1.4%	6.2%	50.4%
12/31/2006	17.1%	0.0%	0.9%	3.4%	10.5%	5.1%	0.0%	3.1%	11.1%	48.7%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$526	$2,805	$5,800	$5,800	17	36
12/31/2009	$499	$3,239	$5,500	$5,500	18	78
12/31/2008	$550	$2,520	$3,600	$3,600	93	13
12/31/2007	$585	$2,950	$4,300	$4,300	82	11
12/31/2006	$370	$1,950	$2,500	$2,500	49	20

Grosvenor Institutional Partners, L.P.

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	1971
Year First Fund of Funds Launched	1971
Location	Chicago, IL
Number of Investment Professionals	42
Percentage Employee Owned	70%
Total AUM (millions)	$24,045

Investment Philosophy:

Grosvenor believes a properly constructed portfolio of proven alternative investment strategies, implemented by a carefully selected combination of talented investment managers, can produce competitive absolute returns and superior risk-adjusted returns with limited correlation to traditional equity and fixed income markets. Grosvenor implements this philosophy by: investing in absolute return strategies; allocating capital to superior investment managers; and systematically diversificating of portfolios.

Investment Process:

Grosvenor begins by establishing an investment policy and target strategy weightings for every portfolio. The Portfolio Managers select managers from an approved list, with selection driven by style, correlation, liquidity considerations and capacity. Typically, more than one manager is included for each strategy to take advantage of style differences, mitigate manager risk, and provide for future capacity.

The portfolio is statistically measured on both a historical and forward-looking basis. The historical simulation uses actual returns over a specific time period. The forward-looking analysis evaluates expected return, standard deviation, Severe Case Loss (SCL), and beta to S&P 500 of the portfolio.

The resulting portfolio is compared to its formal investment policy to ensure compliance. While Grosvenor does not attempt to "time" the market, but portfolios are frequently adjusted as new investment opportunities present themselves, as capital flows into or out of the portfolio or as managers are terminated.

Ownership Structure:

Grosvenor's ownership structure is split between certain senior employees of the Firm and three investment funds (the "H&F Funds") under the management of Hellman & Friedman LLC ("H&F"), a private equity investment firm. The H&F Funds indirectly own, in the aggregate, approximately 30% of Grosvenor. The remainder is owned indirectly by Grosvenor Holdings, LLC, an entity whose members are certain senior employees of the Firm. The H&F Funds are passive investors in Grosvenor and are not involved in the day-to-day management of Grosvenor.

Employees

Michael J. Sacks, Esq.

Title

Chief Executive Officer, Managing Director

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1990

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Sacks joined the firm in 1990 and is the firm's Chief Executive Officer. In addition to his management responsibilities, Mr. Sacks shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1988 through 1990, Mr. Sacks was associated with Harris Associates, L.P. Mr. Sacks graduated with his Bachelor of Arts in Economics from Tulane University in 1984 and received two degrees from Northwestern University in 1988: his Masters of Business Administration from the J.L. Kellogg Graduate School of Management and his Juris Doctorate from the School of Law. He is a member of the Illinois Bar.

Compensation Structure

Confidential.

Employees

David B. Small

Title

Managing Director - Investments, Investment Committee Member

Location

Chicago

Industry Start Year:

1987

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Small was a Consultant to Grosvenor from 1987 to 1993 and joined the firm full-time in 1994. He shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. Prior to joining Grosvenor, Mr. Small was the Founder and Chief Executive Officer of David Bruce & Co., a software firm specializing in the development of risk management systems for derivatives trading firms, from 1987 through 1994. From 1979 to 1982, Mr. Small was associated with Philadelphia Insurance Research Group, and from 1978 to 1979, he was associated with Rapidata. Mr. Small received his Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania in 1978 and his Masters of Business Administration in Finance and Econometrics from the University of Chicago's Booth School of Business in 1985.

Compensation Structure

Confidential.

Employees

David S. Richter, CPA

Title

Managing Director - Investments, Chairman of Investment Committee

Location

Chicago

Industry Start Year:

1988

Firm Start Year:

1994

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Richter has been affiliated with Grosvenor since 1994 and has been in his current role since 2003. Mr. Richter is the Chairman of the Firm's Investment Committee and a Portfolio Manager. Mr. Richter supervises the Team Leaders within the Investments Department and shares responsibility for evaluation, selection, and monitoring of various investment strategies and managers. From 1994 through 2002, he was the Founder and Managing Partner of Chicago-based Waveland Capital Management, L.P., a U.S. long-short equity hedge fund. From 1988 to 1994, Mr. Richter was a Vice President of JMB Realty Corporation in the Corporate Acquisitions Group. Prior to 1988, Mr. Richter was a Manager of KPMG Peat Marwick. He graduated summa cum laude with his Bachelor of Science in Accountancy from the University of Illinois in 1983. Mr. Richter is a Certified Public Accountant and received the national AICPA Elijah Watt Sells Award from the American Institute of CPA's for his scores on the Uniform CPA Examination.

Compensation Structure

Confidential.

Employees

Brian A. Wolf, CFA

Title
Managing Director - Investments, Investment Committee Member

Location
Chicago

Industry Start Year:
1993

Firm Start Year:
1995

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
Mr. Wolf joined the firm in 1995 and shares responsibility for portfolio management as well as the evaluation, selection, and monitoring of various investment strategies and managers. From 1993 to 1995, he was an Analyst and Trader for M&M Financial, a Chicago-based money management firm. He graduated summa cum laude with his Bachelor of Science in Finance from Bradley University in 1992 and earned his Masters of Business Administration magna cum laude from the University of Notre Dame in 1993. Mr. Wolf is a CFA Charterholder and a member of the CFA Society of Chicago. Mr. Wolf is also the author of a chapter on hedged equity funds in the publication "Hedge Funds: Definitive Strategies and Techniques".

Compensation Structure
Confidential.

Employees

Paul Meister, Esq., CPA

Title

Chief Operating Officer, Chairman of the Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1991

Firm Start Year:

1991

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Meister joined the firm in 1991 and is the firm's Chief Operations Officer. In addition, Mr. Meister serves as Chair of the firm’s Operations Committee. From 1987 to 1991, Mr. Meister was with the law firm of Barack, Ferrazzano, Kirschbaum & Perlman, except for a 12 month period from 1990 to 1991, when he managed the real estate operations for Sportmart, a Chicago-based retailer. He received his Bachelor of Science in Accounting from the University of Illinois in 1984 and his Juris Doctorate cum laude from Northwestern University School of Law in 1987, where he was a member of the Law Review and Order of the Coif. Mr. Meister is a Certified Public Accountant and a member of the Illinois Bar. Since 2000, Mr. Meister has served on the Law Board of Northwestern University School of Law and is currently a Vice Chair of its Executive Committee.

Compensation Structure

Confidential.

Employees

Eric Felton, CFA, CPA

Title

Chief Financial Officer, Member of Operations Committe, Managing Director

Location

Chicago

Industry Start Year:

1986

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Felton joined the firm in 2004 and is the firm's Chief Financial Officer. From 2002 to 2004, Mr. Felton was a Partner in the Financial Services Industry Practice for Ernst & Young, L.L.P. in their Chicago office. From 1986 to 2002, he was a Partner with Arthur Andersen, L.L.P. in their Chicago office. He graduated with High Distinction from Valparaiso University with his Bachelor of Science in Accounting in 1986, and earned his Masters of Business Administration with Honors from the University of Chicago in 1992. Mr. Felton is a Certified Public Accountant and a CFA Charterholder. He is a member of the American Institute of Certified Public Accountants, The Illinois CPA Society, the CFA Institute, and the CFA Society of Chicago.

Compensation Structure

Confidential.

Employees

Joseph H. Nesler, Esq.

Title

Chief Compliance Officer, General Counsel, Member of Operations Committee, Managing Director

Location

Chicago

Industry Start Year:

1982

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Nesler joined the firm in 2004 and serves as Grosvenor's General Counsel and Chief Compliance Officer. Prior to joining Grosvenor, Mr. Nesler practiced at Gardner, Carton & Douglass for two years. From 1996 to 2002, he served as a Partner in the Investment Products and Derivatives Group at Sidley Austin Brown & Wood, L.L.P. Between 1986 and 1996, Mr. Nesler practiced with Schiff Hardin & Waite in Chicago. From 1982 to 1986, he was an Associate with Gardner, Carton & Douglas. Mr. Nesler graduated magna cum laude from Amherst College in 1978 and received his Juris Doctorate from Yale University in 1982. He is a member of the Chicago Bar Association and former Co-Chairman of the subcommittee of its securities law committee on investment company regulation.

Compensation Structure

Confidential.

Employees

Joseph D. Gutman, CPA

Title

Managing Director - Client Group

Location

Chicago

Industry Start Year:

1981

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Gutman joined Grosvenor in 2005 and is responsible for overseeing its business development and client services operations. From 1981 through 2002, Mr. Gutman was associated with Goldman, Sachs & Co. in various capacities. From 1996 through 2002, Mr. Gutman was a Partner of Goldman, and from 1998 to 2002 a Managing Director. From 1997 through 2002, Mr. Gutman was Co-Head of Goldman's Chicago office. From 1994 through 2002, Mr. Gutman was also head of Goldman's Institutional Equities business in the Midwest and shared responsibility on the leadership team of Goldman's US Shares Business. Mr. Gutman received a B.S. in Accounting from the University of Illinois in 1979 and an M.B.A. in Finance from Northwestern University's J.L. Kellogg Graduate School of Management in 1981. Mr. Gutman is a member of the Kellogg Alumni Advisory Council of the J.L. Kellogg Graduate School of Management, a member of the Board of Overseers at the University of Illinois College of Business M.B.A. program, a member of the Illinois Executive Board of the AIPAC and a member of the Board of Directors of Children's Memorial Hospital of Chicago and The Make a Better Place Foundation. He is a Certified Public Accountant.

Compensation Structure

Confidential.

Employees

Stephen J. Brewster

Title

Managing Director - Business Development

Location

Chicago

Industry Start Year:

1985

Firm Start Year:

1991

Firm End Date:

N/A

Email

sbrewster@gcmlp.com

Office Phone:

312-506-6525

Cell Phone

N/A

Bio

Mr. Brewster joined the firm in 1991 and shares responsibility for business development. From 1985 to 1991, Mr. Brewster was associated with JMB Realty Corporation. In 1988, he became Vice President of JMB Institutional Realty Corporation responsible for marketing to U.S. institutional investors. Prior to joining JMB, Mr. Brewster was Staff Assistant to the Under Secretary of the U.S. Department of Housing and Urban Development from 1984 to 1985. He received his Bachelor of Arts with Honors in Economics from Williams College in 1984.

Compensation Structure

Confidential.

A

Firm: Grosvenor Capital Management, L.P.
Product Name: Grosvenor Institutional Partners, L.P.

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	35.6%	1.7%	0.0%	0.0%	0.0%	1.1%	0.0%	0.0%	4.6%	57.0%
12/31/2009	35.3%	2.4%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	61.1%
12/31/2008	25.1%	5.9%	0.0%	0.0%	0.0%	2.5%	0.0%	0.0%	0.0%	66.5%
12/31/2007	37.9%	6.2%	0.0%	0.0%	0.0%	3.2%	0.0%	0.0%	0.0%	52.7%
12/31/2006	39.4%	3.1%	0.0%	0.0%	0.0%	3.8%	2.4%	0.0%	0.0%	51.3%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$6,312	$19,374	$24,045	$24,045	59	34
12/31/2009	$5,619	$19,914	$22,635	$22,635	58	35
12/31/2008	$4,660	$18,675	$20,474	$20,474	120	38
12/31/2007	$5,039	$23,642	$25,322	$25,322	118	30
12/31/2006	$3,089	$17,595	$18,840	$18,840	86	37

Mesirow Institutional Multi-Strategy Fund, LP (MIMSF)

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	1990
Year First Fund of Funds Launched	1990
Location	Chicago, IL
Number of Investment Professionals	42
Percentage Employee Owned	93%
Total AUM (millions)	$13,628

Investment Philosophy:

We believe: (1) Investment management and risk management are inseparable endeavors, (2) Differentiating skill from luck is the foundation for sustainable value-added investment results, (3) Our independent verification processes are paramount to successful hedge fund investing, (4) Investment opportunities ebb and flow across geographies, strategies and sectors requiring dynamic allocation of capital, and (5) Incentive alignment is critical to investment and organizational success.

Investment Process:

Prospective managers undergo detailed due diligence by our qualitative, quantitative, and operational due diligence professionals. We research managers across a number of areas including organizational structure, investment process, portfolio construction, and risk management. Our Investment Committee makes final decisions relating to manager hiring/redemption.

Portfolio construction is a combination of qualitative and quantitative tools. Our quantitative approach involves three steps: first, we model portfolios based on strategy and style characteristics. Second, we allocate to managers within the strategy groups. Finally, we apply qualitative analysis to this process, which focuses on identifying other characteristics to potentially modify asset allocation.

In regard to risk controls, we have developed various proprietary quantitative systems and would be happy to discuss these with you. We monitor a variety of exposures (individual manager and fund level) including gross/net, sector, market capitalization, regional, and exposure by asset class. We closely monitor aggregate leverage and liquidity as well.

Ownership Structure:

MAS is a wholly-owned subsidiary of Mesirow Financial Holdings, Inc. (MFHI), a privately-owned firm with approximately 93% of the ownership interests held by active employees of MFHI as of 12/31/2010. All senior principals of MAS own shares in MFHI.

Employees

Marty Kaplan

Title

Chief Executive Officer

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

1995

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Marty Kaplan is the chief executive officer of Mesirow Advanced Strategies, Inc., and a member of its investment and executive committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. Mr. Kaplan is responsible for developing and implementing key strategic initiatives for the business, including client service, new product development and building the operational infrastructure. In addition, he focuses on developing and implementing key strategic initiatives for Mesirow Advanced Strategies, Inc. Since 1995, Mr. Kaplan has helped coordinate the group's management and strategic initiatives, and has been active in leading the research function. Prior to joining Mesirow Advanced Strategies, Inc. in 1995, he was an attorney with the law firm of Katten Muchin & Zavis, where he specialized in matters involving securities, mergers and acquisitions, venture capital and sports law. Mr. Kaplan received a B.B.A. in finance and real estate from the University of Texas at Austin and a J.D. from George Washington University - National Law Center. Mr. Kaplan was admitted to the Illinois Bar in 1993.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Steve Vogt

Title

Chief Investment Officer

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

1999

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Stephen Vogt is the chief investment officer of Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings Inc.'s executive committee and board of directors. Dr. Vogt is responsible for overseeing all aspects of research including portfolio management, risk management, manager due diligence and manager monitoring. He is also active in managing the day to day operations of Mesirow Advanced Strategies, Inc. Prior to joining Mesirow Advanced Strategies, Inc. in 1999, he was an associate professor of finance at DePaul University. Dr. Vogt's research focused on empirical tests of financial theories and has been published in both academic and trade journals. He received a B.A. in economics and mathematics from Bemidji State University, and M.A. and Ph.D. degrees in economics from Washington University-St. Louis.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Howard Rossman

Title

Chairman

Location

Chicago

Industry Start Year:

1980

Firm Start Year:

1985

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Dr. Howard Rossman is the chairman and founder of Mesirow Advanced Strategies, Inc., and a member of the executive and investment committees. Additionally, he is a member of its parent company, Mesirow Financial Holdings, Inc.'s executive committee and board of directors. He is also a vice chairman of the parent company. Dr. Rossman is responsible for developing and overseeing the strategic direction of the company with regard to research, asset allocation and client management. Since 1983, he has been responsible for providing institutional consulting and advisory services in the area of non-traditional investments and has developed funds utilizing alternative strategies. As the author of many articles on alternative strategies, he has spoken at conferences on non-traditional investing and asset allocation. Dr. Rossman received an A.B. in sociology from Princeton University, an M.A. from the University of Oregon and a Ph.D. from The California Institute of Integral Studies.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Brian Cornell

Title

Senior Managing Director, Office of the Chairman

Location

Chicago

Industry Start Year:

1983

Firm Start Year:

1998

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Brian Cornell is a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the investment committee. He is responsible for strategic planning for the business and coordinating special research projects for the CEO and CIO, as well as actively participating in strategic business development efforts. In addition, Mr. Cornell contributes to all aspects of fund management and product development. Prior to joining Mesirow Advanced Strategies, Inc. in 1998, he developed fixed income arbitrage models, managed his own investment firm and built research departments at several organizations in the hedge fund of funds industry. Mr. Cornell received a B.A. in government and economics from Clark University and studied international economics and finance at the Patterson School at University of Kentucky.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Tom Macina

Title

President

Location

Chicago

Industry Start Year:

1992

Firm Start Year:

2003

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Thomas Macina is president of Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. Prior to joining Mesirow Advanced Strategies, Inc. in 2003, Mr. Macina was with a multi-strategy hedge fund where he was responsible for investments in a variety of sectors. Prior to joining the hedge fund industry, he worked in strategy consulting with Bain & Company and in investment banking with Houlihan, Lokey, Howard and Zukin, Inc. Mr. Macina received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the J.L. Kellogg Graduate School of Management at Northwestern University. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Eric Siegel

Title

Senior Managing Director

Location

Chicago

Industry Start Year:

1990

Firm Start Year:

2001

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Eric Siegel is a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the investment and executive committees. He is responsible for overseeing the implementation of business ideas and improvements within the various operating groups of Mesirow Advanced Strategies, Inc. Mr. Siegel is also responsible for the operational due diligence reviews of managers and participates in portfolio analysis and ongoing manager monitoring. Prior to joining Mesirow Advanced Strategies, Inc. in 2001, he was the chief financial officer of two Chicago based hedge funds. Mr. Siegel also worked in the audit department of Ernst & Young LLP focusing on hedge funds, mutual funds and derivative trading companies. He received a B.S. cum laude in accounting from Syracuse University. In addition, Mr. Siegel is a CFA charterholder and a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Karl Frey

Title

Senior Managing Director

Location

Chicago

Industry Start Year:

1994

Firm Start Year:

2003

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Karl Frey is a senior managing director for Mesirow Advanced Strategies, Inc. and a member of the executive committee. He is responsible for the firm's client management activities, including business development and client service functions. Prior to joining Mesirow Advanced Strategies, Inc. in 2003, Mr. Frey had senior marketing and business development responsibilities within the capital markets group of ABN AMRO Incorporated. Mr. Frey received a B.S.B.A. in accounting from Ohio State University and an M.B.A. from the Anderson School at UCLA. In addition, he is a Certified Public Accountant (CPA) and CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Carolyn Burke

Title

Managing Director, Chief Financial Officer

Location

Chicago

Industry Start Year:

1989

Firm Start Year:

2009

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Carolyn Burke is a managing director and chief financial officer for Mesirow Advanced Strategies, Inc., and a member of the executive and operating committee. In this capacity, she is responsible for managing and overseeing all aspects of the firm's accounting and internal fund management activities. Prior to joining Mesirow Advanced Strategies, Inc. in 2009, Ms. Burke was a managing director and Chief Administrative Officer with UBS Global Asset Management where she was responsible for managing the business operations for the Global Fixed Income team. Previously, Ms. Burke was a director with Brinson Partners. She received a B.A. in accounting from the University of Notre Dame and an M.B.A. from the University of Chicago. In addition, Ms. Burke is a Certified Public Accountant (CPA).

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Greg Robbins

Title

Senior Managing Director, General Counsel

Location

Chicago

Industry Start Year:

1999

Firm Start Year:

2008

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Greg Robbins is the general counsel and a senior managing director for Mesirow Advanced Strategies, Inc., and a member of the executive and operating committees. He is responsible for the legal affairs of Mesirow Advanced Strategies, Inc., including providing legal advice with respect to all aspects of its business, directing relationships with external counsel and assisting in maintaining its operations in compliance with relevant legal and regulatory requirements. Prior to joining Mesirow Advanced Strategies, Inc. in 2008, Mr. Robbins was a partner in the Investment Funds, Advisers and Derivatives group at Sidley Austin LLP, where he specialized in providing legal advice to hedge fund managers and participants in the derivatives industry with respect to all aspects of their business and operations. Just after law school, and prior to joining Sidley, he clerked for the Honorable Robert H. Henry on the U.S. Tenth Circuit Court of Appeals, and before law school he worked as a legislative assistant for U.S. Senator David L. Boren. Mr. Robbins received his B.A. from Yale University in 1991 and his J.D. (cum laude, Order of the Coif) from the University of Wisconsin in 1997.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person’s total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Heather Wilken Byers

Title

Vice President

Location

Chicago

Industry Start Year:

1993

Firm Start Year:

2007

Firm End Date:

N/A

Email

hbyers@mesirowfinancial.com

Office Phone:

312-595-7982

Cell Phone

773-677-2049

Bio

Heather Wilken Byers is a vice president for Mesirow Advanced Strategies, Inc. She assists in the firm's marketing efforts, client service and business development across North America. Prior to joining Mesirow Advanced Strategies, Inc. in 2007, Ms. Byers was a senior investment relationship manager with Northern Trust Global Investments where she was responsible for business development and client service. Ms. Byers received a B.A. in finance from the University of Illinois at Urbana-Champaign. In addition, she is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

Employees

Mark Kulpins

Title

Managing Director

Location

Chicago

Industry Start Year:

1997

Firm Start Year:

2004

Firm End Date:

N/A

Email

N/A

Office Phone:

312-595-7300

Cell Phone

N/A

Bio

Mark Kulpins is a managing director and director of manager research for Mesirow Advanced Strategies, Inc., and a member of the investment committee. He is responsible for providing leadership and management to the strategy-focused research teams with respect to investment and underlying manager considerations. Mr. Kulpins also shares responsibility with the chief investment officer for various aspects of portfolio construction, portfolio risk management and strategy analysis. Prior to joining Mesirow Advanced Strategies, Inc. in 2004, he worked in the equity research department at William Blair & Company and also worked for Brinson Partners, Inc. Mr. Kulpins received a B.S. in finance from the University of Illinois at Urbana-Champaign and an M.B.A. from the University of Chicago. In addition, he is a CFA charterholder.

Compensation Structure

We believe that an attractive compensation package is necessary to attract, motivate and retain talent. We reward achievement for our professional staff with a competitive base salary and an annual discretionary bonus based upon individual performance and success of the firm overall. MAS rewards senior professionals with annual discretionary bonuses which are based on a specified percentage of the profitability of MAS. Our objective is to make sure that each person's total annual compensation is reflective of the success of MAS and its achievement of short-term and long-term strategic goals. In addition, key MAS employees are invited to purchase equity ownership in MFHI. This enables participation in the long-term success of the firm and provides additional incentive to motivate employees to attain a consistent level of achievement. All senior principals within MAS are MFHI shareholders.

[redacted]

Firm: Mesirow Advanced Strategies, Inc.
Product Name: Mesirow Institutional Multi-Strategy Fund, L.P. (MIMSF)

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	22.7%	3.7%	0.0%	0.0%	30.9%	2.1%	0.0%	0.0%	2.8%	37.9%
12/31/2009	34.4%	5.0%	0.0%	0.0%	25.0%	2.6%	0.0%	0.0%	0.0%	33.0%
12/31/2008	30.9%	8.7%	0.0%	0.0%	21.9%	0.0%	0.0%	0.0%	0.0%	38.5%
12/31/2007	36.4%	5.7%	0.0%	0.0%	17.7%	0.0%	0.0%	0.0%	0.0%	40.2%
12/31/2006	33.1%	3.9%	0.0%	0.0%	13.5%	2.6%	0.0%	0.0%	0.0%	46.9%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$1,277	$7,572	$13,628	$13,628	43	78
12/31/2009	$1,034	$6,793	$11,961	$11,961	30	56
12/31/2008	$724	$8,692	$11,982	$11,982	28	46
12/31/2007	$672	$10,912	$16,046	$16,046	35	18
12/31/2006	$468	$8,519	$12,426	$12,426	32	31

PAAMCO Pacific Hedged Strategies, LLC

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	2000
Year First Fund of Funds Launched	2000
Location	Irvine, CA
Number of Investment Professionals	44
Percentage Employee Owned	73%
Total AUM (millions)	$9,869

Investment Philosophy:

We are active managers and believe in active investment management.

We focus on returns which are expected/targeted to be independent of traditional markets and we build portfolios which aim to diversify sources of idiosyncratic returns.

We believe we must be open to new investment ideas—many new markets, managers, and securities offer attractive alpha opportunities.

We believe we need to be flexible and creative to outperform; experienced individuals, held accountable for their results, make better investment decisions than committees.

We believe investment decisions should be based on independent, fundamental assessments—position-level transparency gives us a solid base for our understanding.

We believe investment costs should be aggressively managed. We attempt to avoid conflicts and maintain the highest ethical standards in evaluating investment opportunities.

Investment Process:

PAAMCO's investment process for each of the eight sectors in which it invests is driven by a senior Sector Specialist and team with extensive investment and academic experience in the sector. The team is charged with identifying hedge fund managers in their sector, conducting due diligence, negotiating terms and then monitoring the managers on an ongoing basis.

PAAMCO's portfolio construction process integrates bottom-up manager selection with top-down strategy allocation and risk monitoring. The Strategy Allocation Committee (SAC) is responsible for providing allocation recommendations to the Investment Management Committee (IMC). PAAMCO's IMC ultimately determines the portfolio's strategy allocation which is formally reviewed quarterly. The lead Account Manager for a fund may tailor the strategy and/or manager allocations to reflect a client's specific risk/return objective.

PAAMCO's risk management process relies on position-level transparency and encompasses both traditional statistical models and proprietary behavioral models.

Ownership Structure:

The Firm's operating entity is Pacific Alternative Asset Management Company, LLC ("PAAMCO LLC"), a California Limited Liability Company founded in 2000. In 2003, PAAMCO LLC formed a subsidiary based in London, Pacific Alternative Asset Management Co. Europe LLP ("PAAMCO Europe"), which is a Limited Liability Partnership. In 2006, PAAMCO LLC launched a second subsidiary based in Singapore, Pacific Alternative Asset Management Company Asia Pte. Ltd. ("PAAMCO Asia"), which is a Private Limited Company. In 2003, the four founding partners contributed their membership interests in PAAMCO LLC into a separate company called PAAMCO Founders Co., LLC ("Founders"). PAAMCO LLC is directly owned by Founders and 7 US-based senior employees; 3 non-US senior employees hold ownership interests in their respective PAAMCO

entity (PAAMCO Europe or PAAMCO Asia) and have compensation tied to the performance of PAAMCO LLC. Thus, Founders has a 68% economic interest and a 76.25 % voting interest in PAAMCO LLC; the remaining economic interest is held by the other 10 senior employee Partners.

As a result of a judgment entered recently in a case filed by companies controlled by S. Donald Sussman, Founders has issued a Membership Interest Certificate (dated as of January 11, 2010) to Franklin Realty Holdings, LLC ("Franklin") reflecting a 40% membership interest in Founders (not PAAMCO). The issuance by Founders of a Membership Interest Certificate to Franklin does not change the day-to-day management of PAAMCO, the business plans of the Firm or decisions made by PAAMCO on behalf of its clients. Moreover, the founding partners together constitute a supermajority of the members of Founders (60%), are the managers of Founders, and as a result together effectively control Founders.

Employees

Kemmy Koh

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Singapore

Industry Start Year:

2001

Firm Start Year:

2001

Firm End Date:

N/A

Email

kkoh@paamco.com

Office Phone:

+65 6594 2400

Cell Phone

N/A

Bio

Kemmy Koh, MBA, CFA is a Managing Director and the Sector Specialist responsible for the evaluation and management of Asian long/short equity hedge funds in the various PAAMCO portfolios. Kemmy is also a Director of Pacific Alternative Asset Management Company Asia Pte Ltd. (Singapore). She is a member of the Investment Management and Risk Management Committees and previously served as the firm's Research Manager. She spent the summer of 2000 at the firm as a summer intern and joined PAAMCO full time in the summer of 2001. Prior to joining PAAMCO, Kemmy was a credit analyst for Banque Nationale de Paris (Singapore) and Development Bank of Singapore (Singapore) where she developed an extensive background in security and portfolio analysis. Kemmy graduated from the National University of Singapore with a Bachelor of Business Administration and received her M.B.A. from the University of California, Irvine. Kemmy has nine years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

Employees

David Walter

Title
Director, Sector Specialist Pan Asia Portfolio Solutions

Location
Singapore

Industry Start Year:
1987

Firm Start Year:
2010

Firm End Date:
N/A

Email
dwalter@paamco.com

Office Phone:
+65 6594 2400

Cell Phone
N/A

Bio
David Walter, MA is a Director in PAAMCO's Portfolio Management Group based in the firm's Singapore office. He is responsible for Asian focused investments and acts as Head of Research for Asia and the Pan Asia Portfolio Solutions' funds. Prior to joining PAAMCO, David performed a similar role for KBC Alpha Asset Management. Before KBC, he co-founded Arbiter Fund Managers where he established and managed a dedicated Japanese long/short equity fund. Previously, David worked at London and Oxford Capital Markets establishing and running a Japan-focused multi-strategy fund. Prior to that he was Head of Japanese Equity Product at Sanwa International Securities. David began his professional career in 1987 at Barings Far East Securities where he was employed as a Japanese convertible and warrant trader. He has twenty-four years of investment management experience. David graduated from Christ Church, Oxford with an MA (Hons) degree in Modern History.

Compensation Structure
salary, plus bonus

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Philippe Jorion

Title

Managing Director, Risk Management

Location

Irvine

Industry Start Year:

1983

Firm Start Year:

2006

Firm End Date:

N/A

Email

pjorion@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Philippe Jorion, MBA, PhD is a Managing Director in the Risk Management Group and is responsible for developing and implementing PAAMCO's offensively directed risk management concepts. He also oversees the PAAMCO infrastructure employed in evaluating individual hedge funds from a position level perspective, risk at the level of the various sectors as well as the risk structure of the overall PAAMCO portfolio. Philippe's work also includes developing approaches to evaluating new securities and new markets. Philippe is a member of the Risk Management and Strategy Allocation Committees. He also serves as the Chancellor's Professor of Finance at the Paul Merage School of Business at the University of California at Irvine. He is a frequent speaker at academic and professional conferences; and is on the editorial boards of a number of finance journals. Philippe has authored more than 90 publications on the topic of risk management and international finance. Some of his most notable work includes the Financial Risk Manager Handbook (Wiley 5th ed. 2009), which provides the core body of quantitative methods and tools for financial risk managers; Big Bets Gone Bad: Derivatives and Bankruptcy in Orange County (Academic Press 1995), the first account of the largest municipal failure in U.S. history; and Value at Risk: The New Benchmark for Managing Financial Risk (McGraw-Hill 3rd ed. 2006), the first definitive book on VAR. Philippe holds an M.B.A. and a Ph.D. from the University of Chicago and a degree in engineering from the University of Brussels. Philippe has twenty-seven years of experience in risk management and international finance.

Compensation Structure

salary, plus % of firm profits

Employees

Erik Bernhardt

Title

Director, Portfolio Manager – Commingled Funds

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2003

Firm End Date:

N/A

Email

ebernhardt@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Erik Bernhardt, MBA, CFA is a Director working in both Portfolio Management and Account Management. He serves as the Portfolio Manager for the firm's commingled funds, supervising overall portfolio construction as well as supporting the funds' clients. He is also a member of the firm's Strategy Allocation Committee which focuses on assessing the impact of asset allocation and accompanying risk at the hedge fund and overall portfolio levels. From October 2005 until February 2008, Erik was located in the firm's London office where he researched managers within the European credit space. He also was responsible for developing relationships with prospective clients and co-managing the firm's European institutional investor base. Prior to joining PAAMCO, Erik was a Senior Consulting Associate at Cambridge Associates, an investment-consulting firm, where he conducted in-depth studies on asset allocation and portfolio construction. Erik graduated with highest honors from Principia College in St. Louis with a B.A. in Business Administration and History and received his M.B.A. from the Anderson School of Business at the University of California, Los Angeles.

Compensation Structure

salary, plus bonus

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Kevin Williams

Title

Managing Director, Investment Operations

Location

Irvine

Industry Start Year:

2000

Firm Start Year:

2000

Firm End Date:

N/A

Email

kwilliams@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Kevin Williams, MBA, CFA, CPA is the Head of Investment Operations and Chief Compliance Officer, responsible for overseeing operational due diligence, legal and regulatory due diligence, fund accounting and administration, our managed account platform, and compliance. In addition, Kevin has select institutional account management responsibilities and serves on the board of several funds. He is also a member of the firm's Investment Management and Account Management Committees. Prior to joining PAAMCO, Kevin worked for McGladrey and Pullen LLP, a national public accounting and consulting firm, where he audited several financial services clients. He also served as a controller for a technology company. Kevin graduated from the University of California, Los Angeles with a B.A. in Economics, and received his M.B.A. with a concentration in Investment Finance from the Marshall School of Business at the University of Southern California. Kevin has nine years of experience in the financial services sector

Compensation Structure

salary, plus % of firm profits

Employees

Mayer Cherem

Title

Managing Director, Sector Specialist Opportunistic Investments

Location

Irvine

Industry Start Year:

2004

Firm Start Year:

2004

Firm End Date:

N/A

Email

mcherem@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Mayer Cherem, MBS, CFA, CQF is a Managing Director and the Sector Specialist responsible for the evaluation and management of opportunistic investments and offensive risk management initiatives. Mayer focuses on identifying new, uncorrelated sources of alpha through fundamental analysis and their optimal integration into client portfolios. He is also a member of the firm's Strategy Allocation Committee where he focuses on assessing the impact of asset allocation on overall portfolio risk and performance. As a member of the Risk Committee, Mayer is involved in the ongoing development of the firm's risk criteria and quantitative aspects of portfolio construction. Mayer graduated from the Universidad Simon Bolivar with a B.S. in Production Engineering and received an M.B.A. from Columbia Business School.

Compensation Structure

salary, plus % of firm profits

Employees

Maarten Nederlof

Title

Managing Director and Head of Portfolio Solutions

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2009

Firm End Date:

N/A

Email

mnederlof@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Maarten Nederlof is a Managing Director and Head of Portfolio Solutions at PAAMCO. He is a member of the Investment Management, Risk Management and Account Management Committees. Prior to joining PAAMCO, Maarten held various positions at Deutsche Bank Securities, Inc. and Deutsche Asset Management, including Managing Director and Global Co-Head of the Hedge Fund Capital Group and Global Head of the Pension Strategies Group. In addition, he was a Managing Director and Portfolio Manager at K2 Advisors, LLC, as well as Director and Head of Investor Risk Management at Capital Market Risk Advisors. Maarten began his career as a quantitative strategist at Salomon Brothers, Inc. He has twenty-four years of experience in investment management and portfolio construction with institutional investors. Maarten is a member of the Investment Committee of The John D. and Catherine T. MacArthur Foundation, as well as the Investor Risk Committee of the International Association of Financial Engineers (IAFE). He is a frequent lecturer and featured speaker at business schools, seminars and industry conferences.

Compensation Structure

salary, plus % of firm profits

Employees

Judith Posnikoff

Title

Managing Director, Sector Specialist Equity Market Neutral

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2000

Firm End Date:

N/A

Email

jposnikoff@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Judith Posnikoff, MBA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of equity market neutral hedge funds in the various PAAMCO portfolios. As a member of the Investment Management Committee, she is involved in all stages of the investment process. In addition, Judy specifically focuses on the complex customized portfolios of the firm's Asia/Pacific institutional accounts. She is also a member of the Account Management Committee. Prior to forming PAAMCO, Judy was Assistant Portfolio Manager/Research Associate at Collins Associates, an institutional fund of funds and consulting firm, where she focused on market neutral strategies in addition to directing large-scale quantitative research projects focusing on alternative strategies. She has numerous publications in the area of alternative investments and has taught at the University of California, Riverside, at California State University, Fullerton and most recently at the University of California, Irvine, where she held the position of adjunct faculty member at the Graduate School of Management. Judy graduated from the University of California, Riverside with a B.S. in Administrative Studies where she also received her M.B.A. and M.A. in Financial Economics and her Ph.D. in Financial and Managerial Economics. Judy has fifteen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

N/A

Employees

Charles Armendarez

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Irvine

Industry Start Year:

1998

Firm Start Year:

2000

Firm End Date:

N/A

Email

carmendarez@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Charles Armendarez, MBA, CFA is a Managing Director and a Sector Specialist responsible for evaluating hedge fund managers that focus on long/short equity and other opportunistic strategies in the various PAAMCO portfolios. In addition, he is responsible for overall management and supervision of the PAAMCO investment process. Charlie is a member of the Investment Management Committee. In addition, he directs the firm's Investment Associate and Summer Associate Programs and is responsible for firm's Associate recruiting efforts. Prior to joining PAAMCO, Charlie was a Portfolio Manager and Research Associate at Collins Associates, an institutional fund of hedge funds and consulting firm, where he performed research and due diligence on investment managers utilizing alternative investment strategies. At Collins, his focus was on evaluating managers employing the following strategies: directional long/short, distressed debt, merger arbitrage, convertible arbitrage, fixed income arbitrage, equal dollar-weighted long/short and emerging market equities. Charlie graduated from the University of Southern California with a B.A. in Economics and received his M.B.A. from the Amos Tuck School at Dartmouth. Charlie has fifteen years of investment management experience with institutional investors.

Compensation Structure

Salary plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

James Berens

Title

Managing Director, Sector Specialist Distressed Debt and Long/Short Credit

Location

Irvine

Industry Start Year:

1993

Firm Start Year:

2000

Firm End Date:

N/A

Email

jberens@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

James Berens, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the distressed debt and long/short credit hedge funds in the various PAAMCO portfolios. Jim is also the Portfolio Manager for the commingled funds including Pacific Select Opportunities Fund, a customized fund of hedge funds for institutional investors designed to achieve higher absolute returns by targeting more inefficient sectors and utilizing less liquid investments. As a member of the Investment Management Committee, he is involved in all stages of the investment process. In addition, Jim is responsible for managing relationships with certain institutional investors. Jim also serves on the Risk Management Committee. Prior to forming PAAMCO, Jim was Co-Managing Partner at Collins Associates, an institutional fund of funds and consulting firm, with responsibilities for directional hedge fund strategies. He has written and published extensively on hedge funds and their applications for institutional investors; is a frequent guest speaker and panelist at investment conferences throughout the United States; and has taught investment management courses at the Graduate School of Management at the University of California, Irvine. Jim graduated from the University of Redlands with a B.A. in Economics and Political Science, received his M.A. from the University of California, Riverside in Financial Economics and received his Ph.D. in Administration (concentration in Finance) from the University of California, Irvine. Jim has seventeen years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary plus % of firm profits

Employees

Jane Buchan

Title

Managing Director, Chief Executive Officer, Sector Specialist Fixed Income Realtive Value

Location

Irvine

Industry Start Year:

1986

Firm Start Year:

2000

Firm End Date:

N/A

Email

jbuchan@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Jane Buchan, MA, PhD, CAIA is a Managing Director and the firm's Chief Executive Officer. As CEO, Jane is responsible for overall business strategy and firm direction. In addition, she is a Sector Specialist responsible for the evaluation and management of fixed income relative value hedge funds in the various PAAMCO portfolios. Jane is also a member of the Investment Management, Risk Management and Account Management Committees. Prior to forming PAAMCO, Jane held various positions ranging from Director of Quantitative Analysis to CIO of non-directional strategies at Collins Associates, an institutional fund of funds and consulting firm. She began her career at J.P. Morgan Investment Management in the Capital Markets Group and has numerous professional publications in the field of market neutral and alternative investments strategies. She was an Assistant Professor of Finance at the Amos Tuck School of Business at Dartmouth. She currently sits on the Board of the Chartered Alternative Investment Analyst Association (CAIA). Jane graduated from Yale University with a B.A. in Economics and received both her M.A. and Ph.D. in Business Economics (Finance) from Harvard University. Jane has twenty-four years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

Employees

Alper Ince

Title

Managing Director, Sector Specialist Long/Short Equity

Location

Irvine

Industry Start Year:

1997

Firm Start Year:

2002

Firm End Date:

N/A

Email

aince@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Alper Ince, MBA, CFA is a Managing Director and the Sector Specialist responsible for the coverage of long/short equity hedge fund managers in the various PAAMCO portfolios. He is also a member of the Investment Management and Strategy Allocation Committees where he focuses on establishing and assessing overall asset allocation and accompanying risk at both the sector and overall portfolio levels. Prior to joining PAAMCO, Alper was an Associate Director at BARRA RogersCasey, a major pension-consulting firm, where he led the firm's hedge fund investment and manager research efforts. Alper graduated from METU Ankara (Turkey) with a B.S. in Economics and received his M.B.A. in Finance from the University of Hartford. Alper has thirteen years of investment management and consulting experience with institutional investors.

Compensation Structure

salary, plus % of firm profits

Pacific Alternative Asset Management Company, LLC

Information Effective As Of 12/31/2010

Employees

Bill Knight

Title

Managing Director, Sector Specialist Event-Driven Equity

Location

Irvine

Industry Start Year:

1982

Firm Start Year:

2000

Firm End Date:

N/A

Email

bknight@paamco.com

Office Phone:

949-261-4900

Cell Phone

N/A

Bio

Bill Knight, MA, PhD is a Managing Director and the Sector Specialist responsible for the evaluation and management of the event-driven equity hedge funds in the various PAAMCO portfolios. As chair of the firm's Investment Management Committee, Bill is involved in all stages of the investment process. In addition, he chairs the firm's Board of Director meetings. Prior to forming PAAMCO, Bill was Senior Portfolio Manager at Collins Associates, an institutional fund of funds and consulting firm, for two long-only domestic equity funds, two low-beta funds, and a short-biased equity fund. In addition, he has held the position of adjunct faculty member at several universities. Bill graduated from Vanguard University with a B.A. in Social Sciences (History), received his M.A. from California State University, Fullerton in Social Sciences (Sociology and Psychology), and received his Ph.D. in Education (concentration in Management) from the University of California, Riverside. Bill has twenty-eight years of experience in investment management and portfolio construction with institutional investors.

Compensation Structure

salary, plus % of firm profits

A

Firm: **Pacific Alternative Asset Management Company, LLC**
Product Name: **Pacific Hedged Strategies, LLC**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	28.0%	0.0%	0.0%	7.0%	11.0%	9.0%	4.0%	9.0%	0.0%	32.0%
12/31/2009	27.0%	1.0%	0.0%	4.0%	9.0%	12.0%	5.0%	8.0%	0.0%	34.0%
12/31/2008	35.0%	3.0%	0.0%	5.0%	5.0%	10.0%	7.0%	5.0%	0.0%	30.0%
12/31/2007	36.0%	3.0%	0.0%	4.0%	6.0%	12.0%	6.0%	5.0%	0.0%	28.0%
12/31/2006	38.0%	3.0%	0.0%	5.0%	6.0%	15.0%	4.0%	2.0%	0.0%	27.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$602	$7,610	$9,869	$9,869	26	13
12/31/2009	$535	$8,169	$9,830	$9,830	16	11
12/31/2008	$440	$7,944	$8,640	$8,640	23	2
12/31/2007	$413	$8,371	$9,393	$9,393	16	4
12/31/2006	$236	$6,685	$7,949	$7,949	10	10

Prisma Spectrum Fund Ltd.

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	2004
Year First Fund of Funds Launched	2005
Location	New York, NY
Number of Investment Professionals	21
Percentage Employee Owned	43%
Total AUM (millions)	$5,300

Investment Philosophy:

Prisma's investment philosophy is based on 5 main tenets:

Transparency: We believe in transparency and will not invest in any manager that does not provide what we consider to be sufficient transparency into its investment process, risk exposures, position sizes, and overall business. Similarly, we are committed to meeting the transparency requirements of our clients.

Investment Specialists: We believe that identifying and understanding the opportunities and risks inherent in complex hedge fund strategies requires dedicated investment "specialists" with significant asset management, trading, capital markets, risk, and operations experience.

Strategy Allocation: We believe that top-down strategy allocation can add significant value to the performance of our funds. Led by Gavyn Davies, former Chief Economist at Goldman Sachs, we analyze macroeconomic trends and allocate capital to what we believe are the most favorable hedge fund strategies.

Specialist Managers: We believe that specialist (single strategy or even sub-strategy) hedge fund managers can generate significant alpha, and have conducted research that shows that substantial value can be added by investing in earlier stage managers.

Three Separate Due Diligence Teams: We believe that proper manager due diligence should comprise independent assessments by separate teams: 1) investments, 2) risk management, and 3) operations, with each team having the ability to veto a potential investment.

Investment Process:

Prisma's investment process combines a top-down strategy allocation process with bottom-up manager selection to arrive at what Prisma believes is an optimal portfolio given a client's risk and return objectives. Risk management is closely integrated into each step of the investment process.

Our process begins with strategy allocation. Led by Mr. Davies, strategy allocation incorporates Prisma's top down economic views and forecasts for underlying hedge fund strategies to arrive at target allocations by hedge fund sector. Our manager selection process involves three separate layers of due diligence: 1) investment, 2) risk and 3) operations. Professionals from the investment, risk, and operations teams each conduct due diligence (including onsite visits) to produce a comprehensive evaluation of managers, with each team having a full veto right over any investment. Finally, portfolio construction uses optimization to integrate quantitatively the strategy allocation mix with the approved list of managers in an attempt to achieve the client's desired beta, volatility and liquidity constraints. Prisma's investment process also includes rigorous monthly portfolio monitoring.

Ownership Structure:

AEGON USA Investment Management ("AUIM") has a profits interest of 57% of the firm and the remaining balance is owned by Prisma employees and principals. As Prisma attains certain performance targets over time, AUIM's ownership percentage will decrease and employee ownership will increase accordingly.

Employees

Girish Reddy

Title

Managing Partner

Location

New York

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

greddy@prismapartners.com

Office Phone:

212-590-0801

Cell Phone

N/A

Bio

Mr. Reddy is a former partner of Goldman, Sachs & Co., where he was a co-head of equity derivatives. Prior to Goldman, he was the CIO of LOR Associates, a hedging and strategy advising firm based in Los Angeles, developing strategic alliances with other established asset managers like Wells Fargo and Aetna Insurance. Earlier in his career, he was a senior vice president of portfolio construction and asset allocation, at Travelers Investment Management Company, where he specialized in various overlay strategies for the firm using listed futures and options. Mr. Reddy is an elected member of and serves on the executive board of the Indian School of Business. He is also a former board member of Barra Inc.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Thomas Healey

Title
Advisory Partner

Location
New York

Industry Start Year:
1986

Firm Start Year:
2004

Firm End Date:
N/A

Email
thealey@Prismapartners.com

Office Phone:
212-590-0800

Cell Phone
N/A

Bio

Thomas Healey is co-founder of Prisma Capital Partners LP. Mr. Healey is a former partner and head of pension services group of Goldman, Sachs & Co. While at Goldman Sachs & Co., he was a co-chairman of the Goldman Sachs retirement committee, with oversight of more than $3 billion in defined contribution plan assets, and also a co-chief investment officer of the $10 billion Central States Teamsters Pension Fund, managed by Goldman Sachs & Co. Mr. Healey is the chair of the investment committee of the Rockefeller Foundation and a board member of other charitable institutions. Earlier, he served as former assistant secretary of the Treasury under President Reagan. Mr. Healey was a senior fellow and is an adjunct lecturer at Harvard University's John F. Kennedy School of Government.

Compensation Structure

Prisma’s compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual’s commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma’s funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Eric Wolfe

Title

Senior Portfolio Manager

Location

New York

Industry Start Year:

1992

Firm Start Year:

2004

Firm End Date:

N/A

Email

ewolfe@prismapartners.com

Office Phone:

212-590-0802

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Wolfe was a vice president and leading portfolio manager of the hedge fund of funds group at Safra National Bank of New York. He managed the accounts group, and headed the research process to source hedge fund investments for fund-of-funds. Previously, he was the chief financial officer for Buyroad.com, where he co-managed a 20 employee web design team from pre-launch to a revenue producing entity serving the small/medium business market. Earlier, Mr. Wolfe was a vice president and global balanced portfolio manager at J.P. Morgan Investment Management, serving as portfolio manager of over $16 billion in global balanced assets. Also at J.P. Morgan, he was an analyst in the structured derivatives group of the asset management company.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Dan Lawee

Title
Portfolio Manager

Location
New York

Industry Start Year:
1994

Firm Start Year:
2008

Firm End Date:
N/A

Email
dlawee@prismapartners.com

Office Phone:
212-590-0841

Cell Phone
N/A

Bio
Aug 02 - Sept 08: Portfolio Manager - Northwater Capital Management Inc
Responsible for asset-backed and mortgage-backed securities arbitrage, fixed income arbitrage, reinsurance, and volatility arbitrage hedge fund strategies across Northwater's $4 billion in fund of hedge funds portfolios

Aug 87 - July 02: Vice President, Corporate Foreign Exchange Desk - TD Canada Trust

Aug 83 - April 95: Account Executive - Mortgage Department, Republic National Bank of New York

Compensation Structure
Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

James Welch

Title

Managing Director - Portfolio Manager

Location

New York

Industry Start Year:

1980

Firm Start Year:

2010

Firm End Date:

N/A

Email

jwelch@prismapartners.com

Office Phone:

212-590-0829

Cell Phone

N/A

Bio

Prior to Prisma, Mr Welch was a Managing Member of Kettle Cove Investors, LLC, a fund of hedge funds vehicle established for members of Mr. Welch's immediate family
CEO and Executive Director of Kisco Management Corporation, a financial services firm that was exclusively dedicated to serving a prominent U.S. high net worth family
Managing Director and Co-Head of Research and Portfolio Management at J.P. Morgan Alternative Asset Management, Inc., which is J.P. Morgan's fund of hedge funds investment firm
Held various positions of increasing responsibility within J.P. Morgan, primarily in the capital markets area, including roles in derivatives origination, structuring, and training

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Donna Heitzman

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1980

Firm Start Year:

2004

Firm End Date:

N/A

Email

dheitzman@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Ms. Heitzman was a portfolio manager at AEGON USA Investment Management LLC; facilitating the portfolio's significant growth and broad diversification across all hedge fund strategies with a specialty in researching and implementing new strategies. She was also the director of private placements at AEGON USA Investment Management LLC. Prior, also at AEGON USA, she was the director of the financial division, where she was responsible for investment portfolio analysis. Previously, she was an audit supervisor at Coopers and Lybrand, specializing in the manufacturing and financial institution sectors of both publicly held and privately owned clients.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Michael Rudzik

Title

Portfolio Manager

Location

Louisville

Industry Start Year:

1987

Firm Start Year:

2004

Firm End Date:

N/A

Email

mrudzik@prismapartners.com

Office Phone:

502-560-2730

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Rudzik was a Portfolio Manager at AEGON USA Investment Management LLC, where he was responsible for hedge fund manager due diligence, selection, and monitoring with primary strategy focus on long/short equity, event-driven, multi-strategy arbitrage and private equity. Previously, he was the chief operating officer at Aeon Capital Management LLC, where he collaborated in the formation of a $50 million emerging markets hedge fund start-up for a European investment group. Earlier, he was a general partner at Tiedemann Investment Group, where he served as the head of the trading desk and in a portfolio management capacity. Earlier in his career, Mr. Rudzik was a financial analyst at Morgan Stanley.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

Peter Zakowich

Title

Portfolio Manager

Location

London

Industry Start Year:

1999

Firm Start Year:

2006

Firm End Date:

N/A

Email

pzakowich@prismapartners.com

Office Phone:

20 7016-6495

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Zakowich was an associate portfolio manager at J.P. Morgan Alternative Investments, where he was responsible for investment selection, position sizing, and exposure monitoring. Previously, he was a media analyst at Edge Capital, a long/short equity hedge fund focusing in the media and entertainment sectors. Earlier, Mr. Zakowich was an investment associate in equity research at Putnam Investments where he provided global coverage of the media, advertising, and related technology sectors; and the automotive industry.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

Employees

William Cook

Title

Senior Portfolio Manager

Location

London

Industry Start Year:

1981

Firm Start Year:

2004

Firm End Date:

N/A

Email

bscook@prismapartners.com

Office Phone:

212-590-0804

Cell Phone

N/A

Bio

Prior to joining Prisma, Mr. Cook was the head of the capital market strategies group at AEGON USA Investment Management LLC. He was focusing on alternative investments, SBA loans, and special opportunities. Also at AEGON USA, Mr. Cook was the head of the derivatives group which was spun out of the public fixed income group. Prior, and also at AEGON USA, Mr. Cook was the head of public fixed income group where he led teams of six portfolio managers and a group of 15 employees. Previously, he was a partner at Cleveland Management, where he was a generalist with a specialty in fixed income for the high net worth oriented asset management firm. Earlier in his career, Mr. Cook was the director of fixed income at United Capital Management.

Compensation Structure

Prisma's compensation structure involves a base salary and a bonus that is tied to performance benchmarks and each individual's commitment to supporting a team-oriented approach. A portion of employee compensation is deferred and invested in Prisma's funds as a means of aligning interests with our clients and retaining employees. In addition, Prisma has committed an equity interest in the firm to a significant portion of the employees, which enhances stability and longevity of the business.

A

Firm: **Prisma Capital Partners LP**
Product Name: **Prisma Spectrum Fund Ltd**

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	26.9%	1.6%	4.1%	2.4%	33.5%	5.0%	0.0%	10.0%	13.4%	3.0%
12/31/2009	35.9%	2.7%	6.2%	2.0%	19.4%	3.3%	0.0%	11.9%	14.8%	3.8%
12/31/2008	33.3%	7.5%	1.4%	2.0%	18.1%	5.5%	0.0%	8.1%	17.9%	6.2%
12/31/2007	36.7%	7.3%	0.0%	1.9%	22.8%	4.6%	0.0%	5.0%	14.3%	7.6%
12/31/2006	39.9%	5.2%	0.0%	1.0%	16.9%	6.7%	0.0%	5.3%	16.5%	8.5%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$942	$3,971	$5,300	$5,300	75	3
12/31/2009	$504	$2,938	$4,500	$4,500	10	30
12/31/2008	$547	$3,095	$4,200	$4,200	3	8
12/31/2007	$377	$3,498	$4,427	$4,427	1	17
12/31/2006	$156	$2,498	$3,227	$3,227	1	7

Rock Creek Diversified 1

Information Effective as of: 12/31/2010

Organization:

Year Firm Established	2003
Year First Fund of Funds Launched	2003
Location	Washington, DC
Number of Investment Professionals	21
Percentage Employee Owned	100%
Total AUM (millions)	$6,000

Investment Philosophy:

Rock Creek's investment philosophy is grounded in three basic convictions: (1) That a portfolio of hedge funds can deliver strong risk-adjusted returns and the risk mitigation associated with rigorous portfolio construction; (2) that identifying, constructing, validating and monitoring such a portfolio is a specialist function requiring a high degree of sophistication, attention, skill and persistence; and (3) that there is a great deal of room for particular hedge fund of fund managers to have superior portfolio selection, responsible relationships ensuring access to top-performing funds and superior analytic and fiduciary infrastructure.

Investment Process:

The investment process at Rock Creek is based on what team members developed at the World Bank. With substantial investments in technology, we have greatly enhanced the manner in which it is implemented. The investment process combines top-down and bottom-up analysis . The top down portion of the construction process involves determining the strategic allocations to hedge fund strategies that would allow the fund of funds to meet its risk and return objectives. Bottom-up construction involves identifying those managers which we believe to be "best of breed" within each hedge fund strategy. Risk control is an integral part of the investment and back office continued due diligence and monitoring as well as of the portfolio construction process. Risk control is an integral part of the investment and back office continued due diligence and monitoring as well as of the portfolio construction process.

Employees

Afsaneh Beschloss

Title

President and Chief Executive Officer

Location

Washington

Industry Start Year:

1985

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Ms. Beschloss is President and Chief Executive Officer of The Rock Creek Group. Prior to this, Ms. Beschloss was the Treasurer and Chief Investment Officer of the World Bank, responsible for managing $65 billion in assets and a $30 billion funding strategy, as well as $160 billion in derivatives and structured products. In this position, Ms. Beschloss was instrumental in developing a $3 billion portfolio of alternative investment funds as well as private equity strategies. Her previous responsibilities at the World Bank included Senior Manager of the Derivatives and Structured Products Group and Fixed-Income Portfolio Manager. Ms. Beschloss worked for J.P. Morgan in New York and London, for Shell International Group Planning in London, and she taught international trade at Oxford University. She is a member of the Board of Trustees of the Ford Foundation where she has Chaired the Investment Committee. She is a member of the Board of Trustees of the Colonial Williamsburg Foundation and is on the Investment Committee of the Rockefeller Brothers Fund. She advises international pension funds and central banks and has written a number of journal articles and books. She has an MPhil (Honors) in Economics from Oxford University.

Compensation Structure

N/A

Employees

Sudhir Krishnamurthi

Title

Senior Managing Director

Location

Washington

Industry Start Year:

1986

Firm Start Year:

2002

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Dr. Krishnamurthi is Senior Managing Director of The Rock Creek Group. Prior to this, Dr. Krishnamurthi was Director of the World Bank's Investment Management Department, responsible for managing investment assets, including $12 billion of pension assets in equities, fixed-income securities, and alternative assets. Dr. Krishnamurthi led the alternatives program at the World Bank and was responsible for pioneering work in risk management and asset allocation. Prior to working in the World Bank's Investment Management Department, Dr. Krishnamurthi was the Director of Corporate Finance at the World Bank, where he managed $27 billion of equity. Prior to that, Dr. Krishnamurthi was a Principal Officer in the Derivatives Division of the World Bank, where he worked extensively on structured products. Prior to the World Bank, Dr. Krishnamurthi was an Assistant Professor at the Sloan School of Management, Massachusetts Institute of Technology. Dr. Krishnamurthi received a degree in Mechanical Engineering from the Indian Institute of Technology and a degree in Business from the Indian Institute of Management. He received his doctorate from the Harvard Business School.

Compensation Structure

N/A

Employees

Kenneth G. Lay

Title

Senior Managing Director

Location

Washington

Industry Start Year:

1975

Firm Start Year:

2010

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. Lay is a Senior Managing Director of The Rock Creek Group. Prior to this, Mr. Lay served as Treasurer of The World Bank, where he was responsible for more than $100 billion in investments for The World Bank and 40 other financial institutions, including central banks, sovereign wealth and pension funds. Mr. Lay led its transformation to a $20 billion multi-client asset manager with an extensive program of knowledge transfer and capacity-building partnerships. Previously, Mr. Lay served as a country director in Latin America and Southeastern Europe, and headed the World Bank's financial sector practice, where he developed the "financial sector assessment program" that now is the cornerstone of international efforts to monitor and improve the health of countries' banking and capital markets. Before joining the World Bank, Mr. Lay was an enforcement lawyer with the U.S. Securities and Exchange Commission, heading its branch of corporation finance enforcement. Mr. Lay holds a BA from Dartmouth College, a JD from the George Washington University, and the CFA designation. He is a member of the State Bar of California.

Compensation Structure

N/A

Employees

Antonio Sierra

Title
Director

Location
Washington

Industry Start Year:
2002

Firm Start Year:
2005

Firm End Date:
N/A

Email
N/A

Office Phone:
N/A

Cell Phone
N/A

Bio
Mr. Sierra is a Director at The Rock Creek Group. Prior to this, he worked at the World Bank and was responsible for managing the treasury operations for the hedge fund, private equity, and real estate portfolios of the World Bank's Staff Retirement Plan and Retired Staff Benefits Plan. He previously worked in the finance and accounting groups of the Investment Management Department and Banking, Capital Markets and Financial Engineering Department. Mr. Sierra has a M.B.A. from Georgetown University. He also holds a B.S. in Civil Engineering from the Mapua Institute of Technology, Manila and a M.S. in Engineering from the University of the Philippines.

Compensation Structure
N/A

Employees

Sherri Rossoff

Title

Managing Director

Location

Washington

Industry Start Year:

1985

Firm Start Year:

2006

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Ms. Rossoff is a Managing Director and Chief Compliance Officer at The Rock Creek Group. Prior to this, she was senior counsel at the World Bank in the legal finance group. There, she concentrated in the areas of pension investments and asset management, focusing on hedge funds and alternative investments. She was also counsel to the World Bank's Pension Finance Committee. She also provided legal technical assistance to various central banks on investment management issues. Prior to joining the World Bank, she was an associate at Cleary Gottlieb Steen and Hamilton in New York. Ms. Rossoff earned her law degree from New York University School of Law. She graduated Queens College summa cum laude where she was elected to Phi Beta Kappa.

Compensation Structure

N/A

Employees

Alifia Doriwala

Title

Director

Location

Washington

Industry Start Year:

2000

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Ms. Doriwala is a Director at The Rock Creek Group. Prior to this, she was an Equity Arbitrage trader for the proprietary trading desk at Wolverine Trading, L.P. She was responsible for analyzing, modeling, and trading equity spreads resulting from corporate transactions, including mergers and acquisitions, spin-offs and share classes. In addition, Ms. Doriwala worked with the portfolio manager in selecting, evaluating, and trading relative value pairs across a variety of industries for the long/short equity component of the portfolio. Prior to joining Wolverine Trading, she was an Investment Banking Analyst in Merrill Lynch's Financial Sponsor Group. At Merrill Lynch, she assessed the suitability of potential targets for private equity portfolio companies as well as the capital structure for the financing portion of the transactions. She also prepared industry overview, segmented market analysis, and valuation models for private equity clients. Ms. Doriwala graduated from Georgetown University magna cum laude with a B.A. in Economics and English and has an M.B.A. in Finance and Marketing from New York University's Stern School of Business.

Compensation Structure

N/A

Employees

Ronald J.P. van der Wouden

Title

Managing Director

Location

Washington

Industry Start Year:

1998

Firm Start Year:

2005

Firm End Date:

N/A

Email

N/A

Office Phone:

N/A

Cell Phone

N/A

Bio

Mr. van der Wouden is a Managing Director of The Rock Creek Group. Prior to this, Mr. van der Wouden spent over seven years at the World Bank, most recently as Co-Head of Risk Management in the World Bank Treasury. In that position, he was responsible for risk management across hedge funds and other asset classes (global fixed income portfolios, alternative investment portfolios, and fixed income relative value portfolios since the mid-1990s). Mr. van der Wouden's previous responsibilities at the Bank Group included developing innovative Asset Liability Management and Strategic Asset Allocation strategies at the World Bank's Investment Management Department. In this position, he also conducted extensive research on "optimal" pension plan design covering allocation to hedge funds and private equity and pension reform issues. Before joining the World Bank, Mr. van der Wouden worked at Robeco Asset Management Group and at Ortec Management Consultants in the Netherlands. Mr. Van der Wouden received a M.S. degree in Econometrics from the Erasmus University Rotterdam.

Compensation Structure

N/A

A

Firm: <u>**Rock Creek Group**</u>
Product Name: <u>**Rock Creek Diversified 1**</u>

Allocation By Strategy

	Hedged Equities	Short Selling	Tactical Trading	Merger Arbitrage	Distressed Securities	Convertible Bond Arbitrage	Statistical Arbitrage	Fixed Income Arbitrage	Global Macro	Other
12/31/2010	38.0%	0.0%	0.0%	23.0%	11.0%	0.0%	0.0%	0.0%	15.0%	13.0%
12/31/2009	39.0%	0.0%	0.0%	12.0%	25.0%	0.0%	0.0%	0.0%	11.0%	13.0%
12/31/2008	36.0%	0.0%	0.0%	18.0%	16.0%	2.0%	0.0%	0.0%	13.0%	15.0%
12/31/2007	40.0%	0.0%	0.0%	16.0%	8.0%	3.0%	0.0%	6.0%	7.0%	20.0%
12/31/2006	37.0%	0.0%	0.0%	23.0%	4.0%	2.0%	0.0%	6.0%	8.0%	20.0%

Historical AUM Data

	Fund/Vehicle Assets	Strategy Assets	Fund of Hedge Fund Assets	Total Firm Assets (Including non-HF strategies)	# of Fund of Hedge Fund Clients Gained	# of Fund of Hedge Fund Clients Lost
12/31/2010	$400	$4,250	$5,350	$6,000	7	1
12/31/2009	$370	$3,600	$4,200	$4,600	7	4
12/31/2008	$310	$3,350	$3,600	$3,600	8	2
12/31/2007	$390	$4,000	$4,100	$4,100	7	2
12/31/2006	$350	$3,350	$3,000	$3,000	21	0

EXHIBIT 36

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: David Peden[david.peden@insightbb.com]
Sent: Mon 2/13/2012 1:03:26 PM (UTC-05:00)
Subject: Fwd: Attached
Mark Faulkenberg.pdf
Mark Faulkenberg bio.pdf

From: "Mark Faulkenberg" <Mark.Faulkenberg@velorumconsulting.com>
To: "david peden" <david.peden@insightbb.com>
Sent: Monday, February 13, 2012 12:22:13 PM
Subject: Attached

David,

It was great catching up with you today. I miss our days at AEGON with Rudzik and even Bill and Donna! Anyway, I always respect and seek your opinion. My resume and bio are attached. Please send me a link to the Executive Director position you mentioned. Thanks.

Regards,

Mark

Mark A. Faulkenberg
Managing Partner
Velorum Consulting Group, LLC
872-588-9300
mark.faulkenberg@velorumconsulting.com

EXHIBIT 37

RVKuhns & ASSOCIATES, INC.

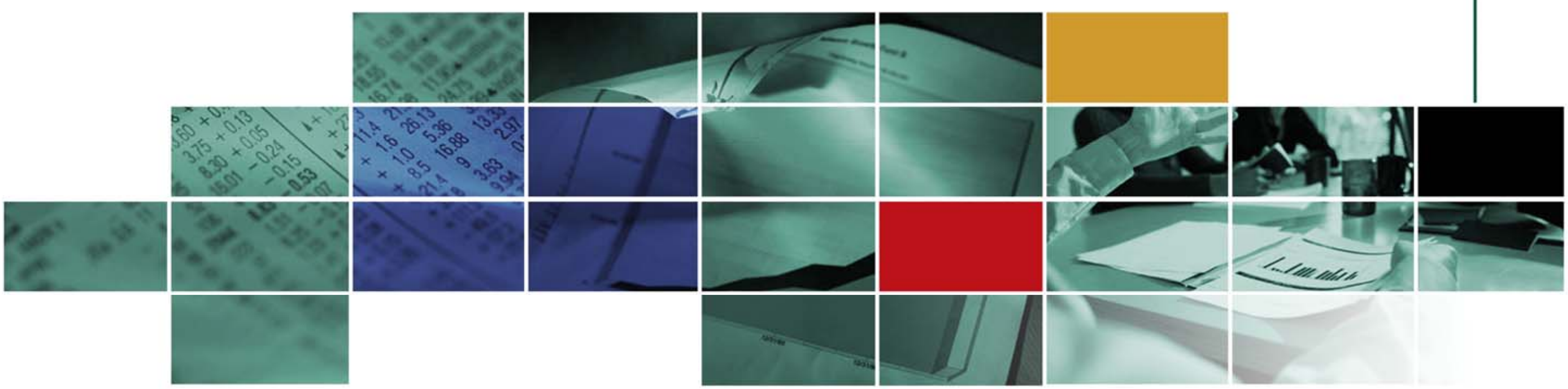
Kentucky Employee Retirement System Asset / Liability Studies

Overview and Summary

May 2010

Presented by

Rob Palmeri, Tony Johnson, and Jim Voytko



KERS Asset / Liability Studies

Asset Liability Studies Covered

- KERS Non-□a□ardous Pension Plan
- KERS □a□ardous Pension Plan
- KERS Non-□a□ardous Insurance Plan
- KERS □a□ardous Insurance Plan

Note□This presentation is only a partial summary of the full Asset/Liability Studies submitted to the KERS □oard□The complete versions of these studies contain important bac□ground information and caveats important to a complete understanding of the issues addressed□

KERS Asset / Liability Studies

Contributors

- **Prepared y**
  - James Voytko, Senior Consultant, R.V. Kuhns & Associates, Inc.
  - Tony Johnson, Senior Consultant, R.V. Kuhns & Associates, Inc.
  - Ashlee Moehring, Consultant, R.V. Kuhns & Associates, Inc.
  - Sirisha Mosalikanti, Associate Consultant, R.V. Kuhns & Associates, Inc.
  - Ryan Sullivan, Investment Associate, R.V. Kuhns & Associates, Inc.

- ** ith the Cooperation of**
  - David Dougherty, LLC. (Consulting Actuary)
  - Cavanaugh Macdonald Consulting, LLC (Plan Actuaries)

KERS Asset/Liability Studies

Our Goals Today

1. **Compare for each plan the "side by side" forecast for both the plan's assets (driven by investment strategy in the form of a specific asset allocation) and plan liabilities.**

2. **Examine the potential consequences for the key future financial metrics for each plan (including asset levels, funding ratios, plan liquidity, and contributions).**

3. **Frame issues for the Committee and the Board involving decisions made today and in the next several years that can have material effects on the financial health of the plans studied in the years to come.**

KERS Asset/Liability Studies

What is an Asset/Liability Study?

- **Investment programs do not exist in a vacuum. They seek to satisfy one or more investment objectives.**
- **The purpose of an Asset/Liability Study is to examine how well alternative investment strategies (i.e., differing asset allocations) address the objectives served by the fund - the fund "liabilities".**
- **In doing so, it creates an important "guidepost" for the actual asset allocation for the fund; the asset allocation chosen by the fund's fiduciaries will likely reflect the nature of the liabilities but also numerous other factors including risk preferences, liquidity, implementation constraints, etc.**
- **For the KERS Asset Liability Studies, we assume the objectives are:**
  - Fund all participants' benefits over time.
  - Assure sufficient liquidity to pay benefits at all times.
  - Foster a stable contribution stream consistent with objectives 1 and 2
  - Achieve adequate returns without accepting unnecessary or imprudent levels of risk

KERS Asset/Liability Studies

An Asset/Liability Study is not…

- **An actuarial study of the KERS liabilities**
  - That is the purview of the Fund's actuary.
- **A prescription for plan benefits**
  - That is the purview of the legislature.
- **An assessment of the affordability of contribution levels**
  - That is the purview of the elected officials and their constituents.
- **The sole determinant of the final asset allocation adopted for the Fund**
  - There are a number of factors, including insights from an Asset/Liability Study, which will bear on the optimal asset allocation.

KERS Non-Hazardous Pension Plan

- Deterministic Analysis
- Stochastic Analysis

KERS Asset / Liability Studies

The Critical Role of House Bill 1

- Per □ouse □ill 1□future State contributions for Non-□a□ardous Pension Plan □ill be □as a percentage of the Annual Required Contribution□□

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Non-Hazardous	44%	48%	53%	57%	61%	65%	69%	73%	77%	81%	85%	89%	93%	97%	100%

KERS Non-Hazardous Pension

Deterministic Analysis

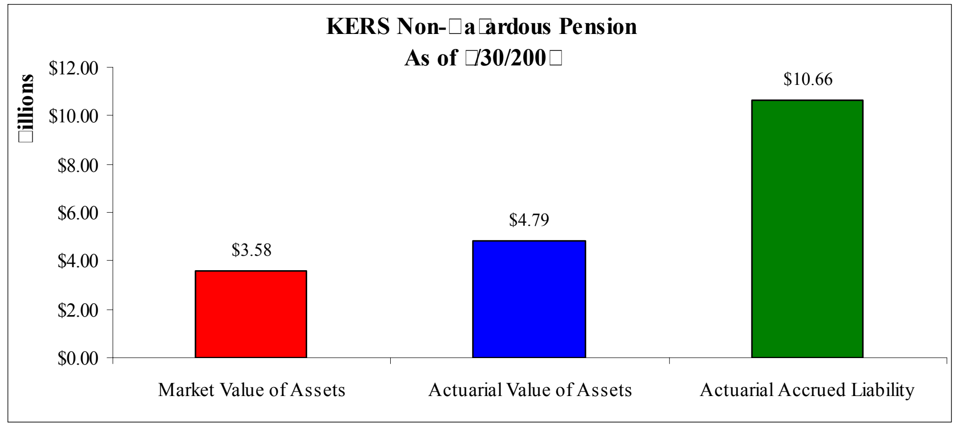
- **This section provides an analysis of the Plan's assets, liabilities, funded status, and benefit payments based on a <u>fixed</u> set of future assumptions.**

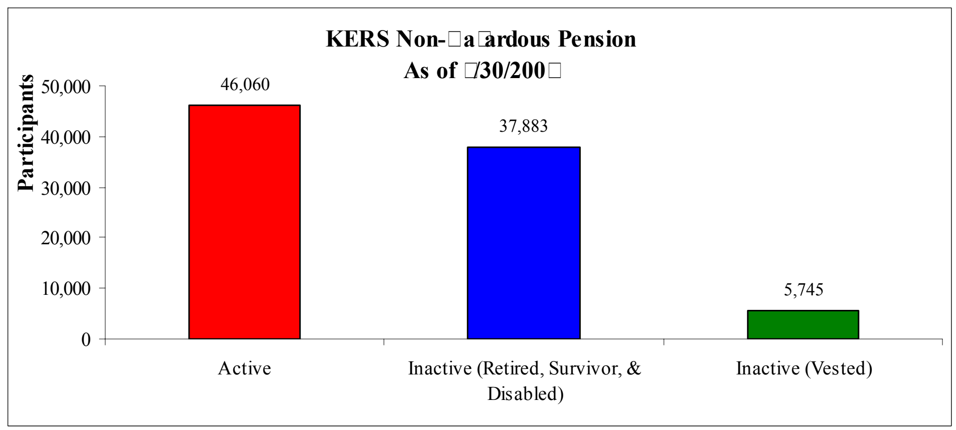
- **Essentially, it assumes investments returns are guaranteed.**

KERS Non-Hazardous Pension

Deterministic Analysis – Current Status

□aluation Date	□une 30□200□
Mar□et □alue of Assets □M□A□	□3□58□1□□□2□
Actuarial □alue of Assets □A□A□	□□□□□□11□3□5
Actuarial Accrued Liability □AAL□	□10□58□5□□532
Actuarial Funded Ratio □A□A/AAL□	□5□
Mar□et □alue Funded Ratio □M□A/AAL□	3□□
Active Participants	□□0□0
Inactive □Retired□Survivor□ □ Disabled□ Participants Retirees and □eneficiaries	3□883
Inactive □Other□ Participants □ested	5□□5





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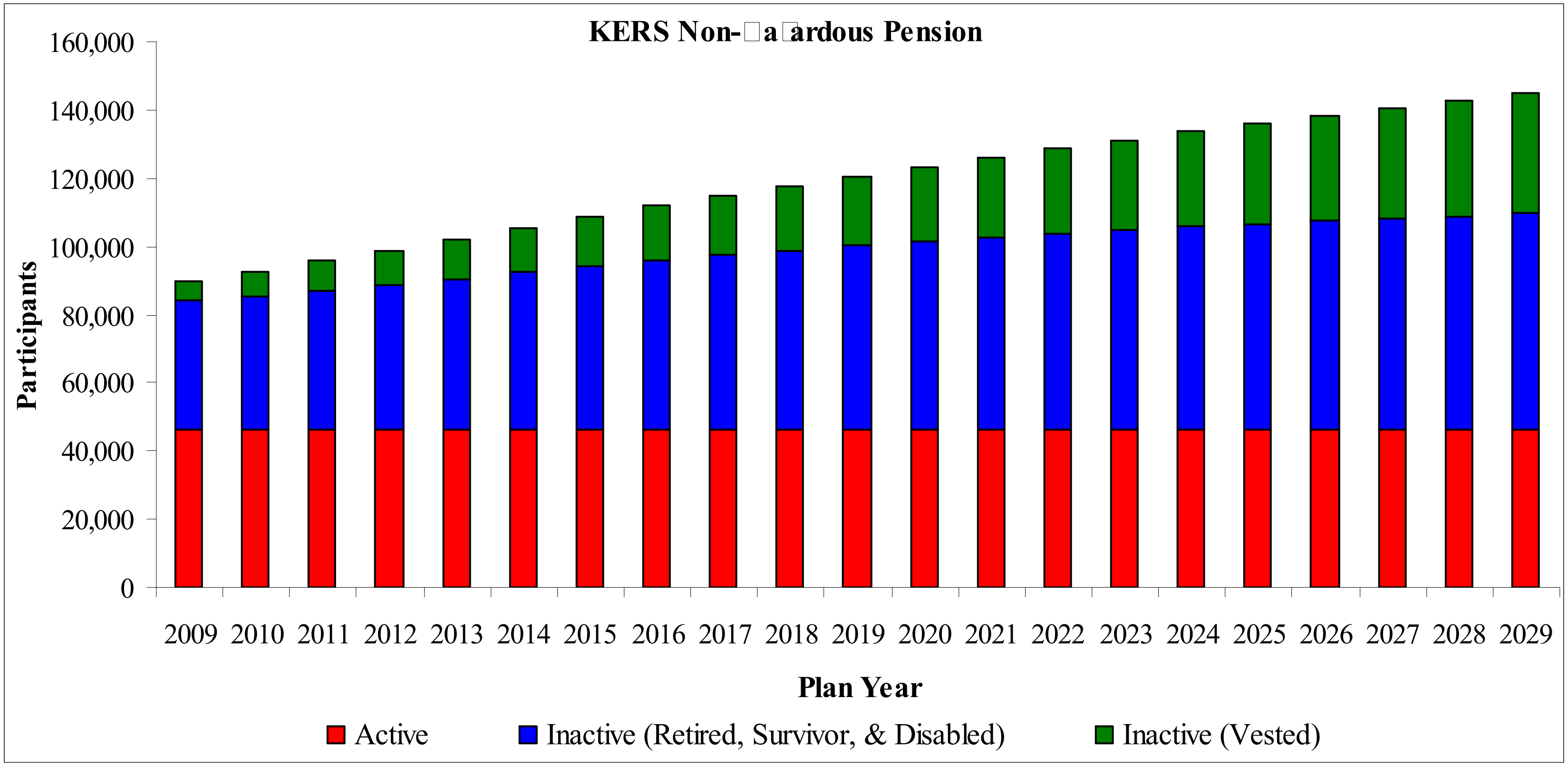
KERS Non-Hazardous Pension

Deterministic Analysis - Demographics



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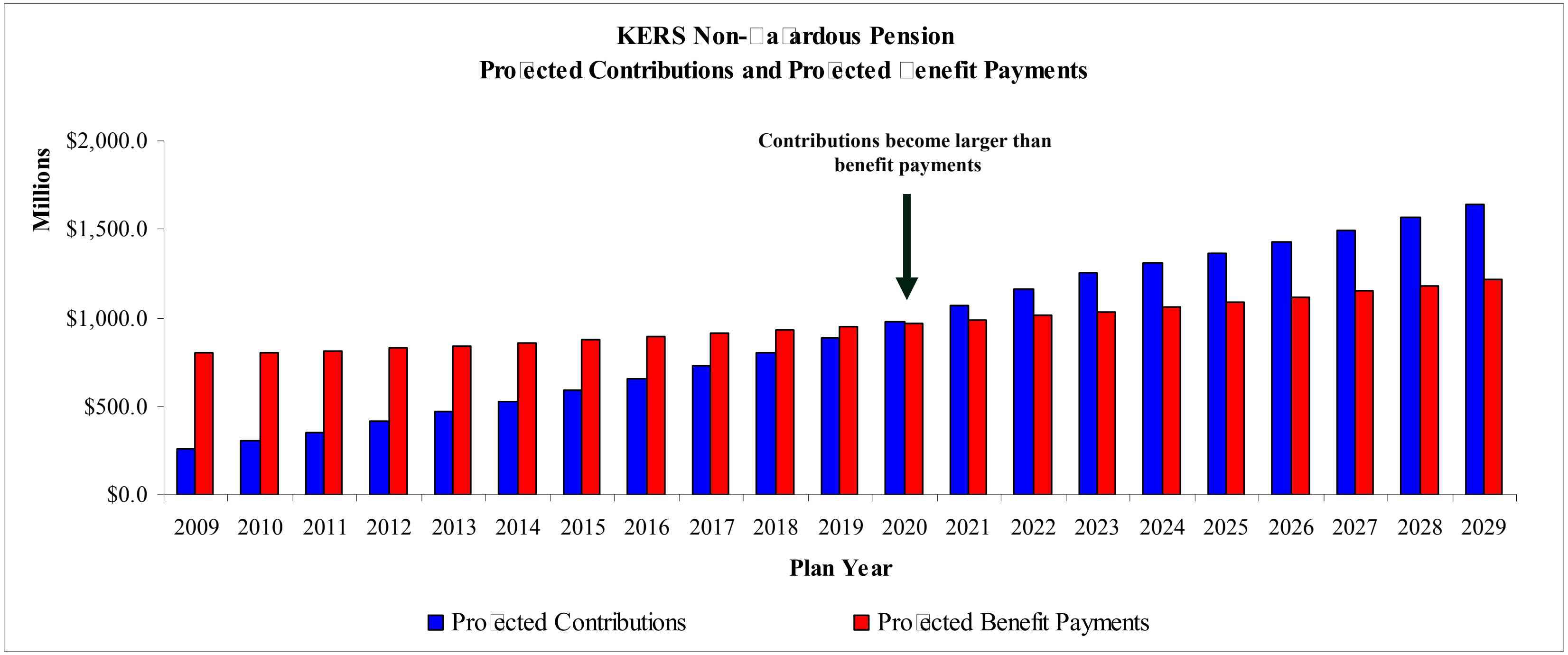
KERS Non-Hazardous Pension

Deterministic Analysis – Benefits and Contributions



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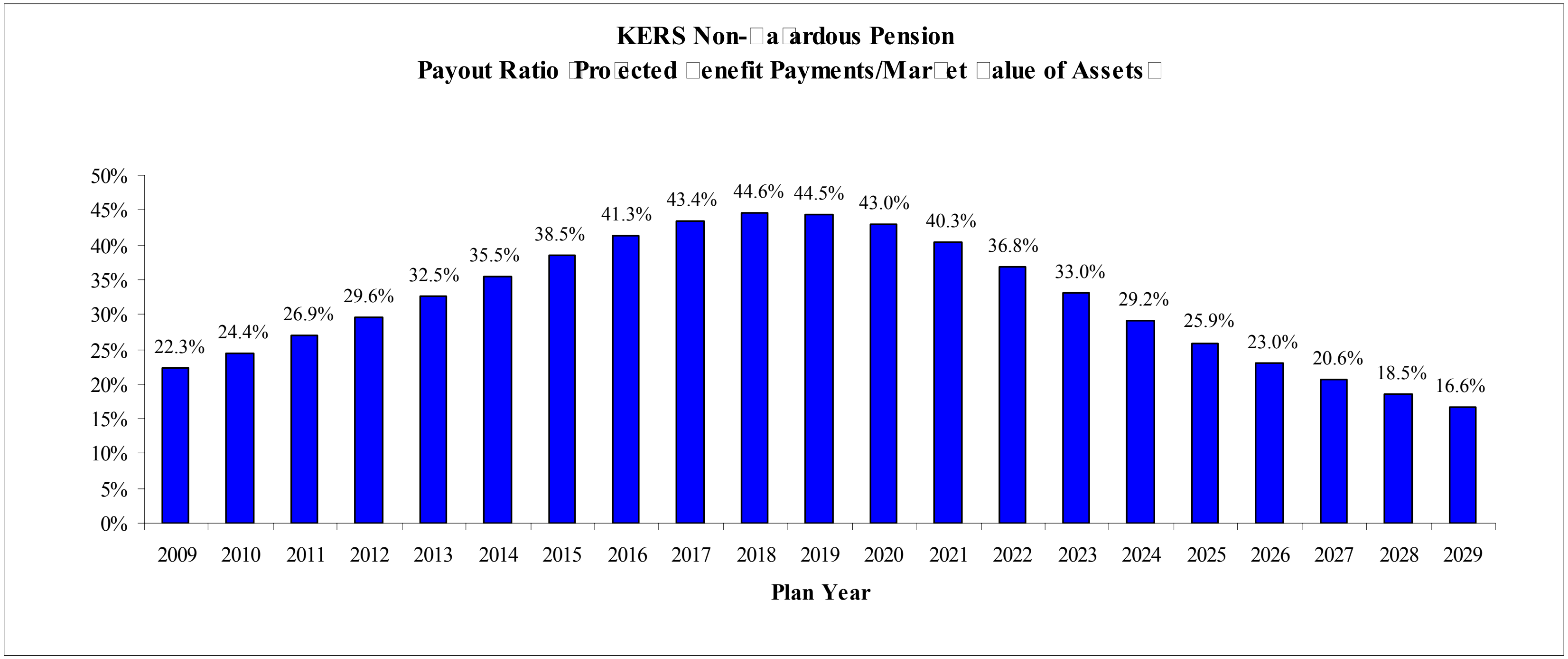
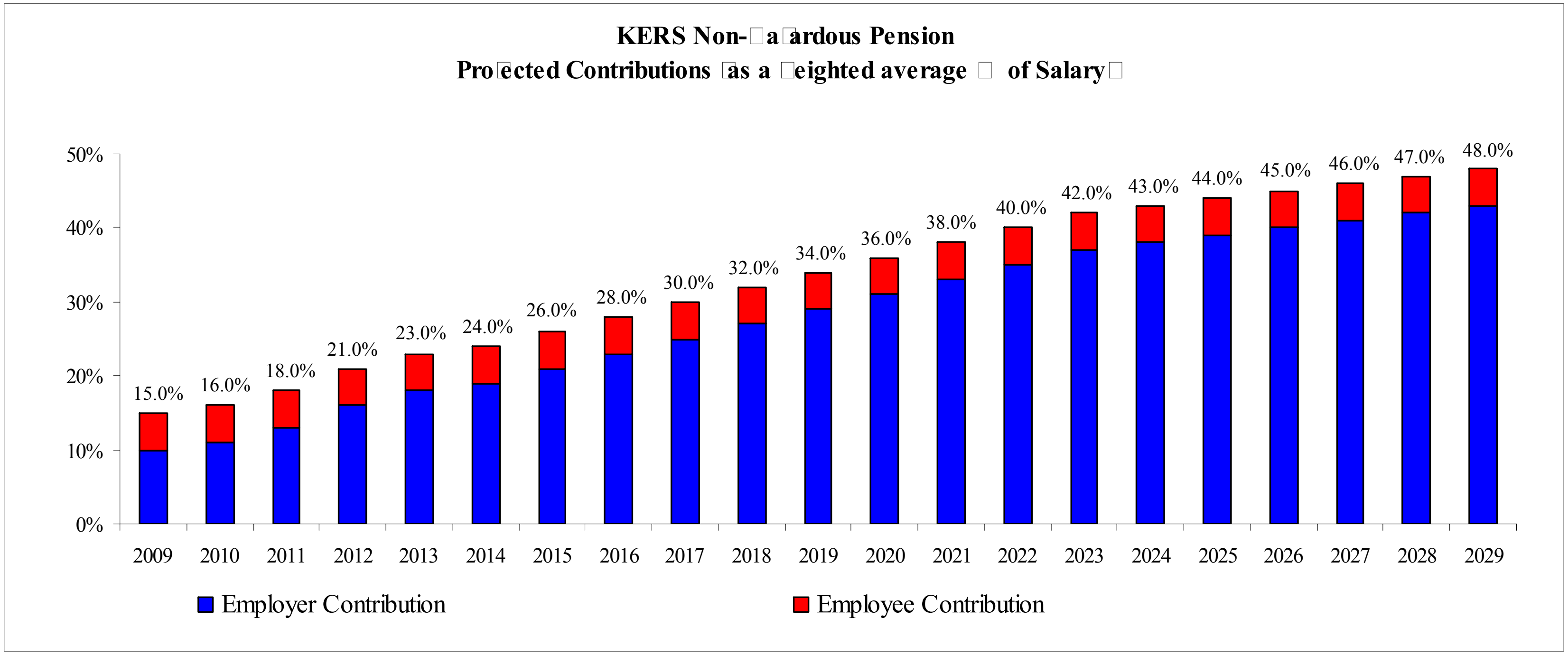
KERS Non-Hazardous Pension

Deterministic Analysis – Payout Ratio



KERS Non-Hazardous Pension

Deterministic Analysis – Contributions



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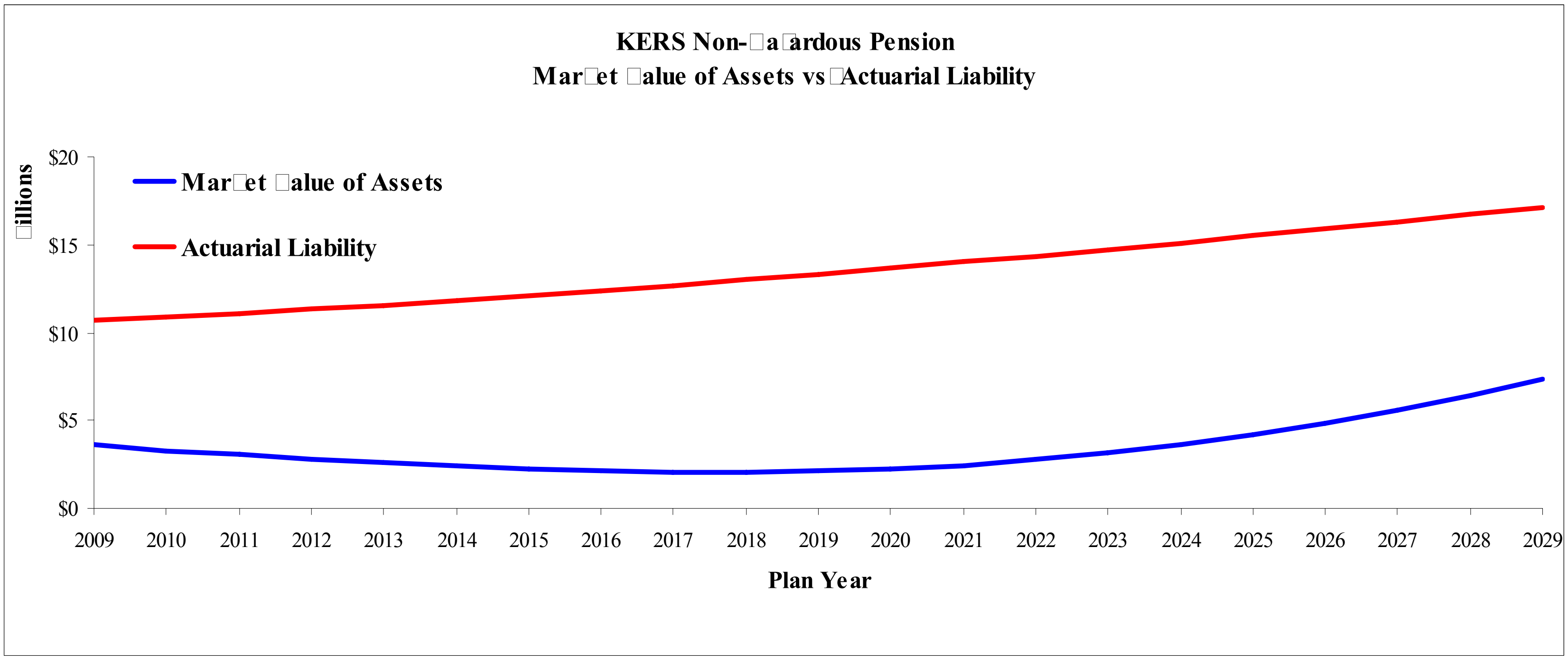
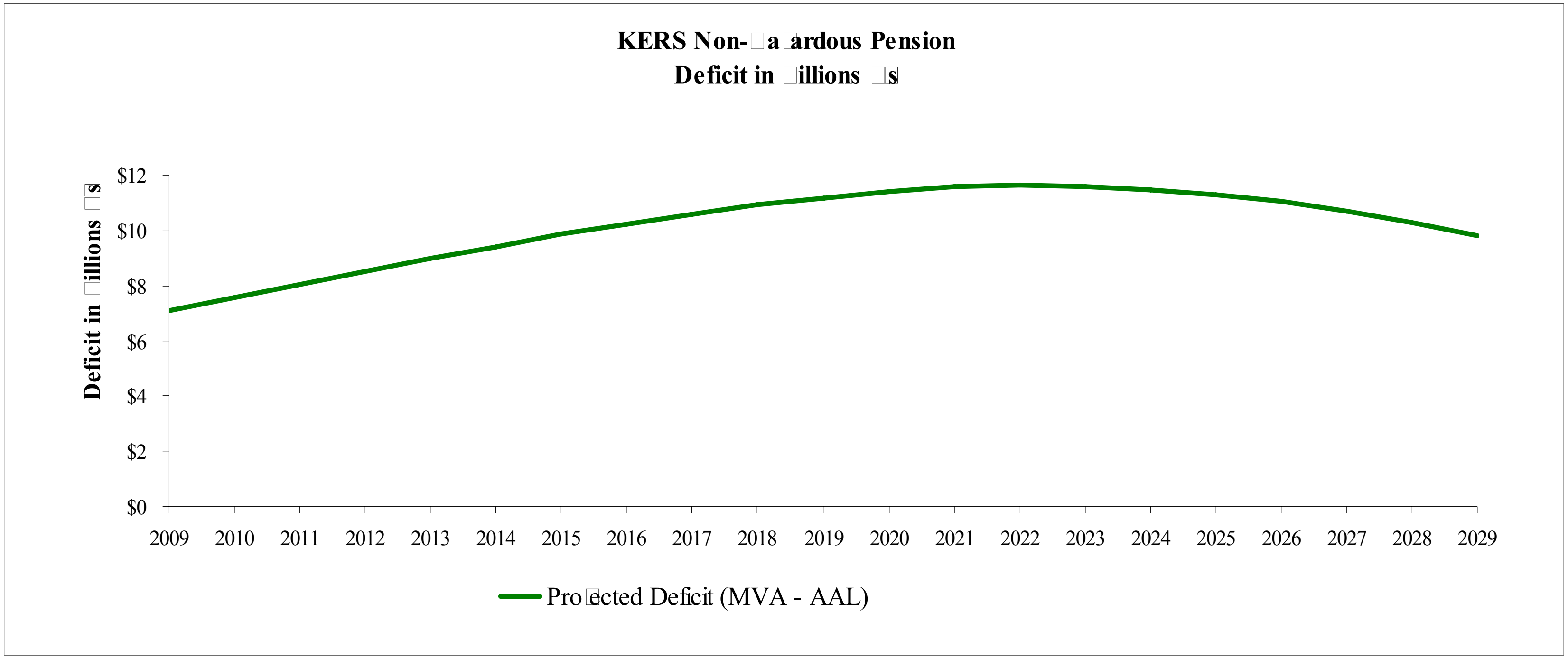
KERS Non-Hazardous Pension

Deterministic Analysis – Liabilities/Market Value



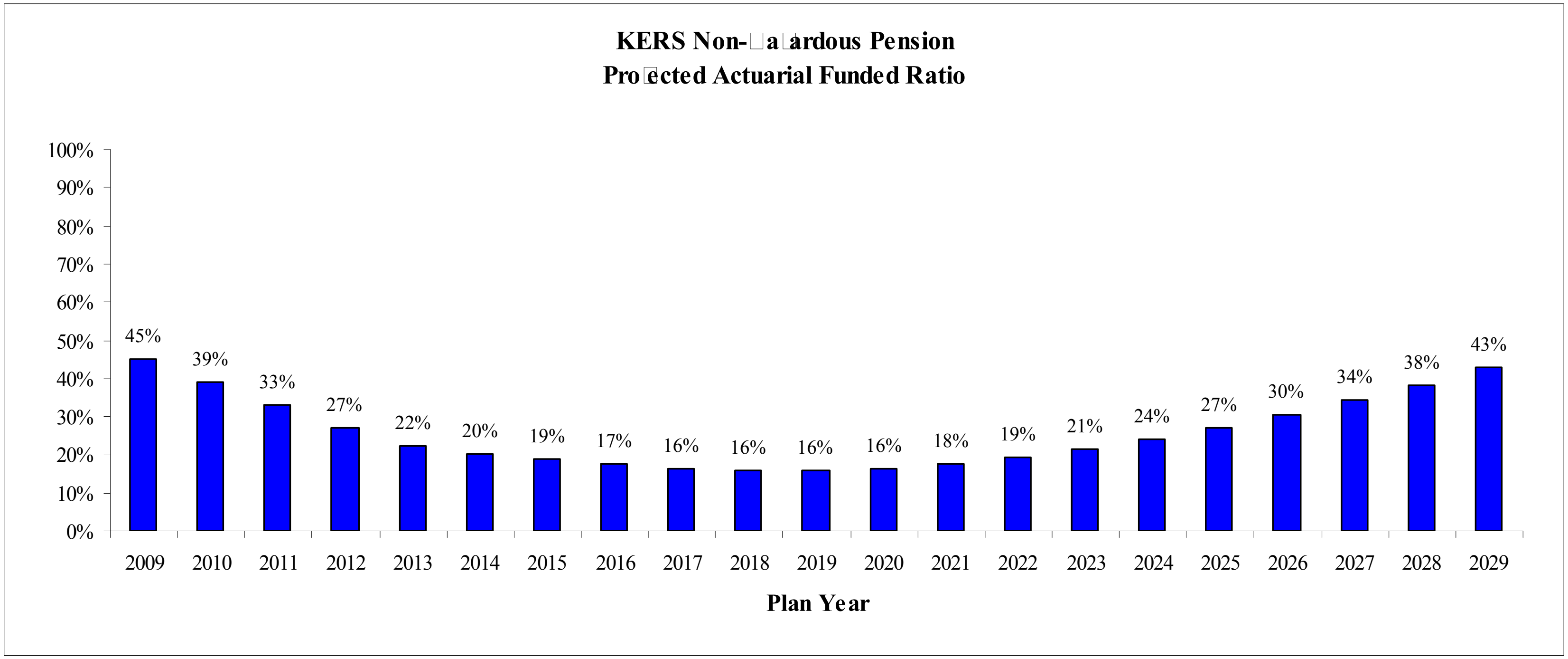
KERS Non-Hazardous Pension

Deterministic Analysis – Deficit



KERS Non-Hazardous Pension

Deterministic Analysis – Actuarial Funded Ratio



RVKuhns & ASSOCIATES, INC.

KERS Non-Hazardous Pension

Stochastic Analysis

- **This section provides an analysis of the Plan's assets, liabilities, funded status, and benefit payments based on expected asset returns and inflation, and their expected volatility. Using Monte Carlo Simulation technique, both asset and liabilities are assumed to vary stochastically, linked together by changes in inflation.**

- **It assumes investments returns are <u>uncertain</u>.**

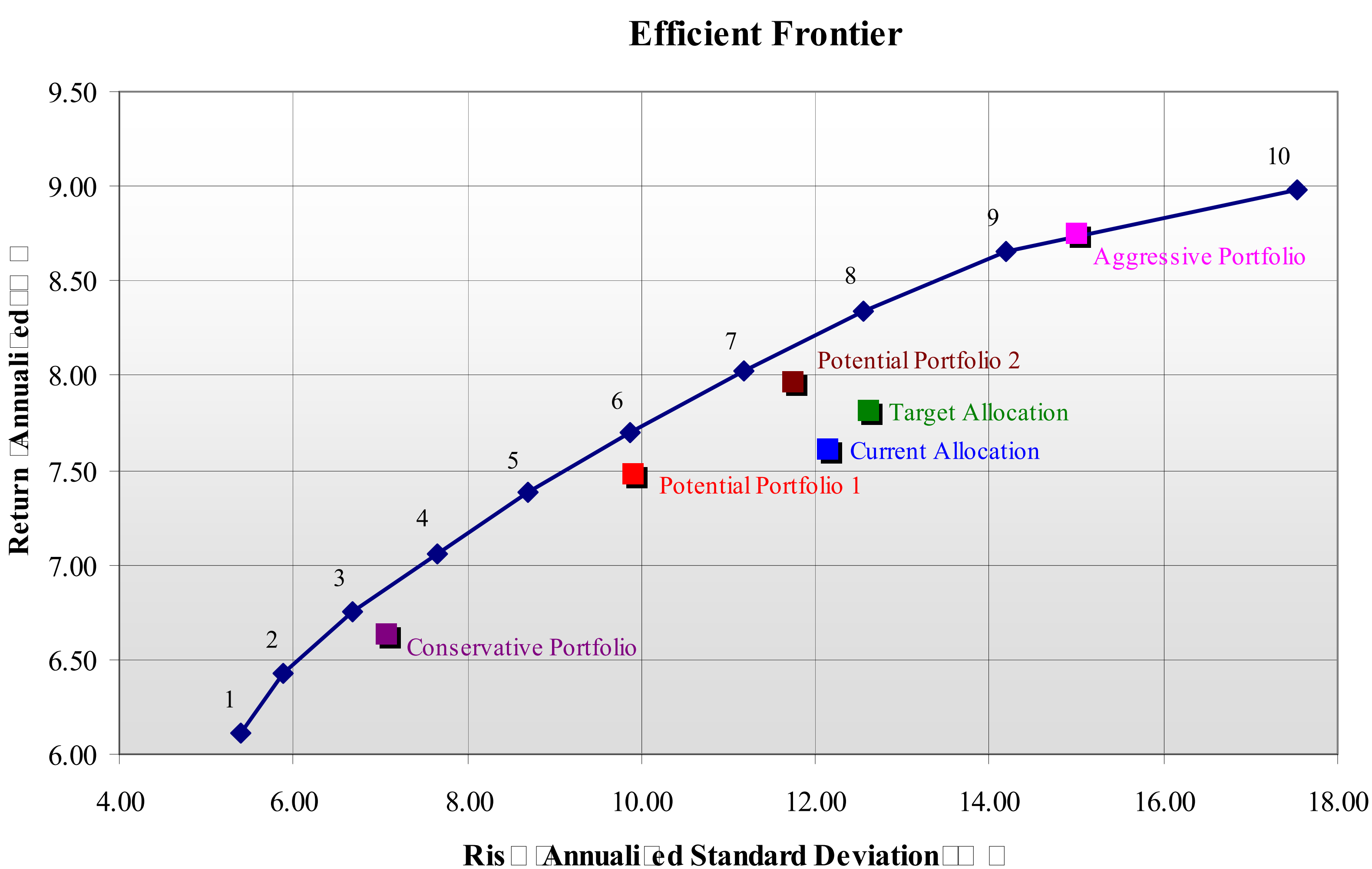
KERS Non-Hazardous Pension

Stochastic Analysis – Pursuing Uncertain Returns

Asset Class	Current Allocation	Target Allocation	Conservative Portfolio	Potential Portfolio 1	Potential Portfolio 2	Aggressive Portfolio
Broad US Equity	27.2%	30.0%	10.0%	14.0%	18.0%	17.0%
Broad Int'l Equity	26.4%	22.0%	5.0%	12.0%	18.0%	30.0%
Emerging Markets	0.0%	5.0%	3.0%	3.0%	4.0%	10.0%
Core Fixed Income	21.5%	10.0%	43.0%	15.0%	10.0%	5.0%
Non-US Fixed Income U[illegible]	0.0%	5.0%	9.0%	10.0%	5.0%	1.0%
High Yield	0.0%	5.0%	5.0%	8.0%	5.0%	2.0%
TIPS	10.4%	5.0%	0.0%	0.0%	0.0%	0.0%
Real Estate - Core	0.5%	5.0%	5.0%	5.0%	7.0%	5.0%
Absolute Return	0.0%	0.0%	5.0%	10.0%	10.0%	10.0%
Private Equity	12.0%	7.0%	7.0%	10.0%	12.0%	15.0%
Commodities - Broad	0.0%	5.0%	0.0%	0.0%	0.0%	0.0%
Real Return	0.0%	0.0%	8.0%	12.0%	10.0%	5.0%
Cash Equivalents	2.0%	1.0%	0.0%	1.0%	1.0%	0.0%
Expected Return	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Expected Risk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

KERS Non-Hazardous Pension

Stochastic Analysis – Efficient Frontier



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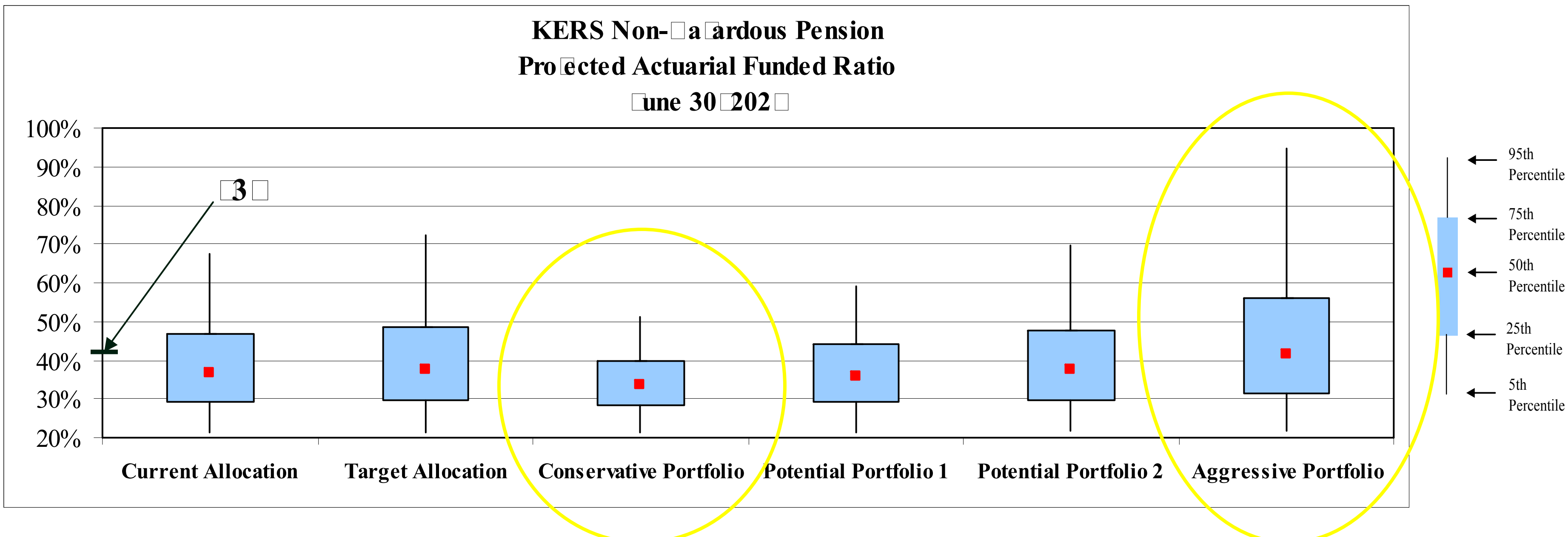
KERS Non-Hazardous Pension

Stochastic Analysis – Possible Long Term Outcomes



	Current Allocation		Target Allocation		Conservative Portfolio		Potential Portfolio 1		Potential Portfolio 2		Aggressive Portfolio	
	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio
5th Percentile	$10,465.3	21.4%	$10,387.7	21.5%	$10,316.7	21.3%	$10,248.5	21.5%	$10,271.4	21.6%	$10,357.2	21.9%
25th Percentile	$9,520.5	29.2%	$9,453.0	29.6%	$9,649.0	28.2%	$9,500.2	29.1%	$9,386.1	29.8%	$9,224.3	31.5%
50th Percentile	$8,733.9	36.8%	$8,649.8	37.6%	$9,152.1	33.6%	$8,870.7	35.7%	$8,591.5	37.7%	$8,125.6	41.5%
75th Percentile	$7,590.3	47.0%	$7,378.2	48.6%	$8,590.3	39.9%	$8,057.8	44.2%	$7,498.0	47.7%	$6,308.4	56.1%
95th Percentile	$4,633.4	67.7%	$4,066.9	72.5%	$7,438.5	51.0%	$6,064.6	59.2%	$4,561.9	69.6%	$836.7	94.7%

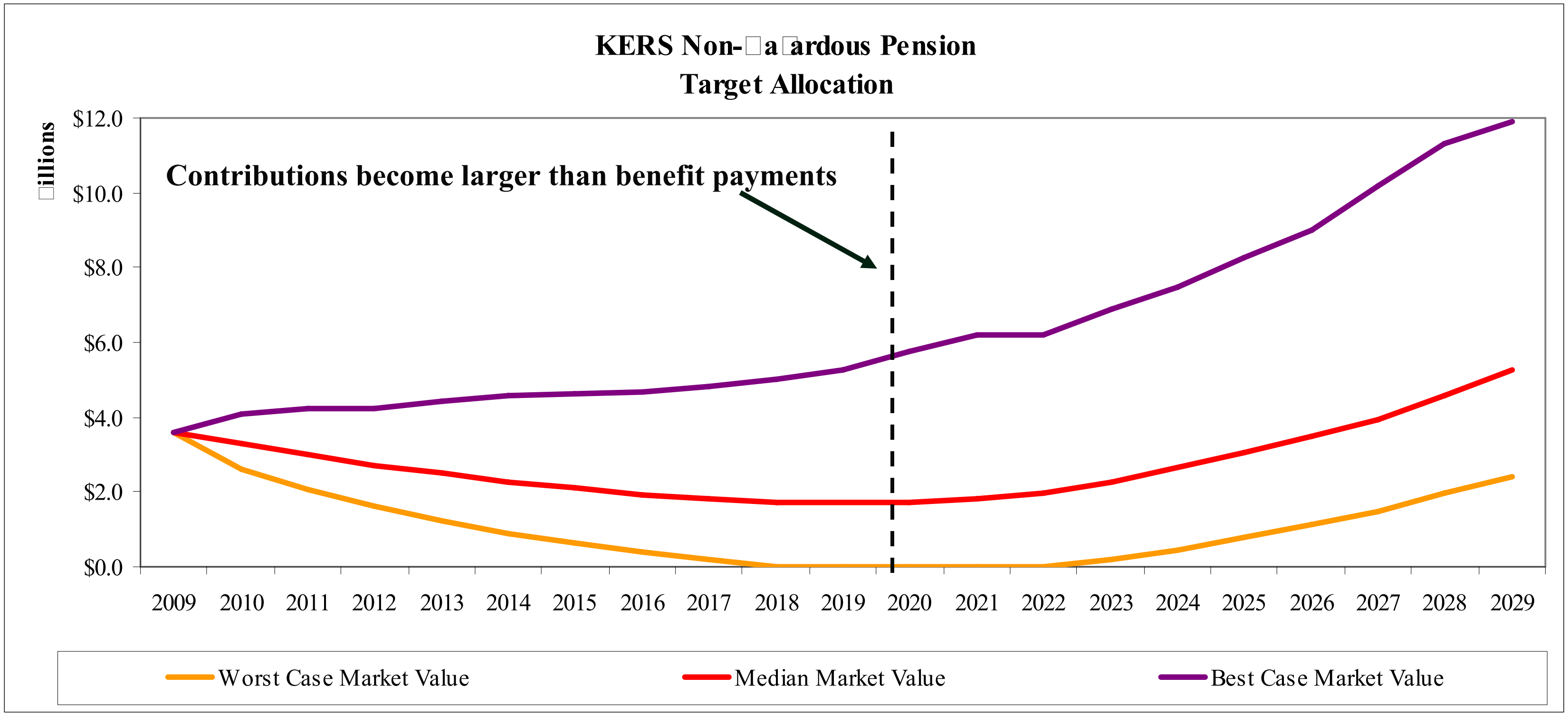
KERS Non-Hazardous Pension

Stochastic Analysis – Drawing Inferences

	Funded Ratio in Year 20		
	50th	**5th**	**□5th**
Current Allocation	36.8%	21.4%	67.7%
Target Allocation	37.6%	21.5%	72.5%
Conservative Portfolio	33.6%	21.3%	51.0%
Potential Portfolio 1	35.7%	21.5%	59.2%
Potential Portfolio 2	37.7%	21.6%	69.6%
Aggressive Portfolio	41.5%	21.9%	94.7%
Deterministic	*42.8%*	*N/A*	*N/A*

KERS Non-Hazardous Pension

A Special Challenge Between Now and the Long Term



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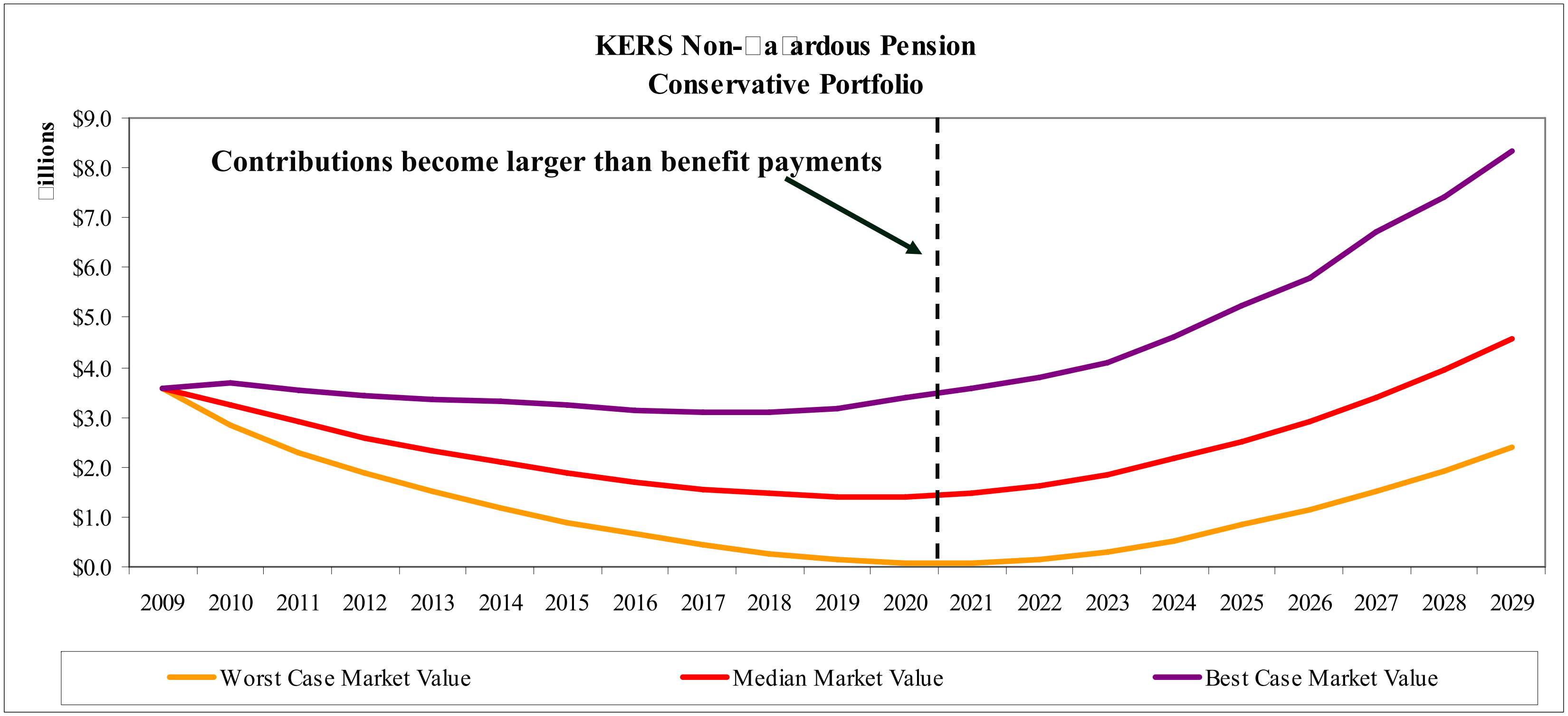
KERS Non-Hazardous Pension

A Special Challenge Between Now and the Long Term



KERS Non-Hazardous Pension

Combining the Long Term and the Path to It

	Funded Ratio in Year 20			Worst Case Scenario
	50th	**5th**	**95th**	
Current Allocation	36.8%	21.4%	67.7%	Insufficient assets to cover benefit payments by 2019
Target Allocation	37.6%	21.5%	72.5%	Insufficient assets to cover benefit payments by 2019
Conservative Portfolio	33.6%	21.3%	51.0%	Sufficient assets but funding ratio drops as low as 0.6%
Potential Portfolio 1	35.7%	21.5%	59.2%	Sufficient assets but funding ratio drops as low as 0.3%
Potential Portfolio 2	37.7%	21.6%	69.6%	Insufficient assets to cover benefit payments by 2020
Aggressive Portfolio	41.5%	21.9%	94.7%	Insufficient assets to cover benefit payments by 2018
Deterministic	*42.8%*	*N/A*	*N/A*	*N/A*

KERS Hazardous Pension Plan

- Deterministic Analysis
- Stochastic Analysis

KERS Asset/Liability Studies

The Critical Role of House Bill 1

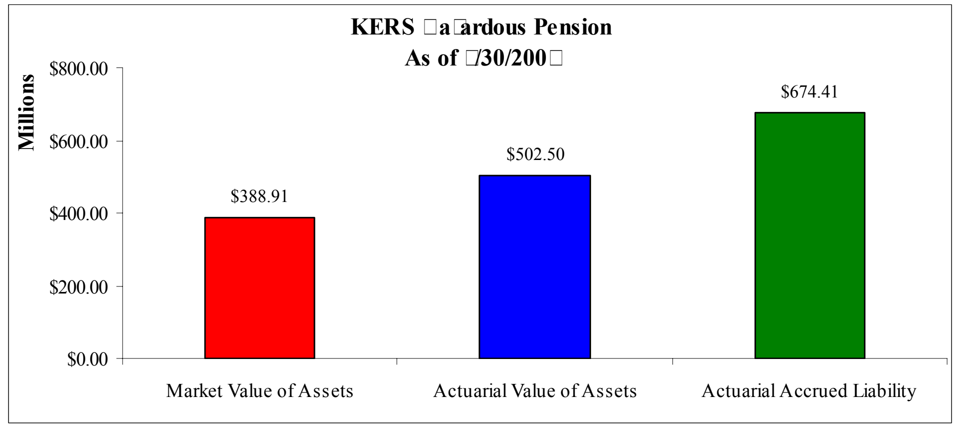
- **Per House Bill 1, future State contributions for Hazardous Pension Plan will be (as a percentage of the Annual Required Contribution):**

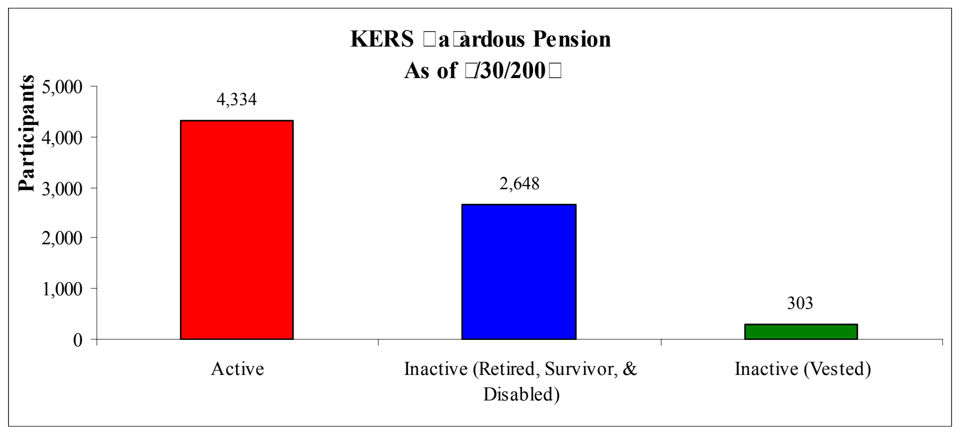
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Hazardous	76%	79%	83%	86%	89%	92%	95%	98%	100%

KERS Hazardous Pension

Deterministic Analysis – Current Status

□aluation Date	□une 30□200□
Mar□et □alue of Assets □M□A□	□388□13□3□□
Actuarial □alue of Assets □A□A□	□502□503□28□
Actuarial Accrued Liability □AAL□	□□□□□11□80
Actuarial Funded Ratio □A□A/AAL□	□5□
Mar□et □alue Funded Ratio □M□A/AAL□	58□
Active Participants	□33□
Inactive □Retired□Survivor□ □ Disabled□ Participants Retirees and □eneficiaries	2□□8
Inactive □Other□ Participants □ested	303

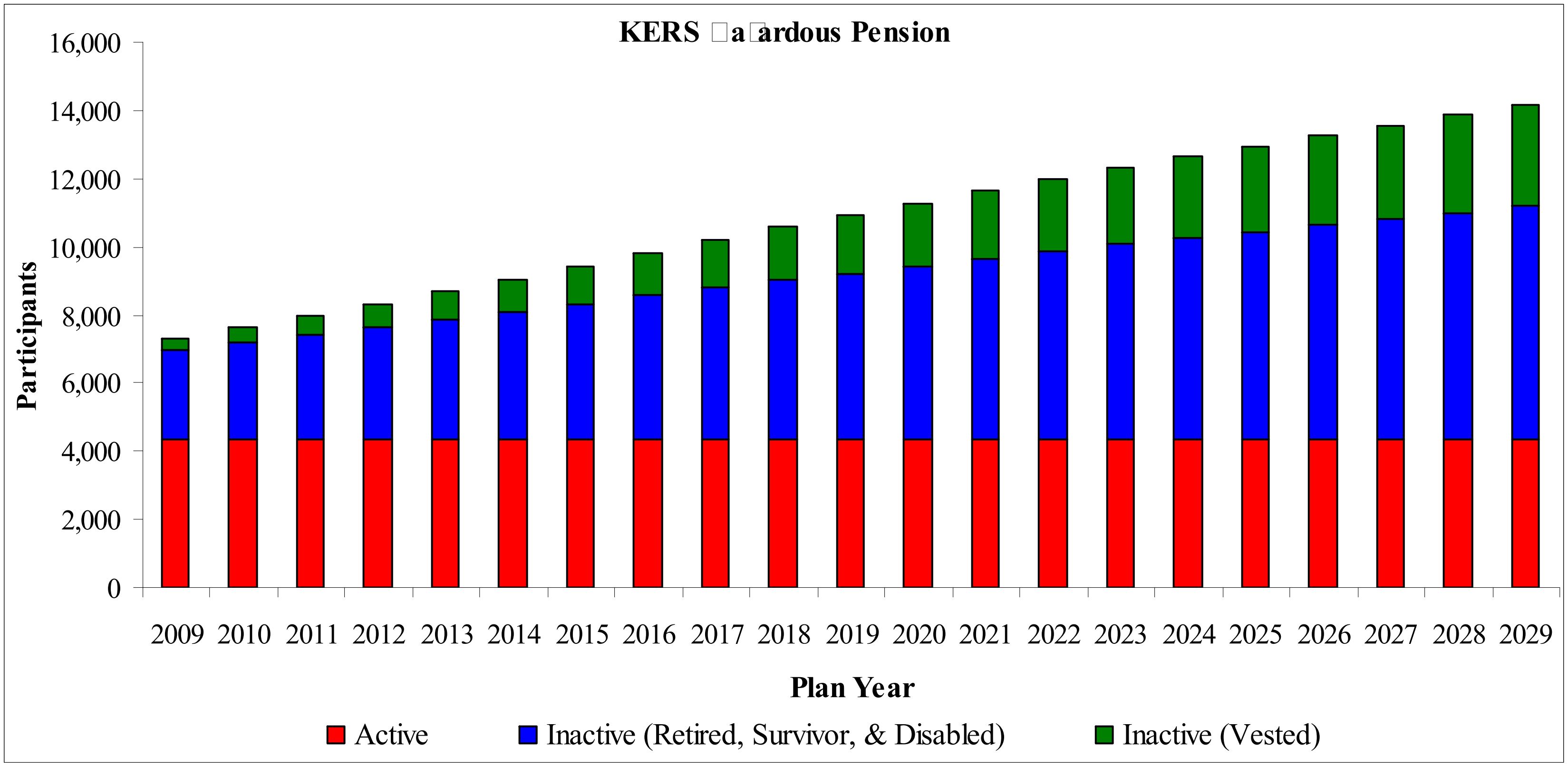




RVKuhns & ASSOCIATES, INC.

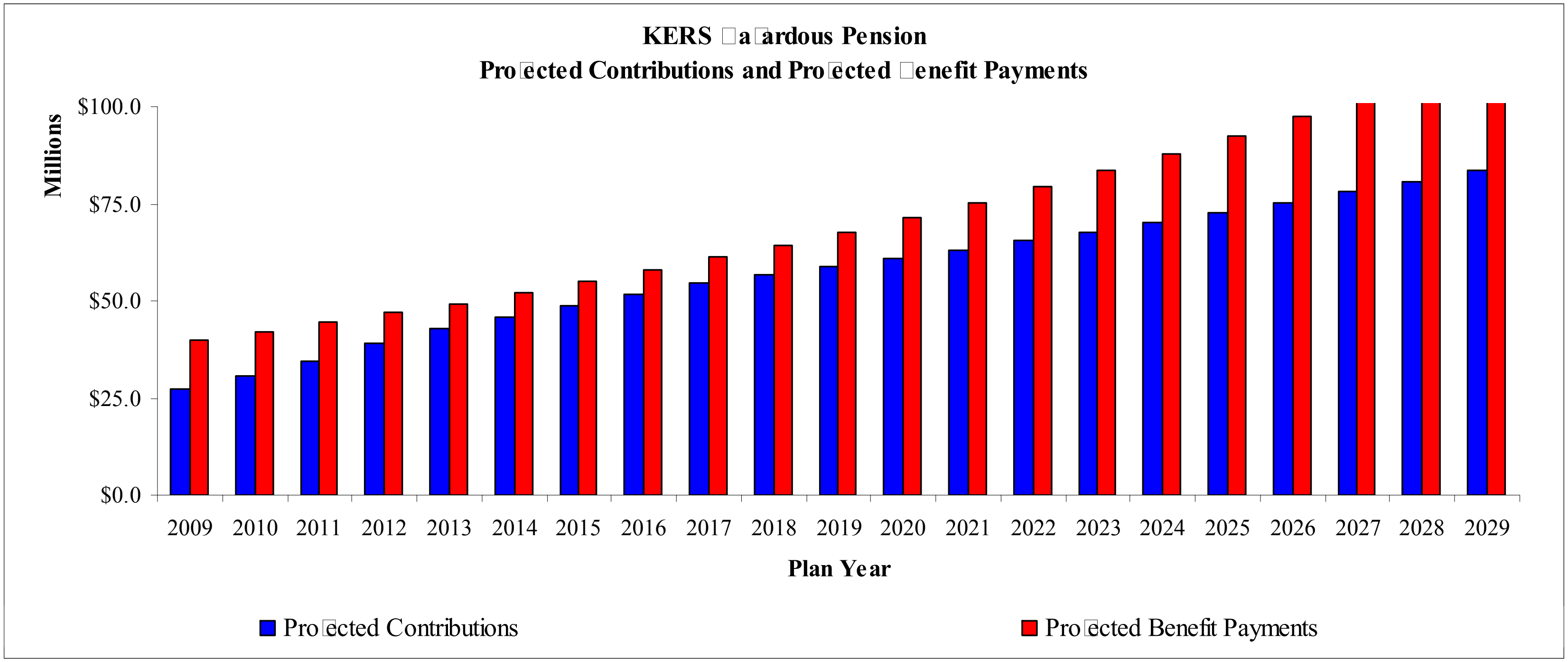
KERS Hazardous Pension

Deterministic Analysis - Demographics



KERS Hazardous Pension

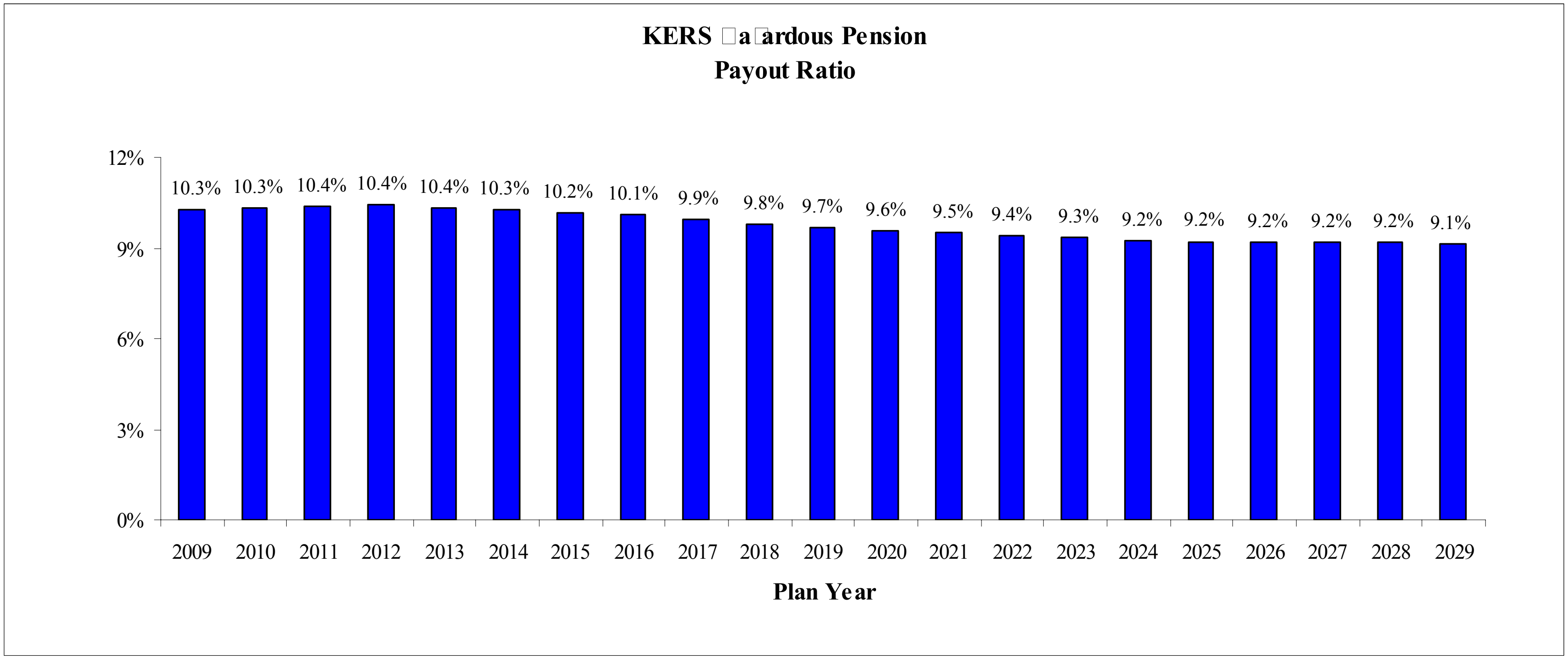
Deterministic Analysis – Benefits and Contributions



RVKuhns & ASSOCIATES, INC.

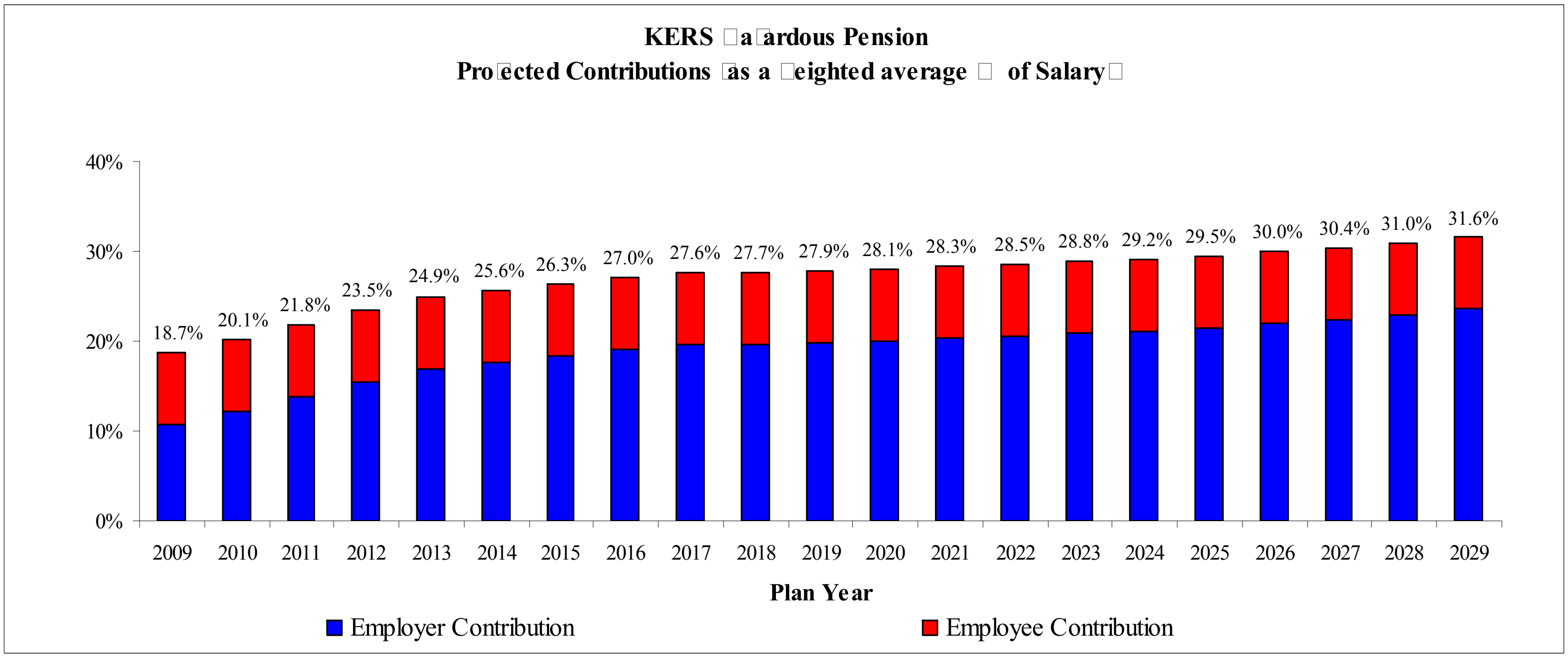
KERS Hazardous Pension

Deterministic Analysis – Payout Ratio



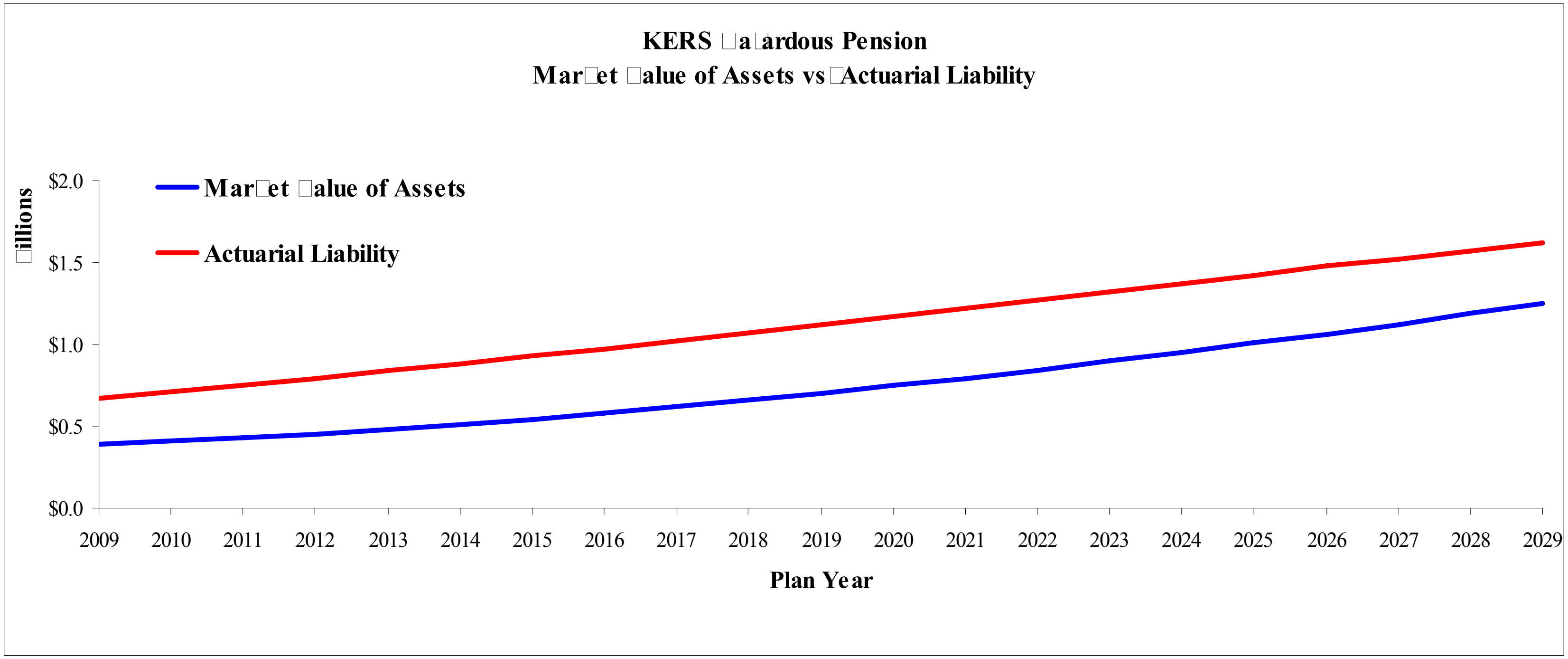
KERS Hazardous Pension

Deterministic Analysis – Contributions



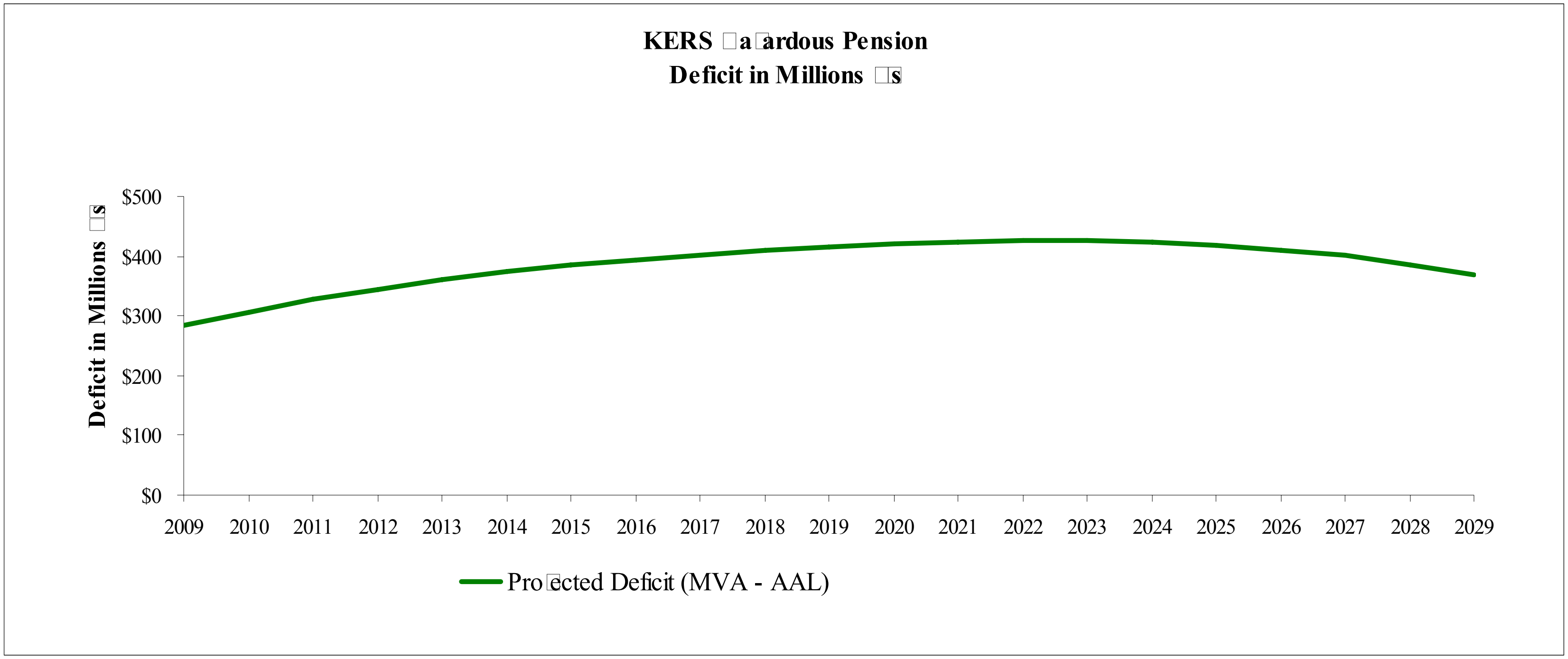
KERS Hazardous Pension

Deterministic Analysis – Liabilities / Market Value



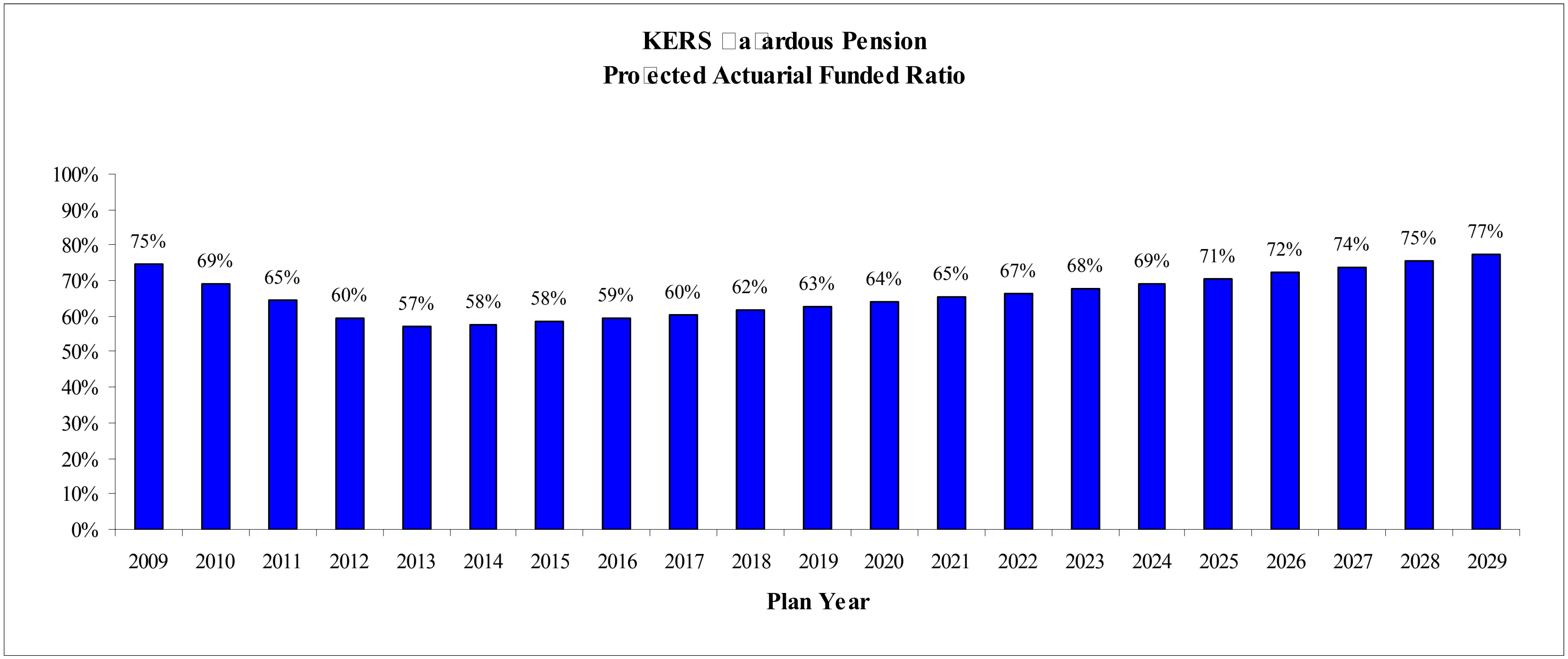
KERS Hazardous Pension

Deterministic Analysis – Deficit



KERS Hazardous Pension

Deterministic Analysis – Actuarial Funded Ratio



RVKuhns & ASSOCIATES, INC.

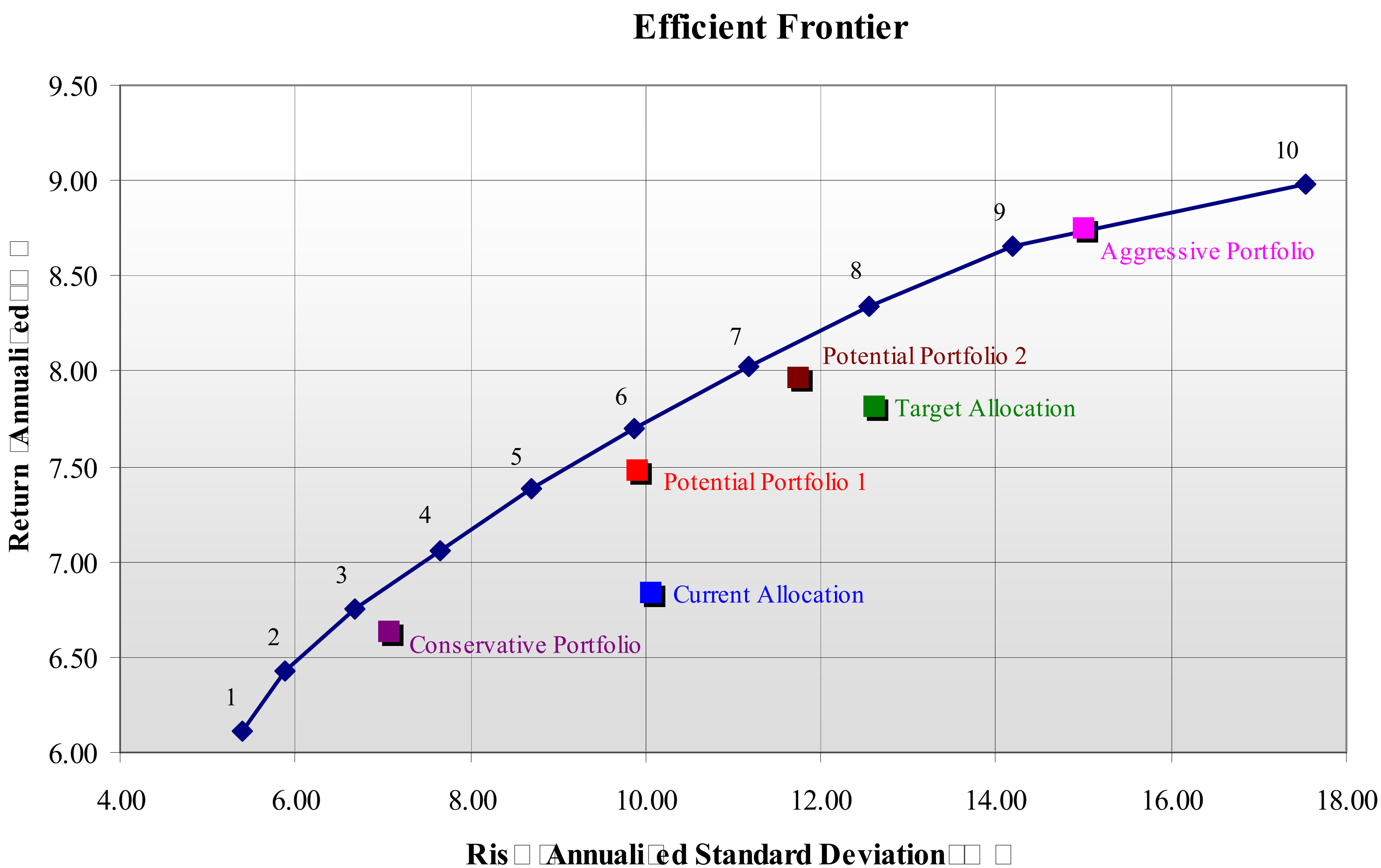
KERS Hazardous Pension

Stochastic Analysis – Pursuing Uncertain Returns

Asset Class	Current Allocation	Target Allocation	Conservative Portfolio	Potential Portfolio 1	Potential Portfolio 2	Aggressive Portfolio
□road US Equity	22.6%	30.0%	10.0%	14.0%	18.0%	17.0%
□road Int□l Equity	19.7%	22.0%	5.0%	12.0%	18.0%	30.0%
Emerging Mar□ets	0.0%	5.0%	3.0%	3.0%	4.0%	10.0%
Core Fixed Income	19.4%	10.0%	43.0%	15.0%	10.0%	5.0%
Non-US Fixed Income U□	0.0%	5.0%	9.0%	10.0%	5.0%	1.0%
□igh Yield	0.0%	5.0%	5.0%	8.0%	5.0%	2.0%
TIPS	6.4%	5.0%	0.0%	0.0%	0.0%	0.0%
Real Estate - Core	0.9%	5.0%	5.0%	5.0%	7.0%	5.0%
Absolute Return	0.0%	0.0%	5.0%	10.0%	10.0%	10.0%
Private Equity	11.2%	7.0%	7.0%	10.0%	12.0%	15.0%
Commodities - □road	0.0%	5.0%	0.0%	0.0%	0.0%	0.0%
Real Return	0.0%	0.0%	8.0%	12.0%	10.0%	5.0%
Cash Equivalents	19.8%	1.0%	0.0%	1.0%	1.0%	0.0%
Expected Return	**□8□□**	**□82□**	**□□□□**	**□□□□**	**□□□□**	**8□□□**
Expected Ris□	**10□0□□**	**12□5□□**	**□05□**	**□□0□**	**11□2□**	**1□□8□**

KERS Hazardous Pension

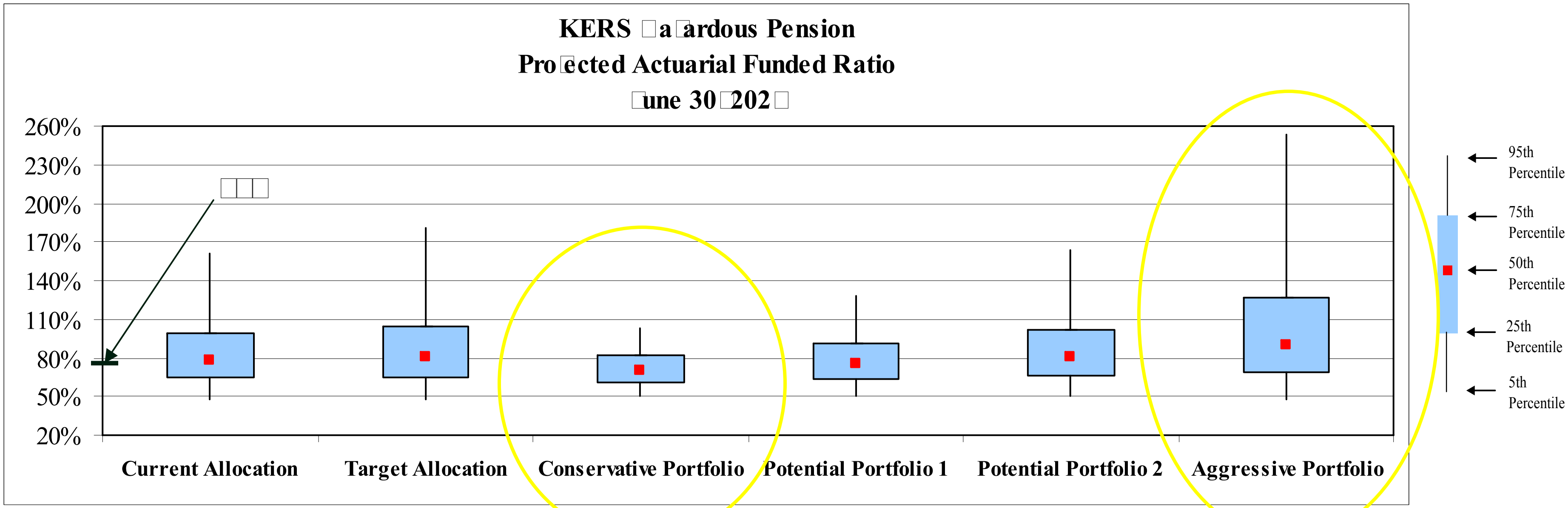
Stochastic Analysis – Efficient Frontier



RVKuhns & ASSOCIATES, INC.

KERS Hazardous Pension

Stochastic Analysis – Possible Long Term Outcomes



	Current Allocation		Target Allocation		Conservative Portfolio		Potential Portfolio 1		Potential Portfolio 2		Aggressive Portfolio	
	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio
5th Percentile	$635.1	47.2%	$631.5	47.4%	$593.8	50.4%	$598.5	50.1%	$609.0	49.8%	$627.8	48.2%
25th Percentile	$445.3	64.4%	$437.5	64.6%	$476.7	61.4%	$443.1	64.1%	$419.1	66.2%	$384.4	69.4%
50th Percentile	$273.4	78.6%	$243.3	80.8%	$377.1	70.5%	$305.8	75.8%	$242.2	81.1%	$118.5	90.5%
75th Percentile	$5.0	99.6%	($54.6)	104.0%	$244.7	81.9%	$109.3	91.7%	($26.0)	102.0%	($354.2)	126.3%
95th Percentile	($835.5)	161.5%	($1,074.4)	180.6%	($35.4)	102.6%	($364.5)	128.0%	($863.5)	163.3%	($2,159.2)	253.7%

KERS Hazardous Pension

Stochastic Analysis – Drawing Inferences

	Funded Ratio in Year 20			Payout Ratios		
	50th	5th	95th	Year 20 Median	200□-202□ Peak	200□-202□ Trough
Current Allocation	78.6%	47.2%	161.5%	9.6%	19.2%	4.3%
Target Allocation	80.8%	47.4%	180.6%	9.3%	19.3%	4.0%
Conservative Portfolio	70.5%	50.4%	102.6%	11.0%	18.0%	6.9%
Potential Portfolio 1	75.8%	50.1%	128.0%	10.1%	18.1%	5.6%
Potential Portfolio 2	81.1%	49.8%	163.3%	9.3%	18.4%	4.3%
Aggressive Portfolio	90.5%	48.2%	253.7%	8.2%	19.1%	2.7%
Deterministic	*77.2%*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*

KERS Non-Hazardous Insurance Plan

- Deterministic Analysis
- Stochastic Analysis

KERS Asset / Liability Studies

The Critical Role of House Bill 1

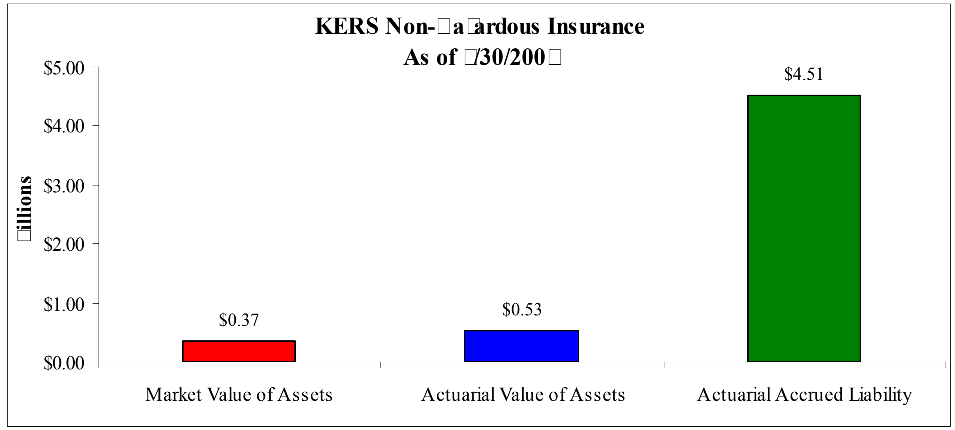
- **Per □ouse □ill 1□future State contributions for Non-□a□ardous Insurance Plan □ill be □as a percentage of the Annual Required Contribution□□**

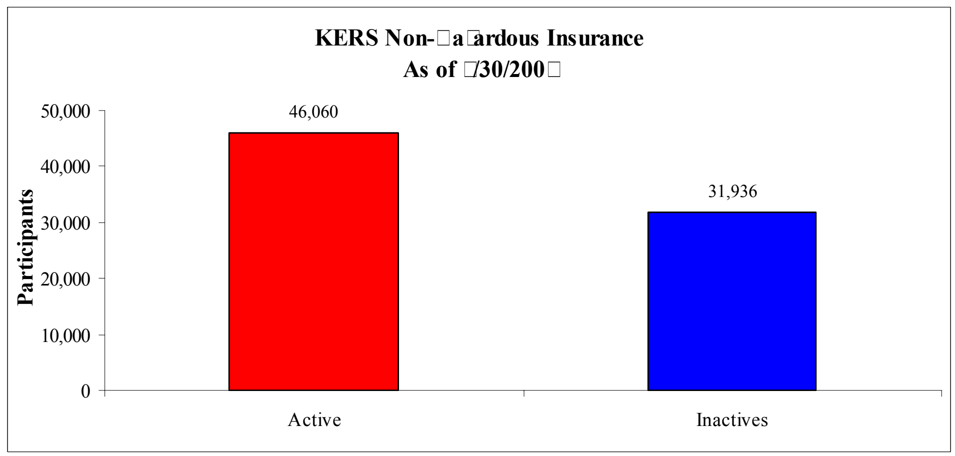
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Non-Hazardous	44%	48%	53%	57%	61%	65%	69%	73%	77%	81%	85%	89%	93%	97%	100%

KERS Non-Hazardous Insurance

Deterministic Analysis – Current Status

□aluation Date	**□une 30□200□**
Mar□et □alue of Assets □M□A□	**□3□5□□1□088**
Actuarial □alue of Assets □A□A□	**□53□1□2□581**
Actuarial Accrued Liability □AAL□	**□□50□325□5□1**
Actuarial Funded Ratio □A□A/AAL□	**12□**
Mar□et □alue Funded Ratio □M□A/AAL□	**8□**
Active Participants	**□□0□0**
Inactive Participants Retirees and □eneficiaries	**31□3□**





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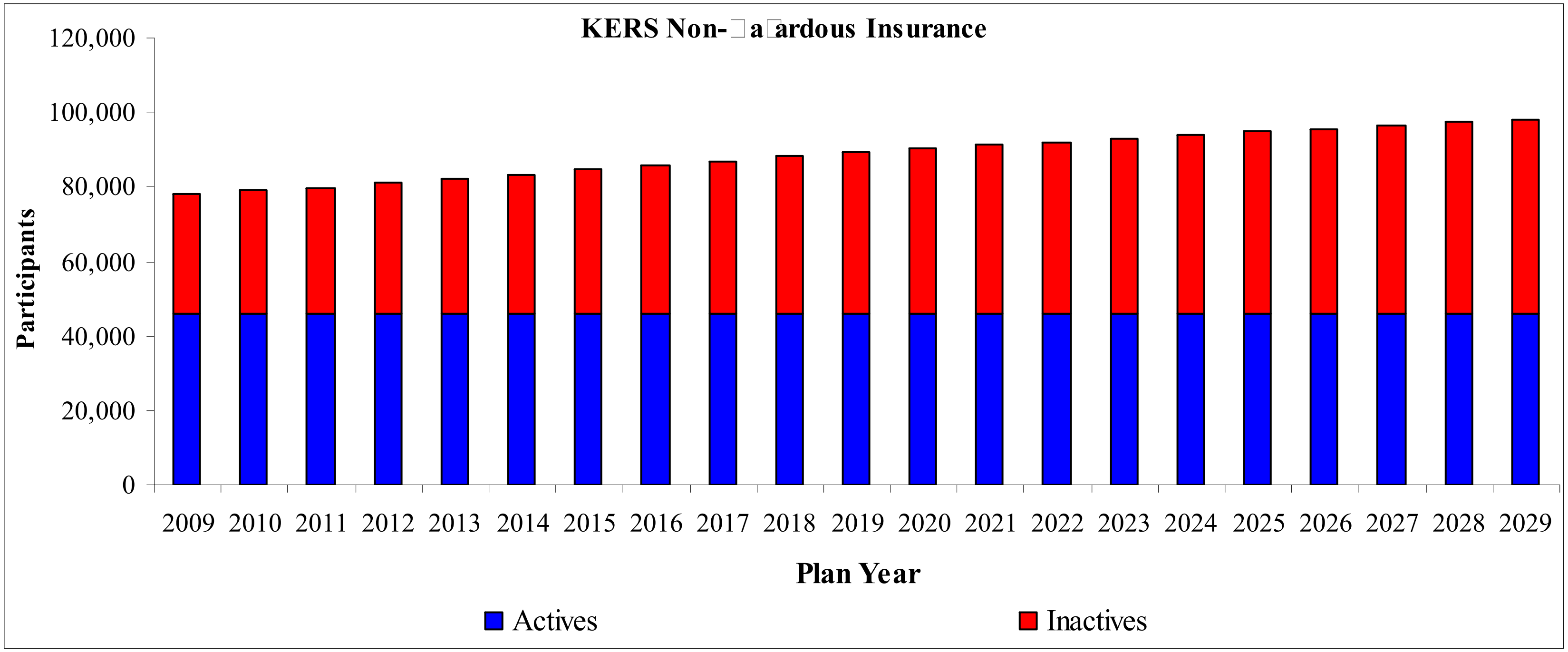
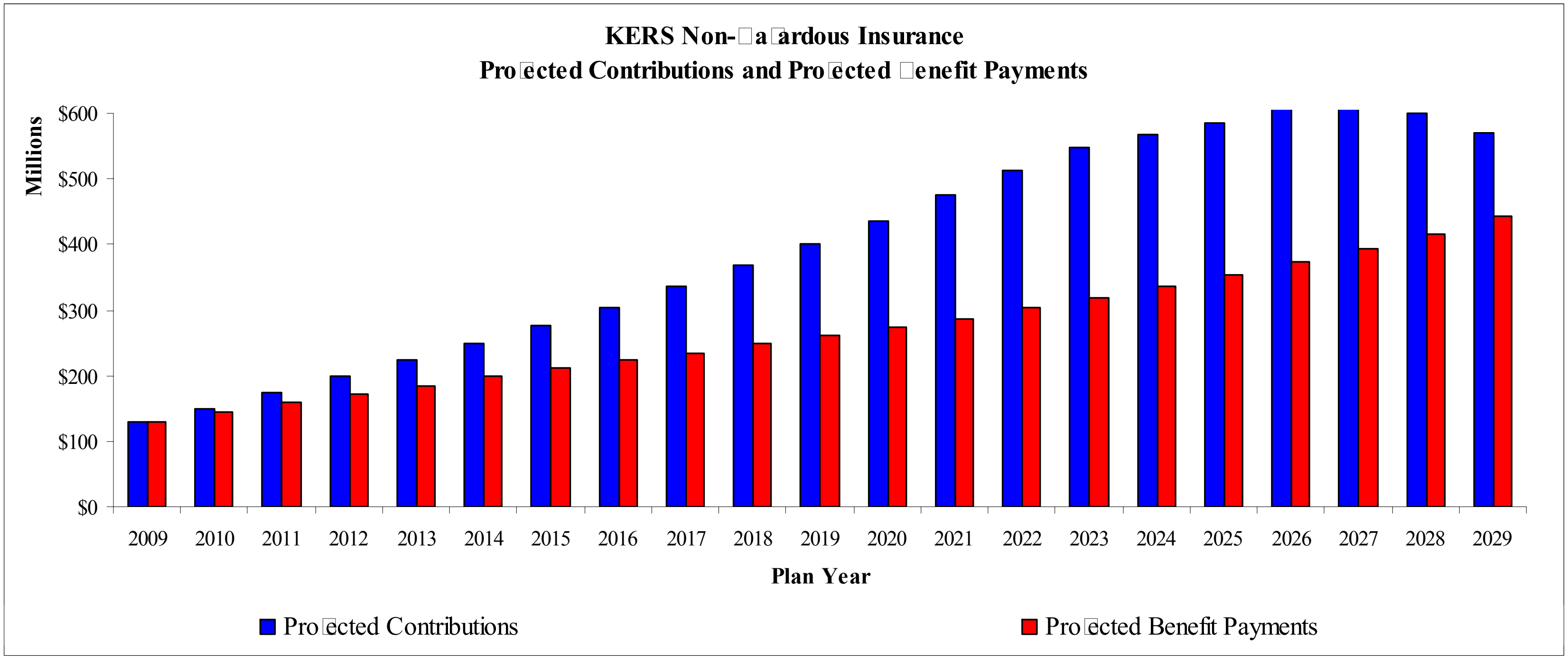
KERS Non-Hazardous Insurance

Deterministic Analysis - Demographics



KERS Non-Hazardous Insurance

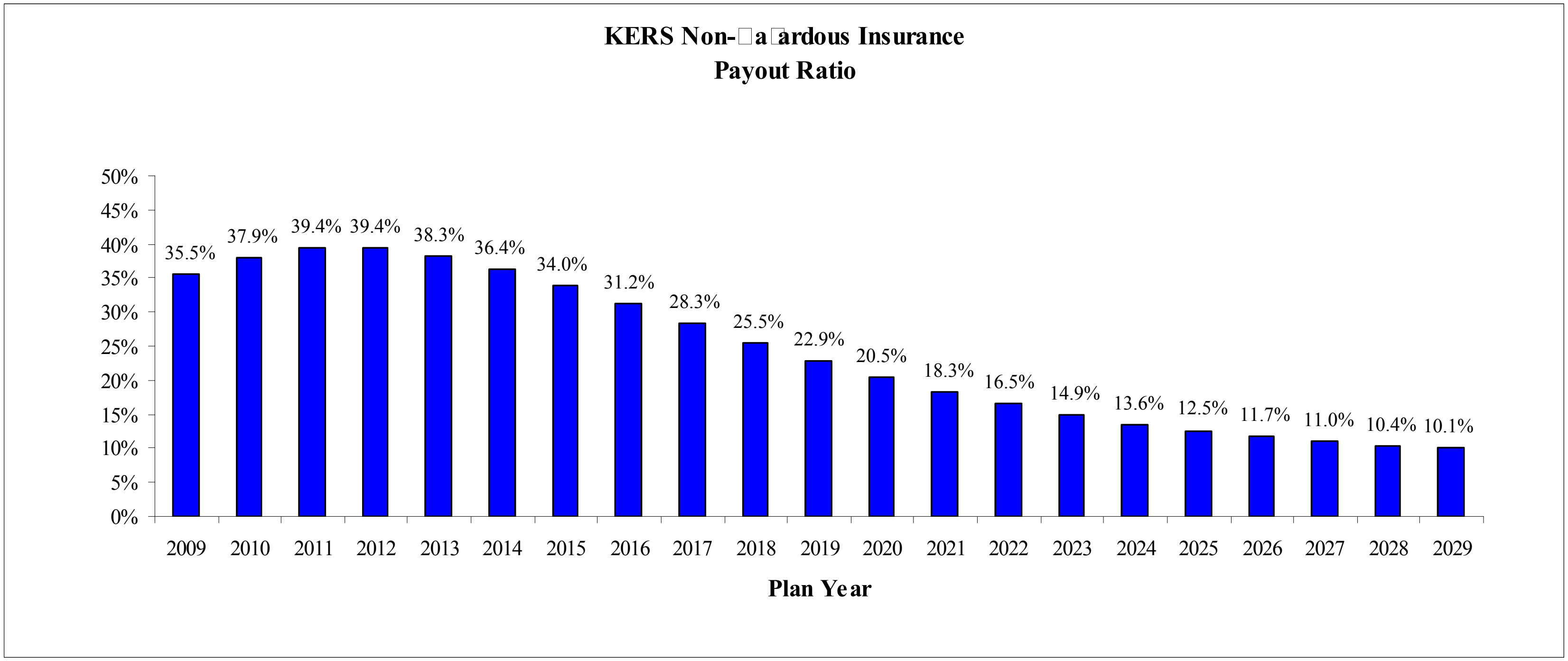
Deterministic Analysis – Benefits and Contributions



RVKuhns & ASSOCIATES, INC.

KERS Non-Hazardous Insurance

Deterministic Analysis – Payout Ratio



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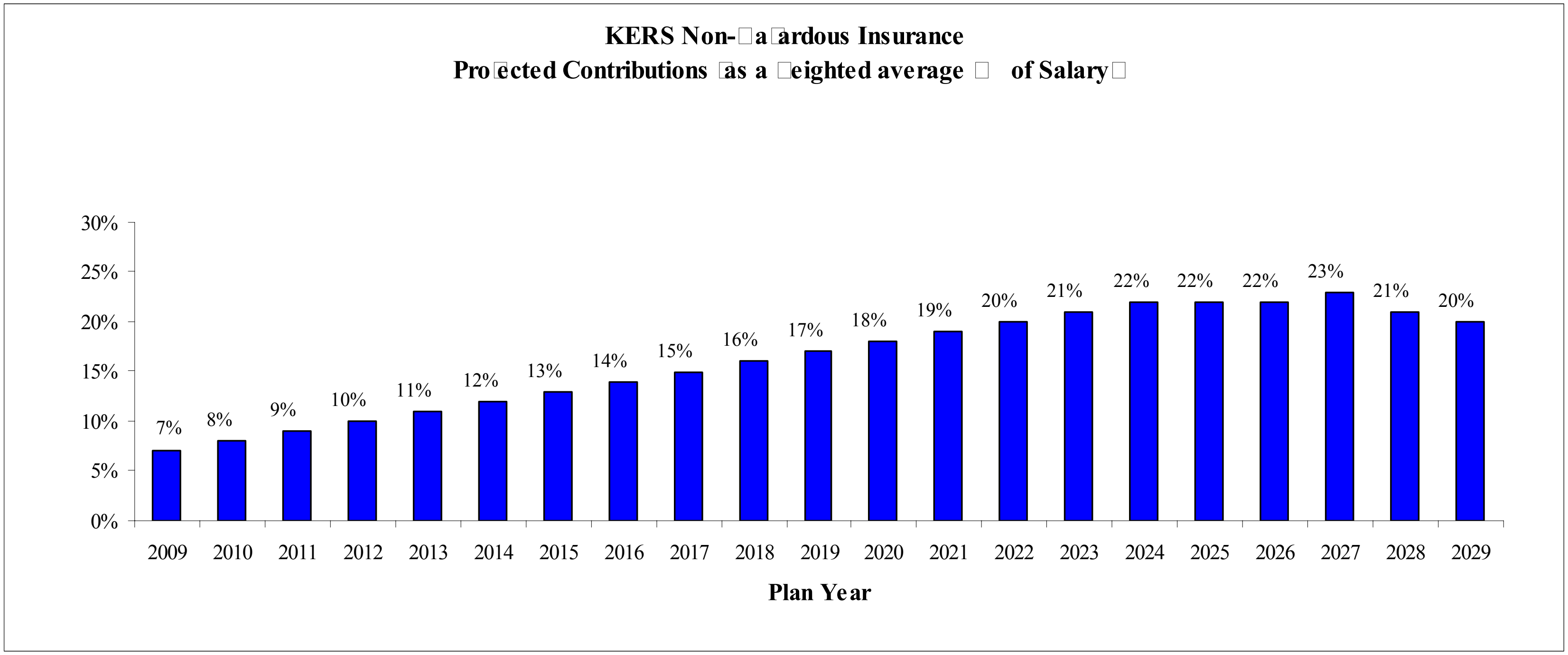
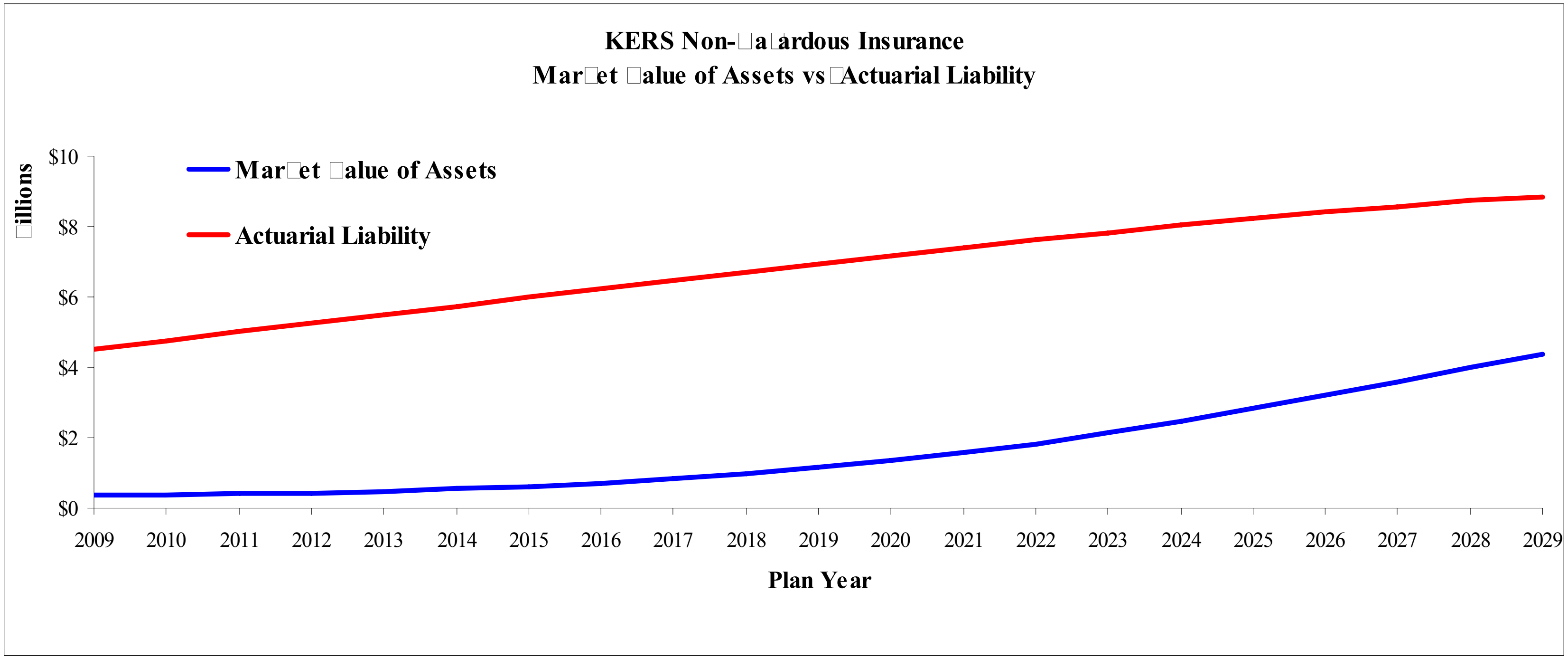
KERS Non-Hazardous Insurance

Deterministic Analysis – Contributions



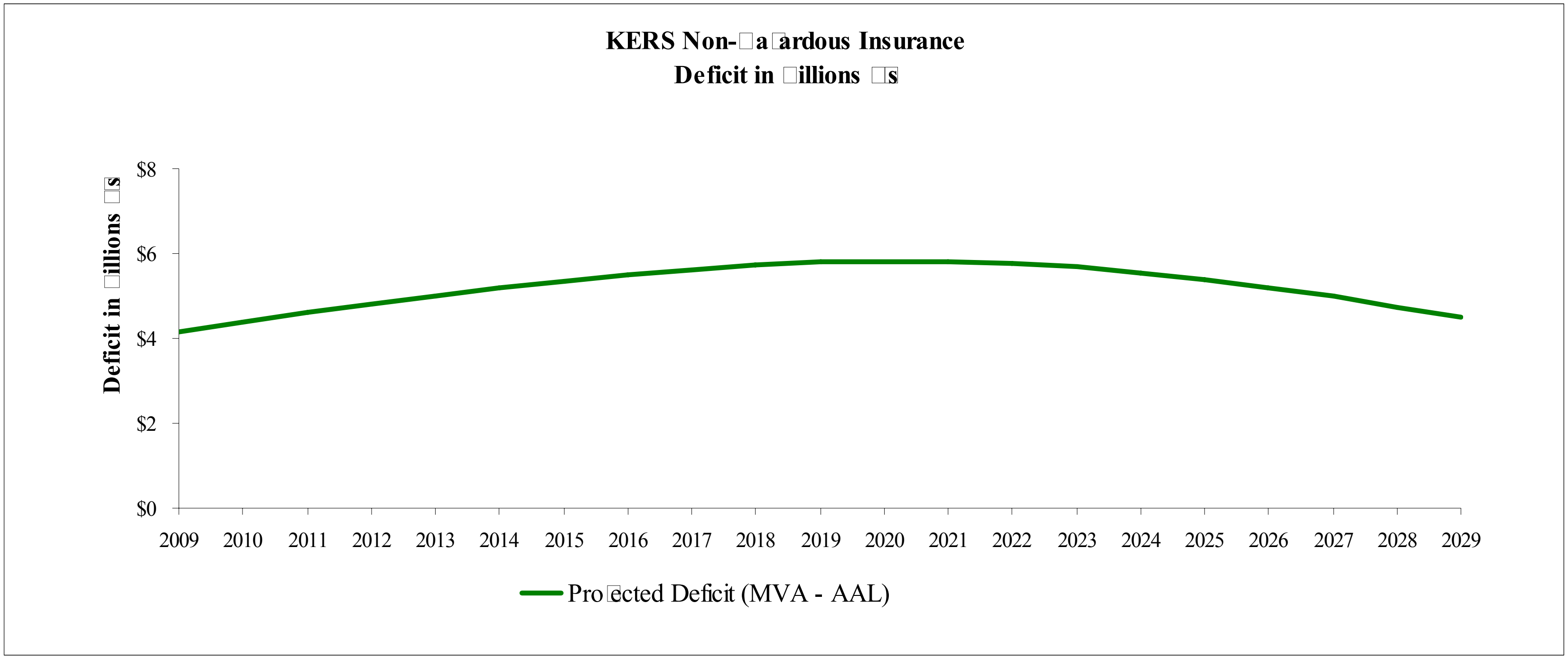
KERS Non-Hazardous Insurance

Deterministic Analysis – Liabilities / Market Value



KERS Non-Hazardous Insurance

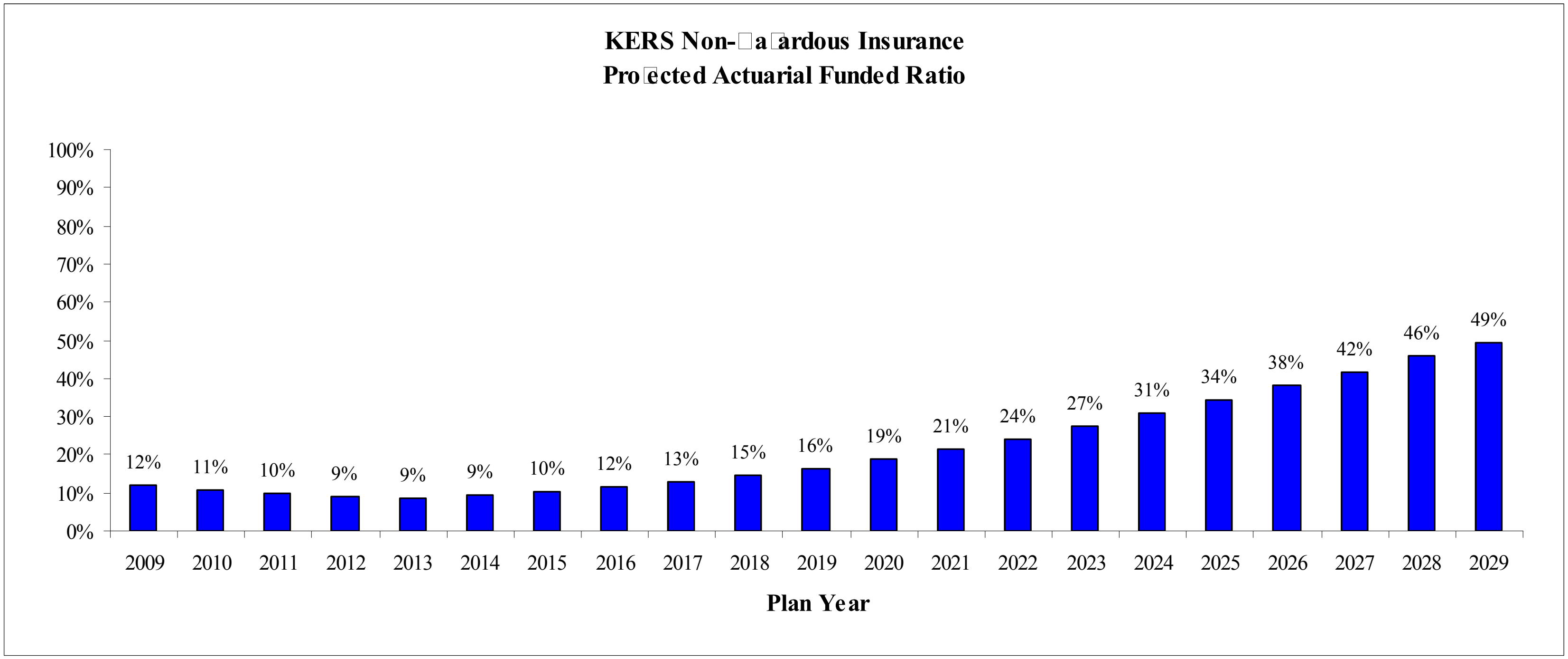
Deterministic Analysis – Deficit



RVKuhns & ASSOCIATES, INC.

KERS Non-Hazardous Insurance

Deterministic Analysis – Actuarial Funded Ratio



RVKuhns & ASSOCIATES, INC.

KERS Non-Hazardous Insurance

Stochastic Analysis – Pursuing Uncertain Returns

Asset Class	Current Allocation	Target Allocation	Conservative Portfolio	Potential Portfolio 1	Potential Portfolio 2	Aggressive Portfolio
□road US Equity	28.1%	40.0%	0.0%	15.0%	28.0%	30.0%
□road International Equity	39.0%	30.0%	0.0%	15.0%	27.0%	30.0%
Core Fixed Income	0.0%	0.0%	45.0%	30.0%	15.0%	0.0%
□igh Yield Fixed Income	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%
TIPS	10.5%	12.0%	10.0%	15.0%	15.0%	0.0%
Lo□ Duration Fixed Income	0.0%	0.0%	45.0%	15.0%	0.0%	0.0%
Real Estate - Core	0.2%	5.0%	0.0%	0.0%	0.0%	5.0%
Absolute Return	0.0%	0.0%	0.0%	0.0%	10.0%	10.0%
Private Equity	8.0%	10.0%	0.0%	0.0%	0.0%	10.0%
Real Return	0.0%	0.0%	0.0%	10.0%	5.0%	5.0%
Cash Equivalents	14.2%	3.0%	0.0%	0.0%	0.0%	0.0%
Expected Return	**□5□□**	**8□08□**	**□□1□**	**5□□□**	**□18□**	**8□□1□**
Expected Ris□	**13□3□□**	**1□2□□**	**3□85□**	**□□□□**	**10□5□□**	**1□2□□**

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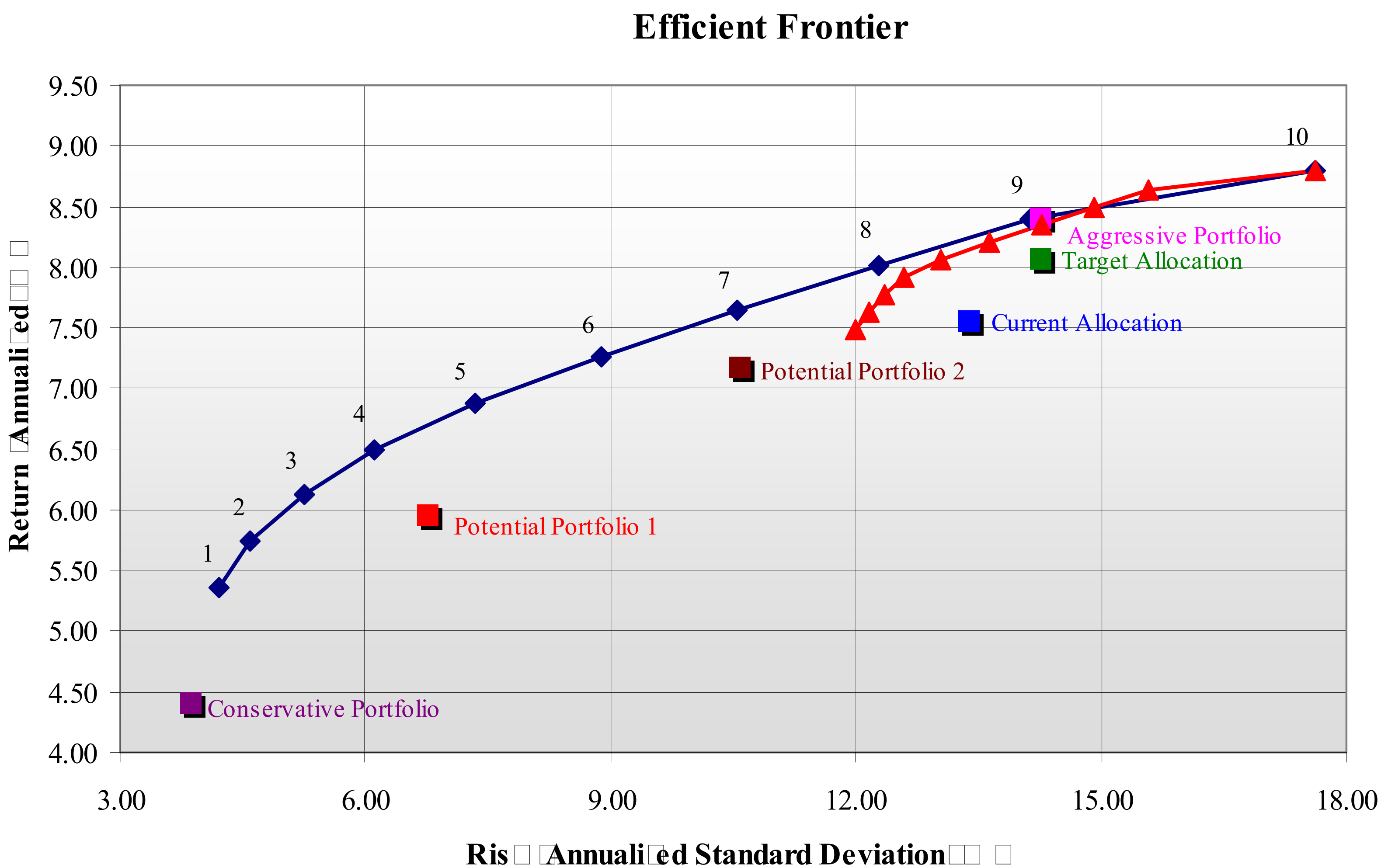
KERS Non-Hazardous Insurance

Stochastic Analysis – Efficient Frontier



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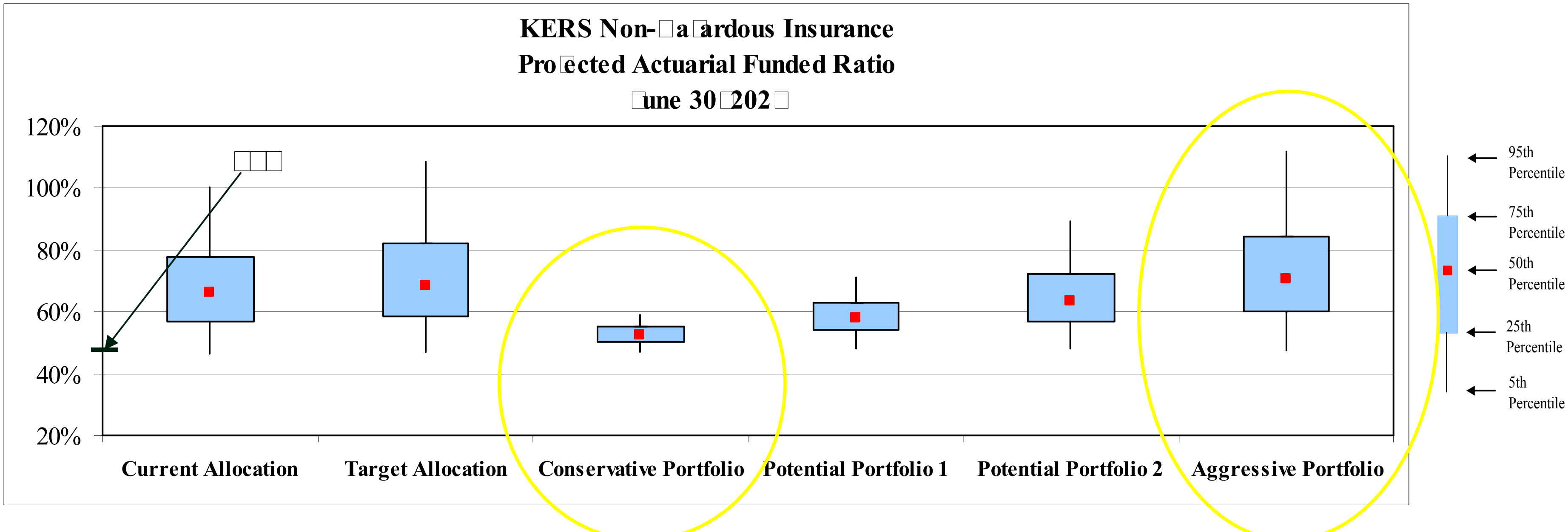
KERS Non-Hazardous Insurance

Stochastic Analysis – Possible Long Term Outcomes



	Current Allocation		Target Allocation		Conservative Portfolio		Potential Portfolio 1		Potential Portfolio 2		Aggressive Portfolio	
	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio
5th Percentile	$4,332.6	46.5%	$4,256.6	46.8%	$4,980.2	47.0%	$4,481.5	48.2%	$4,312.5	47.9%	$4,172.0	47.7%
25th Percentile	$3,178.1	57.0%	$3,049.1	58.7%	$3,974.5	50.0%	$3,565.2	54.0%	$3,256.8	56.8%	$2,926.9	59.9%
50th Percentile	$2,433.1	66.0%	$2,222.3	68.5%	$3,440.0	52.5%	$2,996.2	58.1%	$2,575.9	63.6%	$2,099.1	70.5%
75th Percentile	$1,552.9	77.7%	$1,242.1	82.0%	$2,943.9	55.0%	$2,466.2	63.0%	$1,857.9	72.3%	$1,085.8	84.2%
95th Percentile	($6.0)	100.1%	($616.0)	108.6%	$2,340.0	59.3%	$1,837.1	70.9%	$771.8	89.2%	($862.4)	111.9%

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KERS Non-Hazardous Insurance

Stochastic Analysis – Drawing Inferences

	Funded Ratio in Year 20			Payout Ratios		
	50th	5th	95th	Year 20 Median	200[illegible]-202[illegible] Peak	200[illegible]-202[illegible] Trough
Current Allocation	66.0%	46.5%	100.1%	7.2%	51.7%	4.2%
Target Allocation	68.5%	46.8%	108.6%	6.8%	52.3%	3.8%
Conservative Portfolio	52.5%	47.0%	59.3%	9.5%	43.8%	8.2%
Potential Portfolio 1	58.1%	48.2%	70.9%	8.3%	45.3%	6.4%
Potential Portfolio 2	63.6%	47.9%	89.2%	7.4%	48.5%	4.9%
Aggressive Portfolio	70.5%	47.7%	111.9%	6.6%	51.8%	3.7%
Deterministic	*49.3%*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*

KERS Hazardous Insurance Plan

- Deterministic Analysis
- Stochastic Analysis

KERS Asset/Liability Studies

The Critical Role of House Bill 1

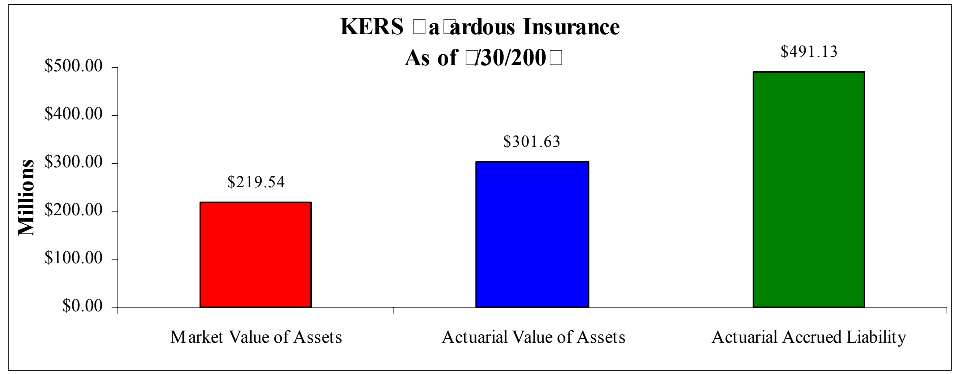
- **Per House Bill 1, future State contributions for Hazardous Insurance Plan will be as a percentage of the Annual Required Contribution:**

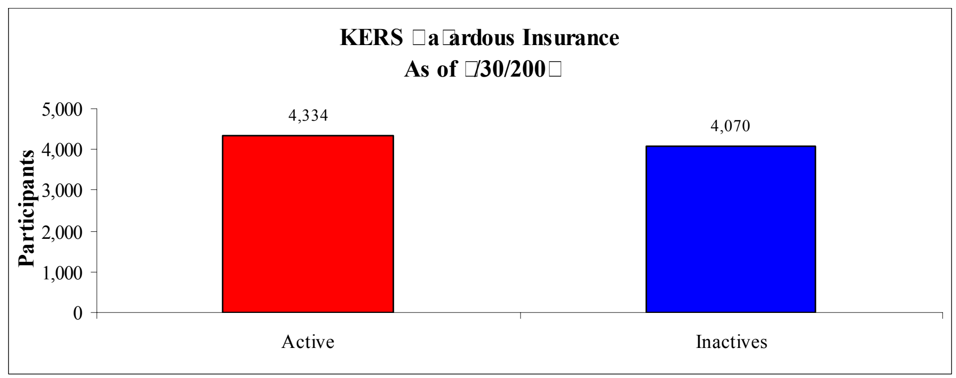
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Hazardous	76%	79%	83%	86%	89%	92%	95%	98%	100%

KERS Hazardous Insurance

Deterministic Analysis – Current Status

□aluation Date	**□une 30□200□**
Mar□et □alue of Assets □M□A□	**□21□53□255**
Actuarial □alue of Assets □A□A□	**□301□3□5□2**
Actuarial Accrued Liability □AAL□	**□□1□132□1□0**
Actuarial Funded Ratio □A□A/AAL□	**□1□**
Mar□et □alue Funded Ratio □M□A/AAL□	**□5□**
Active Participants	**□33□**
Inactive Participants Retirees and □eneficiaries	**□0□0**





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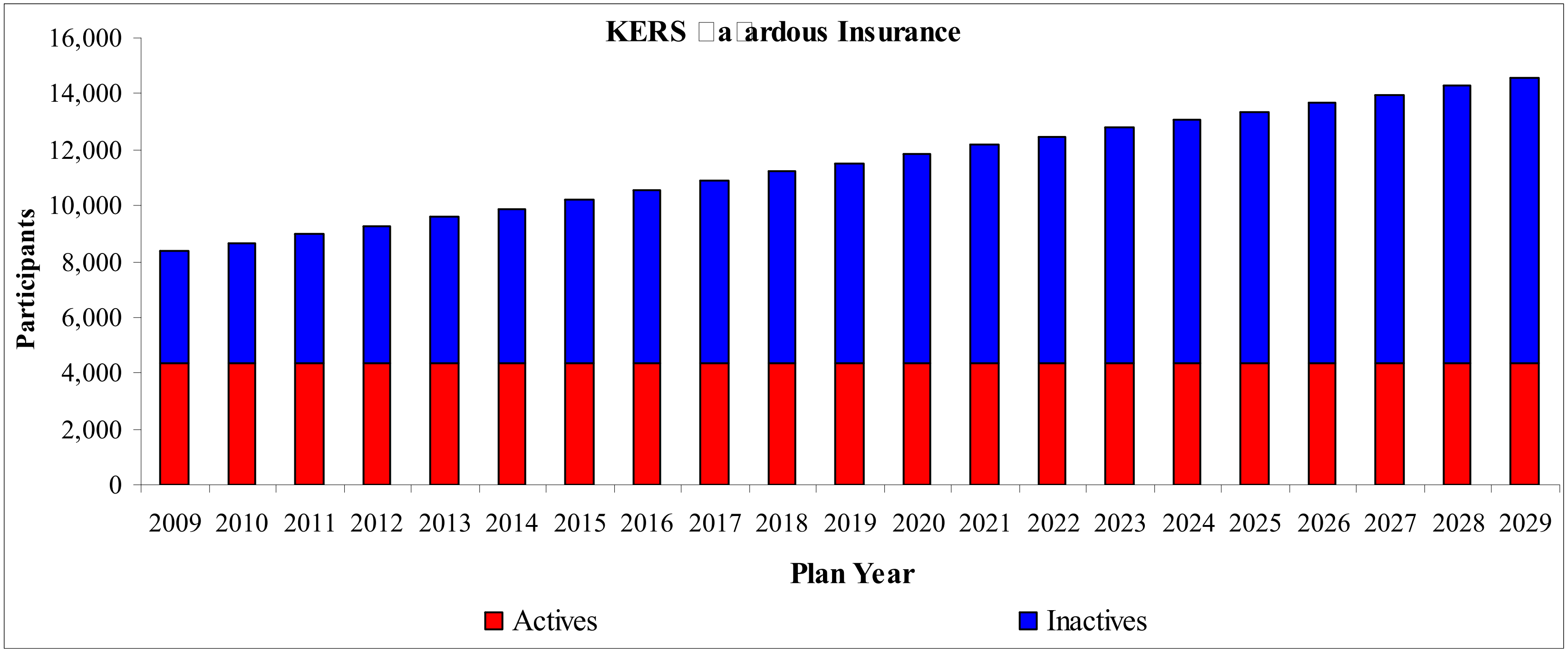
KERS Hazardous Insurance

Deterministic Analysis - Demographics



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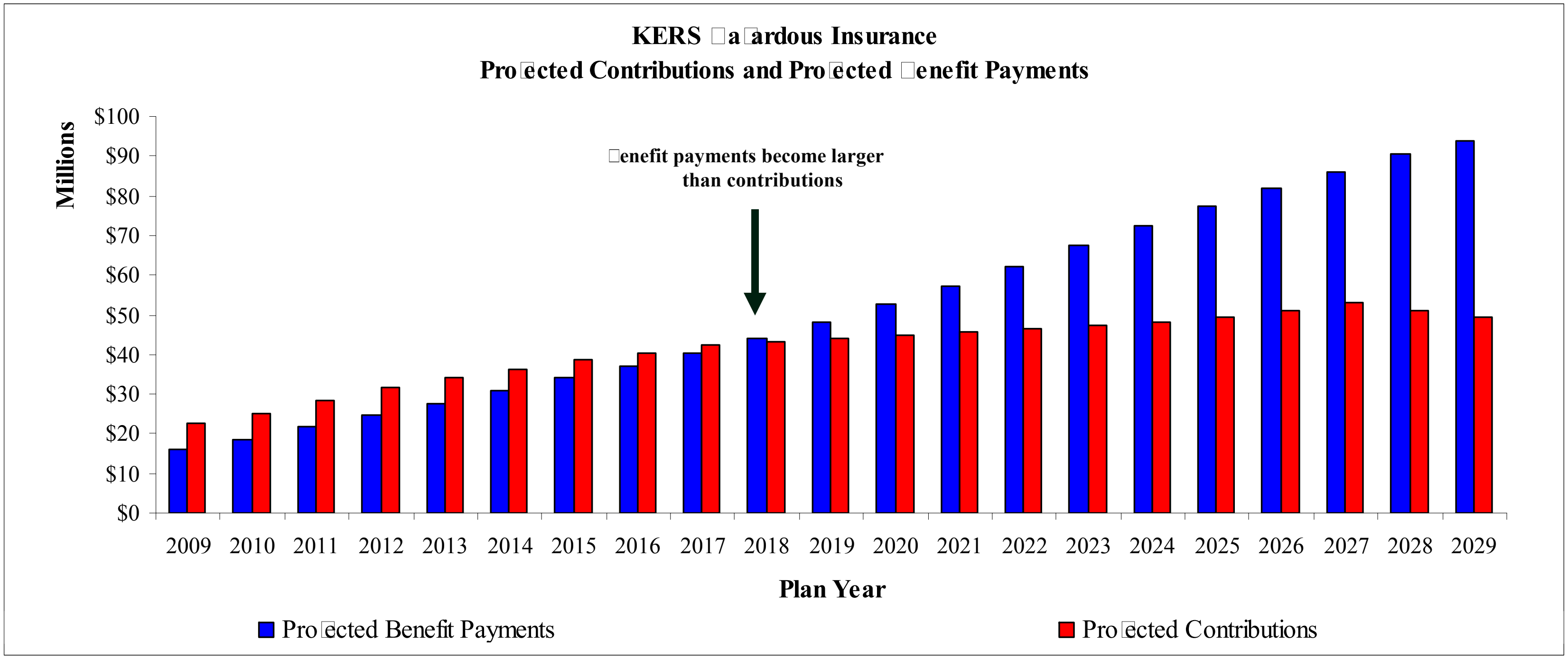
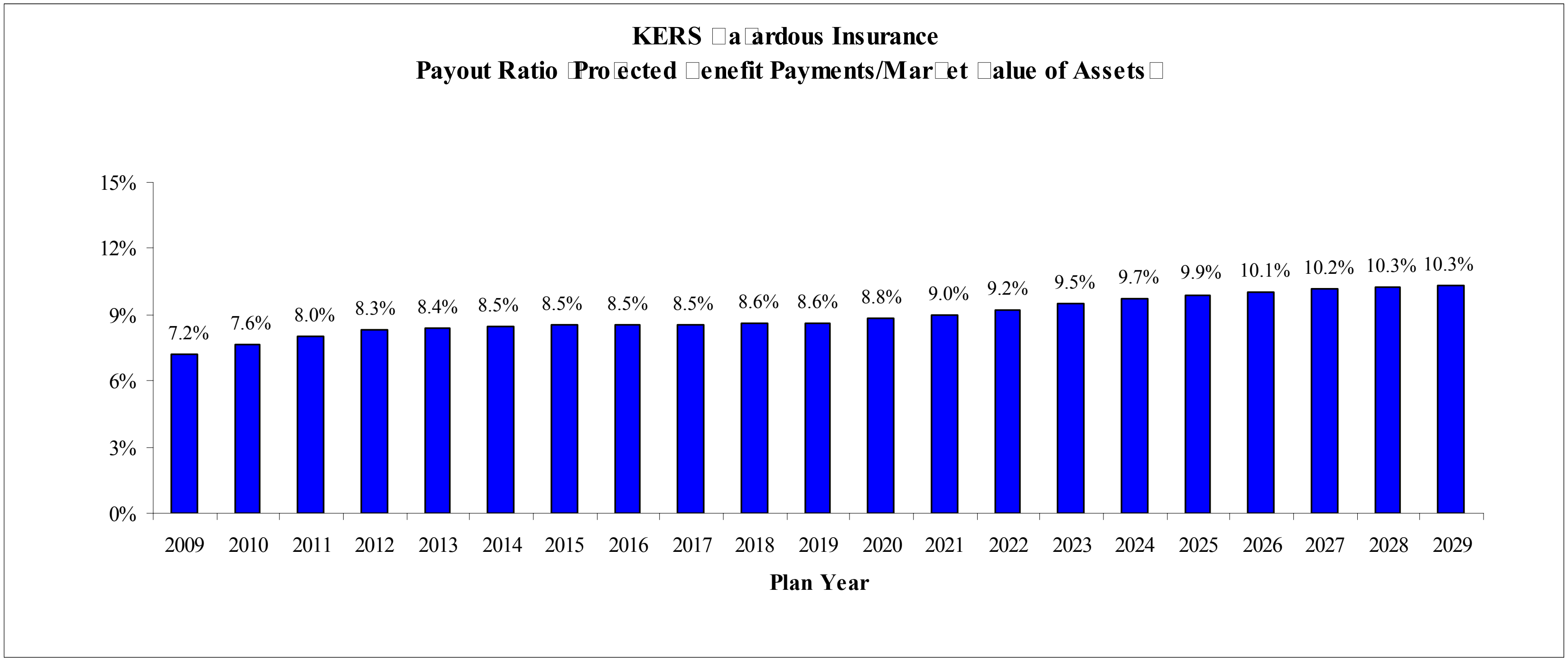
KERS Hazardous Insurance

Deterministic Analysis – Benefits and Contributions



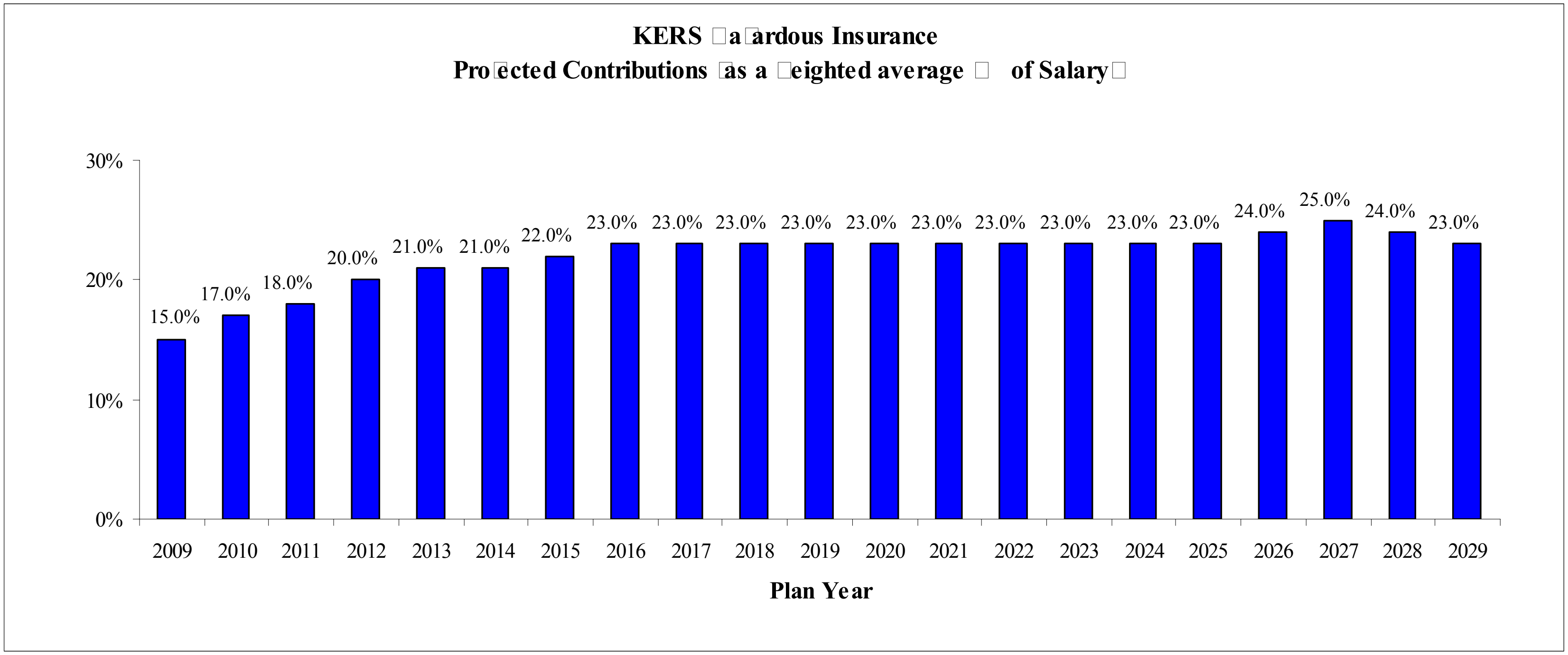
KERS Hazardous Insurance

Deterministic Analysis – Payout Ratio



KERS Hazardous Insurance

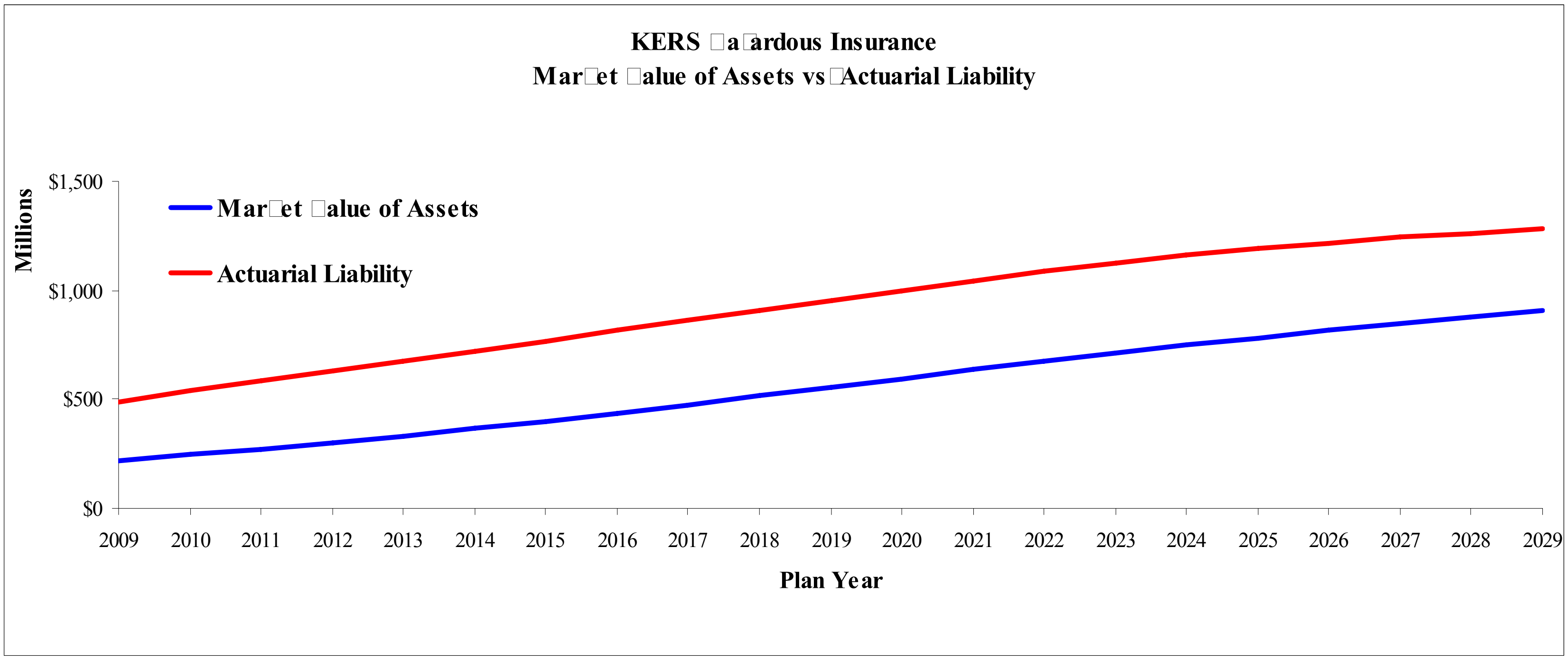
Deterministic Analysis – Contributions



RVKuhns & ASSOCIATES, INC.

KERS Hazardous Insurance

Deterministic Analysis – Liabilities/Market Value



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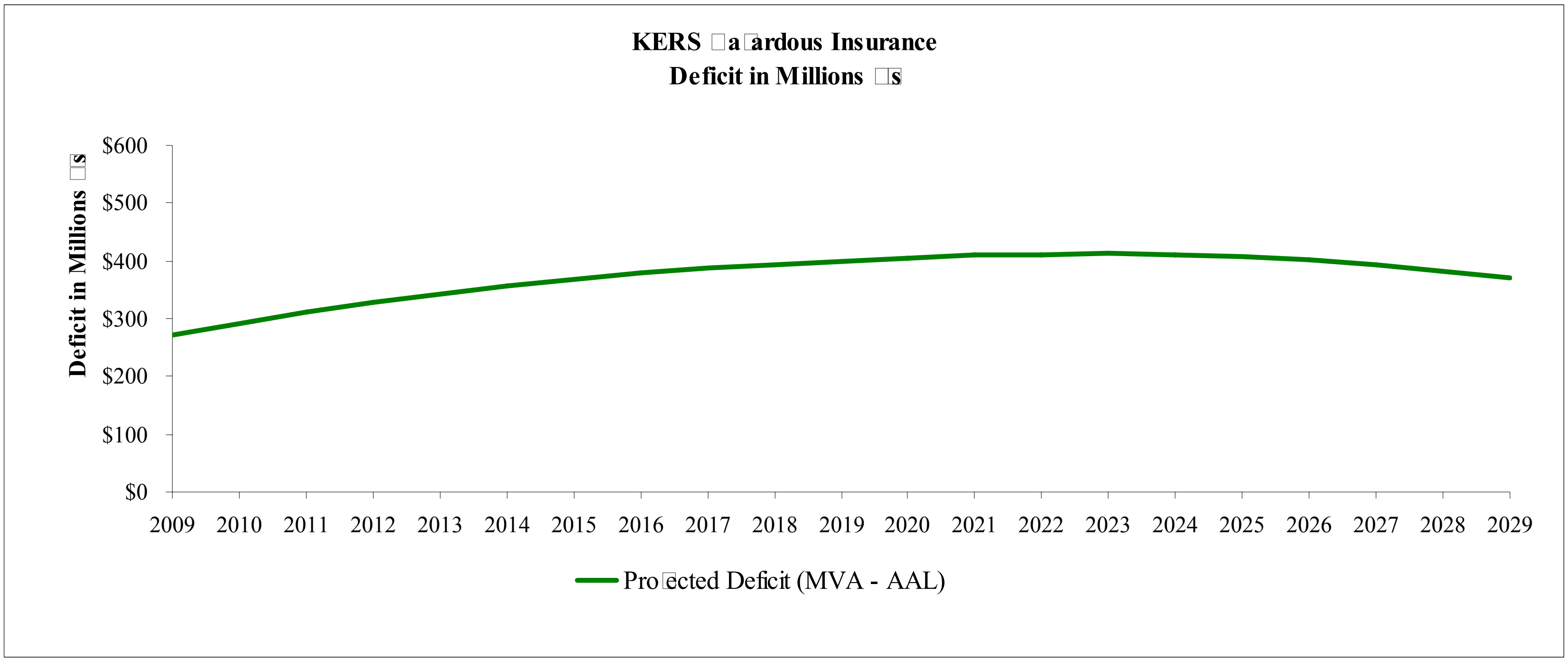
KERS Hazardous Insurance

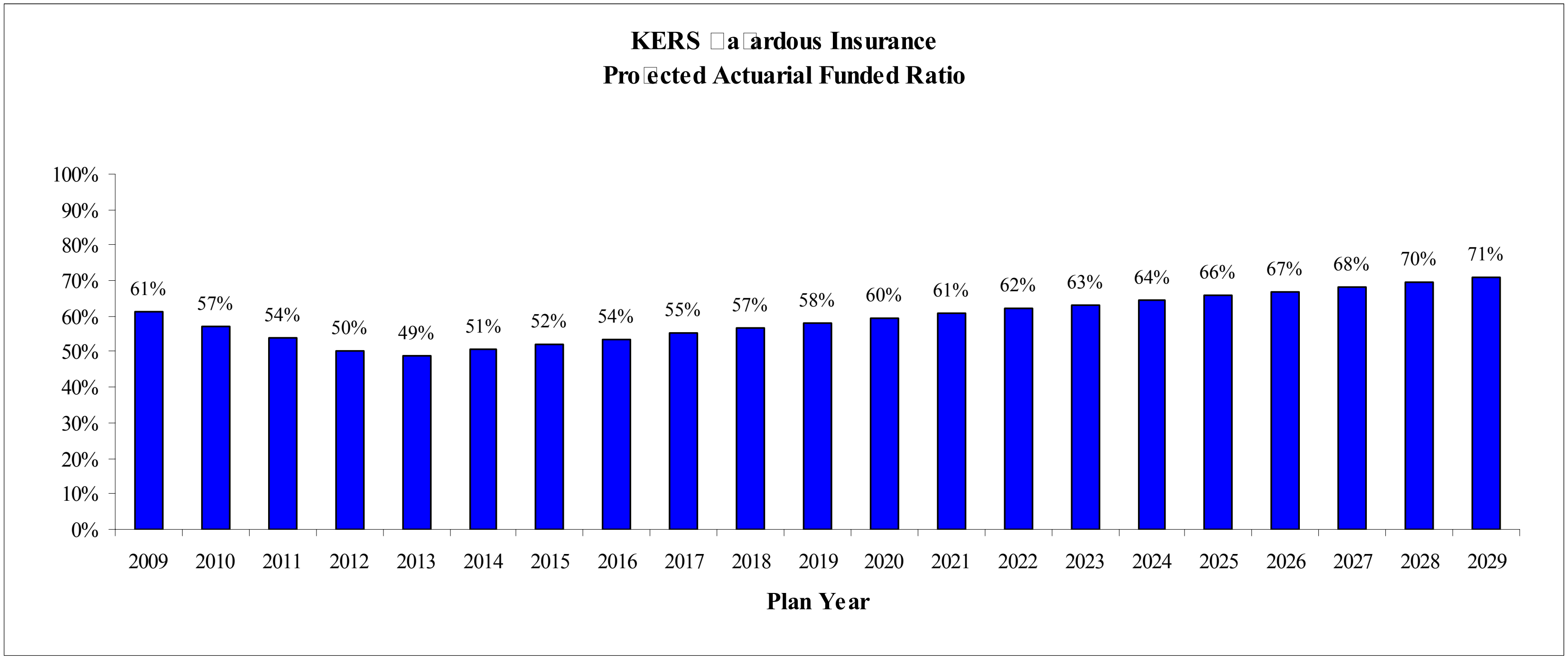
Deterministic Analysis – Deficit



RVKuhns & ASSOCIATES, INC.

KERS Hazardous Insurance

Deterministic Analysis – Actuarial Funded Ratio



RVKuhns & ASSOCIATES, INC.

KERS Hazardous Insurance

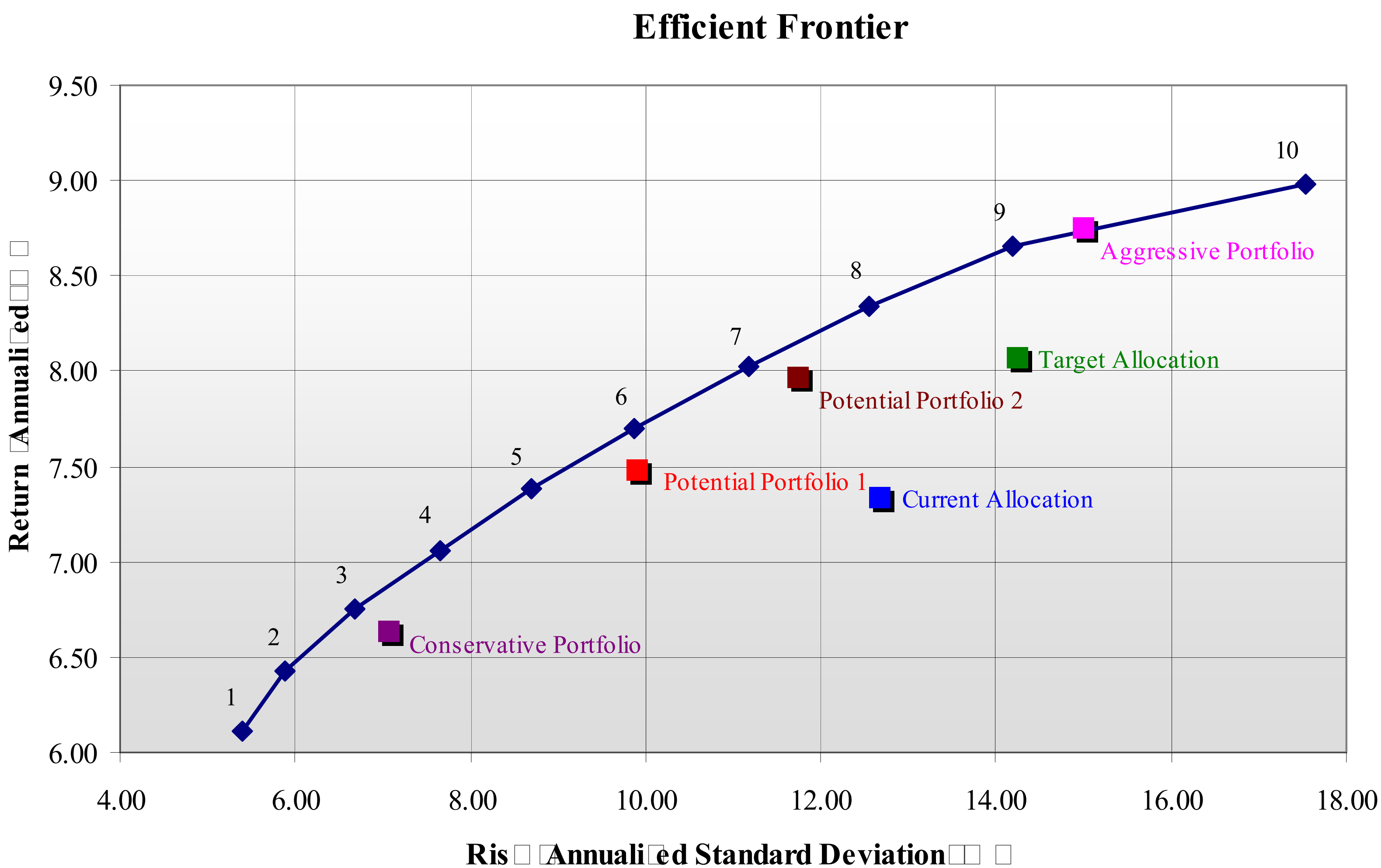
Stochastic Analysis – Pursuing Uncertain Returns

Asset Class	Current Allocation	Target Allocation	Conservative Portfolio	Potential Portfolio 1	Potential Portfolio 2	Aggressive Portfolio
Broad US Equity	36.1%	40.0%	10.0%	14.0%	18.0%	17.0%
Broad Int'l Equity	27.6%	30.0%	5.0%	12.0%	18.0%	30.0%
Emerging Markets	0.0%	0.0%	3.0%	3.0%	4.0%	10.0%
Core Fixed Income	0.0%	0.0%	43.0%	15.0%	10.0%	5.0%
Non-US Fixed Income U[illegible]	0.0%	0.0%	9.0%	10.0%	5.0%	1.0%
High Yield	0.0%	0.0%	5.0%	8.0%	5.0%	2.0%
TIPS	10.3%	12.0%	0.0%	0.0%	0.0%	0.0%
Real Estate - Core	0.2%	5.0%	5.0%	5.0%	7.0%	5.0%
Absolute Return	0.0%	0.0%	5.0%	10.0%	10.0%	10.0%
Private Equity	8.1%	10.0%	7.0%	10.0%	12.0%	15.0%
Real Return	0.0%	3.0%	8.0%	12.0%	10.0%	5.0%
Cash Equivalents	17.7%	0.0%	0.0%	1.0%	1.0%	0.0%
Expected Return	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Expected Risk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RVKuhns & ASSOCIATES, INC.

KERS Hazardous Insurance

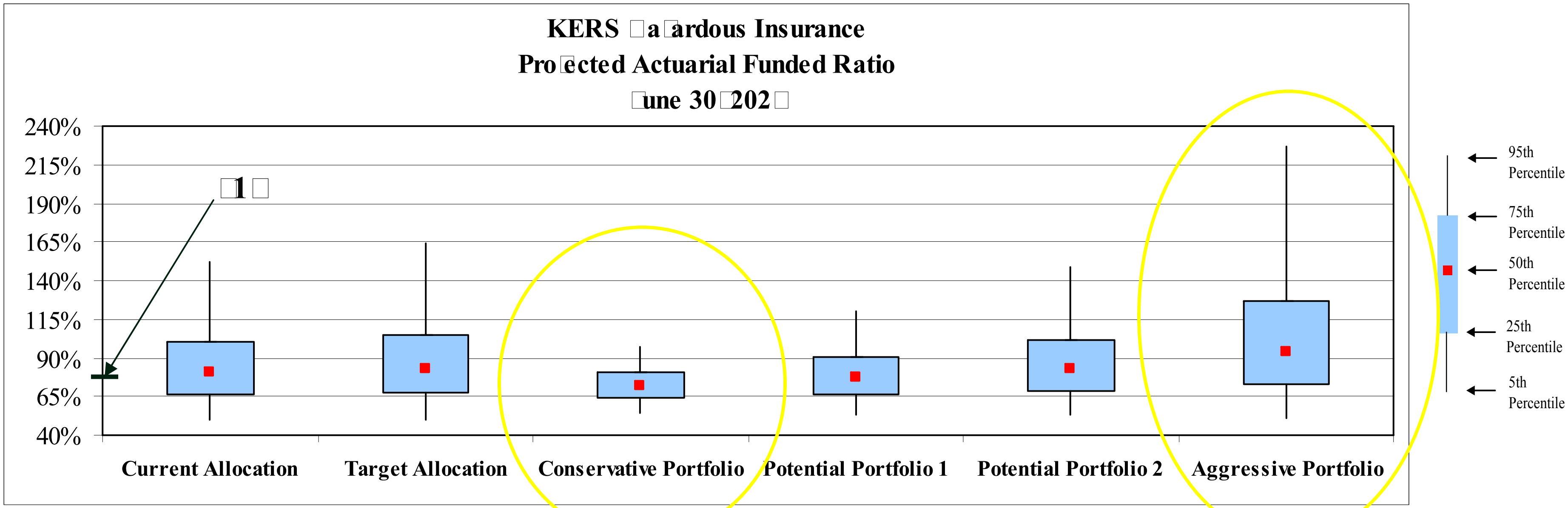
Stochastic Analysis – Efficient Frontier



RVKuhns & ASSOCIATES, INC.

KERS Hazardous Insurance

Stochastic Analysis – Possible Long Term Outcomes



	Current Allocation		Target Allocation		Conservative Portfolio		Potential Portfolio 1		Potential Portfolio 2		Aggressive Portfolio	
	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio	Unfunded Liability (Mil)	Funded Ratio
5th Percentile	$566.5	50.0%	$554.0	50.3%	$528.6	53.7%	$521.0	53.2%	$521.6	52.7%	$536.5	50.9%
25th Percentile	$350.9	66.4%	$339.9	67.4%	$386.6	63.7%	$347.7	66.7%	$323.6	68.9%	$282.1	72.6%
50th Percentile	$199.6	80.6%	$179.8	82.4%	$294.3	71.4%	$228.4	77.4%	$173.4	83.0%	$66.1	93.5%
75th Percentile	($5.6)	100.6%	($47.5)	104.7%	$189.9	81.1%	$90.2	90.8%	($16.4)	101.6%	($297.2)	127.1%
95th Percentile	($527.4)	152.5%	($667.2)	164.3%	$31.7	96.9%	($204.5)	120.2%	($529.6)	148.9%	($1,354.6)	227.3%

RVKuhns & ASSOCIATES, INC.

KERS Hazardous Insurance

Stochastic Analysis – Drawing Inferences

	Funded Ratio in Year 20			Payout Ratios		
	50th	5th	□5th	Year 20 Median	200□-202□	
					Pea□	Trough
Current Allocation	80.6%	50.0%	152.5%	9.0%	16.5%	4.5%
Target Allocation	82.4%	50.3%	164.3%	8.8%	16.7%	4.2%
Conservative Portfolio	71.4%	53.7%	96.9%	10.4%	14.8%	6.5%
Potential Portfolio 1	77.4%	53.2%	120.2%	9.5%	15.1%	5.6%
Potential Portfolio 2	83.0%	52.7%	148.9%	8.8%	15.5%	4.6%
Aggressive Portfolio	93.5%	50.9%	227.3%	7.6%	16.5%	3.0%
Deterministic	*71.1%*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*

Appendix

KERS Asset/Liability Studies

This Asset/Liability Study…

- Uses data from the most recent □□une 30□200□KERS Actuarial □aluation to pro□ect liabilities□
- Ta□es into account the effects of □ouse □ill 1 from 2008 □hich sets future State contributions as a percentage of the Annual Required Contribution□
- Uses the Actuarial Cost Method and assumes these assumptions remain constant in the future□
- Compares these specific investment strategies □ □A□Current Allocation□□□□Target Allocation□C□a conservative illustrative portfolio □Conservative Portfolio□□D□diversified lo□er ris□ □Potential Portfolio 1□□E□diversified higher ris□ □Potential Portfolio 2□□and □F□ an aggressive illustrative portfolio □Aggressive Portfolio□□expressed as total fund asset allocations to the pro□ection of Fund liabilities□
- Does not assume any actuarial ad□ustments that may ta□e place in future years□

EXHIBIT 38

RVKuhns
& ASSOCIATES, INC.

MEMORANDUM

To: Adam Tosh, Chief Investment Officer
Kentucky Retirement System

From: R.V. Kuhns & Associates, Inc.

Subject: Summary of Asset/Liability Studies – KERS Plans

Date: June 14, 2010

In May 2010, R.V. Kuhns & Associates, Inc. ("RVK") presented asset-liability studies for the four Kentucky Employee Retirement System Plans: Non-Hazardous and Hazardous Pension Plans and Non-Hazardous and Hazardous Insurance Plans. The four studies showed various asset allocation scenarios ranging from conservative risk/more liquid to aggressive risk/less liquid. Each allocation has merit and choosing among them depends on the Board's intermediate and long-term preferences for taking risk in pursuit of eventual full funding of each plan's liabilities. As the Board considers which target allocation to implement for each plan, three key points revealed by the studies should be kept in mind:

- ***This is a contribution problem, not just an investment problem.*** House Bill 1 outlines currently legislated contribution schedules that fall below the actuarially required contribution level for each plan for the next 8□ years (depending on the plan). As such, the Board is driven toward even greater dependence on outsized investment returns to make up for the contribution shortfall. Moreover, the actuary's forecast of rising benefit payments for an aging participant base that will exceed contributions further increases the burden on the investment portfolio. This means that the plan returns would have to consistently exceed the actuarial target return for the next 20 years in order to improve funded ratios, or even remain solvent (i.e. avoid depletion of plan assets) under certain scenarios, which could be difficult to achieve in volatile markets.

- ***The Board may not be able to invest its way out of the deficits.*** RVK's expected returns for asset classes/strategies show that KRS would have to accept a fair amount of risk and illiquidity in order to achieve the desired high returns to offset lower-than-needed contributions and rising benefit payments. While the stochastic studies showed that adopting a moderate to aggressive asset allocation strategy could improve the financial outlook of the plans under favorable market conditions, there is a 1 in 20 chance that those same strategies could result in the plans having insufficient assets to pay benefits in the near term in a low return environment.

- ***Liquidity must factor into the decisions.*** RVK's stochastic analysis showed that potential low return scenarios early in the projection period will require greater plan liquidity (i.e. larger allocations to lower returning assets) as asset levels fall and benefit payments continue to rise. However, adopting a more liquid strategy to pay current obligations and preserve capital could negatively impact the Board's ability to meet the actuarial return of 7.75%, which will further jeopardize its ability to meet future obligations.

The Board faces some very difficult yet very important decisions that plague many fiduciaries across the country. The Board must decide whether to select a conservative investment approach, an aggressive approach, or some allocation between the two extremes. Furthermore, this decision should be made on a plan-by-plan basis since each plan has some unique characteristics. The result of the Board's decisions will give Staff and the consultant invaluable directions on how to manage the plans for the next several years.

EXHIBIT 39

To: KRS Investment Team[KRSInvestmentTeam@kyret.ky.gov]; Thielen, Bill (KRS)[bill.thielen@kyret.ky.gov]; Jones, Jennifer (KRS)[jennifer.jones@kyret.ky.gov]
From: Carlson, TJ (KRS)[TJ.Carlson@kyret.ky.gov]
Sent: Thur 2/9/2012 8:43:44 AM (UTC-05:00)
Subject: FW: Uppdated State Jornal article

The journal updated the article to correct the two errors we talked about. (Highlighted) Hopefully others pick up this version more than the first one.

From: Sparks, Shawn (KRS)
Sent: Thursday, February 09, 2012 8:05 AM
To: Carlson, TJ (KRS); Thielen, Bill (KRS); Haydon, Charlene (KRS); Consalvi, Scarlett (KRS)
Subject: Uppdated State Jornal article

Updated article (please see the Editor's note at the bottom of the article):

KRS depleting assets faster than expected

By Kevin Wheatley

about 21 hours ago

Despite recent double-digit returns for the Kentucky Retirement Systems' largest state pension fund, KRS has sold about $1 billion in assets to pay benefits to non-hazardous retirees in the last two years.

"We're basically raising $60 million a month out of (Kentucky Employees Retirement System) to pay benefits," T.J. Carlson, KRS's chief investment officer, told the KRS investment committee Tuesday.

Carlson said over the next week, KRS will sell $70 million in assets to help pay retirement benefits for non-hazardous retirees in February. That's on top of some $25 million sold in January and, according to a graph presented Tuesday, more than $940 million sold from January 2010 to December to cover benefits for a growing number of retirees.

"Basically, we're depleting our assets faster than we expected," Carlson said.

KRS, with about $13.5 billion in assets, covers more than 340,000 state and municipal employees. With retirement and health insurance obligations added, it faced an unfunded liability of $19.2 billion in 2011, but its officials have said there's no risk of defaulting on current obligations.

The non-hazardous pension plan, which covers about 123,000 state workers and retirees, had $3.04 billion in assets as of Dec. 31. It was about 33 percent funded in 2011, creating a $7.46 billion unfunded liability.

The plan's assets are lower than an actuary's $3.23 billion projection for June 30 and little more than the $2.95 billion projected for June 30, 2013.

Though the plan saw investment returns of 15.76 percent in fiscal year 2010 and 18.94 percent in fiscal year 2011, the fund has only yielded5.5 percent returns in the past six years.

That's mostly due to sharp declines in returns during the heart of the recession in fiscal years 2008 and 2009. Before that, the plan was more than 56 percent funded.

The plan has also lost about 5 percent in the market within the last six months, Carlson said.

“Our ability to pay benefits into the future is going to be highly dependent on the pattern of returns that we receive over the next four years,” he said.

“Because if we have these dips, you don’t get to recover from the dips. … Once you’ve spent it, it’s gone. You don’t get to earn 7.75 (percent) on that dollar.”

Carlson quoted an analysis prepared by Cavanaugh Macdonald Consulting that examined elements of the non-hazardous pension plan’s unfunded liability growth since 2006.

The KERS non-hazardous pension plan earned $1.01 billion less than expected by an actuary, causing 18.4 percent of the liability while $1.12 billion in unfunded cost of living adjustments for retirees and $948 million in under funding by the state created about 37 percent of the problem, the analysis shows.

Retirees likely won’t get a cost of living adjustment in the upcoming biennium, KRS Interim Executive Director William Thielen noted.

Other factors, such as financing the unfunded liability, account for about $1.35 billion,or 24.7 percent, of the $5.45 billion growth in the plan’s unfunded liability since 2006.

Members of KRS’s investment committee directed staff to improve the plan’s liquidity by moving investments from active management to indexing as opportunities become available.

Committee members also discussed establishing a bottom-line threshold for the non-hazardous pension fund, possibly when assets reach a 12, 24 or 30 months worth of pension and benefit payments so KRS can operate on more of a cash basis.

Thielen said KRS pays about $800 million each year to non-hazardous state retirees.

Things don’t look rosy for the plan in upcoming years, though it may hit projected 7.75 percent investment returns within 10 or 15 years. Carlson said analysis shows KRS investments must yield 30 percent returns in the next five years to maintain status quo.

“Nobody thinks we’re going to earn that,” he said. “We could earn 10 percent. It impacts the projected time that we could run out of money by about two (to six) months.”

A declining asset base compounds that problem as KRS covers a growing number of pension payments. Market concerns with U.S. and European debt issues as well as stagnant interest rates until 2014 don’t help matters, Carlson said.

“It’s beyond an investment problem at this point,” he said. “We cannot earn our way out of this.”

Pension officials in other states are keeping an eye on how Kentucky moves forward on the issue, Carlson said of a recent conference.

“… I got comments from the entire group that said, ‘We’re going to be in your situation in about five or ten years, so we are watching you very closely on how you deal with this,’” Carlson said.

KRS Trustee Chris Tobe said the General Assembly should consider either issuing a large bond or fully paying its contribution to the non-hazardous pension fund sooner rather than later to bolster the pension fund.

“In discussions I’ve had with (legislators), they really don’t consider this their biggest problem,” Tobe said.

In 2008, the General Assembly passed a reform package, House Bill 1, which will gradually increase the state’s contribution rate to the fund until it reaches the actuarial recommended contribution rate of 43.3 percent of payroll in 2025.

“It’s important that we make the stakeholders aware as soon as possible,” said KRS Trustee Vince Lang. “We don’t need to come up and say, ‘Wow, look at what’s happened.’ They need to know.

"… Many times the General Assembly will concentrate on other issues, but we need to talk to our legislators about things we need."

Editor's note: The State Journal corrected this article to reflect 5.5 percent investment returns for the KERS non-hazardous pension plan over six years and that KRS earned $1.01 billion less on investments than expected by an actuary.

Shawn C. Sparks, MBA

Director of Planning & Constituent Services

Kentucky Retirement Systems

EXHIBIT 40

Absolute Return Strategies
Christopher Schelling, Director

The Division of Absolute Return has responsibility for the monitoring of all external absolute return managers, currently 1 Multi-Strategy Hedge Fund and 3 Funds of Funds ("FoFs"). In the course of monitoring the Funds of Funds, the division is also involved in passively monitoring the underlying managers, a total of 115 additional relationships. Tom Masthay and Bill Murnighan, Investment Analysts on staff, work closely with the Director of Absolute Return Strategies on these mandates. Staff monitors the following portfolios (as of 12/31/11):

Pension		% of fund	**Insurance**		% of fund
Direct Multi-Strategy (1 manager)	$71.0 M	0.68%	Direct Multi-Strategy (1 manager)	$30.0 M	1.06%
Fund of Funds (3 managers)	$1,012.1 M	9.67%	Fund of Funds (3 managers)	$241.7 M	8.54%

The division is responsible for monitoring investment manager compliance with investment policy, reviewing investment legal documents and contracts for compliance with state law and investment policy, and maintaining performance data. The division also monitors state and federal laws, regulations and issues related to investment of public funds.

Summary of 2011 Activities:

Pension (calendar year 2011)	KRS	Benchmark	**Insurance (calendar year 2011)**	KRS	Benchmark
Direct Multi-Strategy (1 manager)	0.58%	-5.46%	Direct Multi-Strategy (1 manager)	0.58%	-5.46%
Fund of Funds (3 managers)*	-1.44%	-2.09%	Fund of Funds (3 managers)*	-1.44%	-2.09%

*September 1 start date for Fund of Funds portfolio

- Division of Absolute Return formally created, and 10% allocation approved for all plans.
- Investment staff as a whole worked with consultant R.V. Kuhns & Associates to perform research on Fund of Fund managers, short listing 13 managers, ultimately conducting calls with 9, face-to-face meetings with 7, and on-site due diligence trips with the final 4.
- 3 Funds of Funds were ultimately selected – Blackstone Alternative Asset Management, Pacific Alternative Asset Management Company, and Prisma Capital Partners. These FoFs were initially funded on September 1, and over the course of the fourth quarter a total of $1.265 billion was invested across the plans.
- Division Director Christopher Schelling was hired September 1, 2011.

All performance numbers are for the calendar year ending December 31, 2011. All asset values are as of December 31, 2011.

- Attended 1 annual meeting, had face-to-face meetings with 14 separate absolute return managers and introductory calls with additional 16 absolute return managers, totaling 31 independent absolute return managers researched.

- Continuing education and certification: Tom Masthay passed level II of the CAIA and achieved the designation, and passed level III of the CFA and achieved the designation.

- Performed annual due diligence assessment for each existing manager.

- Began building internal hedge fund database and performance analysis tool.

Strategic Plan for 2012:

- Monitor the unwind of Arrowhawk Durable Alpha and ensure KRS' interests are protected.

- Build internal database of direct hedge funds, and create procedures around due diligencing, vetting, selecting and monitoring direct hedge fund investments.

- Build strategic framework for diversifying and complimenting current FoFs with direct investments in order to provide more control over our risks and exposures, potential for better diversification against the rest of portfolio, and lower our fee structure.

- Continue to perform due diligence on the underlying managers in the FoFs portfolio and vet capabilities of FoF managers.

- Survey the market for hedge fund consultants and/or negotiate strategic partnership capabilities of current FoF providers. Further, plan for internal resources necessary to implement direct agenda.

- Perform annual due diligence assessment for each existing manager.

- Pursue continuing education and certification: Bill Murnighan is sitting for CFA level II, Tom Masthay and Chris Schelling are sitting for the FRM levels I and II.

EXHIBIT 41

Executive Summary
Absolute Return Annual Review
February 5, 2013

PORTFOLIO OVERVIEW

As of November 30, 2012, the Kentucky Retirement Systems ("KRS") Absolute Return portfolio had investments in 3 partnerships, all fund of funds. Using November portfolio accounting figures, the pension fund is slightly over-allocated to Absolute Return at 10.3% versus a target of 10.0%, and the insurance fund is slightly under-allocated with 9.9% of the fund invested compared to the 10.2% target.

Table 1. Plan Summaries

	Absolute Return	Plan Value	Percent
KERS	$307,770,459	$2,889,332,747	10.7%
KERSH	$49,762,086	$496,571,554	10.0%
CERS	$559,086,148	$5,539,705,676	10.1%
CERSH	$174,656,196	$1,749,066,595	10.0%
SPRS	$32,009,209	$251,237,814	12.7%
Pension	**$1,123,284,098**	**$10,925,914,386**	**10.3%**
KERS	$42,019,789	$430,902,110	9.8%
KERSH	$40,258,059	$349,383,353	11.5%
CERS	$146,335,607	$1,500,956,305	9.7%
CERSH	$79,496,688	$828,598,991	9.6%
SPRS	$12,647,132	$131,323,014	9.6%
Insurance	**$320,757,274**	**$3,241,163,772**	**9.9%**
Sum Total	**$1,444,041,372**	**$14,167,078,159**	**10.2%**

Specific system absolute return allocations can be found in Appendix A.

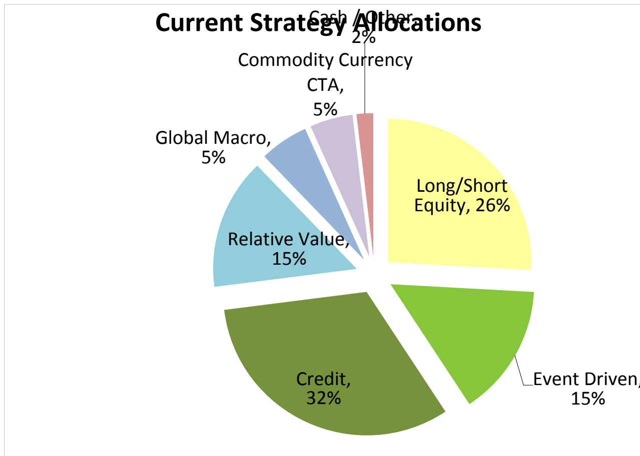
Table 2. Manager Summaries

	Pension	Insurance	System
Blackstone Henry Clay LP	$379,928,558	$107,966,281	$487,894,839
PAAMCO Newport Colonels LLC	$372,654,754	$105,753,107	$478,407,861
Prisma Daniel Boone LLC	$370,700,786	$107,037,886	$477,738,672
Absolute Return	**$1,123,284,098**	**$320,757,274**	**$1,444,041,372**

Please see Addendum 1 for individual manager summary reports.

Strategy diversification – KRS' Absolute Return portfolios are currently diversified across the following strategies on a look-through basis.

Chart 1. Strategy Allocation



The plans are fairly well diversified across strategies, with credit and long/short equity hedge funds as the largest underlying allocations, at roughly 32% and 26% respectively. Event-driven strategies, or those that profit from specific corporate actions such as spin-offs or reorganizations, and relative value strategies, or those that profit from a convergence in spread between two highly related securities, are the next largest allocations at 15% each currently. Global macro and commodity/CTA managers comprise the bulk of the remainder. Staff notes that in the course of monitoring these allocations, they can and do change materially from month to month

Staff notes that the portfolio is highly diversified by manager as well, with 130 individual underlying funds. The largest individual position is just 3% of the absolute return portfolio, or just 0.3% by plan assets. Staff has included the five largest manager concentrations in table 3 below.

Table 3. Largest manager look-through concentration

Manager	Position	% of portfolio	% of system assets
BSOF LP Feeder	$44,943,528	3.1%	0.31%
LibreMax	$44,532,605	3.1%	0.31%
DE Shaw	$41,953,586	2.9%	0.29%
Mariner/Tricadia	$28,473,480	2.0%	0.20%
BlueCrest	$27,176,597	1.9%	0.19%

In fact, given that absolute return as a strategy is primarily focused on identifying top-performing managers capable of generating idiosyncratic return profiles containing little systematic market risks but high levels of alpha, Staff would argue this represents over-diversification.

CR0810-0000005084

Investment Policy Guidelines

Staff notes the only formal policy guidelines regarding Absolute Return outlined in the KRS Statement of Investment Policy are as follows:

- Achieve a rate of return that exceeds the appropriate benchmark annually over a complete market cycle (historically 3-5 years), net of all investment management fees.
- Achieve a positive risk/reward trade-off when compared to similar FoF Investment Managers.

Absolute Return Rationale

KRS pursues absolute return strategies principally as a result of favorable risk-adjusted returns and the diversification benefits of broadening KRS' exposure to different investment strategies and instruments. RVK's long term capital market expectations for absolute return strategies is to have an expected return of 7.50% and expected standard deviation of 9.0%. This is comparable to RVK's long term projections in terms of the risk-return trade-off to core fixed income (4.5% expected return and 5.5% expected standard deviation) and favorable to the risk-return trade-off of global equity (8.45% expected return and 17.85% expected standard deviation). Absolute return strategies, by definition, are not necessarily a separate asset class, but broaden the opportunity set within existing asset classes such as stocks, bonds, currencies and commodities by going both long and short, employing derivatives and leverage, and shortening and extending investment horizons, amongst others. By focusing on the idiosyncratic risks of security selection and often attempting to minimize systematic market risks through hedging activities, absolute return managers can make investment decisions unconstrained by restrictive relative benchmarks such as the S&P 500 or Barclay's Aggregate Bond Index, and add value to portfolios by achieving favorable risk adjusted returns in most market environments. The absolute return opportunity set is generally considered to include hedge funds and other strategies attempting to achieve positive returns without heavy reliance on the assumption of traditional systematic risk factors. Investment vehicles used to access this opportunity set can include limited partnerships, but also mutual funds, ETFs, and separately managed accounts, amongst others. Given the breadth of the opportunity set, the absolute return investment process is defined by an ongoing effort to scour the investment universe of absolute return strategies and managers; to build a database to formally source, analyze and monitor the universe; to initiate a dialogue and relationship with the best managers available at any given time; and to select investments that incorporate both long term diversification benefits with tactical and opportunistic considerations. This is in stark contrast to the more traditional use of formalized search processes that analyze comparable and highly similar managers in the public equity space. KRS has addressed this concern by adopting the Investment Transaction Procedures Policy dated August 2011. Further, staff has created a formal process map to document and memorialize existing internal procedures related to this search and due diligence process, attached as Addendum 3 – Alternative Investments Due Diligence Procedures.

PERFORMANCE REVIEW

Northern Trust Reported (as of December 31, 2012 – Absolute Return portfolio returns are lagged by one month)

Table 4 - Performance Summary		
Calendar Year 2012	**Pension**	**Insurance**
KRS Absolute Return Portfolio	7.06%	7.16%
HFRI Diversified FoF (lagged)	3.32%	3.32%
Relative Performance	3.74%	3.84%
We note the Absolute Return portfolio began on September 2011, hence three and five year performance periods are not yet available.		

The pension fund outperformed its benchmark by 374 basis points (KRS portfolio earned 7.06% versus the benchmark return of 3.32%) in calendar year 2012; the insurance fund performed even better, generating excess returns of 384 basis points (KRS portfolio earned 7.16% versus the benchmark return of 3.32%). Staff notes that both funds also solidly outperformed the secondary benchmark of 3 Month Libor + 500 basis points which yielded approximately 5.35% for the 2012 period.

2012 INVESTMENT ACTIVITY REVIEW

Overall Market Review – 2012 was a strong year for the performance of risky assets. Equities rallied sharply in the first and third quarters, after brief attempts at corrections failed in May and October. The S&P 500 gained approximately 16% for the year. Credit strategies performed strongly as well, with high yield bonds gaining 15% to 16% for the year. Within Absolute Return, managers across long bias credit, credit relative value, and fixed income arbitrage performed well, posting returns (depending upon the index) in the low double digits. Although trailing long-only indices, long-short equity managers did relatively well as equity correlations came down, up about 8.2% after a very poor showing in 2011. Discretionary macro managers and CTAs struggled, with macro up 4.6% and CTAs down 2.9% for the year. However, it should be noted that these averages masked extremely wide dispersions in these sectors, as manager selection was key for 2012.

KRS Activity 2012 – Given the importance of the correct allocation targets, staff spent significant resources researching absolute return strategies and allocation mixes that could provide the desired risk/return objectives, while simultaneously providing downside protection and reducing the system's reliance on the equity risk premium. Further, staff proactively sourced absolute return strategies and managers, hosting 46 unique calls and 68 separate meetings with new absolute return managers over the course of the year, giving KRS an internal database of approximately 424 absolute return managers. Despite this extensive sourcing effort, no investments were proposed during the year. However, Staff managed the wind-down of the Arrowhawk investment, recovering 100.1% of invested capital and reinvested this redemption into the fund of funds portfolio. Staff also conducted an RFP process for an Absolute Return specialist consultant, eventually hiring Albourne Partners during the year as well.

Albourne Partners – Investment staff ran an RFI process for an Absolute and Real Return Consultant from June 2012 until September 2012. The Investment Committee approved the hiring of Albourne Partners on September 19, 2012. Negotiations continued for nearly two months, and the contract was executed on November 5, 2012. As the relationship is still relatively new, staff has been working with Albourne over the last two months to familiarize Albourne with KRS' investment process, risk/return objectives, liquidity needs/cash flow constraints, and policy guidelines in order to build a strategic vision for the Absolute Return portfolio. The primary objective is to begin to build out a direct hedge fund portfolio to complement the existing fund of funds positions. The reasons for this objective are enumerated below. KRS staff and Albourne are building a pipeline identifying potential managers and strategies, working towards a formal set of allocation targets and policy guideline recommendations while simultaneously recommending best in class managers opportunistically that are currently fund raising.

No Absolute Return investments were made in 2012.

MARKET OUTLOOK

Investor flows into hedge funds were strong in 2012, as total assets under management in the hedge fund industry rose to a record high of $2.25 trillion, according to index provider HFR, from below $2 trillion the previous year. Roughly $35 billion of the increase was due to higher allocations from investors rather than performance gains. Investor sentiment surveys and early consultant search activity suggests that flows in 2013 may well be stronger than 2012 numbers, but perhaps not quite as high as the 2011 fund raising of $70 billion. Regardless of final dollar amounts, robust asset flow activity is likely to serve as a positive tailwind for hedge funds.

Consultant Albourne provides strategy forecasts for the upcoming year. Broadly speaking, equity and credit strategies are expected to perform well, although current yields limit the upside available in corporate credit. Further, relative value strategies are preferred over outright directional and hard-catalyst event driven funds.

Given these dynamics, Albourne and Staff are working on a 2013 investment agenda that will incorporate tactical considerations, cash flow and pacing considerations relative to both plan liquidity and Staff resources, as well as strategic objectives, and will be presenting those at future Investment Committee meetings.

FORWARD LOOKING PLANS

For 2013, Staff and Consultant Albourne are working together to build out targeted strategy allocations as well as manager short lists for Absolute Return. Once such strategy allocations are formalized, Staff will present proposed changes to the Investment Policy that incorporate these target allocations, allowable ranges, as well as potential changes to the benchmark for the portfolio.

First, a comment on hedge fund strategy allocations. Hedge funds are a notoriously heterogeneous group of strategies. They are difficult to benchmark and categorize. Further, a key component of the success of hedge funds in outperforming static passive market indices over time is their ability to move across asset classes. As such, managers may sometimes move slightly between strategy buckets, for example a manager focused on distressed credit may at a certain point in the cycle have a larger allocation to post-reorg equities. Or a manager with a traditionally long biased approach may move to a more relative value, market neutral posture given certain market conditions. Further, within any category, some managers may be more consistently long-biased and some may be more variable in their approach, in fact running net short at times, which results in wide dispersion in correlations and returns across managers within the same category. While these characteristics must be understood and monitored, they make strategy allocation decisions relatively less meaningful than in traditional asset classes. This necessitates broader allowable ranges. Further, because manager selection is so critical, portfolio construction is truly an integrated process of strategy allocation and manager selection decisions. Given the primary objective is to identify true alpha generators, manager selection is key.

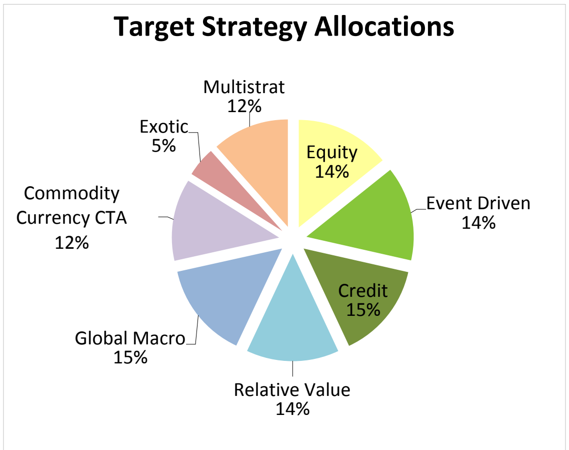
Staff and Consultant will propose strategy allocation targets as well as recommendations for direct hedge fund managers during the course of the upcoming year. There are three primary reasons for an institutional investor to allocate to direct hedge funds versus fund of funds.

- Fees: First, reducing allocations to Funds of Funds can lower the total fees an institutional investor pays on the underlying portfolio and subsequently, and most importantly, increase the net return on investment by removing this added layer of fee drag. Staff notes that it is no surprise that the best performing fund of funds in the Absolute Return portfolio has the lowest fees, and vice versa. With an average fee structure of 0.65% management fee and 10.0% of performance, Staff believes utilizing the infrastructure that Albourne brings on manager due diligence, selection, and monitoring will allow the system to generate improved returns on a portion of the portfolio managed in direct hedge funds solely on the basis of this fee differential.

- Idiosyncratic risk: Second, with over 130 managers and no individual position sizes over 3.1% of the Absolute Return portfolio (and indeed 10 positions of a $1 million or less), the current portfolio is likely over-diversified on a manager selection basis. If the argument for manager selection in absolute return is to pick those that generate alpha, or above average returns, then the larger the number of managers in a portfolio, the more the return on the portfolio must regress to the mean. That is, alpha is a zero sum game. By concentrating a portfolio of higher conviction, top-quartile managers, an investor may be able to generate higher net returns with no incremental increase in systematic risk.

- Systematic risk: Lastly, Staff believes the current strategy allocation, while certainly diversified, is overly reliant on corporate credit risk. Nearly 73% of the underlying hedge fund assets are in funds that in one way or the other invest in either equities or credit instruments, or some combination of both. Given a mandate to reduce both plan level volatility and to reduce the plan level correlation with listed equities, Staff feels this strategy allocation is sub-optimal for an Absolute Return portfolio. As Staff and Consultant Albourne continue to work together on this ultimate strategy mix, Staff presents Chart 2 below as a sample of the allocation mix for a direct portfolio, and then Chart 3 demonstrates the implication of a 25% allocation to this mix on the Absolute Return portfolio level strategy allocations.

Chart 2. Direct Portfolio Strategy Allocations **Chart 3. Total Portfolio Strategy Allocations**



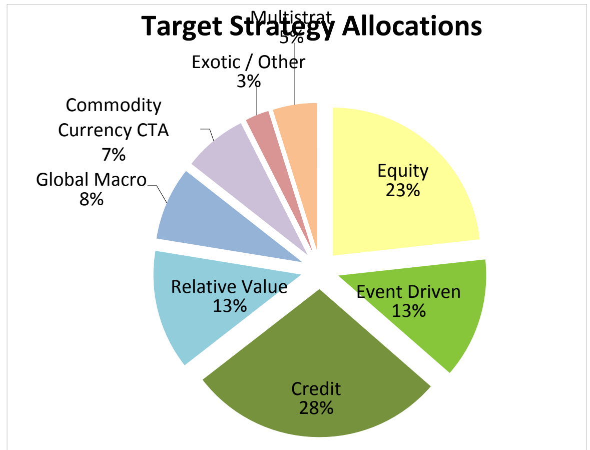


Chart 4 below provides a sample liquidity profile used in constructing the direct portfolio. As Staff and Consultant continue to research appropriate allocation mixes, how much liquidity plans may access over various time frames will be a critical component to the decision. And finally, given the five-year objective of an Absolute Return portfolio managed 50% in-house direct funds versus 50% Fund of Funds, Staff feels a two-three year objective to earmark 25% of the Absolute Return portfolio for direct hedge funds is appropriate.

Chart 4. Direct Portfolio Liquidity Profile

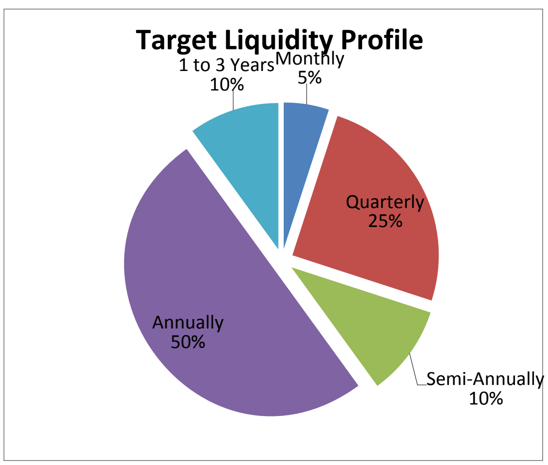
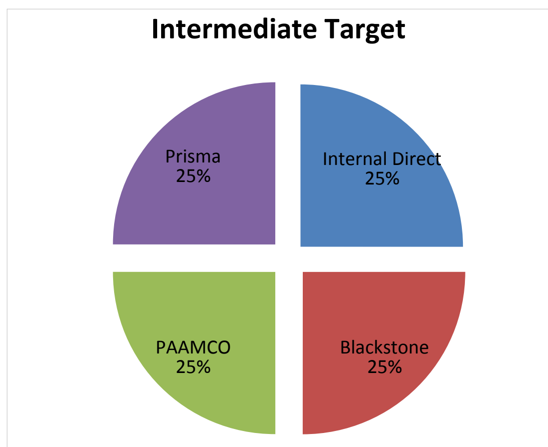


Chart 5. Portfolio Level Target Manager Allocations



APPENDIX A: ABSOLUTE RETURN PLAN ALLOCATIONS SUMMARY

Kentucky Retirement Systems

Insurance Fund Plan Allocations

November 31, 2012

	KERS			KERS-H			CERS			CERS-H			SPRS			TOTAL FUND		
	Actual		Target	Actual		Target	Actual		Target	Actual		Target	Actual		Target	Actual		Target
Asset Class/Manager	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.
ABSOLUTE RETURN	**307,770,459**	10.7%	10.0%	**49,762,086**	10.0%	10.0%	**559,086,148**	10.1%	10.0%	**174,656,196**	10.0%	10.0%	**32,009,209**	12.7%	12.0%	**1,123,284,098**	**10.3%**	**10.0%**
Arrowhawk Durable Alpha	1	0.0%	0.0%	1	0.0%	0.0%	3	0.0%	0.0%	2	0.0%	0.0%	0	0.0%	0.0%	7	0.0%	0.0%
BAAM	106,545,376	3.7%	3.3%	16,681,694	3.4%	3.3%	187,421,189	3.4%	3.3%	58,550,084	3.3%	3.3%	10,730,213	4.3%	4.0%	379,928,556	3.5%	3.3%
PAAMCO	100,863,028	3.5%	3.3%	16,584,567	3.3%	3.3%	186,330,173	3.4%	3.3%	58,209,101	3.3%	3.3%	10,667,883	4.2%	4.0%	372,654,751	3.4%	3.3%
Prisma	100,362,054	3.5%	3.3%	16,495,824	3.3%	3.3%	185,334,783	3.3%	3.3%	57,897,010	3.3%	3.3%	10,611,113	4.2%	4.0%	370,700,784	3.4%	3.3%
TOTAL PORTFOLIO	2,889,332,747	100%	100%	496,571,554	100%	100%	5,539,705,676	100%	100%	1,749,066,595	100%	100%	251,237,814	100%	100%	10,925,914,386	100%	100%

	KERS Insurance			KERS-H Insurance			CERS Insurance			CERS-H Insurance			SPRS Insurance			TOTAL FUND		
	Actual		Target	Actual		Target	Actual		Target	Actual		Target	Actual		Target	Actual		Target
Asset Class/Manager	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.	Market Value	Pct.	Pct.
ABSOLUTE RETURN	**42,019,789**	9.8%	10.0%	**40,258,059**	11.5%	12.0%	**146,335,607**	9.7%	10.0%	**79,496,688**	9.6%	10.0%	**12,647,132**	9.6%	10.0%	**320,757,274.00**	**9.9%**	**10.2%**
Arrowhawk Durable Alpha	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	0	0.0%	0.0%	-	0.0%	0.0%
BAAM	14,143,714	3.3%	3.3%	13,550,862	3.9%	4.0%	49,256,247	3.3%	3.3%	26,758,423	3.2%	3.3%	4,257,035	3.2%	3.3%	107,966,281.00	3.3%	3.4%
PAAMCO	13,854,544	3.2%	3.3%	13,272,208	3.8%	4.0%	48,246,973	3.2%	3.3%	26,210,013	3.2%	3.3%	4,169,369	3.2%	3.3%	105,753,107.00	3.3%	3.4%
Prisma	14,021,530	3.3%	3.3%	13,434,990	3.8%	4.0%	48,832,387	3.3%	3.3%	26,528,252	3.2%	3.3%	4,220,727	3.2%	3.3%	107,037,886.00	3.3%	3.4%
TOTAL PORTFOLIO	430,902,110	100%	100%	349,383,353	100%	100%	1,500,956,305	100%	100%	828,598,991	100%	100%	131,323,014	100%	100%	3,241,163,772	100%	100%

Addendum 1

Manager Summaries

Addendum 2

Albourne Annual Hedge Fund Strategy Review: 2012
Albourne Proposed Portfolio Analytics

Addendum 3

Alternative Investments Due Diligence Procedures

EXHIBIT 42

Absolute Return Manager Recommendations

August 6th, 2013

Presentation Outline

- Recommendation Summary
- Portfolio Construction Process
- Individual Manager Summaries

Absolute Return Recommendation

In conjunction with the Absolute Return Annual Review and Forward Looking Agenda presented to the Investment Committee on February 5th, 2013, Staff and Consultant Albourne have proposed the addition of direct hedge funds to the Absolute Return portfolio for three main reasons:

1) Reduce total fees paid by removing some of the Fund of Fund layer of fees

2) Increase alpha opportunity by reducing over-diversification

3) Modify strategy mix to reduce reliance on equity and credit risk

This recommendation follows the process as outlined to the Investment Committee and ultimately approved by the Board on February 13th, 2013. Further, the process and recommendation is consistent with the slate of Fund of Funds managers presented and ratified in August 2011.

Absolute Return Recommendation

This recommendation is also being put forward consistent with all relevant transaction and investment policies and procedures.

No placement agents were used in sourcing any of these managers.

Summary of recommendation

Staff and consultant are recommending investing $100 million of total plan assets in an equal weighted portfolio of five hedge fund managers:

Soroban Fund
Senator Global Opportunity Fund
Knighthead Domestic Fund
HBK Fund II
MKP Opportunity Fund

Due Diligence Process

Since November 2012, Staff and Consultant Albourne have sourced and vetted potential managers for the Absolute Return Portfolio.

Total universe: 14,000
Stage 1 DD: 477
Stage 2 DD: 125

	Total Managers	Meetings
Equity	77	18
Event	53	17
Credit	95	30
Multistrategy	35	17
Relative Value	62	11
Macro	81	21
CTA	51	7
Other	23	4
Total	**477**	**125**

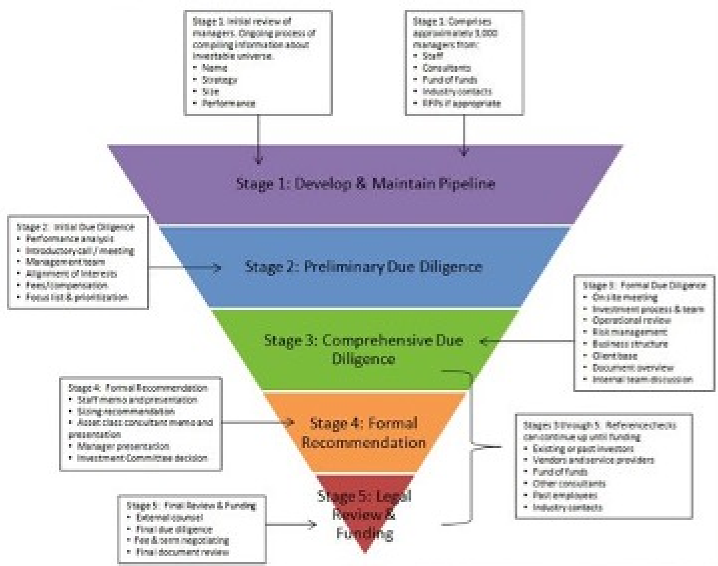


EXHIBIT 43

Daniel Boone Fund LLC

Financial Statements as of December 31, 2011
and for the Period September 1, 2011 (Commencement of Operations)
to December 31, 2011 and Independent Auditors' Report

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Report of Independent Auditors

To the Manager and Members of Daniel Boone Fund LLC:

In our opinion, the accompanying statement of financial condition, including the schedule of investments, and the related statements of operations, of changes in members' equity and of cash flows present fairly, in all material respects, the financial position of Daniel Boone Fund LLC (the "Fund") at December 31, 2011, and the results of its operations, the changes in its members' equity and its cash flows for the period September 1, 2011 (commencement of operations) through December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Fund's management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

May 30, 2012

Daniel Boone Fund LLC
Statement of Financial Condition
As of December 31, 2011

ASSETS	
Investments in Portfolio Funds, at fair value (cost $392,495,723)	$ 381,901,561
Cash and cash equivalents	1,218,335
Subscriptions paid in advance to Portfolio Funds	11,686,042
Redemptions receivable from Portfolio Funds	7,250,000
Interest receivable	124
Total assets	$ 402,056,062
LIABILITIES AND MEMBERS' EQUITY	
Liabilities	
Professional fees payable	$ 57,000
Administration fees payable	24,130
Management fees payable	17
Accrued expenses	14,485
Total liabilities	95,632
Members' equity	401,960,430
Total liabilities and members' equity	$ 402,056,062

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Schedule of Investments
As of December 31, 2011

Investments in Portfolio Funds	Cost	Fair Value	Percentage of Members' Equity
Convertible Arbitrage			
Linden Investors LP	$ 16,500,000	$ 15,432,397	3.84%
Credit/Distressed			
Centerbridge Credit Partners, L.P.	12,500,000	12,829,320	3.19%
Knighthead Domestic Fund, L.P.	12,500,000	12,118,636	3.02%
Silver Point Capital Fund, L.P.	16,500,000	16,529,697	4.11%
Sothic Capital European Opportunities Fund LP	12,500,000	11,826,777	2.94%
Total Credit/Distressed	54,000,000	53,304,430	13.26%
Equity Market Neutral			
Highbridge Statistical Opportunities Fund, L.P.	12,051,762	12,371,964	3.08%
Sabre Style Arbitrage Fund Limited	10,923,591	10,521,619	2.61%
Total Equity Market Neutral	22,975,353	22,893,583	5.69%
Event Driven			
Mason Capital, L.P.	10,000,000	10,078,876	2.51%
Pacific Alliance Asia Opportunity Feeder Fund II Limited	16,500,000	16,232,280	4.04%
Pentwater Equity Opportunities Fund LLC	16,500,000	17,189,074	4.27%
West Face Long Term Opportunities Fund (USA) Limited Partnership	16,500,000	16,269,506	4.05%
Total Event Driven	59,500,000	59,769,736	14.87%
Fixed Income Arbitrage			
Henderson Liquidity Events Fund Limited	14,500,000	14,553,940	3.62%
LibreMax Partners, L.P.	6,000,000	5,956,262	1.48%
One William Street Capital Partners, L.P.	16,500,000	15,859,882	3.95%
Total Fixed Income Arbitrage	37,000,000	36,370,084	9.05%
Global Macro			
Astenbeck Commodities Fund II LP	11,000,000	9,535,572	2.37%
CCP Quantitative Fund L.P.	8,500,000	8,231,943	2.05%
D.E. Shaw Oculus Fund, L.L.C.	16,500,000	16,490,297	4.10%
Discovery Global Macro Partnership, L.P.	14,500,000	14,465,123	3.60%
Finisterre Global Opportunity Partners, LP	12,500,000	12,519,547	3.12%
Total Global Macro	63,000,000	61,242,482	15.24%

See accompanying notes to financial statements.

Investments in Portfolio Funds (continued)	Cost	Fair Value	Percentage of Members' Equity
Long/Short Equity			
Ashoka Fund	$ 9,500,000	$ 8,200,646	2.04%
Ayer Capital Partners Fund, LP	11,500,000	11,400,186	2.84%
Charter Bridge Capital Partners, LLC	12,500,000	12,143,890	3.02%
Force Capital II LLC	12,500,000	12,262,880	3.05%
JAT Capital Domestic Fund, L.P.	9,500,000	8,047,590	2.00%
Newland Fund, LP	8,020,370	7,491,083	1.86%
Pelham Long/Short Fund LP	12,500,000	12,128,351	3.02%
The Real Return Funds PLC	10,500,000	9,516,988	2.37%
Scout Capital Partners II, L.P.	16,500,000	16,266,793	4.05%
Tremblant Partners LP	14,500,000	13,793,051	3.43%
White Elm Capital Partners, L.P.	9,000,000	8,259,721	2.05%
Total Long/Short Equity	126,520,370	119,511,179	29.73%
Short Bias			
Kingsford Capital Partners, L.P.	7,000,000	7,034,662	1.75%
Ursus Partners, L.P.	6,000,000	6,343,008	1.58%
Total Short Bias	13,000,000	13,377,670	3.33%
Total Investments in Portfolio Funds	$ 392,495,723	$ 381,901,561	95.01%

As of December 31, 2011, Portfolio Funds domiciled in the United States and the Cayman Islands are valued at $314,644,145 (78.28% of members' equity) and $57,740,428 (14.36% of members' equity), respectively.

The Fund is not able to obtain complete details on the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2011.

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Operations
For the period September 1, 2011 (Commencement of Operations) to December 31, 2011

Investment income	
Interest	$ 2,233
Expenses	
Management fees	944,634
Professional fees	74,631
Administration fees	48,534
Other expenses	32,196
Total expenses	1,099,995
Net investment income/(loss)	(1,097,762)
Net gain/(loss) on investments	
Net realized gain/(loss) on investments in Portfolio Funds	(1,397,646)
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	(10,594,162)
Net gain/(loss) on investments	(11,991,808)
Net income/(loss)	$ (13,089,570)

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Changes in Members' Equity
For the period September 1, 2011 (Commencement of Operations) to December 31, 2011

Members' equity, beginning of period	**$** –
Capital contributions	415,050,000
Net income/(loss)	(13,089,570)
Members' equity, end of period	$ 401,960,430

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Cash Flows
For the period from September 1, 2011 (Commencement of Operations) to December 31, 2011

Cash flows from operating activities	
Net income/(loss)	$ (13,089,570)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(418,750,000)
Proceeds from sales of investments in Portfolio Funds	24,856,631
Net realized (gain)/loss on investments in Portfolio Funds	1,397,646
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	10,594,162
(Increase)/decrease in assets:	
Subscriptions paid in advance to Portfolio Funds	(11,686,042)
Redemptions receivable from Portfolio Funds	(7,250,000)
Interest receivable	(124)
Increase/(decrease) in liabilities:	
Professional fees payable	57,000
Administration fees payable	24,130
Management fees payable	17
Accrued expenses	14,485
Net cash provided by/(used in) operating activities	(413,831,665)
Cash flows from financing activities	
Capital contributions	415,050,000
Net change in cash and cash equivalents	1,218,335
Cash and cash equivalents	
Beginning of period	–
End of period	$ 1,218,335

See accompanying notes to financial statements.

1. Organization

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and reflect the following policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the period of the report. Actual results could differ from those estimates and those differences could be material.

Valuation of Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Generally, underlying investments held by the Portfolio Funds which are publicly traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. Due to the inherent uncertainty as to valuations for

2. Summary of Significant Accounting Policies (continued)

certain non-marketable investments, the fair value determined by the management of each Portfolio Fund may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if the Portfolio Fund fails to report a value to the Fund, a fair value determination is made under procedures established by management. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2011, no Portfolio Fund was valued pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk, market risk and industry or geographic concentration risks for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income from money market accounts and expenses are recorded on an accrual basis.

Income taxes

The members are responsible for reporting income or loss, to the extent required by U.S. federal and state income tax laws and regulations, based upon the Fund's income and expense as reported for income tax purposes.

No provision for U.S. federal and state taxes has been made in the accompanying financial statements as the members of the Fund are generally responsible for taxes on their share of the Fund's taxable income.

The Fund reviews and evaluates tax positions in those jurisdictions where it is organized and conducts activities and determines if there are uncertain tax positions that require financial statement recognition. No reserves for uncertain tax positions were required to be recorded as of December 31, 2011.

The Fund's U.S. federal and state tax returns generally remain open for examination and adjustment by tax authorities for three years from when they are filed.

2. Summary of Significant Accounting Policies (continued)

The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. For the period ended December 31, 2011, the Fund did not incur any interest or penalties.

Cash and cash equivalents

Cash equivalents may include highly liquid investments with an original maturity of three months or less and short-term liquid investments.

3. Members' Equity

A capital account is maintained on the books of the Fund for each of the members. Each capital account shall be increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account shall be increased or decreased by its pro-rata allocation of any income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

4. Related Party Transactions

The Fund pays to the Investment Manager on the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1750% (0.70% annualized) of the beginning balance of each member interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which such Management Fee is paid.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contribution and withdrawals) over (i) the Management Fee charged to each capital account for such fiscal year and (ii) the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate. The Investment Manager, in its sole discretion, may elect to reduce, waive or calculate differently the Inventive Fee with respect to certain members.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

5. Custodian and Administrator

The Bank of New York Mellon (the "Custodian") serves as the custodian for the Fund. All of the Fund's interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon through its Alternative Investment Services group (the "Administrator") provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

6. Line of Credit

On December 23, 2011, the Fund entered into an agreement with Deutsche Bank AG ("DB") to initiate a short-term credit facility (the "Credit Facility"). Under the Credit Facility, which matures on January 31, 2013, the Fund may issue notes with a maximum amount of $40,000,000. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro-rata portion of the structuring fee which is 0.75% of the combined maximum principal amount of the Fund and other investment funds affiliated with the Investment Manager.

For the period ended December 31, 2011, the Fund recorded no interest expense and a structuring fee of $1,783. As of December 31, 2011, the Fund did not have any borrowings outstanding under the Credit Facility. Any outstanding balance of the Credit Facility approximates fair value.

7. Investments in Portfolio Funds

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to an initial "lockup period" before redemptions can be made.

7. Investments in Portfolio Funds (continued)

The Agreements provide for compensation to the Portfolio Funds' managers in the form of management fees ranging from 0.75% to 2.5% per annum of net assets and incentive allocations/fees of 15% to 25% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds.

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each such category. All data presented in the following table is as of December 31, 2011. The Fund had no unfunded commitments to any Portfolio Fund.

	Fair Value (in thousands)	Redemption Frequency *	Redemption Notice Period *
Convertible Arbitrage [a]	$ 15,432	Quarterly	65 days
Credit/Distressed [b]	53,304	Quarterly to annually	90 days
Equity Market Neutral [c]	22,894	Monthly	15 - 30 days
Event Driven [d]	59,770	Monthly to annually	60 - 93 days
Fixed Income Arbitrage [e]	36,370	Monthly to quarterly	30 - 90 days
Global Macro [f]	61,243	Monthly to quarterly	30 - 90 days
Long/Short Equity [g]	119,511	Monthly to quarterly	30 - 45 days
Short Bias [h]	13,378	Quarterly	30 - 45 days
Total	$ 381,902		

* Reflects holdings currently eligible to be redeemed as of December 31, 2011.

(a) Includes Portfolio Funds that invest in the convertible securities of companies while hedging a portion of the equity risk by selling short the underlying common stock.

(b) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some funds may take simultaneous long and short positions in these securities and others may be long-biased. Portfolio Funds representing 10% of members' equity cannot be redeemed because of restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period"). The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods range from 8 to 21 months.

(c) Includes Portfolio Funds that combine long and short positions in an attempt to neutralize market exposure. Some funds may employ quantitative models to determine which securities to by buy and sell while others rely on fundamental research.

(d) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods range from 1 to 8 months. Portfolio Funds representing 8% of members' equity cannot be redeemed because of unexpired Lockup Periods.

7. Investments in Portfolio Funds (continued)

(e) Includes Portfolio Funds that attempt to profit from price differences between related fixed income securities. The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Period is 8 months. Portfolio Funds representing 4% of members' equity cannot be withdrawn because of unexpired Lockup Periods

(f) Includes Portfolio Funds that make leveraged investments based on anticipated price movements of stock markets, interest rates, non-U.S. currencies and physical commodities.

(g) Includes Portfolio Funds that take simultaneous long and short positions in equity securities in an attempt to profit from directional movements in the securities. These funds may focus on a particular geographic region, industry sector, market capitalization, or investment style to achieve their goal of capital appreciation through individual stock selection. The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods range from 8 to 20 months. Portfolio Funds representing 10% of members' equity cannot be redeemed because of unexpired Lockup Periods.

(h) Includes Portfolio Funds that sell securities that they do not own to take advantage of an anticipated price decline. The Portfolio Funds may utilize a variety of techniques to identify securities they believe are trading in excess of their fundamental value.

8. Fair Value Measurements

Accounting Standards Codification ("ASC") 820, *Fair Value Measurement* defines fair value and establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The fair value of an investment is the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

ASC 820 established a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 — Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are publicly traded debt and equity securities.

8. Fair Value Measurements (continued)

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. In accordance with authoritative guidance, the fair value of Portfolio Funds that permit capital withdrawals quarterly or more frequently are generally classified as Level 2 assets by the Fund.

Level 3 — Pricing inputs (including management's own assumptions in determining the fair value of investments) are unobservable and include situations where there is little, if any, market activity for the investment. Generally, Portfolio Funds that have unexpired lockup periods or permit capital withdrawals less frequent than quarterly are classified as Level 3 assets by the Fund.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Fund's policy is to recognize transfers between Levels 1, 2 or 3 due to change in methodology, if applicable, as if they occurred as of the beginning of the reporting period. For the period ended December 31, 2011, the Fund did not have any transfers between Levels 1 and 2.

The following table summarizes the valuation of the Fund's investments by the above ASC 820 fair value hierarchy levels as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Convertible Arbitrage	$ –	$ 15,432,397	$ –	$ 15,432,397
Credit/Distressed	–	12,118,636	41,185,794	53,304,430
Equity Market Neutral	–	22,893,583	–	22,893,583
Event Driven	–	33,458,580	26,311,156	59,769,736
Fixed Income Arbitrage	–	20,510,202	15,859,882	36,370,084
Global Macro	–	61,242,482	–	61,242,482
Long/Short Equity	–	78,659,580	40,851,599	119,511,179
Short Bias	–	13,377,670	–	13,377,670
Total	$ –	$ 257,693,130	$ 124,208,431	$ 381,901,561

As of December 31, 2011, Level 3 valuations of the investments in Portfolio Funds were based primarily on information received from the Portfolio Managers. See Valuation of Portfolio Funds, within Note 2, for additional information.

8. Fair Value Measurements (continued)

The classification of investments in Portfolio Funds included in the table above reflects management's classification of the Fund's investments in Portfolio Funds. It does not reflect the classification under ASC 820 of investments held by Portfolio Funds.

The following table presents the changes in Level 3 investments in Portfolio Funds for the period ended December 31, 2011:

	Balance as of September 1, 2011	Purchases	Sales	Net realized gain/(loss)	Net change in unrealized appreciation/ (depreciation)	Transfers into Level 3	Transfers out of Level 3*	Balance as of December 31, 2011
Credit/Distressed	$ –	$ 41,500,000	$ –	$ –	$ (314,206)	$ –	$ –	$ 41,185,794
Event Driven	–	43,000,000	–	–	(419,338)	–	(16,269,506)	26,311,156
Fixed Income Arbitrage	–	16,500,000	–	–	(640,118)	–	–	15,859,882
Long/Short Equity	–	43,500,000	–	–	(2,648,401)	–	–	40,851,599
Total	$ –	$144,500,000	$ –	$ –	$ (4,022,063)	$ –	$ (16,269,506)	$124,208,431

* Transfers out of Level 3 into Level 2 are due to the expiration of a Lockup Period and are recognized at the end of the period.

Net realized gain/(loss) and net change in unrealized appreciation/(depreciation) recorded for Level 3 investments in the above table are reported as net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The net change in unrealized appreciation/(depreciation) of Level 3 investment tranches still held as of December 31, 2011 are:

Credit/Distressed	$ (314,206)
Event Driven	(188,844)
Fixed Income Arbitrage	(640,118)
Long/Short Equity	(2,648,401)
Total	$ (3,791,569)

9. Indemnification

The Fund has entered into agreements with certain service providers which provide for indemnification against losses, costs, claims, and liabilities arising from the performance of individual obligations under such agreements, caused by activities which constitute breaches of the liability standards of such agreements which may include, among other things, gross negligence or bad faith. The Fund has had no prior claims or payments pursuant to these agreements. The Fund's individual maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on management's experience, the risk of loss is expected to be remote.

10. Risks Associated with Financial Instruments

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. These deposits may exceed federally insured limits. As of December 31, 2011, $1,218,335 was held in a money market account at a major U.S. financial institution.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its liabilities. As of December 31, 2011, the Fund's liabilities include payables to various service providers.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investment in the Portfolio Fund on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Manager, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2011, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details on the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2011.

10. Risks Associated with Financial Instruments (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in shares of Portfolio Funds denominated solely in the U.S. dollar. While the Portfolio Funds may invest in non-U.S. dollar denominated securities, the Portfolio Managers generally hedge any exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities, that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

11. Financial Highlights

Financial highlights for the period ended December 31, 2011 are as follows:

Operating Performance:[1]	
Gross return	(3.15%)
Incentive Fee	–
Net return	(3.15%)
Ratio to average members' equity:[2] [3]	
Total expenses before Incentive Fee	0.79%
Incentive Fee	–
Total expenses	0.79%
Net investment income/(loss)	(0.79%)

(1) Computed as the percentage change in value during the year of an initial member's investment, net of all fees and expenses. The gross return and net return have not been annualized.

(2) Average members' equity has been computed as the average of each month's beginning capital balances.

(3) Certain recurring expenses have been annualized.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

12. Subsequent Events

Management has evaluated the impact of all subsequent events on the Fund through May 30, 2012, the date the Fund's financial statements were available to be issued, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

Daniel Boone Fund LLC

Financial Statements
Year ended December 31, 2012
with Report of Independent Auditors

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Report of Independent Auditors

The Special Member of
Daniel Boone Fund LLC

We have audited the accompanying financial statements of Daniel Boone Fund LLC, which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2012, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daniel Boone Fund LLC at December 31, 2012, and the results of its operations, the changes in members' equity and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

May 23, 2013

Daniel Boone Fund LLC
Statement of Financial Condition
December 31, 2012

ASSETS		
Investments in Portfolio Funds, at fair value (cost $424,438,309)	$	464,798,249
Cash and cash equivalents		860,373
Subscriptions paid in advance to Portfolio Funds		19,500,000
Redemptions receivable from Portfolio Funds		18,581,162
Interest receivable		198
Other assets		16,170
Total assets	$	503,756,152
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Notes payable	$	15,750,000
Incentive fees payable		1,405,412
Professional fees payable		64,625
Administration fees payable		28,016
Capital withdrawals payable		3,579
Accrued expenses		38,867
Total liabilities		17,290,499
Members' equity		486,465,653
Total liabilities and members' equity	$	503,756,152

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Schedule of Investments
December 31, 2012

Investments in Portfolio Funds	Cost	Fair Value	Percentage of Members' Equity
Convertible Arbitrage			
Linden Investors LP	$ 8,393,662	$ 8,182,768	1.68%
Credit/Distressed			
Centerbridge Credit Partners, L.P.	11,722,667	13,576,029	2.79
Knighthead Domestic Fund, L.P.	12,500,000	14,164,629	2.91
Silver Point Capital Fund, L.P.	18,500,000	22,197,323	4.56
Sothic Capital European Opportunities Fund L.P.	12,500,000	13,541,572	2.79
York Credit Opportunities Fund, L.P.	9,500,000	10,010,103	2.06
Total Credit/Distressed	64,722,667	73,489,656	15.11
Equity Market Neutral			
Highbridge Statistical Opportunities Fund, L.P.	15,051,762	16,210,296	3.33
Event Driven			
Mason Capital, L.P.	14,000,000	13,355,575	2.75
Myriad Opportunities US Fund Limited	12,500,000	13,110,664	2.70
Pacific Alliance Asia Opportunity Feeder Fund II Limited	16,500,000	17,810,418	3.66
Pentwater Equity Opportunities Fund LLC	16,500,000	20,591,287	4.23
West Face Long Term Opportunities (USA) Limited Partnership	18,500,000	19,225,553	3.95
Total Event Driven	78,000,000	84,093,497	17.29
Fixed Income Arbitrage			
Axonic Credit Opportunities Fund, LP	10,000,000	10,313,011	2.12
CQS ABS Feeder Fund, LP	14,686,042	16,917,894	3.48
KLS Diversified Fund LP	14,000,000	14,671,955	3.02
LibreMax Partners, L.P.	20,250,000	23,705,300	4.87
One William Street Capital Partners, L.P.	18,500,000	21,177,697	4.35
The Obsidian Fund LLC	9,500,000	10,196,777	2.10
Total Fixed Income Arbitrage	86,936,042	96,982,634	19.94
Global Macro			
CCP Quantitative Fund L.P.	10,500,000	11,602,434	2.39
D.E. Shaw Oculus Fund, L.L.C.	16,500,000	20,013,458	4.11
Discovery Global Macro Partnership, L.P.	17,500,000	20,461,050	4.21
Finisterre Global Opportunity Partners, LP	8,728,052	9,266,829	1.90

See accompanying notes to financial statements. *(continued)*

Investments in Portfolio Funds	Cost	Fair Value	Percentage of Members' Equity
Global Macro (continued)			
MKP Opportunity Partners, L.P.	$ 9,500,000	$ 9,701,764	1.99%
Total Global Macro	62,728,052	71,045,535	14.60
Long/Short Equity			
Ashoka Fund	9,500,000	9,250,180	1.90
Charter Bridge Capital Partners, LLC	12,500,000	13,240,977	2.72
Force Capital II LLC	12,500,000	14,208,369	2.92
Pelham Long/Short Fund LP	12,500,000	14,177,098	2.92
Scout Capital Partners II, L.P.	12,672,411	13,491,572	2.77
Tremblant Partners LP	10,628,067	11,595,403	2.38
White Elm Capital Partners, L.P.	9,000,000	10,679,061	2.20
Total Long/Short Equity	79,300,478	86,642,660	17.81
Managed Futures			
BlueTrend Fund L.P.	15,000,000	14,728,160	3.03
Short Bias			
Kingsford Capital Partners, L.P.	7,000,000	6,529,632	1.34
Ursus Partners, L.P.	7,305,646	6,893,411	1.42
Total Short Bias	14,305,646	13,423,043	2.76
Total Investments in Portfolio Funds	$ 424,438,309	$ 464,798,249	95.55%

As of December 31, 2012, Portfolio Funds domiciled in the United States and the Cayman Islands are valued at $399,482,981 (82.12% of members' equity) and $65,315,268 (13.43% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2012.

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Operations
For the year ended December 31, 2012

Investment income	
Interest	$ 3,198
Expenses	
Management fees	3,123,890
Incentive fees	1,414,882
Administration fees	160,433
Professional fees	64,686
Interest expense	37,007
Other expenses	211,451
Total expenses	5,012,349
Net investment income/(loss)	(5,009,151)
Net gain/(loss) on investments	
Net realized gain/(loss) on investments in Portfolio Funds	(5,969,049)
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	50,954,102
Net gain/(loss) on investments	44,985,053
Net income/(loss)	$ 39,975,902

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Changes in Members' Equity
For the year ended December 31, 2012

	Special Member	Members	Total
Members' equity, beginning of year	$ 48,537	$ 401,911,893	$ 401,960,430
Capital contributions	–	49,532,900	49,532,900
Capital withdrawals	(3,579)	(5,000,000)	(5,003,579)
Net income/(loss)	5,042	39,970,860	39,975,902
Members' equity, end of year	$ 50,000	$ 486,415,653	$ 486,465,653

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Cash Flows
For the year ended December 31, 2012

Cash flows from operating activities	
Net income/(loss)	$ 39,975,902
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(131,686,042)
Proceeds from sales of investments in Portfolio Funds	93,774,407
Net realized (gain)/loss on investments in Portfolio Funds	5,969,049
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	(50,954,102)
(Increase)/decrease in assets:	
Subscriptions paid in advance to Portfolio Funds	(7,813,958)
Redemptions receivable from Portfolio Funds	(11,331,162)
Interest receivable	(74)
Other assets	(16,170)
Increase/(decrease) in liabilities:	
Incentive fees payable	1,405,412
Professional fees payable	7,625
Administration fees payable	3,886
Accrued expenses	24,382
Management fees payable	(17)
Net cash provided by/(used in) operating activities	(60,640,862)
Cash flows from financing activities	
Capital contributions	49,532,900
Capital withdrawals	(5,000,000)
Issuance of notes	58,250,000
Payment of notes	(42,500,000)
Net cash provided by/(used in) financing activities	60,282,900
Net change in cash and cash equivalents	(357,962)
Cash and cash equivalents	
Beginning of year	1,218,335
End of year	$ 860,373
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 37,007

See accompanying notes to financial statements.

1. Organization

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

On October 1, 2012, an affiliate of KKR & Co. L.P. ("KKR") acquired the Investment Manager and Special Member. The Investment Manager and Special Member currently operate as indirect subsidiaries of KKR. There was no change in the Fund's management or investment program as a result of the acquisition by KKR.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and are expressed in U.S. dollars.

These financial statements reflect the following policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly traded are valued at their current

2. Summary of Significant Accounting Policies (continued)

observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the investment committee of the Investment Manager. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2012, no Portfolio Fund was valued pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk, market risk and industry or geographic concentration risks for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The net change in the value of the Portfolio Funds is included in the Statement of Operations.

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities, which qualify as financial instruments, approximates the fair value as presented in the Statement of Financial Condition.

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income from money market accounts and expenses are recorded on an accrual basis.

Income taxes

Each member is individually responsible for reporting income or loss, to the extent required by U.S. federal and state income tax laws and regulations, based upon its respective share of the Fund's income and expenses as reported for income tax purposes.

2. Summary of Significant Accounting Policies (continued)

No provision for U.S. federal and state taxes has been made in the accompanying financial statements as the members of the Fund are generally responsible for taxes on their share of the Fund's taxable income.

Management reviews and evaluates tax positions in those jurisdictions where it is organized and in which it conducts activities and determines if there are uncertain tax positions that require financial statement recognition. No reserves for uncertain tax positions were required to be recorded as of December 31, 2012.

The Fund recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense in the Statement of Operations. For the year ended December 31, 2012, the Fund did not incur any interest or penalties.

The Fund's U.S. federal and state tax returns generally remain open for examination and adjustment by tax authorities for three years from when they are filed.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions and may include highly liquid investments with an original maturity of three months or less and short-term liquid investments.

3. Investments in Portfolio Funds

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to an initial "lockup period" before redemptions can be made.

The Agreements provide for compensation to the Portfolio Funds' managers in the form of management fees ranging from 1.00% to 2.50% per annum of net assets and incentive allocations/fees of 15% to 25% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds.

3. Investments in Portfolio Funds (continued)

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each such category. All data presented in the following table is as of December 31, 2012. The Fund had no unfunded commitments to any Portfolio Fund.

	Fair Value (in thousands)	Redemption Frequency *	Redemption Notice Period *
Convertible Arbitrage [a]	$ 8,183	Quarterly	65 days
Credit/Distressed [b]	73,490	Quarterly to annually	90 - 120 days
Equity Market Neutral [c]	16,210	Monthly	30 days
Event Driven [d]	84,093	Monthly to annually	60 - 180 days
Fixed Income Arbitrage [e]	96,983	Monthly to quarterly	60 - 90 days
Global Macro [f]	71,045	Monthly to quarterly	30 - 90 days
Long/Short Equity [g]	86,643	Monthly to semi-annually	45 - 180 days
Managed Futures [h]	14,728	Not Applicable	Not Applicable
Short Bias [i]	13,423	Quarterly	30 - 45 days
Total	$ 464,798		

* Reflects holdings currently eligible to be redeemed as of December 31, 2012.

(a) Includes Portfolio Funds that invest in the convertible securities of companies while hedging a portion of the equity risk by selling short the underlying common stock. Investments in the Portfolio Fund representing 2% of members' equity cannot be redeemed because of a gate imposed by the Portfolio Manager of the Portfolio Fund.

(b) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased. Investments in certain Portfolio Funds representing 3% of members' equity cannot be redeemed because of restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period"). The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods range from 6 to 9 months.

(c) Includes Portfolio Funds that combine long and short positions in an attempt to neutralize market exposure. Some Portfolio Funds may employ quantitative models to determine which equity securities to buy and sell while others rely on fundamental research.

(d) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired.

(e) Includes Portfolio Funds that attempt to profit from price differences between related fixed income securities. The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods range up to 5 months. Investments in certain Portfolio Fund representing less than 1% of members' equity cannot be redeemed because of unexpired Lockup Periods.

(f) Includes Portfolio Funds that make leveraged investments based on anticipated price movements of stock markets, interest rates, non-U.S. currencies and physical commodities.

3. Investments in Portfolio Funds (continued)

(g) Includes Portfolio Funds that take simultaneous long and short equity positions in equity securities in an attempt to profit from directional movements in the securities. These Portfolio Funds may focus on a particular geographic region, industry sector, market capitalization, or investment style to achieve their goal of capital appreciation through individual stock selection. The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods range up to 8 months. Investments in certain Portfolio Funds representing 2% of members' equity cannot be redeemed because of unexpired Lockup Periods.

(h) Includes Portfolio Funds that invest in listed financial and commodity futures and forward markets and currency markets around the world. The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods range from 5 to 7 months. Investments in certain Portfolio Funds representing 3% of members' equity cannot be redeemed because of unexpired Lockup Periods.

(i) Includes Portfolio Funds that sell securities that they do not own to take advantage of an anticipated price decline. The Portfolio Funds may utilize a variety of techniques to identify securities they believe are trading in excess of their fundamental value.

4. Members' Equity

A capital account is maintained on the books of the Fund for each of the members. The capital account shall be increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account shall be increased or decreased by the amount of any income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

5. Related Party Transactions

The Fund pays to the Investment Manager on the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1750% (0.70% annualized) of the beginning balance of each member interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which such Management Fee is paid.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contribution and withdrawals) over (i) the Management Fee charged to each capital account for such fiscal year and (ii) the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate. The Investment Manager, in its sole discretion, may elect to reduce, waive or calculate differently the Incentive Fee with respect to certain members.

5. Related Party Transactions (continued)

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

6. Line of Credit

The Fund maintains a short-term credit facility agreement (the "Credit Facility") with Deutsche Bank AG ("DB"). Under the Credit Facility, which matures on January 31, 2013, the Fund may issue notes not to exceed a maximum amount of $40,000,000 to DB. Subsequent to December 31, 2012, the Credit Facility was extended to January 31, 2014. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund has granted DB a first priority security interest in and continuing lien on all assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its investments in Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro-rata portion of a structuring fee equal to 0.75% of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

As of December 31, 2012, the Fund had outstanding borrowings of $15,750,000 under the Credit Facility. For the year ended December 31, 2012, the Fund recorded interest expense of $37,007 and a structuring fee of $93,846, which are included in interest expense and other expenses in the Statement of Operations, respectively.

7. Custodian and Administrator

The Bank of New York Mellon (the "Custodian") serves as the custodian for the Fund. All of the Fund's interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the "Administrator"), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. Fair Value Measurements

Accounting Standards Codification ("ASC") 820, *Fair Value Measurement,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The fair value of an investment is the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.

8. Fair Value Measurements (continued)

ASC 820 established a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 — Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are publicly traded debt and equity securities.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. In accordance with authoritative guidance, the fair value of Portfolio Funds no longer subject to lockup and which permit capital withdrawals quarterly or more frequently are generally classified as Level 2 assets by the Fund.

Level 3 — Pricing inputs (including management's own assumptions in determining the fair value of investments) are unobservable and include situations where there is little, if any, market activity for the investment. Generally, Portfolio Funds that have unexpired lockup periods or permit capital withdrawals less frequent than quarterly are classified as Level 3 assets by the Fund.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

8. Fair Value Measurements (continued)

The following table summarizes the valuation of the Fund's investments by the ASC 820 fair value hierarchy levels as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Convertible Arbitrage	$ –	$ 2,736,089	$ 5,446,679	$ 8,182,768
Credit/Distressed	–	24,174,732	49,314,924	73,489,656
Equity Market Neutral	–	16,210,296	–	16,210,296
Event Driven	–	52,491,780	31,601,717	84,093,497
Fixed Income Arbitrage	–	94,766,115	2,216,519	96,982,634
Global Macro	–	71,045,535	–	71,045,535
Long/Short Equity	–	52,536,321	34,106,339	86,642,660
Managed Futures	–	–	14,728,160	14,728,160
Short Bias	–	13,423,043	–	13,423,043
Total	$ –	$ 327,383,911	$ 137,414,338	$ 464,798,249

The classification of investments in Portfolio Funds included in the table above reflects management's classification of the Fund's investments in Portfolio Funds. It does not reflect the classification under ASC 820 of investments held by Portfolio Funds.

The following table presents the changes in Level 3 investments in Portfolio Funds for the year ended December 31, 2012:

	Balance as of December 31, 2011	Purchases	Sales	Net realized gain/(loss)	Net change in unrealized appreciation/ (depreciation)	Transfers into Level 3*	Transfers out of Level 3**	Balance as of December 31, 2012
Convertible Arbitrage	$ –	$ –	$ –	$ –	$ –	$ 5,446,679	$ –	$ 5,446,679
Credit/Distressed	41,185,794	2,000,000	(900,230)	122,898	6,906,462	–	–	49,314,924
Event Driven	26,311,156	4,000,000	–	–	854,837	435,724	–	31,601,717
Fixed Income Arbitrage	15,859,882	2,000,000	–	–	3,317,815	–	(18,961,178)	2,216,519
Long/Short Equity	40,851,599	–	–	–	7,463,109	–	(14,208,369)	34,106,339
Managed Futures	–	15,000,000	–	–	(271,840)	–	–	14,728,160
Total	$ 124,208,431	$ 23,000,000	$ (900,230)	$ 122,898	$ 18,270,383	$ 5,882,403	$(33,169,547)	$ 137,414,338

* Transfers into Level 3 are due to transfers to side pockets in Portfolio Funds previously classified as Level 2 investments or the implementation of a gate by a Portfolio Fund and are recognized at the end of the year.

** Transfers out of Level 3 into Level 2 are due to the expiration of Lockup Periods and are recognized at the end of the year.

Net realized gain/(loss) and net change in unrealized appreciation/(depreciation) recorded for Level 3 investments in the above table are reported as net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

8. Fair Value Measurements (continued)

The net change in unrealized appreciation/(depreciation) of Level 3 investments still held as of December 31, 2012 are:

Convertible Arbitrage	$	570,249
Credit/Distressed		6,906,462
Event Driven		854,837
Fixed Income Arbitrage		216,519
Long/Short Equity		5,517,620
Managed Futures		(271,840)
Total	$	13,793,847

9. Indemnification

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and, based on past experience, expects any risk of loss to be remote.

10. Risks Associated with Financial Instruments

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed federally insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and controls.

10. Risks Associated with Financial Instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2012, the Fund's financial liabilities include payables to various service providers, the outstanding notes payable and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Manager, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2012, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2012.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in the U.S. dollar. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

10. Risks Associated with Financial Instruments (continued)

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities, that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

11. Financial Highlights

Member financial highlights for the year ended December 31, 2012 are as follows:

Operating performance[1]	
Gross return	9.63%
Incentive Fees	(0.32%)
Net return	9.31%
Ratios to members' average equity[2]	
Total expenses before Incentive Fees	0.80%
Incentive Fees	0.31%
Total expenses	1.11%
Net investment income/(loss)	(1.11%)

(1) Total return is calculated based on a time-weighted rate of return methodology. Monthly rates of return are compounded to derive the total return reflected above. Total return is reflected after all investment-related and operating expenses, including the Management Fee.

(2) Members' average equity has been computed as the average of each month's beginning balances.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

12. Subsequent Events

For the period January 1, through May 23, 2013, the Fund recorded capital contributions and withdrawals in the amount of $1,096,000 and $11,503,640, respectively.

Management has evaluated the impact of all subsequent events on the Fund through May 23, 2013, the date the Fund's financial statements were available to be issued, and has determined that there were no additional subsequent events requiring recognition or disclosure in the financial statements.

Daniel Boone Fund LLC

Financial Statements
Year ended December 31, 2013
with Report of Independent Auditors

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Building a better working world

Report of Independent Auditors

The Special Member of
Daniel Boone Fund LLC

We have audited the accompanying financial statements of Daniel Boone Fund LLC (the "Fund"), which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2013, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daniel Boone Fund LLC at December 31, 2013, and the results of its operations, the changes in its members' equity and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 21, 2014

Daniel Boone Fund LLC
Statement of Financial Condition
December 31, 2013

ASSETS		
Investments in Portfolio Funds, at fair value (cost $362,021,542)	$	441,456,853
Cash and cash equivalents		1,337,026
Redemptions receivable from Portfolio Funds		35,194,181
Subscriptions paid in advance to Portfolio Funds		41,432,990
Interest receivable		169
Other assets		8,388
Total assets	$	519,429,607
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Notes payable	$	20,000,000
Incentive fee payable		2,290,687
Professional fees payable		63,825
Administration fees payable		28,308
Capital withdrawals payable		5,475
Management fee payable		418
Accrued expenses		39,718
Total liabilities		22,428,431
Members' equity		497,001,176
Total liabilities and members' equity	$	519,429,607

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Schedule of Investments
December 31, 2013

Investments in Portfolio Funds	Cost	Fair Value	Percentage of Members' Equity
Credit/Distressed			
Centerbridge Credit Partners, L.P.	$ 6,479,224	$ 8,297,693	1.67%
Knighthead Domestic Fund, L.P.	8,374,023	10,862,212	2.19
Silver Point Capital Fund, L.P.	18,500,000	25,918,195	5.21
Sothic Capital European Opportunities Fund L.P.	12,500,000	14,368,519	2.89
York Credit Opportunities Fund, L.P.	9,500,000	11,573,273	2.33
Total Credit/Distressed	55,353,247	71,019,892	14.29
Equity Market Neutral			
Gotham Neutral Strategies (US), L.P.	9,500,000	9,522,558	1.92
Event Driven			
ECM Feeder Fund 2 LP	9,331,105	12,242,245	2.47
Myriad Opportunities US Fund Limited	16,500,000	20,162,918	4.06
Pacific Alliance Asia Opportunity Feeder Fund II Limited	9,586,347	11,092,656	2.23
Pentwater Equity Opportunities Fund LLC	13,632,021	19,821,531	3.99
Roystone Capital Partners, L.P.	12,000,000	13,083,447	2.63
Somerset Special Opportunities Fund, L.P.	12,500,000	12,832,034	2.58
West Face Long Term Opportunities (USA) Limited Partnership	13,856,123	15,369,362	3.09
Total Event Driven	87,405,596	104,604,193	21.05
Fixed Income Arbitrage			
Axonic Credit Opportunities Fund, LP	10,000,000	11,560,928	2.33
LibreMax Partners, L.P.	13,248,523	17,589,573	3.54
One William Street Capital Partners, L.P.	8,570,234	10,416,206	2.09
The Obsidian Fund LLC	9,500,000	11,301,749	2.27
Total Fixed Income Arbitrage	41,318,757	50,868,456	10.23
Global Macro			
CCP Quantitative Fund L.P.	5,834,838	4,664,757	0.94
D.E. Shaw Oculus Fund, L.L.C.	16,500,000	20,049,234	4.04
Discovery Global Macro Partnership, L.P.	17,500,000	26,009,152	5.23
MKP Opportunity Partners, L.P.	11,500,000	12,441,217	2.50
Total Global Macro	51,334,838	63,164,360	12.71

See accompanying notes to financial statements.

(continued)

Daniel Boone Fund LLC
Schedule of Investments
December 31, 2013

Investments in Portfolio Funds	Cost	Fair Value	Percentage of Members' Equity
Long/Short Equity			
Ashoka Fund	$ 9,254,022	$ 10,619,589	2.13%
Corvex Partners LP	15,000,000	16,786,878	3.38
Force Capital II LLC	12,500,000	15,880,000	3.19
Hengistbury Fund, L.P.	8,750,000	9,484,913	1.91
Newbrook Capital Partners, L.P.	9,500,000	10,524,318	2.12
Pelham Long/Short Fund LP	12,500,000	19,020,773	3.83
Scout Capital Partners II, L.P.	12,672,411	16,385,780	3.29
Tremblant Partners LP	10,628,067	13,757,276	2.77
WF Asia Fund Ltd.	11,000,000	11,781,957	2.37
White Elm Capital Partners, L.P.	11,000,000	15,443,309	3.11
Total Long/Short Equity	112,804,500	139,684,793	28.10
Short Bias			
Ursus Partners, L.P.	4,304,604	2,592,601	0.52
Total Investments in Portfolio Funds	$ 362,021,542	$ 441,456,853	88.82%

As of December 31, 2013, Portfolio Funds domiciled in the United States and the Cayman Islands are valued at $356,524,212 (71.74% of members' equity) and $84,932,641 (17.09% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2013.

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Operations
For the year ended December 31, 2013

Investment income	
Interest	$ 3,084
Other income	934
Total investment income	4,018
Expenses	
Management fee	3,432,808
Incentive fee	2,384,965
Administration fees	173,192
Professional fees	88,452
Interest expense	32,071
Other expenses	217,030
Total expenses	6,328,518
Net investment income/(loss)	(6,324,500)
Net gain/(loss) on investments	
Net realized gain/(loss) on investments in Portfolio Funds	12,847,767
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	39,075,371
Net gain/(loss) on investments	51,923,138
Net income/(loss)	$ 45,598,638

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Changes in Members' Equity
For the year ended December 31, 2013

	Special Member	Members	Total
Members' equity, beginning of year	$ 50,000	$ 486,415,653	$ 486,465,653
Capital contributions	–	5,196,000	5,196,000
Capital withdrawals	(5,475)	(40,253,640)	(40,259,115)
Net income/(loss)	5,475	45,593,163	45,598,638
Members' equity, end of year	$ 50,000	$ 496,951,176	$ 497,001,176

See accompanying notes to financial statements.

Daniel Boone Fund LLC
Statement of Cash Flows
For the year ended December 31, 2013

Cash flows from operating activities	
Net income/(loss)	$ 45,598,638
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(107,250,000)
Proceeds from sales of investments in Portfolio Funds	182,514,534
Net realized (gain)/loss on investments in Portfolio Funds	(12,847,767)
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	(39,075,371)
(Increase)/decrease in operating assets:	
Redemptions receivable from Portfolio Funds	(16,613,019)
Subscriptions paid in advance to Portfolio Funds	(21,932,990)
Interest receivable	29
Other assets	7,782
Increase/(decrease) in operating liabilities:	
Incentive fee payable	885,275
Professional fees payable	(800)
Administration fees payable	292
Management fee payable	418
Accrued expenses	851
Net cash provided by/(used in) operating activities	31,287,872
Cash flows from financing activities	
Capital contributions	5,196,000
Capital withdrawals	(40,257,219)
Issuance of notes	38,100,000
Payment of notes	(33,850,000)
Net cash provided by/(used in) financing activities	(30,811,219)
Net change in cash and cash equivalents	476,653
Cash and cash equivalents	
Beginning of year	860,373
End of year	$ 1,337,026
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 32,071

See accompanying notes to financial statements.

1. Organization

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and are expressed in U.S. dollars.

These financial statements reflect the following policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as

2. Summary of Significant Accounting Policies (continued)

to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the investment committee of the Investment Manager. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2013, management did not value any Portfolio Funds pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk and market risk for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The Fund records net realized gain/(loss) and net change in unrealized appreciation/depreciation on investments in Portfolio Funds in the Statement of Operations.

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities which qualify as financial instruments approximates the fair value as presented in the Statement of Financial Condition.

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income and expenses are recorded on an accrual basis.

Income taxes

Each member is individually responsible for reporting income or loss, to the extent required by U.S. federal and state income tax laws and regulations, based upon its respective share of the Fund's income and expenses as reported for income tax purposes.

No provision for U.S. federal and state taxes has been made in the accompanying financial statements as the members of the Fund are generally responsible for taxes on their share of the Fund's taxable income.

2. Summary of Significant Accounting Policies (continued)

Management reviews and evaluates tax positions and determines if there are uncertain tax positions that require financial statement recognition. No reserves for uncertain tax positions were required to be recorded as of December 31, 2013.

The Fund would recognize interest and penalties related to uncertain tax positions as income tax expense in the Statement of Operations. For the year ended December 31, 2013, the Fund did not incur any interest or penalties.

The Fund's U.S. federal and state tax returns generally remain open for examination and adjustment by tax authorities for three years from when they are filed.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions and may include highly liquid investments with an original maturity of three months or less and short-term liquid investments.

3. Investments in Portfolio Funds

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to an initial "lockup period" before redemptions can be made.

The Agreements provide for compensation to the Portfolio Managers in the form of management fees ranging from 1.00% to 2.50% per annum of net assets and incentive allocations/fees of 15% to 25% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/ (depreciation) on investments in Portfolio Funds.

3. Investments in Portfolio Funds (continued)

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each category. All data presented in the following table is as of December 31, 2013. The Fund had no unfunded commitments to any Portfolio Fund.

	Fair Value	**Redemption Frequency***	**Redemption Notice Period***
Credit/Distressed [a]	$ 71,019,892	Quarterly to annually	90 - 120 days
Equity Market Neutral [b]	9,522,558	Monthly	15 days
Event Driven [c]	104,604,193	Monthly to quarterly	60 - 180 days
Fixed Income Arbitrage [d]	50,868,456	Monthly to quarterly	60 - 90 days
Global Macro [e]	63,164,360	Monthly to quarterly	30 - 90 days
Long/Short Equity [f]	139,684,793	Monthly to semi-annually	45 - 180 days
Short Bias [g]	2,592,601	Quarterly	30 - 45 days
Total	$ 441,456,853		

* Reflects holdings currently eligible to be redeemed as of December 31, 2013.

(a) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased. Investments in certain Portfolio Funds could not be redeemed because of restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period"). The Lockup Periods for such Portfolio Funds range up to 24 months, all of which are expired. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed until the underlying securities held in segregated capital accounts ("Side Pockets") are sold by the Portfolio Fund.

(b) Includes Portfolio Funds that combine long and short positions in an attempt to neutralize market exposure. Some Portfolio Funds may employ quantitative models to determine which equity securities to buy and sell while others rely on fundamental research.

(c) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. Investments in certain Portfolio Fund representing 5% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 18 months and the unexpired Lockup Periods range from 3 to 8 months. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed until the underlying securities held in Side Pockets are sold by the Portfolio Fund.

(d) Includes Portfolio Funds that attempt to profit from price differences between related fixed income securities. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired.

(e) Includes Portfolio Funds that make leveraged investments based on anticipated price movements of stock markets, interest rates, non-U.S. currencies and physical commodities.

(f) Includes Portfolio Funds that take simultaneous long and short positions in equity securities in an attempt to profit from directional movements in the securities. These Portfolio Funds may focus on a particular geographic region, industry sector, market capitalization, or investment style to achieve their goal of capital appreciation through individual stock selection. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods range up to 5 months.

3. Investments in Portfolio Funds (continued)

(g) Includes Portfolio Funds that sell securities that they do not own to take advantage of an anticipated price decline. The Portfolio Funds may utilize a variety of techniques to identify securities they believe are trading in excess of their fundamental value.

4. Members' Equity

A capital account is maintained on the books of the Fund for each member. The capital account shall be increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account shall be increased or decreased by the amount of any income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

5. Related Party Transactions

The Fund pays to the Investment Manager on the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1750% (0.70% annualized) of the beginning balance of each members' interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which it is paid. In addition, a pro rata portion of the Management Fee is paid to the Investment Manager for any contributions made to the Fund on any date that does not fall on the first business day of a quarter and is based on the actual number of months remaining in such partial quarter.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contributions and withdrawals) over the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate, subject to a loss carryforward. The Investment Manager, in its sole discretion, may elect to reduce, waive or calculate differently the Incentive Fee with respect to certain members.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

6. Line of Credit

The Fund maintains a short-term credit facility agreement (the “Credit Facility”) with Deutsche Bank AG (“DB”). Under the Credit Facility, which matures on January 31, 2014, the Fund may issue notes not to exceed a maximum amount of $72,000,000 to DB. Subsequent to December 31, 2013, the Credit Facility was extended to January 31, 2015. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund has granted DB a first priority security interest in and continuing lien on the assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its sales of investments in Portfolio Funds, but excluding investments in Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro rata portion of a structuring fee equal to 0.75% of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

As of December 31, 2013, the Fund had outstanding borrowings of $20,000,000 under the Credit Facility. For the year ended December 31, 2013, the Fund recorded interest expense of $32,071 and a structuring fee of $105,525, which are included in interest expense and other expenses, respectively, in the Statement of Operations.

7. Custodian and Administrator

The Bank of New York Mellon (the “Custodian”) serves as the custodian for the Fund. All of the Fund’s interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the “Administrator”), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. Fair Value Measurements

Accounting Standards Codification (“ASC”) 820, *Fair Value Measurement,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The fair value of an investment is the amount that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment and the state of the marketplace, including the existence and transparency of transactions between market participants. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

8. Fair Value Measurements (continued)

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 — Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are publicly traded debt and equity securities.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. In accordance with authoritative guidance, the fair value of Portfolio Funds no longer subject to lockup and which permit capital withdrawals quarterly or more frequently with notice of three months or less are generally classified as Level 2 assets by the Fund.

Level 3 — Pricing inputs (including management's own assumptions in determining the fair value of investments) are unobservable and include situations where there is little, if any, market activity for the investment. Generally, Portfolio Funds that have unexpired lockup periods or permit capital withdrawals less frequent than quarterly are classified as Level 3 assets by the Fund.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table summarizes the valuation of the Fund's investments by the ASC 820 fair value hierarchy levels as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
Credit/Distressed	$ –	$ 22,435,485	$ 48,584,407	$ 71,019,892
Equity Market Neutral	–	9,522,558	–	9,522,558
Event Driven	–	68,036,642	36,567,551	104,604,193
Fixed Income Arbitrage	–	50,868,456	–	50,868,456
Global Macro	–	63,164,360	–	63,164,360
Long/Short Equity	–	105,220,711	34,464,082	139,684,793
Short Bias	–	2,592,601	–	2,592,601
Total	$ –	$ 321,840,813	$ 119,616,040	$ 441,456,853

The classification of investments in Portfolio Funds included in the table above reflects management's classification of the Fund's investments in Portfolio Funds. It does not reflect the classification under ASC 820 of investments held by Portfolio Funds.

8. Fair Value Measurements (continued)

The following table presents the changes in Level 3 investments in Portfolio Funds for the year ended December 31, 2013:

	Balance as of beginning of year	Purchases	Sales	Net realized gain/(loss)	Net change in unrealized appreciation/ (depreciation)	Transfers into Level 3	Transfers out of Level 3*	Balance as of end of year
Convertible Arbitrage	$ 5,446,679	$ –	$ (6,026,891)	$ 312,104	$ 268,108	$ –	$ –	$ –
Credit/Distressed	49,314,924	–	(6,433,677)	1,190,233	4,512,927	–	–	48,584,407
Event Driven	31,601,717	23,500,000	(23,988,476)	1,405,928	4,083,489	–	(35,107)	36,567,551
Fixed Income Arbitrage	2,216,519	–	–	–	136,803	–	(2,353,322)	–
Long/Short Equity	34,106,339	2,500,000	(1,423,517)	545,500	7,857,744	–	(9,121,984)	34,464,082
Managed Futures	14,728,160	–	(13,706,916)	(1,293,084)	271,840	–	–	–
Total	$ 137,414,338	$ 26,000,000	$(51,579,477)	$ 2,160,681	$ 17,130,911	$ –	$(11,510,413)	$ 119,616,040

* Transfers out of Level 3 into Level 2 are due to transfers out of side pocket investments or the expiration of a Lockup Period and are recognized at the end of the year.

Net realized gain/(loss) and net change in unrealized appreciation/(depreciation) recorded for Level 3 investments in the above table are included in net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The net change in unrealized appreciation/(depreciation) of Level 3 investments still held as of December 31, 2013 is:

Credit/Distressed	$ 4,512,927
Event Driven	3,439,064
Long/Short Equity	7,607,924
Total	$ 15,559,915

9. Indemnifications

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnification terms. The Fund's maximum potential exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and, based primarily on past experience, expects any risk of loss to be remote.

10. Risks Associated with Financial Instruments

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and

10. Risks Associated with Financial Instruments (continued)

other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed U.S. federally insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2013, the Fund's financial liabilities include payables to various service providers, the outstanding notes payable and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Manager, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2013, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2013.

10. Risks Associated with Financial Instruments (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in the U.S. dollar. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund’s performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

11. Financial Highlights

Member financial highlights for the year ended December 31, 2013 are as follows:

Operating performance[1]

Gross return	10.18%
Incentive Fee	(0.50)
Net return	9.68%

Ratios to members' average equity[2]

Total expenses before Incentive Fee	0.80%
Incentive Fee	0.48
Total expenses	1.28%
Net investment income/(loss)	(1.28%)

(1) Total return is calculated based on a time-weighted rate of return methodology. Monthly rates of return are compounded to derive the total return reflected above. Total return is reflected after all investment-related and operating expenses, including the Management Fee.

(2) Members' average equity has been computed as the average of each month's beginning balances.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

12. Subsequent Events

For the period January 1, 2014 through May 21, 2014, the Fund recorded capital contributions and withdrawals in the amount of $6,000,000 and $8,005,475, respectively.

Management has evaluated the impact of all subsequent events on the Fund through May 21, 2014, the date the Fund's financial statements were available to be issued, and has determined that there were no additional subsequent events requiring recognition or disclosure in the financial statements.

DANIEL BOONE FUND LLC

Financial Statements
Year ended December 31, 2014
with Report of Independent Auditors

DANIEL BOONE FUND LLC

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Report of Independent Auditors

The Special Member of
Daniel Boone Fund LLC

We have audited the accompanying financial statements of Daniel Boone Fund LLC (the "Fund"), which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2014, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daniel Boone Fund LLC at December 31, 2014, and the results of its operations, the changes in its members' equity and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 20, 2015

DANIEL BOONE FUND LLC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2014

ASSETS		
Investments in Portfolio Funds, at fair value (cost $327,420,490)	$	401,167,796
Cash and cash equivalents		1,174,959
Redemptions receivable from Portfolio Funds		93,552,695
Subscriptions paid in advance to Portfolio Funds		39,500,000
Interest receivable		6
Other assets		6,151
TOTAL ASSETS	$	535,401,607
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Notes payable	$	40,000,000
Capital withdrawals payable		10,001,705
Incentive fees payable		636,062
Professional fees payable		71,500
Administration fees payable		42,512
Management fees payable		374
Accrued expenses		55,096
Total liabilities		50,807,249
Members' equity		484,594,358
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	535,401,607

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2014

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Credit/Distressed			
Anchorage Capital Partners, L.P.	$ 17,500,000	$ 17,929,248	3.70%
Centerbridge Credit Partners, L.P.	627,970	839,658	0.17
Knighthead Domestic Fund, L.P.	3,758,449	4,980,357	1.03
Silver Point Capital Fund, L.P.	13,274,548	19,062,758	3.94
Sothic Capital European Opportunities Fund LP	18,500,000	19,108,442	3.94
Total Credit/Distressed	53,660,967	61,920,463	12.78
Equity Market Neutral			
Gotham Neutral Strategies (US), LP	14,500,000	15,432,066	3.18
Event Driven			
ECM Feeder Fund 2 LP	9,331,105	13,893,897	2.87
Litespeed Partners, L.P.	12,000,000	11,218,152	2.31
Myriad Opportunities US Fund Limited	16,500,000	24,248,667	5.00
Pacific Alliance Asia Opportunity Feeder Fund II Limited	9,586,347	12,140,523	2.51
Pentwater Equity Opportunities Fund LLC	17,132,021	25,177,832	5.20
Roystone Capital Partners LP	16,100,000	17,996,820	3.71
West Face Long Term Opportunities (USA) Limited Partnership	11,318,964	12,725,627	2.63
Total Event Driven	91,968,437	117,401,518	24.23
Fixed Income Arbitrage			
Axonic Credit Opportunities Fund, LP	18,750,000	22,072,159	4.55
LibreMax Partners, LP	14,622,691	19,416,395	4.01
The Obsidian Fund LLC	14,000,000	16,518,501	3.41
Total Fixed Income Arbitrage	47,372,691	58,007,055	11.97
Global Macro			
D.E. Shaw Oculus Fund, L.L.C.	12,856,461	16,504,893	3.41
Discovery Global Macro Partnership, L.P.	15,282,507	20,847,616	4.30
Total Global Macro	28,138,968	37,352,509	7.71
Long/Short Equity			
Ashoka Fund	9,254,022	11,632,043	2.40
Charter Bridge P Fund, Ltd.	1,282,748	1,241,908	0.26
Corvex Partners LP	15,000,000	18,845,649	3.89
Pelham Long/Short Fund LP	12,500,000	19,664,772	4.06
Susa European Equities Fund L.P.	10,000,000	9,149,717	1.89
Tremblant Partners LP	8,610,695	11,221,513	2.31
White Elm Capital Partners, L.P.	6,381,962	7,819,822	1.61
Total Long/Short Equity	63,029,427	79,575,424	16.42

See accompanying notes to financial statements. *(continued)*

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Niche			
Gramercy Distressed Argentina Master Fund II	$ 9,750,000	$ 9,953,700	2.05%
Northwest Feilong Fund Ltd	9,500,000	11,716,594	2.42
Pentwater Merger Arbitrage Fund LLC	9,500,000	9,808,467	2.02
Total Niche	28,750,000	31,478,761	6.49
TOTAL INVESTMENTS IN PORTFOLIO FUNDS	$ 327,420,490	$ 401,167,796	82.78%

As of December 31, 2014, Portfolio Funds domiciled in the United States and the Cayman Islands are valued at $311,125,919 (64.20% of members' equity) and $90,041,877 (18.58% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2014.

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

INVESTMENT INCOME	
Interest	$ 1,538
Other income	518
Total investment income	2,056
EXPENSES	
Management fees	3,460,282
Incentive fees	652,023
Administration fees	172,079
Professional fees	109,127
Interest expense	46,934
Other expenses	217,261
Total expenses	4,657,706
NET INVESTMENT INCOME/(LOSS)	(4,655,650)
NET GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on investments in Portfolio Funds	22,938,542
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	(5,688,005)
Net gain/(loss) on investments	17,250,537
NET INCOME/(LOSS)	$ 12,594,887

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Member	Members	Total
Members' equity, beginning of year	$ 50,000	$ 496,951,176	$ 497,001,176
Capital contributions	–	6,000,000	6,000,000
Capital withdrawals	(1,705)	(31,000,000)	(31,001,705)
Net income/(loss)	1,705	12,593,182	12,594,887
Members' equity, end of year	$ 50,000	$ 484,544,358	$ 484,594,358

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(loss)	$ 12,594,887
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(156,762,954)
Proceeds from sales of investments in Portfolio Funds	214,302,548
Net realized (gain)/loss on investments in Portfolio Funds	(22,938,542)
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	5,688,005
(Increase)/decrease in operating assets:	
Redemptions receivable from Portfolio Funds	(58,358,514)
Subscriptions paid in advance to Portfolio Funds	1,932,990
Interest receivable	163
Other assets	2,237
Increase/(decrease) in operating liabilities:	
Incentive fees payable	(1,654,625)
Professional fees payable	7,675
Administration fees payable	14,204
Management fees payable	(44)
Accrued expenses	15,378
Net cash provided by/(used in) operating activities	(5,156,592)
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	6,000,000
Capital withdrawals	(21,005,475)
Issuance of notes	76,750,000
Payment of notes	(56,750,000)
Net cash provided by/(used in) financing activities	4,994,525
NET CHANGE IN CASH AND CASH EQUIVALENTS	(162,067)
CASH AND CASH EQUIVALENTS	
Beginning of year	1,337,026
End of year	$ 1,174,959
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for interest	$ 46,934

See accompanying notes to financial statements.

1. ORGANIZATION

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and are expressed in U.S. dollars. The Fund is considered an investment company under U.S. GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 946, *Financial Services - Investment Companies*.

These financial statements reflect the following policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly-traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the Investment Manager's valuation committee. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2014, management did not value any Portfolio Funds pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk and market risk for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The Fund records net realized gain/(loss) and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities which qualify as financial instruments under ASC 825, *Financial Instruments*, approximates the fair value as presented in the Statement of Financial Condition.

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income and operating expenses are recorded on an accrual basis.

Income taxes

No provision for income taxes has been made in the accompanying financial statements, as the members are individually responsible for reporting income or loss based on their respective share of the Fund's revenues or expenses for income tax purposes. The Fund files U.S. federal and state tax returns. The Fund's U.S. federal and state tax returns generally remain open for examination and adjustment by tax authorities for three years from when they are filed.

Based on its analysis, management has determined that the Fund does not have any uncertain tax positions that require recognition or measurement in the Fund's financial statements.

Management will continue to review the relevant authoritative guidance as it relates to the Fund's financial statements and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof.

To the extent that management's assessment of the conclusions reached regarding uncertain tax positions changes, such change in estimate will be recorded in the period in which such determination is made. The Fund recognizes tax-related interest and penalties, if applicable, as a component of income tax expense in the Statement of Operations. For the year ended December 31, 2014, no such amounts were recognized by the Fund.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions and may include highly liquid investments with an original maturity of three months or less and short-term liquid investments.

3. INVESTMENTS IN PORTFOLIO FUNDS

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to an initial "lockup period" before redemptions can be made.

The Agreements provide for compensation to the Portfolio Managers in the form of management fees ranging from 0% to 2.5% per annum of net assets and incentive allocations/fees of 0% to 25% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each category. All data presented in the following table is as of December 31, 2014. The Fund had no unfunded commitments to any Portfolio Fund.

	Fair Value	Redemption Frequency *	Redemption Notice Period *
Credit/Distressed [a]	$ 61,920,463	Quarterly to annually	90 - 120 days
Equity Market Neutral [b]	15,432,066	Monthly	15 days
Event Driven [c]	117,401,518	Monthly to annually	45 - 180 days
Fixed Income Arbitrage [d]	58,007,055	Monthly to quarterly	60 - 90 days
Global Macro [e]	37,352,509	Quarterly	75 - 90 days
Long/Short Equity [f]	79,575,424	Monthly to semi-annually	30 - 180 days
Niche [g]	31,478,761	Monthly	45 - 90 days
Total	$ 401,167,796		

* Reflects holdings currently eligible to be redeemed as of December 31, 2014.

(a) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased. Investments in certain Portfolio Funds representing approximately 4% of members' equity cannot be redeemed because of restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period"). The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods range from 3 to 6 months. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed until the underlying securities held in segregated capital accounts ("Side Pockets") are sold by the Portfolio Funds.

(b) Includes Portfolio Funds that combine long and short positions in an attempt to neutralize market exposure. Some Portfolio Funds may employ quantitative models to determine which equity securities to buy and sell while others rely on fundamental research.

(c) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. The Lockup Periods for such Portfolio Funds range up to 18 months, all of which are expired. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed until the underlying securities held in Side Pockets are sold by the Portfolio Funds.

(d) Includes Portfolio Funds that attempt to profit from price differences between related fixed income securities.

(e) Includes Portfolio Funds that make leveraged investments based on anticipated price movements of stock markets, interest rates, non-U.S. currencies and physical commodities.

(f) Includes Portfolio Funds that take simultaneous long and short positions in equity securities in an attempt to profit from directional movements in the securities. These Portfolio Funds may focus on a particular geographic region, industry sector, market capitalization, or investment style to achieve their goal of capital appreciation through individual stock selection. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired.

(g) Includes Portfolio Funds that pursue strategies that are not discussed elsewhere in this footnote. Investments in certain Portfolio Funds representing approximately 2% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods are 21 months.

4. MEMBERS' EQUITY

A capital account is maintained on the books of the Fund for each member. The capital account is increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account is also increased or decreased by its allocable share of income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

5. RELATED PARTY TRANSACTIONS

The Fund pays to the Investment Manager as of the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1750% (0.70% annualized) of the beginning balance of each member interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which it is paid. In addition, a pro rata portion of the Management Fee is paid to the Investment Manager for any contributions made to the Fund on any date that does not fall on the first business day of a quarter and is based on the actual number of months remaining in such partial quarter.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contributions and withdrawals) over the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate, subject to loss carryforward.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

6. LINE OF CREDIT

The Fund maintains a short-term credit facility agreement (the "Credit Facility") with Deutsche Bank AG ("DB"), which matures on January 31, 2015. Under the Credit Facility, the Fund may issue notes not to exceed a maximum amount of $74,000,000 to DB. Subsequent to December 31, 2014, the Credit Facility was extended to March 31, 2016. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund has granted DB a first priority security interest in and continuing lien on the assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its sales of investments in Portfolio Funds, but excluding investments in Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro rata portion of a structuring fee equal to 0.70% per annum (0.75% from January 1, 2014 to January 31, 2014) of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

As of December 31, 2014, the Fund had outstanding borrowings of $40,000,000 under the Credit Facility. For the year ended December 31, 2014, the Fund recorded interest expense of $46,934 and a structuring fee of $95,507, which are included in interest expense and other expenses, respectively, in the Statement of Operations.

7. CUSTODIAN AND ADMINISTRATOR

The Bank of New York Mellon (the "Custodian") serves as the custodian for the Fund. All of the Fund's interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the "Administrator"), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. On May 1, 2015, the FASB issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share or its equivalent. ASU 2015-07 is generally effective for periods beginning after December 15, 2015 with earlier adoption permitted. The Fund has elected to adopt the revised guidance as of December 31, 2014. As a result, investments in Portfolio Funds that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

9. INDEMNIFICATIONS

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnification terms. The Fund's maximum potential exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and, based primarily on past experience, expects any risk of loss to be remote.

10. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed U.S. federally insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and internal controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2014, the Fund's financial liabilities include payables to various service providers, the outstanding notes payable and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Manager, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2014, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2014.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in the U.S. dollar. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

11. FINANCIAL HIGHLIGHTS

Member financial highlights for the year ended December 31, 2014 are as follows:

Operating performance [1]	
Gross return	2.69%
Incentive Fee	(0.13)
Net return	2.56%
Ratios to members' average equity [2]	
Total expenses before Incentive Fee	0.81%
Incentive Fee	0.13
Total expenses	0.94%
Net investment income/(loss)	(0.94%)

[1] Total return is calculated based on a time-weighted rate of return methodology. Monthly rates of return are compounded to derive the total return reflected above. Total return is reflected after all investment-related and operating expenses, including the Management Fee.

[2] Members' average equity has been computed as the average of each month's beginning balances.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

12. SUBSEQUENT EVENTS

On March 9, 2015, the Investment Manager accepted a capital commitment of $25,000,000 from the members. For the period January 1, 2015 through May 20, 2015, the Fund recorded funded commitments in the amount of $5,000,000 and capital withdrawals in the amount of $15,000,000.

Management has evaluated the impact of all subsequent events on the Fund through May 20, 2015, the date the Fund's financial statements were available to be issued, and has determined that there were no additional subsequent events requiring recognition or disclosure in the financial statements.

DANIEL BOONE FUND LLC

Financial Statements
Year ended December 31, 2015
with Report of Independent Auditors

DANIEL BOONE FUND LLC

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Building a better working world

Report of Independent Auditors

The Special Member
Daniel Boone Fund LLC

We have audited the accompanying financial statements of Daniel Boone Fund LLC, which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2015, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daniel Boone Fund LLC at December 31, 2015, and the results of its operations, the changes in its members' equity and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 24, 2016

DANIEL BOONE FUND LLC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2015

ASSETS		
Investments in Portfolio Funds, at fair value (cost $359,954,193)	$	422,226,207
Cash and cash equivalents		6,622,942
Subscriptions paid in advance to Portfolio Funds		25,020,495
Redemptions receivable from Portfolio Funds		18,532,417
Interest receivable		71
Other assets		3,914
TOTAL ASSETS	$	472,406,046
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Notes payable	$	7,000,000
Incentive fees payable		381,115
Professional fees payable		113,309
Administration fees payable		27,301
Management fees payable		6,114
Capital withdrawals payable		1,239
Interest payable		313
Accrued expenses		54,367
Total liabilities		7,583,758
Members' equity		464,822,288
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	472,406,046

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2015

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Credit/Distressed			
Anchorage Capital Partners, L.P.	$ 19,000,000	$ 19,599,685	4.22%
Centerbridge Credit Partners, L.P.	478,165	837,459	0.18
Silver Point Capital Fund, L.P.	9,956,104	14,318,950	3.08
Total Credit/Distressed	29,434,269	34,756,094	7.48
Equity Market Neutral			
Gotham Neutral Strategies (US), LP	10,999,172	10,950,533	2.36
Event Driven			
Corvex Partners LP	15,668,315	17,106,834	3.68
ECM Feeder Fund 2 LP	7,665,553	11,270,495	2.43
Myriad Opportunities US Fund Limited	10,865,389	16,885,225	3.63
Pacific Alliance Asia Opportunity Feeder Fund II Limited	4,793,173	6,393,627	1.38
Pentwater Equity Opportunities Fund LLC	13,776,786	19,520,500	4.20
Roystone Capital Partners LP	16,100,000	17,676,010	3.80
ValueAct Capital Partners, L.P.	15,000,000	14,841,960	3.19
West Face Long Term Opportunities (USA) Limited Partnership	2,205,951	3,738,148	0.80
Total Event Driven	86,075,167	107,432,799	23.11
Fixed Income Arbitrage			
Axonic Credit Opportunities Fund, LP	18,750,000	22,285,462	4.80
Credit Suisse Securitized Products Fund L.P.	21,500,000	22,835,670	4.91
LibreMax Partners, LP	8,561,346	10,882,826	2.34
The Obsidian Fund LLC	11,902,932	14,033,656	3.02
Total Fixed Income Arbitrage	60,714,278	70,037,614	15.07
Global Macro			
D.E. Shaw Oculus Fund, L.L.C.	12,856,461	17,824,658	3.83
Discovery Global Macro Partnership, L.P.	12,979,620	16,669,361	3.59
Karya Fund LLC	10,000,000	9,198,827	1.98
Total Global Macro	35,836,081	43,692,846	9.40
Long/Short Equity			
Ashoka Fund	9,254,022	11,784,643	2.53
Pelham Long/Short Fund LP	10,575,544	19,233,702	4.14
Susa European Equities Fund L.P.	15,000,000	15,114,708	3.25
Tremblant Partners LP	8,610,695	11,971,860	2.58
WF Asia US Fund Limited	12,454,965	14,357,808	3.09
Total Long/Short Equity	55,895,226	72,462,721	15.59

See accompanying notes to financial statements.

(continued)

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2015

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Managed Futures			
Systematica BlueTrend Fund L.P.	$ 14,500,000	$ 14,731,578	3.17%
Niche			
ARCM Distressed Energy Opportunities Feeder Fund Ltd.	14,250,000	14,651,387	3.15
Argentiere Fund, L.P.	16,000,000	15,270,964	3.28
Gramercy Distressed Argentina Master Fund II	9,750,000	10,987,688	2.36
Northwest Fund Limited	7,500,000	7,142,133	1.54
Oceanwood Peripheral European Select Opportunities Fund, LP	9,500,000	9,808,251	2.11
Prisma SPC Holdings Ltd. - Portfolio Z (Cumulus Fund)	9,500,000	10,301,599	2.22
Total Niche	66,500,000	68,162,022	14.66
TOTAL INVESTMENTS IN PORTFOLIO FUNDS	$ 359,954,193	$ 422,226,207	90.84%

As of December 31, 2015, Portfolio Funds domiciled in the United States and the Cayman Islands are valued at $319,913,846 (68.83% of members' equity) and $102,312,361 (22.01% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2015.

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

INVESTMENT INCOME	
Interest	$ 632
Other	21,300
Total investment income	21,932
EXPENSES	
Management fees	3,343,933
Incentive fees	465,912
Administration fees	169,708
Interest expense	105,511
Professional fees	97,567
Other expenses	234,031
Total expenses	4,416,662
NET INVESTMENT INCOME/(LOSS)	(4,394,730)
NET GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on investments in Portfolio Funds	24,849,191
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	(11,475,292)
Net gain/(loss) on investments	13,373,899
NET INCOME/(LOSS)	$ 8,979,169

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

	Special Member	Members	Total
Members' equity, beginning of year	$ 50,000	$ 484,544,358	$ 484,594,358
Capital contributions	–	14,250,000	14,250,000
Capital withdrawals	(1,239)	(43,000,000)	(43,001,239)
Net income/(loss)	1,239	8,977,930	8,979,169
Members' equity, end of year	$ 50,000	$ 464,772,288	$ 464,822,288

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(loss)	$ 8,979,169
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(161,204,965)
Proceeds from sales of investments in Portfolio Funds	153,520,453
Net realized (gain)/loss on investments in Portfolio Funds	(24,849,191)
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	11,475,292
(Increase)/decrease in operating assets:	
Subscriptions paid in advance to Portfolio Funds	14,479,505
Redemptions receivable from Portfolio Funds	75,020,278
Interest receivable	(65)
Other assets	2,237
Increase/(decrease) in operating liabilities:	
Incentive fees payable	(254,947)
Professional fees payable	41,809
Administration fees payable	(15,211)
Management fees payable	5,740
Interest payable	313
Accrued expenses	(729)
Net cash provided by/(used in) operating activities	77,199,688
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	14,250,000
Capital withdrawals	(53,001,705)
Issuance of notes	73,500,000
Payment of notes	(106,500,000)
Net cash provided by/(used in) financing activities	(71,751,705)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,447,983
CASH AND CASH EQUIVALENTS	
Beginning of year	1,174,959
End of year	$ 6,622,942
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for interest	$ 105,198

See accompanying notes to financial statements.

1. ORGANIZATION

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and are expressed in U.S. dollars. The Fund is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Board Accounting Standards Codification ("ASC") 946, *Financial Services – Investment Companies.*

These financial statements reflect the following accounting policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly-traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the Investment Manager's valuation committee. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2015, management did not value any Portfolio Funds pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk and market risk for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The Fund records net realized gain/(loss) and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities which qualify as financial instruments under ASC 825, *Financial Instruments,* approximates the fair value as presented in the Statement of Financial Condition.

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income and operating expenses are recorded on an accrual basis.

Income taxes

No provision for income taxes has been made in the accompanying financial statements, as the members are responsible for reporting income or loss based on their respective share of the Fund's revenues or expenses for income tax purposes. The Fund files U.S. federal and state tax returns.

Based on its analysis, management has determined that the Fund does not have any uncertain tax positions that require recognition or measurement in the Fund's financial statements.

Management will continue to review the relevant authoritative guidance as it relates to the Fund's financial statements and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof.

To the extent that management's assessment of the conclusions reached regarding uncertain tax positions changes, such change in estimate will be recorded in the period in which such determination is made. The Fund recognizes tax-related interest and penalties, if applicable, as a component of income tax expense in the Statement of Operations. For the year ended December 31, 2015, no such amounts were recognized by the Fund.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions and may include highly liquid investments with an original maturity of three months or less and short-term liquid investments.

3. INVESTMENTS IN PORTFOLIO FUNDS

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period").

The Agreements provide for compensation to the Portfolio Managers in the form of management fees ranging from 0% to 2.5% per annum of net assets and incentive allocations/fees of 0% to 25% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each category. All data presented in the following table is as of December 31, 2015.

	Fair Value	Redemption Frequency *	Redemption Notice Period *
Credit/Distressed [a]	$ 34,756,094	Annually	90 days
Equity Market Neutral [b]	10,950,533	Monthly	15 days
Event Driven [c]	107,432,799	Monthly to quarterly	60 – 180 days
Fixed Income Arbitrage [d]	70,037,614	Monthly to quarterly	60 – 90 days
Global Macro [e]	43,692,846	Monthly to quarterly	30 – 90 days
Long/Short Equity [f]	72,462,721	Monthly to quarterly	30 – 180 days
Managed Futures [g]	14,731,578	Monthly	30 days
Niche [h]	68,162,022	Monthly to quarterly	30 – 55 days
Total	$ 422,226,207		

* Reflects holdings currently eligible to be redeemed as of December 31, 2015.

(a) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds are 12 months and the unexpired Lockup Periods are 3 months.

(b) Includes Portfolio Funds that combine long and short positions in an attempt to neutralize market exposure. Some Portfolio Funds may employ quantitative models to determine which equity securities to buy and sell while others rely on fundamental research.

(c) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. Investments in certain Portfolio Funds representing approximately 3% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods are 13 months. Investments in certain Portfolio Funds representing approximately 1% of members' equity cannot be redeemed until the underlying securities held in segregated capital accounts ("Side Pockets") are sold by the Portfolio Funds.

(d) Includes Portfolio Funds that attempt to profit from price differences between related fixed income securities. Investments in certain Portfolio Funds representing approximately 2% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods range from 1 to 3 months.

(e) Includes Portfolio Funds that make leveraged investments based on anticipated price movements of stock markets, interest rates, non-U.S. currencies and physical commodities.

(f) Includes Portfolio Funds that take simultaneous long and short positions in equity securities in an attempt to profit from directional movements in the securities. These Portfolio Funds may focus on a particular geographic region, industry sector, market capitalization, or investment style to achieve their goal of capital appreciation through individual stock selection. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired.

(g) Includes Portfolio Funds that invest in listed financial and commodity futures and forward markets and currency markets around the world.

(h) Includes Portfolio Funds which attempt to capitalize on targeted market themes and dislocations globally. These themes may be broad-based or center around a single issuer. The strategy is not constrained by asset type. Investments in certain Portfolio Funds representing approximately 8% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 48 months and the unexpired Lockup Periods range from 9 to 46 months.

4. MEMBERS' EQUITY

A capital account is maintained on the books of the Fund for each member. The capital account is increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account is also increased or decreased by its allocable share of income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

On March 12, 2015, the Fund made a capital commitment of $25,000,000 to a certain Portfolio Fund which has a commitment period of two years. The members agreed to fund the capital commitments in installments specified by the Investment Manager and pursuant to capital calls from the Portfolio Fund. For the year ended December 31, 2015, the members funded $14,250,000 of the capital commitments.

5. RELATED PARTY TRANSACTIONS

The Fund pays to the Investment Manager as of the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1750% (0.70% annualized) of the beginning balance of each member interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which it is paid. In addition, a pro rata portion of the Management Fee is paid to the Investment Manager for any contributions made to the Fund on any date that does not fall on the first business day of a quarter and is based on the actual number of months remaining in such partial quarter.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contributions and withdrawals) over the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate, subject to loss carryforward.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

The Fund invests in certain Portfolio Funds through various portfolios of Prisma SPC Holdings Ltd., an exempted company incorporated under the laws of the Cayman Islands ("SPC") to operate as a segregated portfolio company. The Investment Manager also serves as the investment manager for SPC and other shareholders of SPC. SPC does not charge the Fund management fees or incentive fees. As of December 31, 2015, the Fund's total investment in the various portfolios of SPC was $10,301,599. For the year ended December 31, 2015, the Fund recorded net change in unrealized appreciation/(depreciation) of $801,599 on its investments in SPC.

6. LINE OF CREDIT

The Fund maintains a short-term credit facility agreement (the "Credit Facility") with Deutsche Bank AG ("DB"), which matures on March 31, 2016. Under the Credit Facility, the Fund may issue notes not to exceed a maximum amount of $74,000,000 to DB. Subsequent to December 31, 2015, the Credit Facility was extended to March 31, 2017 and the maximum amount was reduced to $68,000,000. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund has granted DB a first priority security interest in and continuing lien on the assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its sales of investments in Portfolio Funds, but excluding investments in Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro rata portion of a structuring fee equal to 0.70% per annum of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

As of December 31, 2015, the Fund had outstanding borrowings of $7,000,000 under the Credit Facility. For the year ended December 31, 2015, the Fund recorded interest expense of $105,511 and a structuring fee of $123,385, which are included in interest expense and other expenses, respectively, in the Statement of Operations.

7. CUSTODIAN AND ADMINISTRATOR

The Bank of New York Mellon (the "Custodian") serves as the custodian for the Fund. All of the Fund's interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the "Administrator"), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. COMMITMENTS AND CONTINGENCIES

The Fund has total commitments to a certain Portfolio Fund in the amount of $25,000,000, of which $10,750,000 remains unfunded.

9. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using NAV per share or its equivalent. As such, the Fund has excluded $422,226,207 of investments in Portfolio Funds that are measured at fair value using NAV per share (or its equivalent) as a practical expedient from the fair value hierarchy.

10. INDEMNIFICATIONS

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnification terms. The Fund's maximum potential exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and, based primarily on past experience, expects any risk of loss to be remote.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed U.S. federally insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and internal controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2015, the Fund's financial liabilities include payables to various service providers, the outstanding notes payable and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Manager, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2015, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2015.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in the U.S. dollar. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

12. FINANCIAL HIGHLIGHTS

Member financial highlights for the year ended December 31, 2015 are as follows:

Operating performance(1)

Gross return	1.77%
Incentive Fee	(0.09)
Net return	1.68%

Ratios to members' average equity(2)

Total expenses before Incentive Fee	0.82%
Incentive Fee	0.10
Total expenses	0.92%
Net investment income/(loss)	(0.91%)

(1) Total return is calculated based on a time-weighted rate of return methodology. Monthly rates of return are compounded to derive the total return reflected above. Total return is reflected after all investment-related and operating expenses, including the Management Fee.

(2) Members' average equity has been computed as the average of each month's beginning balances.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

13. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Fund through May 24, 2016, the date the Fund's financial statements were available to be issued, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

DANIEL BOONE FUND LLC

Financial Statements
Year ended December 31, 2016
with Report of Independent Auditors

DANIEL BOONE FUND LLC

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Building a better working world

Report of Independent Auditors

The Special Member
Daniel Boone Fund LLC

We have audited the accompanying financial statements of Daniel Boone Fund LLC, which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2016, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daniel Boone Fund LLC at December 31, 2016, and the results of its operations, the changes in its members' equity and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

June 27, 2017

DANIEL BOONE FUND LLC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2016

ASSETS		
Investments in Portfolio Funds, at fair value (cost $654,632,828)	$	703,629,013
Cash and cash equivalents		33,486,497
Redemptions receivable from Portfolio Funds		8,610,857
Interest receivable		259
Other assets		1,678
TOTAL ASSETS	$	745,728,304
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Professional fees payable	$	85,000
Administration fees payable		63,230
Incentive fees payable		16,512
Management fees payable		877
Capital withdrawals payable		56
Accrued expenses		106,438
Total liabilities		272,113
Members' equity		745,456,191
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	745,728,304

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2016

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Credit/Distressed			
Anchorage Capital Partners, L.P.	$ 19,000,000	$ 19,975,735	2.68%
Centerbridge Credit Partners, L.P.	447,373	768,741	0.10
Silver Point Capital Fund, L.P.	9,956,104	15,705,868	2.11
Total Credit/Distressed	29,403,477	36,450,344	4.89
Equity Market Neutral			
Gotham Neutral Strategies (US), LP	18,249,172	19,337,252	2.59
Summitview China Fund	10,000,000	9,745,020	1.31
Systematica BlueMatrix Fund L.P.	16,500,000	16,773,780	2.25
Total Equity Market Neutral	44,749,172	45,856,052	6.15
Event Driven			
Corvex Partners LP	22,383,212	24,429,580	3.28
ECM Feeder Fund 5 LP	13,113,637	14,406,226	1.93
Governors Lane Onshore Fund LP	28,000,000	29,287,695	3.93
Myriad Opportunities US Fund Limited	10,865,389	17,295,454	2.32
Roystone Capital Partners LP	3,481,812	3,501,726	0.47
ValueAct Capital Partners, L.P.	19,000,000	19,760,541	2.65
West Face Long Term Opportunities (USA) Limited Partnership	1,326,557	2,478,882	0.33
Total Event Driven	98,170,607	111,160,104	14.91
Fixed Income Arbitrage			
Axonic Credit Opportunities Fund, LP	34,115,005	38,099,335	5.11
Credit Suisse Securitized Products Fund L.P.	35,500,000	38,584,994	5.18
Prudential Fixed Income Global Liquidity Relative Value Fund I, L.P.	19,500,000	20,986,473	2.81
Total Fixed Income Arbitrage	89,115,005	97,670,802	13.10
Global Macro			
D.E. Shaw Oculus Fund, L.L.C.	15,106,461	20,744,464	2.78
Karya Fund LLC	23,000,000	22,472,898	3.02
Total Global Macro	38,106,461	43,217,362	5.80
Long/Short Equity			
Ashoka Fund	9,254,022	10,976,633	1.47
Keel Capital S.A., SICAV-SIF-Foghorn X2	19,000,000	18,625,015	2.50
Pelham Long/Short Fund LP	9,213,211	16,595,831	2.22
Susa European Equities Fund L.P.	15,000,000	14,620,647	1.96
Tide Point Partners, LP	23,000,000	25,184,793	3.38
Tremblant Partners LP	17,610,695	20,771,307	2.79
Total Long/Short Equity	93,077,928	106,774,226	14.32

See accompanying notes to financial statements.

(continued)

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2016

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Managed Futures			
Systematica BlueTrend Fund L.P.	$ 29,000,000	$ 25,802,859	3.46%
Niche/Tactical			
ARCM Distressed Energy Opportunities US Feeder Fund Ltd.	25,000,000	29,351,642	3.94
Argentiere Fund, L.P.	16,000,000	14,199,546	1.91
Ironsides P Fund L.P.	4,750,000	5,787,297	0.78
KKR Apex Tactical Fund LP	155,000,000	159,022,866	21.33
Northwest Fund Limited	7,500,000	7,383,916	0.99
Oceanwood Peripheral European Select Opportunities Fund, LP	2,760,178	2,403,892	0.32
Prisma SPC Holdings Ltd. - Portfolio Z (Cumulus Fund)	9,500,000	8,955,296	1.20
Total Niche/Tactical	220,510,178	227,104,455	30.47
Short Bias			
Ursus Partners, L.P.	12,500,000	9,592,809	1.29
TOTAL INVESTMENTS IN PORTFOLIO FUNDS	$ 654,632,828	$ 703,629,013	94.39%

As of December 31, 2016, Portfolio Funds domiciled in the United States and the Cayman Islands are valued at $598,892,145 (80.34% of members' equity) and $86,111,853 (11.55% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2016.

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

INVESTMENT INCOME	
Interest	$ 1,348
Other	4,958
Total investment income	6,306
EXPENSES	
Management fees	3,552,234
Administration fees	200,684
Professional fees	75,945
Interest expense	61,976
Incentive fees	16,512
Other expenses	317,827
Total expenses	4,225,178
NET INVESTMENT INCOME/(LOSS)	(4,218,872)
NET GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on investments in Portfolio Funds	19,378,660
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	(13,275,829)
Net gain/(loss) on investments	6,102,831
NET INCOME/(LOSS)	$ 1,883,959

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Member	Members	Total
Members' equity, beginning of year	$ 50,000	$ 464,772,288	$ 464,822,288
Capital contributions	–	278,750,000	278,750,000
Capital withdrawals	(56)	–	(56)
Net income/(loss)	56	1,883,903	1,883,959
Members' equity, end of year	$ 50,000	$ 745,406,191	$ 745,456,191

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(loss)	$ 1,883,959
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(419,763,285)
Proceeds from sales of investments in Portfolio Funds	144,463,310
Net realized (gain)/loss on investments in Portfolio Funds	(19,378,660)
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	13,275,829
(Increase)/decrease in operating assets:	
Redemptions receivable from Portfolio Funds	9,921,560
Interest receivable	(188)
Other assets	2,236
Subscriptions paid in advance to Portfolio Funds	25,020,495
Increase/(decrease) in operating liabilities:	
Professional fees payable	(28,309)
Administration fees payable	35,929
Incentive fees payable	(364,603)
Management fees payable	(5,237)
Accrued expenses	52,071
Interest payable	(313)
Net cash provided by/(used in) operating activities	(244,885,206)
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	278,750,000
Capital withdrawals	(1,239)
Issuance of notes	45,750,000
Payment of notes	(52,750,000)
Net cash provided by/(used in) financing activities	271,748,761
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,863,555
CASH AND CASH EQUIVALENTS	
Beginning of year	6,622,942
End of year	$ 33,486,497
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for interest	$ 62,289

See accompanying notes to financial statements.

1. ORGANIZATION

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and are expressed in U.S. dollars. The Fund is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Codification ("ASC") 946, *Financial Services - Investment Companies.*

These financial statements reflect the following accounting policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly-traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the Investment Manager's valuation committee. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2016, management did not value any Portfolio Funds pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk and market risk for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The Fund records net realized gain/(loss) and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities which qualify as financial instruments under ASC 825, *Financial Instruments,* approximates the fair value as presented in the Statement of Financial Condition.

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income and operating expenses are recorded on an accrual basis.

Income taxes

No provision for income taxes has been made in the accompanying financial statements, as the members are responsible for reporting income or loss based on their respective share of the Fund's revenues or expenses for income tax purposes. The Fund files U.S. federal and state tax returns.

Based on its analysis, management has determined that the Fund does not have any uncertain tax positions that require recognition or measurement in the Fund's financial statements.

Management will continue to review the relevant authoritative guidance as it relates to the Fund's financial statements and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof.

To the extent that management's assessment of the conclusions reached regarding uncertain tax positions changes, such change in estimate will be recorded in the period in which such determination is made. The Fund recognizes tax-related interest and penalties, if applicable, as a component of income tax expense in the Statement of Operations. For the year ended December 31, 2016, no such amounts were recognized by the Fund.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions and may include highly liquid investments with an original maturity of three months or less and short-term liquid investments.

3. INVESTMENTS IN PORTFOLIO FUNDS

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period").

The Agreements provide for compensation to the Portfolio Managers in the form of management fees ranging from 0.00% to 2.50% per annum of net assets and incentive allocations/fees of 0% to 25% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each category. All data presented in the following table is as of December 31, 2016. The Fund has no unfunded commitments to any Portfolio Fund.

		Fair Value	Redemption Frequency *	Redemption Notice Period *
Credit/Distressed [a]	$	36,450,344	Annually	90 days
Equity Market Neutral [b]		45,856,052	Monthly	15 - 45 days
Event Driven [c]		111,160,104	Quarterly	60 - 180 days
Fixed Income Arbitrage [d]		97,670,802	Monthly to quarterly	7 - 65 days
Global Macro [e]		43,217,362	Monthly to quarterly	30 - 75 days
Long/Short Equity [f]		106,774,226	Monthly to quarterly	30 - 180 days
Managed Futures [g]		25,802,859	Monthly	30 days
Niche/Tactical [h]		227,104,455	Monthly to quarterly	30 - 90 days
Short Bias [i]		9,592,809	Quarterly	30 days
Total	$	703,629,013		

* Reflects holdings currently eligible to be redeemed as of December 31, 2016.

(a) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired.

(b) Includes Portfolio Funds that combine long and short positions in an attempt to neutralize market exposure. Some Portfolio Funds may employ quantitative models to determine which equity securities to buy and sell while others rely on fundamental research.

(c) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. Investments in certain Portfolio Funds representing approximately 8% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods range from 1 to 18 months. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed until the underlying securities held in segregated capital accounts ("Side Pockets") are sold by the Portfolio Funds.

(d) Includes Portfolio Funds that attempt to profit from price differences between related fixed income securities. Investments in certain Portfolio Funds representing approximately 2% of members' equity cannot be redeemed because of unexpired Lockup Periods The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods are 7 months.

(e) Includes Portfolio Funds that make leveraged investments based on anticipated price movements of stock markets, interest rates, non-U.S. currencies and physical commodities.

(f) Includes Portfolio Funds that take simultaneous long and short positions in equity securities in an attempt to profit from directional movements in the securities. These Portfolio Funds may focus on a particular geographic region, industry sector, market capitalization, or investment style to achieve their goal of capital appreciation through individual stock selection. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired.

(g) Includes Portfolio Funds that invest in listed financial and commodity futures and forward markets and currency markets around the world.

(h) Includes Portfolio Funds which attempt to capitalize on targeted market themes and dislocation globally. These themes may be broad-based or center around a single issuer. The strategy is not constrained by asset type. Investments in certain Portfolio Funds representing less than 4% of net assets cannot be redeemed until the underlying securities are sold by the Portfolio Funds.

(i) Includes Portfolio Funds that sell securities that they do not own to take advantage of an anticipated price decline. The Portfolio Funds may utilize a variety of techniques to identify securities they believe are trading in excess of their fundamental value.

4. MEMBERS' EQUITY

A capital account is maintained on the books of the Fund for each member. The capital account is increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account is also increased or decreased by its allocable share of income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

5. RELATED PARTY TRANSACTIONS

Prior to August 1, 2016, the Fund paid to the Investment Manager as of the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1750% (0.70% annualized) of the beginning balance of each member interest for such fiscal quarter. Effective August 1, 2016, the Investment Manager agreed to change the Management Fee rate to 0.1375% (0.55% annualized). The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which it is paid. In addition, a pro rata portion of the Management Fee is paid to the Investment Manager for any contributions made to the Fund on any date that does not fall on the first business day of a quarter and is based on the actual number of months remaining in such partial quarter.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contributions and withdrawals) over the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate, subject to loss carryforward.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

The Fund invests in KKR Apex Tactical Fund LP ("Apex Tactical"), a Delaware limited partnership. The Investment Manager also serves as the investment manager for Apex Tactical and other limited partners of Apex Tactical. Apex Tactical does not charge the Fund management fees or incentive fees. As of December 31, 2016, the Fund's total investment in Apex Tactical was $159,022,866. For the year ended December 31, 2016, the Fund recorded net change in unrealized appreciation/(depreciation) with respect to the Fund's investment in Apex Tactical of $4,022,866, which is included in the net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The Fund invests in certain Portfolio Funds through various portfolios of Prisma SPC Holdings Ltd., an exempted company incorporated under the laws of the Cayman Islands ("SPC"), to operate as a segregated portfolio company. The Investment Manager also serves as the investment manager for SPC and other shareholders of SPC. SPC does not charge the Fund management fees or incentive fees. As of December 31, 2016, the Fund's total investment in the various portfolios of SPC was $8,955,296. For the year ended December 31, 2016, the Fund recorded and a net change in unrealized appreciation/(depreciation) with respect to the Fund's investments in SPCs of ($1,346,303), which is included in the net change in unrealized appreciation/ (depreciation) on investments in Portfolio Funds in the Statement of Operations.

6. LINE OF CREDIT

The Fund maintains a short-term credit facility agreement (the "Credit Facility") with Deutsche Bank AG ("DB"), which matures on March 31, 2017 and was renewed subsequent to December 31, 2016. Under the Credit Facility, the Fund may issue notes not to exceed a maximum amount of $68,000,000 to DB. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund grants DB a first priority security interest in and continuing lien on the assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its sales of investments in the Portfolio Funds, but excluding investments in the Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro-rata portion of a structuring fee equal to 0.70% per annum of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

As of December 31, 2016, the Fund had no outstanding borrowings under the Credit Facility. For the year ended December 31, 2016, the Fund recorded interest expense of $61,976 and a structuring fee of $189,119, which are included in interest expense and other expenses, respectively, in the Statement of Operations.

7. CUSTODIAN AND ADMINISTRATOR

The Bank of New York Mellon (the "Custodian") serves as the custodian for the Fund. All of the Fund's interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the "Administrator"), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using NAV per share or its equivalent. As such, the Fund has excluded $703,629,013 of investments in Portfolio Funds that are measured at fair value using NAV per share (or its equivalent) as a practical expedient from the fair value hierarchy.

9. INDEMNIFICATIONS

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnification terms. The Fund's maximum potential exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and, based primarily on past experience, expects any risk of loss to be remote.

10. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed U.S. federally insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and internal controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2016, the Fund's financial liabilities include payables to various service providers and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Managers, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2016, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2016.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in U.S. dollars. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

11. FINANCIAL HIGHLIGHTS

Member financial highlights for the year ended December 31, 2016 are as follows:

Operating performance[1]

Gross return	(0.52%)
Incentive Fees	(0.01)
Net return	(0.53%)

Ratios to members' average equity[2]

Total expenses before Incentive Fees	0.73%
Incentive Fees	0.01
Total expenses	0.74%
Net investment income/(loss)	(0.74%)

(1) Total return is calculated based on a time-weighted rate of return methodology. Monthly rates of return are compounded to derive the total return reflected above. Total return is reflected after all investment-related and operating expenses, including the Management and Incentive Fees.

(2) Members' average equity has been computed as the average of each month's beginning balances.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

12. SUBSEQUENT EVENTS

For the period January 1, 2017, through June 27, 2017, the Fund recorded capital withdrawals in the amount of $175,018,334.

On June 1, 2017, Kohlberg Kravis Roberts & Co. L.P., the former parent company of the Special Member and Investment Manager, completed a strategic transaction with Pacific Alternative Asset Management Company, LLC ("PAAMCO") whereby the Investment Manager and certain of its affiliates were combined with PAAMCO. There has been no change of the Investment Manager or its personnel or the Fund's investment program as a result of the transaction.

Management has evaluated the impact of all subsequent events on the Fund through June 27, 2017, the date the Fund's financial statements were available to be issued, and has determined that there were no additional subsequent events requiring recognition or disclosure in the financial statements.

DANIEL BOONE FUND LLC

Financial Statements
Year ended December 31, 2017
with Report of Independent Auditors

DANIEL BOONE FUND LLC

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Report of Independent Auditors

The Special Member
Daniel Boone Fund LLC

We have audited the accompanying financial statements of Daniel Boone Fund LLC, which comprise the statement of financial condition, including the schedule of investments, as of December 31, 2017, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daniel Boone Fund LLC at December 31, 2017, and the results of its operations, the changes in its members' equity and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

June 25, 2018

DANIEL BOONE FUND LLC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2017

ASSETS		
Investments in Portfolio Funds, at fair value (cost $442,898,410)	$	477,477,046
Cash and cash equivalents		41,163,059
Redemptions receivable from Portfolio Funds		8,588,166
Interest receivable		6,578
Prepaid management fee		40
TOTAL ASSETS	$	527,234,889
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Incentive fees payable	$	871,231
Professional fees payable		92,000
Administration fees payable		46,077
Capital withdrawals payable		2,426
Accrued expenses		70,357
Total liabilities		1,082,091
Members' equity		526,152,798
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	527,234,889

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS
DECEMBER 31, 2017

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Credit/Distressed			
Centerbridge Credit Partners, L.P.	$ 373,623	$ 646,920	0.12%
Clareant Spectral Structured Credit Fund	13,000,000	13,218,556	2.51
Total Credit/Distressed	13,373,623	13,865,476	2.63
Event Driven			
Corvex Partners LP	4,621,465	4,912,105	0.93
ValueAct Capital Partners, L.P.	17,394,930	20,947,518	3.98
West Face Long Term Opportunities (USA) Limited Partnership	1,326,557	3,575,491	0.68
Total Event Driven	23,342,952	29,435,114	5.59
Niche/Tactical			
ARCM Distressed Energy Opportunities US Feeder Fund Ltd.	25,000,000	31,433,355	5.97
Canvas P Liquid Distressed Master Fund L.P.	5,500,000	5,444,498	1.04
Dragon Capital P Vietnam Investments SPC Ltd.	24,500,000	28,679,192	5.45
HSCM Bermuda Special Opportunities Fund Ltd.	6,301,722	6,287,859	1.20
Ironsides P Fund L.P.	30,750,000	34,073,044	6.48
Magnetar PRA Fund LLC	18,000,000	17,853,472	3.39
Northwest Feilong Fund Ltd	16,750,000	16,417,531	3.12
Omni Secured Lending Fund P L.P.	11,000,000	11,130,188	2.12
PAG-P Asia Fund L.P.	21,000,000	22,058,862	4.19
Prisma Apex Tactical Fund L.P.	193,000,000	206,600,615	39.27
Prisma SP AG LLC	11,325,445	5,129,174	0.98
Selwood AM Enhanced Credit Fund II LP	34,250,000	39,378,715	7.48
Selwood AM Credit Fund L.P.	8,804,668	9,689,951	1.84
Total Niche/Tactical	406,181,835	434,176,456	82.53
TOTAL INVESTMENTS IN PORTFOLIO FUNDS	$ 442,898,410	$ 477,477,046	90.75%

As of December 31, 2017, Portfolio Funds domiciled in the United States and the Cayman Islands are valued at $348,251,504 (66.19% of members' equity) and $109,719,129 (20.85% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfoli o Funds' investments. As a result, the Fund is unable to deter mine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2017.

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

INVESTMENT INCOME	
Interest	$ 36,742
EXPENSES	
Management fees	3,271,757
Incentive fees	1,005,830
Administration fees	208,632
Professional fees	99,047
Other expenses	403,948
Total expenses	4,989,214
NET INVESTMENT INCOME/(LOSS)	(4,952,472)
NET GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on investments in Portfolio Funds	43,334,519
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	(14,417,549)
Net gain/(loss) on investments	28,916,970
NET INCOME/(LOSS)	$ 23,964,498

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Special Member	Members	Total
Members' equity, beginning of year	$ 50,000	$ 745,406,191	$ 745,456,191
Capital withdrawals	(2,426)	(243,265,465)	(243,267,891)
Net income/(loss)	2,426	23,962,072	23,964,498
Members' equity, end of year	$ 50,000	$ 526,102,798	$ 526,152,798

See accompanying notes to financial statements.

DANIEL BOONE FUND LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(loss)	$ 23,964,498
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(249,804,948)
Proceeds from sales of investments in Portfolio Funds	311,583,526
Net realized (gain)/loss on investments in Portfolio Funds	(43,334,519)
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	14,417,549
(Increase)/decrease in operating assets:	
Redemptions receivable from Portfolio Funds	22,691
Interest receivable	(6,319)
Prepaid management fee	(40)
Other assets	1,678
Increase/(decrease) in operating liabilities:	
Incentive fees payable	854,719
Professional fees payable	7,000
Administration fees payable	(17,153)
Accrued expenses	(36,081)
Management fees payable	(877)
Net cash provided by/(used in) operating activities	57,651,724
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital withdrawals, net of change in capital withdrawals payable	(49,975,162)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,676,562
CASH AND CASH EQUIVALENTS	
Beginning of year	33,486,497
End of year	$ 41,163,059

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Payments for capital withdrawals paid in-kind(1)	$ 193,290,359

(1) During the year, the Fund distributed investments in Portfolio Funds in-kind to members of the Fund.

See accompanying notes to financial statements.

1. ORGANIZATION

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and are expressed in U.S. dollars. The Fund is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Codification ("ASC") 946, *Financial Services - Investment Companies*.

These financial statements reflect the following accounting policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly-traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If the Investment Manager determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the Investment Manager's valuation committee. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2017, management did not value any Portfolio Funds pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk and market risk for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The Fund records net realized gain/(loss) and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities which qualify as financial instruments under ASC 825, *Financial Instruments,* approximates the fair value as presented in the Statement of Financial Condition.

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income and operating expenses are recorded on an accrual basis.

Income taxes

No provision for income taxes has been made in the accompanying financial statements, as the members are responsible for reporting income or loss based on their respective share of the Fund's revenues or expenses for income tax purposes. The Fund files U.S. federal and state tax returns.

Based on its analysis, management has determined that the Fund does not have any uncertain tax positions that require recognition or measurement in the Fund's financial statements.

Management will continue to review the relevant authoritative guidance as it relates to the Fund's financial statements and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof.

To the extent that management's assessment of the conclusions reached regarding uncertain tax positions changes, such change in estimate will be recorded in the period in which such determination is made. The Fund recognizes tax-related interest and penalties, if applicable, as a component of income tax expense in the Statement of Operations. For the year ended December 31, 2017, no such amounts were recognized by the Fund.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions include highly liquid investments in time deposits with an original maturity of three months or less. These short-term liquid investments are classified as Level 1 in the fair value hierarchy under ASC 820, *Fair Value Measurements*.

3. INVESTMENTS IN PORTFOLIO FUNDS

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period").

The Agreements provide for compensation to the Portfolio Managers in the form of management fees ranging from 0% to 2.50% per annum of net assets and incentive allocations/fees of 0% to 30% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each category. All data presented in the following table is as of December 31, 2017.

	Fair Value	Redemption Frequency *	Redemption Notice Period *
Credit/Distressed [a]	$ 13,865,476	Quarterly	90 days
Event Driven [b]	29,435,114	Quarterly to annually	60 - 90 days
Niche/Tactical [c]	434,176,456	Daily to biennially	30 - 180 days
Total	$ 477,477,046		

* Reflects holdings currently eligible to be redeemed as of December 31, 2017.

(a) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased.

(b) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 24 months and the unexpired Lockup Periods are 6 months. Investments in certain Portfolio Funds representing less than 1% of members' equity cannot be redeemed until the underlying securities held in segregated capital accounts ("Side Pockets") are sold by the Portfolio Funds.

(c) Includes Portfolio Funds which attempt to capitalize on targeted market themes and dislocation globally. These themes may be broad-based or center around a single issuer. The strategy is not constrained by asset type. Investments in certain Portfolio Funds representing approximately 5% of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 12 months and the unexpired Lockup Periods range from 1 to 6 months. Investments in certain Portfolio Funds representing approximately 13% of members' equity cannot be redeemed until the underlying securities are sold by the Portfolio Funds.

4. MEMBERS' EQUITY

A capital account is maintained on the books of the Fund for each member. The capital account is increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account is also increased or decreased by its allocable share of income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

5. RELATED PARTY TRANSACTIONS

The Fund pays to the Investment Manager as of the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1375% (0.55% annualized) of the beginning balance of each member interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which it is paid. In addition, a pro rata portion of the Management Fee is paid to the Investment Manager for any contributions made to the Fund on any date that does not fall on the first business day of a quarter and is based on the actual number of months remaining in such partial quarter.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contributions and withdrawals) over the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate, subject to loss carryforward.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

The Fund invests in Prisma Apex Tactical Fund LP ("Apex Tactical"), formerly known as KKR Apex Tactical Fund LP, a Delaware limited partnership. The Investment Manager also serves as the investment manager for Apex Tactical. Apex Tactical does not charge the Fund management fees or incentive fees. As of December 31, 2017, the Fund's total investment in Apex Tactical was $206,600,615. For the year ended December 31, 2017, the Fund recorded net change in unrealized appreciation/(depreciation) with respect to the Fund's investment in Apex Tactical of $9,577,749, which is included in the net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations.

The Fund allocated a portion of its assets to Prisma SP AG LLC ("SP AG"). An unaffiliated Portfolio Manager manages the investment program of SP AG. The Investment Manager does not receive any fees from SP AG. Third-party asset managers serve as sub-advisors for a portion of SP AG assets. SP AG does not charge the Fund management fees or incentive fees, although the Fund is still subject to management fees and incentive fees charged by the sub-advisors. As of December 31, 2017, the Fund's investment in SP AG was $5,129,174. For the year ended December 31, 2017, th e Fund recorded a realized gain/(loss) and net change in unrealized appreciation/(depreciation) of ($1,712,682) and ($6,196,271) on its investment in SP AG, which are included in the net realized gain/(loss)on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds, respectively in the Statement of Operations.

The Fund invests in certain Portfolio Funds through various portfolios of Prisma SPC Holdings Ltd., an exempted company incorporated under the laws of the Cayman Islands ("SPC"), to operate as a segregated portfolio company. The Investment Manager also serves as the investment manager for SPC and other shareholders of SPC. SPC does not charge the Fund management fees or incentive fees. As of December 31, 2017, the Fund did not have an investment in the various portfolios of SPC. For the year ended December 31, 2017, the Fund recorded a realized gain/(loss) and net change in unrealized appreciation/(depreciation) of ($909,773) and $544,704 on its investment in SPC, which are included in the net realized gain/(loss)on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds, respectively in the Statement of Operations.

6. LINE OF CREDIT

The Fund maintains a short-term credit facility agreement (the "Credit Facility") with Deutsche Bank AG ("DB"), which matures on March 29, 2018 and, subsequent to December 31, 2017, has been renewed. Under the Credit Facility, the Fund may issue notes not to exceed a maximum amount of $52,000,000 to DB. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund grants DB a first priority security interest in and continuing lien on the assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its sales of investments in the Portfolio Funds, but excluding investments in the Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro-rata portion of a structuring fee equal to 0.70% per annum of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

As of December 31, 2017, the Fund did not have any borrowings outstanding under the Credit Facility. For the year ended December 31, 2017, the Fund recorded interest expense of nil and a structuring fee of $209,749, which are included in interest expense and other expenses, respectively, in the Statement of Operations.

7. CUSTODIAN AND ADMINISTRATOR

The Bank of New York Mellon (the “Custodian”) serves as the custodian for the Fund. All of the Fund’s interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the “Administrator”), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. FAIR VALUE MEASUREMENTS

ASC 820, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Accounting Standards Update (“ASU”) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using NAV per share or its equivalent. As a result, $477,477,046 of investments in Portfolio Funds that are measured at fair value using NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

9. INDEMNIFICATIONS

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnification terms. The Fund’s maximum potential exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and, based primarily on past experience, expects any risk of loss to be remote.

10. PENDING LITIGATION

In December 2017, the Investment Manager and its Chief Executive Officer were named, along with 28 other parties, as defendants in a lawsuit pending in the State of Kentucky. The 28 other defendants include several trustees and officers of the Kentucky Retirement Systems (“KRS”), their investment consultants and certain other investment advisers, including KKR & Co., L.P., Blackstone Group, L.P. and Pacific Alternative Asset Management Company, LLC and certain related individuals. The civil lawsuit appears to have been brought by eight beneficiaries of KRS purportedly on behalf of KRS, but not by KRS itself, as well as on behalf of Kentucky as taxpayers. With respect to the Investment Manager and several other defendants, the lawsuit alleges, among other things, the violation of fiduciary and other duties. Management believes that the allegations against the Investment Manager and its Chief Executive Officer are baseless and entirely without merit and plans to vigorously contest these claims. Certain plans of KRS are investors in the Fund. It is expected that any legal costs related to this pending litigation that are not covered by applicable insurance or indemnification coverage will be borne solely by the Investment Manager.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed U.S. federally-insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and internal controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2017, the Fund's financial liabilities include payables to various service providers and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Managers, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: for eign currency risk, interest rate risk and other price risks. As of December 31, 2017, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2017.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in U.S. dollars. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

12. FINANCIAL HIGHLIGHTS

Member financial highlights for the year ended December 31, 2017 are as follows:

Operating performance(1)	
Gross return	4.28%
Incentive Fees	(0.17)
Net return	4.11%
Ratios to members' average equity(2)	
Total expenses before Incentive Fees	0.67%
Incentive Fees	0.17
Total expenses	0.84%
Net investment income/(loss)	(0.66%)

(1) Total return is calculated based on a time-weighted rate of return methodology. Monthly rates of return are compounded to derive the total return reflected above.

(2) Members' average equity has been computed as the average of each month's beginning balances.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

13. SUBSEQUENT EVENTS

On May 5, 2018, the Fund received notice from the non-managing member requesting to fully redeem its interests. As a result of the notice to redeem, the Fund commenced orderly proceedings to redeem its investments in the Portfolio Funds and will begin liquidation. The Fund will make payments to the non-managing member as proceeds are received from the Portfolio Funds.

Management has evaluated the impact of all subsequent events on the Fund through June 25, 2018, the date the Fund's financial statements were available to be issued, and has determined that there were no additional subsequent events requiring recognition or disclosure in the financial statements.

DANIEL BOONE FUND LLC

Financial Statements (In Liquidation) as of
and for the year ended December 31, 2018
and Independent Auditors' Report

DANIEL BOONE FUND LLC
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INDEPENDENT AUDITORS' REPORT

To Daniel Boone Fund LLC:

We have audited the accompanying financial statements of Daniel Boone Fund LLC (the "Fund"), which comprise the statement of financial condition (in liquidation), including the schedule of investments (in liquidation), as of December 31, 2018, and the related statements of operations (in liquidation), changes in members' equity (in liquidation) and cash flows (in liquidation) for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position (in liquidation) of Daniel Boone Fund LLC as of December 31, 2018, and the results of its operations (in liquidation), changes in its members' equity (in liquidation) and its cash flows (in liquidation) for the year then ended, in accordance with accounting principles generally accepted in the United States of America on the basis described in Note 2 to the financial statements.

Emphasis of Matter Regarding Liquidation Basis of Accounting

As discussed in Note 1 to the financial statements, on May 7, 2018, the Fund received notice from the members to fully redeem their holding and the Fund commenced liquidation shortly thereafter. As a result, the Fund has changed its basis of accounting from the going concern basis to the liquidation basis effective May 7, 2018. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

June 12, 2019

DANIEL BOONE FUND LLC
STATEMENT OF FINANCIAL CONDITION (IN LIQUIDATION)
DECEMBER 31, 2018

ASSETS		
Investments in Portfolio Funds, at fair value (cost $107,321,319)	$	117,985,331
Cash and cash equivalents		15,181,957
Redemptions receivable from Portfolio Funds		97,497,303
Interest receivable		6,049
TOTAL ASSETS	$	230,670,640
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Capital withdrawals payable	$	96,999,000
Management fees payable		1,471,005
Professional fees payable		538,250
Administration fees payable		412,684
Incentive fees payable		120,018
Accrued expenses		319,543
Total liabilities		99,860,500
Members' equity		130,810,140
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	230,670,640

See accompanying notes to financial statements in liquidation.

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS (IN LIQUIDATION)
DECEMBER 31, 2018

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity
Credit/Distressed			
Centerbridge Credit Partners, L.P.	$ 304,288	$ 513,635	0.39 %
Event Driven			
ValueAct Capital Partners, L.P.	3,689,197	4,103,175	3.14
West Face Long Term Opportunities (USA) Limited Partnership	970,056	2,785,486	2.13
Total Event Driven	4,659,253	6,888,661	5.27
Niche/Tactical			
ARCM Distressed Energy Opportunities US Feeder Fund Ltd.	10,647,985	13,226,405	10.11
Dragon Capital P Vietnam Investments SPC Ltd.	12,710,908	12,580,483	9.62
HSCM Bermuda Special Opportunities Fund Ltd.	16,090,571	13,869,193	10.60
Omni Secured Lending Fund P L.P.	8,042,604	8,933,995	6.83
PAG-P Asia Fund L.P.	14,892,222	16,380,603	12.52
Prisma Apex Tactical Fund L.P.	39,973,488	45,592,356	34.86
Total Niche/Tactical	102,357,778	110,583,035	84.54
TOTAL INVESTMENTS IN PORTFOLIO FUNDS	$ 107,321,319	$ 117,985,331	90.20 %

As of December 31, 2018, Portfolio Funds domiciled in the United States, the Cayman Islands and Bermuda are valued at $52,994,652 (40.51% of members' equity), $51,121,486 (39.08% of members' equity) and $13,869,193 (10.60% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2018.

See accompanying notes to financial statements in liquidation.

DANIEL BOONE FUND LLC
STATEMENT OF OPERATIONS (IN LIQUIDATION)
FOR THE YEAR ENDED DECEMBER 31, 2018

INVESTMENT INCOME	
Interest	$ 96,346
EXPENSES	
Management fees	3,903,086
Incentive fees	590,617
Professional fees	546,217
Administration fees	508,509
Other expenses	548,689
Total expenses	6,097,118
NET INVESTMENT INCOME/(LOSS)	(6,000,772)
NET GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on investments in Portfolio Funds	46,091,721
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	(23,914,624)
Net gain/(loss) on investments	22,177,097
NET INCOME/(LOSS)	$ 16,176,325

See accompanying notes to financial statements in liquidation.

DANIEL BOONE FUND LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY (IN LIQUIDATION)
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Member	Members	Total
Members' equity, beginning of year	$ 50,000	$ 526,102,798	$ 526,152,798
Capital withdrawals	(32,983)	(411,486,000)	(411,518,983)
Net income/(loss)	1,935	16,174,390	16,176,325
Members' equity, end of year	$ 18,952	$ 130,791,188	$ 130,810,140

See accompanying notes to financial statements in liquidation.

DANIEL BOONE FUND LLC
STATEMENT OF CASH FLOWS (IN LIQUIDATION)
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(loss)	$ 16,176,325
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Payments for purchases of investments in Portfolio Funds	(41,706,324)
Proceeds from sales of investments in Portfolio Funds	423,375,136
Net realized (gain)/loss on investments in Portfolio Funds	(46,091,721)
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	23,914,624
(Increase)/decrease in operating assets:	
Redemptions receivable from Portfolio Funds	(88,909,137)
Interest receivable	529
Prepaid management fee	40
Increase/(decrease) in operating liabilities:	
Management fees payable	1,471,005
Professional fees payable	446,250
Administration fees payable	366,607
Incentive fees payable	(751,213)
Accrued expenses	249,186
Net cash provided by/(used in) operating activities	288,541,307
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital withdrawals	(314,522,409)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,981,102)
CASH AND CASH EQUIVALENTS	
Beginning of year	41,163,059
End of year	$ 15,181,957

See accompanying notes to financial statements in liquidation.

1. ORGANIZATION

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

On May 7, 2018, the Fund received notice from the members to fully redeem their holding. The Investment Manager considers the Fund's liquidation to be imminent under accounting principles generally accepted in the United States of America ("GAAP"). As a result, the Investment Manager has commenced the process to fully redeem from the Fund's investments in Portfolio Funds in an orderly fashion. During the period from May 7, 2018 through December 31, 2018, in connection with the liquidation of the Fund, the Fund incurred a net income/(loss) of ($2,433,016). This net income/(loss) consisted of net investment income/(loss) of ($4,016,290), net realized gain/(loss) on investments in Portfolio Funds of $40,052,444, and net change in appreciation/(depreciation) on investments in Portfolio Funds of ($38,469,170). As of December 31, 2018, expected future operational and liquidation expenses of $2,558,000 have been estimated through 2023, and are included in accrued expenses in the Statement of Financial Condition (In Liquidation). The expected future operational and liquidation expenses are included in administration fees, professional fees, management fees and other expenses in the Statement of Operations (In Liquidation).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with GAAP on a liquidation basis and are expressed in U.S. dollars. The Fund is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 946, *Financial Services - Investment Companies*.

The liquidation basis of accounting presents assets and liabilities at their net realizable values or net settlement amounts, respectively. It also requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements in liquidation and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

These financial statements in liquidation reflect the following accounting policies:

Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly-traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the Investment Manager's valuation committee. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2018, management did not value any Portfolio Funds pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk and market risk for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The Fund records net realized gain/(loss) and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations (In Liquidation).

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities which qualify as financial instruments under ASC 825, *Financial Instruments,* approximates the fair value as presented in the Statement of Financial Condition (In Liquidation).

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income and operating expenses are recorded on an accrual basis.

Income taxes

No provision for income taxes has been made in the accompanying financial statements in liquidation, as the members are responsible for reporting income or loss based on their respective share of the Fund's revenues or expenses for income tax purposes. The Fund files U.S. federal and state tax returns.

Based on its analysis, management has determined that the Fund does not have any uncertain tax positions that require recognition or measurement in the Fund's financial statements in liquidation.

Management will continue to review the relevant authoritative guidance as it relates to the Fund's financial statements in liquidation and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof.

To the extent that management's assessment of the conclusions reached regarding uncertain tax positions changes, such change in estimate will be recorded in the period in which such determination is made. The Fund recognizes tax-related interest and penalties, if applicable, as a component of income tax expense in the Statement of Operations (In Liquidation). For the year ended December 31, 2018, no such amounts were recognized by the Fund.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions and include highly liquid investments in time deposits with an original maturity of three months or less. These short-term liquid investments are classified as Level I in the fair value hierarchy under ASC 820, *Fair Value Measurements*.

New accounting pronouncements

In August 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-13, Fair Value Measurement (Topic 820), *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The amendments in ASU 2018-13 modify the disclosure requirements in Topic 820 of the disclosure framework. The modifications include the removal to disclose the amount of and reason for transfers between Level I and Level II of the fair value hierarchy, the policy for timing of transfers between levels, the valuation processes for Level III fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level III fair value measurements held at the end of the reporting period. Also, in lieu of a rollforward for Level III fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level III of the fair value hierarchy and purchases and issues of Level III assets and liabilities. Additionally, for investments for certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemptions might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. ASU 2018-13 is effective for fiscal years beginning December 15, 2019 with early adoption permitted to any removed or modified disclosures of this update. Management has reviewed the requirements and the Fund has adopted ASU 2018-13 for this period and it has not had a significant impact on the Fund's financial position or performance.

3. INVESTMENTS IN PORTFOLIO FUNDS

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period").

The Agreements provide for compensation to the Portfolio Managers in the form of management fees ranging from 0% to 1.8% per annum of net assets and incentive allocations/fees of 0% to 20% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations (In Liquidation).

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each category. All data presented in the following table is as of December 31, 2018.

	Fair Value	Redemption Frequency *	Redemption Notice Period *
Credit/Distressed [(a)]	$ 513,635	Not applicable	Not applicable
Event Driven [(b)]	6,888,661	Annually	90 days
Niche/Tactical [(c)]	110,583,035	Quarterly to semi-annually	90 days
Total	$ 117,985,331		

* Reflects holdings currently eligible to be redeemed as of December 31, 2018.

(a) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased. The investment in the Portfolio Fund cannot be redeemed until the underlying securities held in segregated capital accounts ("Side Pockets") are sold by the Portfolio Fund.

(b) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. The Lockup Periods for such Portfolio Funds range up to 24 months, all of which are expired. Investments in certain Portfolio Funds representing approximately 2% of members' equity cannot be redeemed until the underlying securities held in Side Pockets are sold by the Portfolio Funds.

(c) Includes Portfolio Funds which attempt to capitalize on targeted market themes and dislocation globally. These themes may be broad-based or center around a single issuer. The strategy is not constrained by asset type. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired. Investments in certain Portfolio Funds representing approximately 37% of members' equity cannot be redeemed until the underlying securities are sold by the Portfolio Funds.

4. MEMBERS' EQUITY

A capital account is maintained on the books of the Fund for each member. The capital account is increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account is also increased or decreased by its allocable share of income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

5. RELATED PARTY TRANSACTIONS

The Fund pays to the Investment Manager as of the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1375% (0.55% annualized) of the beginning balance of each member interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which it is paid. In addition, a pro rata portion of the Management Fee is paid to the Investment Manager for any contributions made to the Fund on any date that does not fall on the first business day of a quarter and is based on the actual number of months remaining in such partial quarter.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contributions and withdrawals) over the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate, subject to loss carryforward.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

The Fund invests in Prisma Apex Tactical Fund LP ("Apex Tactical"), a Delaware limited partnership. The Investment Manager also serves as the investment manager for Apex Tactical. Apex Tactical does not charge the Fund management fees or incentive fees. As of December 31, 2018, the Fund's total investment in Apex Tactical was $45,592,356. For the year ended December 31, 2018, the Fund recorded a realized gain/(loss) and net change in unrealized appreciation/(depreciation) with respect to the Fund's investment in Apex Tactical of $21,973,488 and $(7,981,747), which are included in the net realized gain/(loss)on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds, respectively in the Statement of Operations (In Liquidation).

The Fund invested in Prisma SP AG LLC ("SP AG"). An unaffiliated Portfolio Manager managed the investment program of SP AG. The Investment Manager did not receive any fees from SPAG. A third-party asset manager served as sub-advisor for SP AG's assets. SP AG did not charge the Fund management or incentive fees, although the Fund was still subject to management or incentive fees charged by the sub-advisor. As of December 31, 2018, the Fund does not have an investment in SP AG. For the year ended December 31, 2018, the Fund recorded a realized gain/(loss) and net change in unrealized appreciation/(depreciation) of ($1,874,105) and $6,196,271 on its investment in SP AG, which are included in the net realized gain/(loss)on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds, respectively in the Statement of Operations (In Liquidation).

6. LINE OF CREDIT

The Fund maintains a short-term credit facility agreement (the "Credit Facility") with Deutsche Bank AG ("DB"), which matures on March 29, 2019. Under the Credit Facility, the Fund may issue notes not to exceed a maximum amount of $51,000,000 to DB. Interest expense on the outstanding principal amount is accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund grants DB a first priority security interest in and continuing lien on the assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its sales of investments in the Portfolio Funds, but excluding investments in the Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro-rata portion of a structuring fee equal to 0.70% per annum of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

As of December 31, 2018, the Fund did not have any borrowings outstanding under the Credit Facility. For the year ended December 31, 2018, the Fund recorded a structuring fee of $206,147, which is included in other expenses in the Statement of Operations (In Liquidation).

7. CUSTODIAN AND ADMINISTRATOR

The Bank of New York Mellon (the "Custodian") serves as the custodian for the Fund. All of the Fund's interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the "Administrator"), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. FAIR VALUE MEASUREMENTS

ASC 820, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using NAV per share or its equivalent. As a result, $117,985,331 of investments in Portfolio Funds that are measured at fair value using NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

9. INDEMNIFICATIONS

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnification terms. The Fund's maximum potential exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and, based primarily on past experience, expects any risk of loss to be remote.

10. PENDING LITIGATION

In December 2017, the Investment Manager, and its Chief Executive Officer were named, along with 28 other parties, as defendants in a lawsuit pending in the State of Kentucky. The 28 other defendants include several trustees and officers of the Kentucky Retirement Systems ("KRS"), their investment consultants and certain other investment advisers, including KKR & Co., L.P., Blackstone Group, L.P. and Pacific Alternative Asset Management Company, LLC and certain related individuals. The civil lawsuit appears to have been brought by eight beneficiaries of KRS purportedly on behalf of KRS but not by KRS itself as well as on behalf of Kentucky as taxpayers. With respect to the Investment Manager and several other defendants the lawsuit alleges, among other things, the violation of fiduciary and other duties. Management believes that the allegations against the Investment Manager and its Chief Executive Officer are baseless and entirely without merit and plans to vigorously contest these claims. It is expected that any legal costs related to this pending litigation that are not covered by applicable insurance or indemnification coverage will be borne solely by the Investment Manager.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed U.S. federally-insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and internal controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2018, the Fund's financial liabilities include payables to various service providers and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Managers, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2018, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2018.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in U.S. dollars. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

12. FINANCIAL HIGHLIGHTS

Member financial highlights for the year ended December 31, 2018 are as follows:

Operating performance[(1)]

Gross return	1.11%
Incentive Fees	(0.03)
Net return	1.08%

Ratios to members' average equity[(2)]

Total expenses before Incentive Fees	1.31%
Incentive Fees	0.14
Total expenses	1.45%
Net investment income/(loss)	(1.43)%

[(1)] Total return is calculated based on a time-weighted rate of return methodology. Monthly rates of return are compounded to derive the total return reflected above.

[(2)] Members' average equity has been computed as the average of eac h month's beginning balances and year-end balance.

The ratios do not reflect the Fund's proportionate share of the investment income and expenses of the underlying Portfolio Funds.

13. SUBSEQUENT EVENTS

Management has evaluated the impact of all subsequent events on the Fund through June 12, 2019, the date the Fund's financial statements in liquidation were available to be issued, and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements in liquidation.

DANIEL BOONE FUND LLC

Financial Statements (In Liquidation) as of
and for the year ended December 31, 2019
and Independent Auditors' Report

DANIEL BOONE FUND LLC

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INDEPENDENT AUDITORS' REPORT

To Daniel Boone Fund LLC:

We have audited the accompanying financial statements (in liquidation) of Daniel Boone Fund LLC (the "Fund"), which comprise the statement of financial condition (in liquidation), including the schedule of investments (in liquidation), as of December 31, 2019, and the related statements of operations (in liquidation), changes in members' equity (in liquidation), and cash flows (in liquidation) for the year then ended, and the related notes to the financial statements (in liquidation).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements (in liquidation) referred to above present fairly, in all material respects, the financial position (in liquidation) of Daniel Boone Fund LLC as of December 31, 2019, the results of its operations (in liquidation), changes in its members' equity (in liquidation), and its cash flows (in liquidation) for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Liquidation Basis of Accounting

As discussed in Note 1 to the financial statements, on May 7, 2018, the Fund received notice from the members to fully redeem their holding and the Fund commenced liquidation shortly thereafter. As a result, the Fund has changed its basis of accounting from the going concern basis to the liquidation basis effective May 7, 2018. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

June 17, 2020

DANIEL BOONE FUND LLC
STATEMENT OF FINANCIAL CONDITION (IN LIQUIDATION)
DECEMBER 31, 2019

ASSETS		
Investments in Portfolio Funds, at fair value (cost $41,226,106)	$	43,185,785
Cash and cash equivalents		93,716,300
Redemptions receivable from Portfolio Funds		141,504
Interest receivable		109,352
TOTAL ASSETS	$	137,152,941
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Capital withdrawals payable	$	136,535,298
Administration fees payable		285,394
Professional fees payable		223,500
Accrued expenses		108,749
Total liabilities		137,152,941
Members' equity		–
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	137,152,941

See accompanying notes to financial statements (in liquidation).

DANIEL BOONE FUND LLC
SCHEDULE OF INVESTMENTS (IN LIQUIDATION)
DECEMBER 31, 2019

INVESTMENTS IN PORTFOLIO FUNDS	Cost	Fair Value	Percentage of Members' Equity*
Credit/Distressed			
Centerbridge Credit Partners, L.P.	$ 256,344	$ 424,380	0.31 %
Event Driven			
West Face Long Term Opportunities (USA) Limited Partnership	346,572	998,798	0.73
Niche/Tactical			
ARCM Distressed Energy Opportunities US Feeder Fund Ltd.	2,699,927	3,668,072	2.69
HSCM Bermuda Special Opportunities Fund Ltd.	12,759,299	10,211,562	7.48
Omni Secured Lending Fund P L.P.	10,804,474	11,598,518	8.49
PAG-P Asia Fund L.P.	14,359,490	16,284,455	11.93
Total Niche/Tactical	40,623,190	41,762,607	30.59
TOTAL INVESTMENTS IN PORTFOLIO FUNDS	$ 41,226,106	$ 43,185,785	31.63 %

* The percentages are calculated prior to capital withdrawals as of December 31, 2019.

As of December 31, 2019, Portfolio Funds domiciled in the Cayman Islands and Bermuda are valued at $31,551,045 (23.11% of members' equity) and $10,211,562 (7.48% of members' equity), respectively.

The Fund is not able to obtain complete details of the Portfolio Funds' investments. As a result, the Fund is unable to determine if any investment owned by one or more of the Portfolio Funds exceeds 5% of the Fund's members' equity as of December 31, 2019.

See accompanying notes to financial statements (in liquidation).

DANIEL BOONE FUND LLC
STATEMENT OF OPERATIONS (IN LIQUIDATION)
FOR THE YEAR ENDED DECEMBER 31, 2019

INVESTMENT INCOME	
Interest	$ 870,365
EXPENSES	
Management fees	(1,335,645)
Professional fees	(207,403)
Administration fees	(20,897)
Other expenses	(70,306)
Total expenses	(1,634,251)
NET INVESTMENT INCOME/(LOSS)	2,504,616
NET GAIN/(LOSS) ON INVESTMENTS	
Net realized gain/(loss) on investments in Portfolio Funds	11,924,875
Net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds	(8,704,333)
Net gain/(loss) on investments	3,220,542
NET INCOME/(LOSS)	$ 5,725,158

See accompanying notes to financial statements (in liquidation).

DANIEL BOONE FUND LLC
STATEMENT OF CHANGES IN MEMBERS' EQUITY (IN LIQUIDATION)
FOR THE YEAR ENDED DECEMBER 31, 2019

	Special Member	Members	Total
Members' equity, beginning of year	$ 18,952	$ 130,791,188	$ 130,810,140
Net income/(loss)	475	5,724,683	5,725,158
Capital withdrawals	(19,427)	(136,515,871)	(136,535,298)
Members' equity, end of year	$ –	$ –	$ –

See accompanying notes to financial statements (in liquidation).

DANIEL BOONE FUND LLC
STATEMENT OF CASH FLOWS (IN LIQUIDATION)
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income/(loss)	$ 5,725,158
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:	
Proceeds from sales of investments in Portfolio Funds	78,020,088
Net realized (gain)/loss on investments in Portfolio Funds	(11,924,875)
Net change in unrealized (appreciation)/depreciation on investments in Portfolio Funds	8,704,333
(Increase)/decrease in operating assets:	
Redemptions receivable from Portfolio Funds	97,355,799
Interest receivable	(103,303)
Increase/(decrease) in operating liabilities:	
Administration fees payable	(127,290)
Professional fees payable	(314,750)
Management fees payable	(1,471,005)
Accrued expenses	(210,794)
Incentive fees payable	(120,018)
Net cash provided by/(used in) operating activities	175,533,343
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital withdrawals, net of change in capital withdrawals payable	(96,999,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	78,534,343
CASH AND CASH EQUIVALENTS	
Beginning of year	15,181,957
End of year	$ 93,716,300
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Investments in Portfolio Funds received in-kind, at fair value	$ 29,744,191

See accompanying notes to financial statements (in liquidation).

1. ORGANIZATION

Daniel Boone Fund LLC, a Delaware limited liability company (the "Fund"), was organized as a private investment fund. The Fund commenced operations on September 1, 2011. The Fund's investment program is managed by Prisma Capital Partners LP, an investment adviser registered with the U.S. Securities and Exchange Commission (the "Investment Manager"). Prisma Capital Partners LLC, a Delaware limited liability company, is the special member of the Fund (the "Special Member"). The Special Member is an affiliate of the Investment Manager.

The Fund seeks to achieve long-term capital appreciation over a rolling three-year period in excess of the return of 13-week U.S. Treasury Bills plus 300 to 500 basis points per annum. The Fund allocates its assets primarily among a diverse group of selected alternative asset managers (the "Portfolio Managers") and the funds they operate (the "Portfolio Funds").

On May 7, 2018, the Fund received notice from the members to fully redeem their holding. The Investment Manager considers the Fund's liquidation to be imminent under accounting principles generally accepted in the United States of America ("GAAP"). As a result, the Investment Manager has commenced the process to fully redeem from the Fund's investments in Portfolio Funds in an orderly fashion. As of December 31, 2019, expected future operational and liquidation expenses of $617,643 have been estimated through 2023, and are included in administration fees payable, professional fees payable, and accrued expenses in the Statement of Financial Condition. Expenses in the Statement of Operations (In Liquidation) reflect the reversal of expense amounts previously estimated and accrued $1,634,251 under the liquidation basis of accounting, of which, $163,037 was incurred in the current year. Cash proceeds related to the redemption payable will be disbursed as set forth in the limited liability company agreement upon payment and discharge of any claims or obligations of the Fund, including, without limitation, any claims or obligations related to indemnification in accordance with Section 2.3(d) of the Fund's Limited Liability Company Agreement ("LLC Agreement").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements (in liquidation) have been prepared in accordance with GAAP on a liquidation basis and are expressed in U.S. dollars. The Fund is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Board Accounting Standards Codification ("ASC") 946, *Financial Services - Investment Companies*.

The liquidation basis of accounting presents assets and liabilities at their net realizable values or net settlement amounts, respectively. It also requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements (in liquidation) and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

These financial statements (in liquidation) reflect the following accounting policies:

Use of estimates

The preparation of the financial statements (in liquidation) in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements (in liquidation) and the reported amounts of income and expenses for the year. Actual results could differ from those estimates and those differences could be material.

Valuation of investments in Portfolio Funds

The net asset value ("NAV") of each Portfolio Fund is determined as of the close of business on the last business day of each month. Investments in Portfolio Funds are subject to the terms of the respective limited partnership agreements, limited liability company agreements and offering memoranda (the "Agreements").

The Fund values its investments in Portfolio Funds at fair value, which, as a practical expedient, is based on the NAV per share, or its equivalent as provided by, or on behalf of, the Portfolio Managers. Generally, underlying investments held by the Portfolio Funds which are publicly-traded are valued at their current observable market values in the principal markets in which such securities are normally traded. Other investments are valued using procedures established by the Portfolio Manager of each of the Portfolio Funds. The fair values relating to the underlying investments held by a Portfolio Fund may have been estimated by such Portfolio Fund in the absence of readily ascertainable market values. Due to the inherent uncertainty as to valuations for certain non-marketable investments, the fair value determined by a Portfolio Manager may differ significantly from the values that would have been used had a ready market for these investments existed and the differences may be material.

If management determines, based on its own due diligence and investment monitoring procedures, that the most recent value reported by a Portfolio Fund does not represent fair value, or if a Portfolio Fund fails to report a value to the Fund, a fair value determination is made by the Investment Manager's valuation committee. The values assigned to such investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts would depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated. As of December 31, 2019, management did not value any Portfolio Funds pursuant to these procedures.

The Fund's investments in Portfolio Funds involve varying degrees of credit risk, liquidity risk and market risk for the Fund. While management monitors and attempts to manage these risks, the varying degrees of transparency of the securities held by the Portfolio Funds and the limited liquidity of the interests in the Portfolio Funds may hinder management's ability to effectively manage and mitigate these risks. The Fund's risk of loss in a Portfolio Fund is limited to its share of the fair value of such Portfolio Fund.

The Fund records net realized gain/(loss) and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations (In Liquidation).

Fair value of financial instruments

The carrying value of the Fund's assets and liabilities which qualify as financial instruments under ASC 825, *Financial Instruments,* approximates the fair value as presented in the Statement of Financial Condition (In Liquidation).

Investment transactions and income

The Fund records its transactions in Portfolio Funds on a trade date basis. Realized gains and losses from Portfolio Fund redemptions are calculated on an average cost basis. Interest income and operating expenses are recorded on an accrual basis.

Income taxes

No provision for income taxes has been made in the accompanying financial statements (in liquidation), as the members are responsible for reporting income or loss based on their respective share of the Fund's revenues or expenses for income tax purposes. The Fund files U.S. federal and state tax returns.

Based on its analysis, management has determined that the Fund does not have any uncertain tax positions that require recognition or measurement in the Fund's financial statements (in liquidation).

Management will continue to review the relevant authoritative guidance as it relates to the Fund's financial statements (in liquidation) and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof.

To the extent that management's assessment of the conclusions reached regarding uncertain tax positions changes, such change in estimate will be recorded in the period in which such determination is made. The Fund recognizes tax-related interest and penalties, if applicable, as a component of income tax expense in the Statement of Operations (In Liquidation). For the year ended December 31, 2019, no such amounts were recognized by the Fund.

Cash and cash equivalents

Cash and cash equivalents are on deposit with major financial institutions and include highly liquid investments in time deposits with an original maturity of three months or less. These short-term liquid investments are classified as Level 1 in the fair value hierarchy under ASC 820, *Fair Value Measurement.*

3. INVESTMENTS IN PORTFOLIO FUNDS

The Portfolio Funds may invest in U.S. and non-U.S. equities and equity-related instruments, fixed income securities, currencies, futures, forward contracts, swaps, other derivative contracts, mortgage-backed securities, asset-backed securities and other financial instruments and commodities which may be listed or unlisted and rated investment grade or non-investment grade.

The Portfolio Funds trade in securities and investments with various degrees of liquidity. As such, the Agreements subject the Fund to certain restrictions concerning redemptions from the Portfolio Funds. These provisions generally restrict redemption frequency and require varying notice periods. Additionally, the Fund may be subject to restrictions contained in the relevant Agreements that do not permit redemptions for a specified period following a subscription ("Lockup Period").

The Agreements provide for compensation to the Portfolio Managers in the form of management fees ranging from 0.25% to 1.80% per annum of net assets and incentive allocations/fees of 15% to 20% of profits earned. The Portfolio Funds' management fees and incentive allocations/fees are reflected in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds in the Statement of Operations (In Liquidation).

The following table contains the fair value of the investments in each category of Portfolio Funds and a description of the significant investment strategies of the Portfolio Funds in each category. All data presented in the following table is as of December 31, 2019.

	Fair Value	Redemption Frequency *	Redemption Notice Period *
Credit/Distressed [(a)]	$ 424,380	Not applicable	Not applicable
Event Driven [(b)]	998,798	Not applicable	Not applicable
Niche/Tactical [(c)]	41,762,607	Semi-annually	90 days
Total	$ 43,185,785		

* Reflects holdings currently eligible to be redeemed as of December 31, 2019.

(a) Includes Portfolio Funds that invest in debt of financially distressed and/or highly leveraged companies. Some Portfolio Funds may take simultaneous long and short positions in these securities and others may be long-biased. The investment in the Portfolio Fund cannot be redeemed until the underlying securities held in segregated capital accounts ("Side Pockets") are sold by the Portfolio Fund.

(b) Includes Portfolio Funds that seek to capture the price spread between current market prices and the value of securities of companies involved in event-driven situations such as spin-offs, recapitalizations, asset sales, leveraged buy-outs, mergers and hostile takeovers. The investment in the Portfolio Fund is held in Side Pockets.

(c) Includes Portfolio Funds which attempt to capitalize on targeted market themes and dislocation globally. These themes may be broad-based or center around a single issuer. The strategy is not constrained by asset type. Investments in Portfolio Funds representing 12%** of members' equity cannot be redeemed because of unexpired Lockup Periods. The Lockup Periods for such Portfolio Funds range up to 12 months, all of which are expired. Investments in certain Portfolio Funds representing approximately 19%** of members' equity cannot be redeemed until the underlying securities are sold by the Portfolio Funds.

** The percentages are calculated prior to capital withdrawals as of December 31, 2019.

4. MEMBERS' EQUITY

A capital account is maintained on the books of the Fund for each member. The capital account is increased by the amount of any capital contributions made to such capital account and decreased by the amount of any withdrawals made from such capital account or any distributions made from such capital account. Each member's capital account is also increased or decreased by its allocable share of income, expenses and gains or losses of the Fund.

A member generally may withdraw all or a portion of its capital account as of the last day of any calendar month upon reasonable prior written notice to the Investment Manager or as otherwise permitted by the Investment Manager and subject to the liquidity of the Portfolio Funds.

5. RELATED PARTY TRANSACTIONS

The Fund pays to the Investment Manager as of the first day of each calendar quarter a fee for management services (the "Management Fee") equal to 0.1375% (0.55% annualized) of the beginning balance of each member interest for such fiscal quarter. The Management Fee is calculated and paid in advance and amortized monthly by the Fund over the quarter for which it is paid. In addition, a pro rata portion of the Management Fee is paid to the Investment Manager for any contributions made to the Fund on any date that does not fall on the first business day of a quarter and is based on the actual number of months remaining in such partial quarter.

The Investment Manager is entitled to receive an incentive fee (the "Incentive Fee"), generally on an annual basis, equal to 5% of the excess of the net capital appreciation allocated to each capital account for the respective period (as appropriately adjusted for contributions and withdrawals) over the appreciation that a capital account would have yielded in a fiscal year if such capital account achieved an aggregate (but not compounded) rate of return for such year (adjusted for capital accounts established during such fiscal year) equal to the 13-week U.S. Treasury Bill rate, subject to loss carryforward.

If capital accounts are redeemed at any time other than the end of the fiscal year, any Incentive Fee that has been accrued in respect of the redeemed capital accounts will be paid to the Investment Manager at the time of such redemption.

The Fund invests in Prisma Apex Tactical Fund LP ("Apex Tactical"), a Delaware limited partnership. The Investment Manager also serves as the investment manager for Apex Tactical. Apex Tactical does not charge the Fund management fees or incentive fees. As of December 31, 2019, the Fund did not hold investment in Apex Tactical. For the year ended December 31, 2019, the Fund recorded a realized gain (loss) and net change in unrealized appreciation/(depreciation) with respect to the Fund's investment in Apex Tactical of $6,378,240 and $(5,618,868), which are included in the net realized gain/(loss) on investments in Portfolio Funds and net change in unrealized appreciation/(depreciation) on investments in Portfolio Funds, respectively in the Statement of Operations (In Liquidation).

6. LINE OF CREDIT

The Fund maintained a short-term credit facility agreement (the "Credit Facility") with Deutsche Bank AG ("DB"), which matured on March 31, 2019. Under the Credit Facility, the Fund may have issued notes not to exceed a maximum amount of $51,000,000 to DB. Interest expense on the outstanding principal amount was accrued daily at a rate equal to 3-Month U.S. dollar LIBOR plus 1.25%. As security for the Credit Facility, the Fund granted DB a first priority security interest in and continuing lien on the assets of the Fund, including, but not limited to, cash and cash equivalents and proceeds from its sales of investments in the Portfolio Funds, but excluding investments in the Portfolio Funds. Additionally, the Fund agreed to pay DB on a quarterly basis, its pro-rata portion of a structuring fee equal to 0.70% per annum of the combined maximum principal amount available for borrowing by the Fund and other investment funds affiliated with the Investment Manager.

The Fund did not renew the Credit Facility and as of December 31, 2019, the Fund did not have any borrowings outstanding under the Credit Facility. For the year ended December 31, 2019, the Fund recorded a structuring fee of $22,811, which is included in other expenses, in the Statement of Operations (In Liquidation).

7. CUSTODIAN AND ADMINISTRATOR

The Bank of New York Mellon (the "Custodian") serves as the custodian for the Fund. All of the Fund's interests in the Portfolio Funds are held by the Custodian as nominee. The Fund pays the Custodian customary fees, at market rates, based on the nature and extent of the services provided.

The Bank of New York Mellon, through its Alternative Investment Services group (the "Administrator"), provides administrative services to the Fund. The Fund pays the Administrator customary fees, at market rates, based on the nature and extent of the services provided.

8. FAIR VALUE MEASUREMENTS

ASC 820, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using NAV per share or its equivalent. As a result, $43,185,785 of investments in Portfolio Funds that are measured at fair value using NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

9. INDEMNIFICATIONS

In the normal course of its operations, the Fund enters into contracts that contain a variety of indemnification terms. The Funds' maximum potential exposure under these arrangements is unknown. However, except as otherwise described in Note 10 below, the Fund has not had prior claims or losses pursuant to these contracts and, based primarily on past experience, expects any risk of loss to be remote.

10. PENDING LITIGATION

In December 2017, the Investment Manager and its former Chief Executive Officer were named, along with 28 other parties, as defendants in a lawsuit pending in the State of Kentucky ("*Mayberry*"). The 28 other defendants in the *Mayberry* action include several current and former trustees and officers of the Kentucky Retirement Systems ("KRS"), their investment consultants and certain other investment advisors and certain related individuals. The civil lawsuit appears to have been brought by eight beneficiaries of KRS purportedly on behalf of KRS but not by KRS itself as well as on behalf of Kentucky as taxpayers. With respect to the Investment Manager and several other defendants the lawsuit alleges, among other things, the violation of fiduciary and other duties. On April 23, 2019, the Court of Appeals granted the writ of prohibition and vacated the Circuit Court's denial of defendants' motion to dismiss. The plaintiffs appealed the Court of Appeals' writ decision to the Kentucky Supreme Court. Certain individual defendants separately appealed the Circuit Court's motion to dismiss decision based on, among other grounds, lack of constitutional standing. The Kentucky Supreme Court heard arguments in both appeals on October 24, 2019 and has not yet issued a ruling. The Investment Manager believes that the lawsuit is entirely without merit and continues to vigorously contest these claims.

On April 9, 2019, the Investment Manager filed a separate complaint naming the Fund as defendant in the Court of Chancery of the State of Delaware seeking to enforce its rights to advancement and indemnification in connection with the defense of the *Mayberry* action. In this Delaware action, the Investment Manager seeks, *inter alia*, a declaration that the Investment Manager is entitled to advance to itself and its former Chief Executive Officer amounts and/or pay expenses incurred in connection with the defense of the *Mayberry* action and a declaration, given the Fund's advancement and indemnification obligations in Section 2.3(d) of the Fund's LLC Agreement, that the Fund may not make any distributions to members until final resolution of the *Mayberry* action. The Delaware action is currently inactive.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Fund's investing activities and those of the Portfolio Funds expose the Fund to various types of financial risks that are associated with the financial instruments and markets in which they invest. These financial risks include credit risk, liquidity risk and market risk (including foreign currency risk, interest rate risk, and other price risks). The Fund's overall risk management program focuses on minimizing potential adverse effects on the Fund's performance resulting from these financial risks. The Fund attempts to manage these financial risks on an aggregate basis along with other risks associated with its investing activities.

Credit risk

Credit risk, which may include counterparty risk, is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Fund to credit risk consist principally of deposits of cash and cash equivalents. The Fund seeks to mitigate its exposure to credit risk by closely monitoring the financial institutions with which it deposits cash. Cash deposits may exceed U.S. federally-insured limits.

In addition, the Fund may have credit risk with respect to the receipt of redemption proceeds from Portfolio Funds. The Fund seeks to minimize this risk by performing due diligence procedures both prior to and during the investment period to assess each Portfolio Fund's investment, risk and operations management and internal controls.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. As of December 31, 2019, the Fund's financial liabilities include payables to various service providers and capital withdrawals payable.

Certain Portfolio Funds may be subject to lockup or gate provisions that may limit the ability of the Fund to redeem its investments in Portfolio Funds on a timely basis. In addition, certain underlying assets of the Portfolio Funds may be held in "side pocket" arrangements that may only be redeemed at the discretion of the Portfolio Managers, generally anticipated to occur upon the sale of the investments comprising the side pocket.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign currency risk, interest rate risk and other price risks. As of December 31, 2019, the Fund was exposed to such risks primarily through its investments in Portfolio Funds. The Fund is not able to obtain complete details of the underlying portfolios of the Portfolio Funds in order to fully quantify its indirect exposure to such risks as of December 31, 2019.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund invests in interests of Portfolio Funds denominated solely in U.S. dollars. While the Portfolio Funds may invest in non-U.S. dollar-denominated securities, the Portfolio Managers generally manage the exposure to currencies other than the U.S. dollar using a variety of instruments. As part of their investment programs, certain Portfolio Managers may take positions in non-U.S. dollar-denominated currencies.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fair value of debt securities in which the Portfolio Funds invest are sensitive to changes in interest rates and market conditions within the U.S. and other countries. The fair values of equity securities may be indirectly affected by changes in interest rates as well. The Portfolio Managers, depending upon their investment program, may or may not seek to hedge the exposure of the Portfolio Funds to changes in market interest rates. To the extent that the Portfolio Managers do not hedge such exposure, the Fund is subject to interest rate risk as a result of fluctuations in prevailing market interest rates.

Other price risks

Other price risks relate to the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These risks may include equity and commodity risk.

The Portfolio Funds may invest in equity securities, debt securities, commodities and derivatives based on equity securities, debt securities and commodities that expose the Fund to the risk that movements in the prices of the respective equities, debt securities or commodities can adversely affect the Fund's performance. The Portfolio Managers may seek to mitigate these risks by a variety of techniques including, but not limited to, entering into positions intended to hedge these market exposures and placing portfolio limitations on the size of individual positions and concentrations of positions to industry segments, geographical areas, or market capitalization.

12. SUBSEQUENT EVENTS

The recent global outbreak of COVID-19 has disrupted economic markets and the prolonged economic impact is uncertain. The operational and financial performance of the financial instruments in which the Fund invests depends on future developments, including the duration and spread of the outbreak and such uncertainty may in turn impact the valuation of the investments.

Management has evaluated the impact of all subsequent events on the Fund through June 17, 2020, the date the Fund's financial statements (in liquidation) were available to be issued, and has determined that there were no additional subsequent events requiring recognition or disclosure in the financial statements (in liquidation).

EXHIBIT 44

FINANCIAL STATEMENTS

Blackstone Henry Clay Fund, LLC

(A Delaware Limited Liability Company)

For the period September 1, 2011
(commencement of operations)
to December 31, 2011
and Independent Auditors' Report

This pool operates pursuant to an exemption under Regulation 4.13 (a)(4) of the Commodity Exchange Act

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)

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INDEPENDENT AUDITORS' REPORT

To the Members of
Blackstone Henry Clay Fund, LLC:

We have audited the accompanying statement of financial condition of Blackstone Henry Clay Fund, LLC (the "Company"), including the condensed schedule of investments, as of December 31, 2011, and the related statements of operations, changes in members' capital and cash flows for the period September 1, 2011 (commencement of operations) to December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackstone Henry Clay Fund, LLC as of December 31, 2011, and the results of its operations, changes in its members' capital and its cash flows for the period September 1, 2011 (commencement of operations) to December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 22, 2012

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Financial Condition
As of December 31, 2011

ASSETS

Investments in Investee Funds, at fair value (cost $282,669,274)	$	283,064,366
Investments in affiliated Investee Funds, at fair value (cost $129,123,465)		129,819,194
Cash and cash equivalents		9,160,122
Receivable from Investee Funds redeemed		1,500,000
Receivable from affiliated Investee Funds redeemed		4,498,475
Investment subscriptions paid in advance to Investee Funds		3,484,000
Other assets		57,646
Total assets	$	431,583,803

LIABILITIES AND MEMBERS' CAPITAL

Liabilities:		
Borrowings under credit facility	$	5,400,000
Management fees payable		524,146
Payable to affiliate		22,593
Interest payable		515
Accrued expenses and other liabilities		91,108
Total liabilities		6,038,362
Members' capital		425,545,441
Total liabilities and members' capital	$	431,583,803

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments
As of December 31, 2011

	Cost	Fair Value	Percentage of Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Investments in Investee Funds:					
Credit-Driven[a]					
Other[2][3]	$ 111,290,773	$ 111,386,390	26.17%	Monthly - Quarterly	10 days - 95 days
Multi-Category[b]					
Blackstone Strategic Opportunity Fund L.P.[4]		22,140,052	5.20%	Quarterly	90 days
Other		86,405,294	20.31%	Quarterly - Annually	60 days - 90 days
Total	106,035,000	108,545,346	25.51%		
Equity[c]					
Other[3][5]	81,958,274	83,742,500	19.68%	Monthly - Semi-Annually	1 day - 65 days
Interest Rate-Driven[d]					
Blackstone Fixed Income and Trading Opportunities Fund L.P.[4]	38,070,054	38,980,294	9.16%	Monthly	5 days
Commodities[e]					
Other[3]	40,500,000	36,482,008	8.57%	Monthly - Quarterly	1 day - 65 days
Managed Futures[f]					
Other[3]	18,938,638	18,374,880	4.32%	Monthly	5 days
Event-Driven[g]					
Other	15,000,000	15,372,142	3.61%	Quarterly	60 days
Total investments in Investee Funds[6][7]	$ 411,792,739	$ 412,883,560	97.02%		

Percentage represents each respective investment in Investee Fund at fair value as compared to total members' capital.

"Other" contains one or more individual investments for which the fair value of each represents less than 5% of total members' capital.

The Company is not able to obtain information about certain specific investments held by some of the Investee Funds due to a lack of available data.

Investee Funds are organized in the United States, unless otherwise noted.

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments (continued)
As of December 31, 2011

(1) Represents the terms or range of terms upon which the investment in Investee Fund may be redeemed.
(2) Includes Investee Funds organized in a non-U.S. offshore jurisdiction with a fair value of $12,828,841.
(3) Includes affiliated Investee Funds.
(4) Represents an affiliated Investee Fund.
(5) Includes Investee Funds organized in a non-U.S. offshore jurisdiction with a fair value of $9,555,947.
(6) The total cost of Investee Funds organized in the United States is $388,329,539.
(7) The total cost of Investee Funds organized in non-U.S. offshore jurisdictions is $23,463,200.
(a) The Credit-Driven strategy generally includes credit-driven focused Investee Funds with a focus on fundamental hedged products or otherwise low net exposure, positional concentration and opportunistic directional exposures, mortgages, and non-mortgage asset-backed securities.
(b) The Multi-Category strategy generally includes Investee Funds that invest across multiple strategies.
(c) The Equity strategy generally includes equity-focused Investee Funds with a bottom-up analysis that do not actively trade exposures, with trading strategies focusing on shorter-term dynamics and appreciation for market technicals, top-down thematic/macro views, and technically driven statistical arbitrage with fundamental quantitative long/short strategies.
(d) The Interest Rate-Driven strategy generally includes interest rate-driven-focused Investee Funds with relative value trades across global fixed income markets, intra-country trades, yield curve trades, basis trades, on the run vs. off the run trades, cash vs. derivative trades, and volatility arbitrage in fixed income.
(e) The Commodities strategy generally includes Investee Funds that are commodities-focused and invest in futures and physical-based commodity driven strategies.
(f) The Managed Futures strategy generally includes managed futures-focused Investee Funds that invest in systematic futures and foreign exchange forward trading strategies.
(g) The Event-Driven strategy generally includes Investee Funds that are generally event-driven-focused and seek returns by investing in strategies including catalyst events, share class arbitrage, share buybacks, post re-organization equity, recapitalizations, spin-offs and stub trades.

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Operations
For the Period September 1, 2011 (commencement of operations) to December 31, 2011

Net investment loss:		
Income:		
Interest	$ 2,948	
Other	7,933	
Total income	10,881	
Expenses:		
Management fees	660,345	
Professional fees	113,664	
Commitment fees	24,931	
Interest	515	
Other	3,544	
Total expenses	802,999	
Net investment loss		(792,118)
Net increase in members' capital from investments:		
Net realized gain from investments in Investee Funds	58,275	
Net realized gain from investments in affiliated Investee Funds	88,465	
Net unrealized appreciation from investments in Investee Funds	395,091	
Net unrealized appreciation from investments in affiliated Investee Funds	695,730	
Net increase in members' capital from investments		1,237,561
Net increase in members' capital from operations		$ 445,443

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Changes in Members' Capital
For the Period September 1, 2011 (commencement of operations)
to December 31, 2011

	Managing Member	Non-Managing Members	Total
Members' capital, September 1, 2011 (commencement of operations)	$ –	$ –	$ –
Capital contributions	100,000	424,999,998	425,099,998
Allocation of net increase in members' capital from operations:			
Pro-rata allocation	(156)	445,599	445,443
Members' capital, December 31, 2011	$ 99,844	$ 425,445,597	$ 425,545,441

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Cash Flows
For the Period September 1, 2011 (commencement of operations) to December 31, 2011

Cash flows from operating activities:	
Net increase in members' capital from operations	$ 445,443
Adjustments to reconcile net increase in members' capital from operations to net cash used in operating activities:	
Net realized gain from investments in Investee Funds	(58,275)
Net realized gain from investments in affiliated Investee Funds	(88,465)
Net unrealized appreciation from investments in Investee Funds	(395,091)
Net unrealized appreciation from investments in affiliated Investee Funds	(695,730)
Purchases of investments in Investee Funds and subscriptions paid in advance to Investee Funds	(290,095,000)
Purchases of investments in affiliated Investee Funds	(138,035,000)
Proceeds from redemptions of investments in Investee Funds	2,500,000
Proceeds from redemptions of investments in affiliated Investee Funds	4,501,526
Increase in other assets	(57,646)
Increase in management fees payable	524,146
Increase in payable to affiliate	22,593
Increase in interest payable	515
Increase in accrued expenses and other liabilities	91,108
Net cash used in operating activities	(421,339,876)
Cash flows from financing activities:	
Proceeds from members' capital contributions	425,099,998
Proceeds from borrowings under credit facility	5,400,000
Cash provided by financing activities	430,499,998
Net change in cash and cash equivalents	9,160,122
Cash and cash equivalents, beginning of period	–
Cash and cash equivalents, end of period	$ 9,160,122

See notes to the financial statements.

1. Organization

Blackstone Henry Clay Fund, LLC (the "Company") is a Delaware limited liability company which was formed on August 16, 2011 and commenced operations on September 1, 2011. The Company is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers. The managing member of the Company is Blackstone Alternative Asset Management Associates LLC ("BAAMA" or the "Managing Member"), a Commodity Pool Operator. The investment manager of the Company is Blackstone Alternative Asset Management L.P. ("BAAM" or the "Investment Manager"), a Registered Investment Advisor, Commodity Trading Advisor and Commodity Pool Operator.

Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Company's governing legal agreement.

2. Basis of Presentation

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars.

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets, liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates and these differences could be material.

3. Significant Accounting Policies

Fair Value Measurements

Investments in Investee Funds

The fair value of investments in limited partnerships and investment funds ("Investee Fund(s)") is generally determined using the reported net asset value per share of the Investee Fund, or its equivalent, as a practical expedient for fair value. If the Managing Member determines, based on its own due diligence and investment monitoring procedures, that the reported net asset value per share or its equivalent of any Investee Fund does not represent fair value, the Managing Member shall estimate the fair value of the Investee Funds in good faith and in a manner that it reasonably chooses. The fair value of investments in Investee Funds is reported net of management fees and incentive allocations/fees. The Investee Funds' management fees and incentive allocations/fees are reflected in the net increase in members' capital from investments on the Statement of Operations.

Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

The investments in Investee Funds may involve varying degrees of interest rate risk, credit risk, foreign exchange risk, and market, industry or geographic concentration risk. While the Managing Member monitors and attempts to manage these risks, the varying degrees of transparency into and potential illiquidity of the financial instruments held by the Investee Funds may hinder the Managing Member 's ability to effectively manage and mitigate these risks.

The fair value of the Company's assets and liabilities which qualify as financial instruments under existing accounting guidance for *Financial Instruments*, approximates the carrying amounts presented in the Statement of Financial Condition due to their short term nature.

Investment Transactions and Related Investment Income and Expense

Investment transactions are accounted for on a trade date basis. Income and expenses, including interest, are recorded on an accrual basis.

The net realized gains or losses from investments in Investee Funds are recorded when the Company redeems or partially redeems its interest in the Investee Funds or receives distributions in excess of return of capital. Realized gains and losses from redemptions of investments are calculated using the average cost basis methodology.

Allocation of Gains and Losses

Net increase or decrease in members' capital from operations, is generally allocated on a pro-rata basis to the members in accordance with the provisions set forth in the Company's governing legal agreement.

Income and loss related to New Issues, as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"), are allocated to the eligible members.

Income Taxes

The Company is treated as a partnership for tax purposes in the United States ("U.S.") and is generally not subject to federal, state or local income tax. Each member of the Company generally is liable for its share of all U.S. federal, state and local taxes, if any, imposed on the net investment income and realized gains of the Company. Certain investments held by the Company may subject the individual members to taxation and filing requirements in non-U.S. jurisdictions as well. Interest, dividends and other income realized by the Company from non-U.S. sources and capital gains realized on the sale of non-U.S. investments may be subject to withholdings and other taxes levied by the jurisdictions in which the income is sourced.

In accordance with U.S. GAAP, the Company is required to determine whether any uncertain tax positions are "more-likely-than-not" to be sustained upon examination by tax authorities in the major jurisdictions where the Company is organized, makes investments, and where the Investment Manager is located. Uncertain tax positions not deemed to meet a "more-likely-than-not" threshold would be recorded as a tax expense in the current year.

The Company has evaluated its uncertain tax positions and is not aware of any matters requiring recognition, measurement, or disclosure as of December 31, 2011. The Company remains subject to examination in its major jurisdictions under varying statutes of limitations (generally three years for filed returns). The Company is not aware of any tax positions for which it is reasonably possible that the total amount of unrecognized tax benefit will change materially in the next twelve months. As a result, no income tax liability or expense, including interest and penalties, has been recorded within these financial statements.

Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents. At December 31, 2011, the Company had $9,160,122 held at a major U.S. bank.

Contingencies

In the normal course of business, the Company enters into contracts that contain a variety of representations and indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements*, which requires new disclosures and provides amendments to existing guidance clarifying existing disclosures. The new disclosures relate to transfers in and out of Level 1 and 2 investments, and disclosures about purchases, sales, issuances, and settlements of Level 3 investments on a gross basis. The guidance also clarifies existing disclosures regarding the level of disaggregation and disclosures about inputs and valuation techniques. The disclosures regarding transfers in and out of Level 1 and 2 investments, and clarifications to existing disclosures were effective for interim and annual periods beginning after December 15, 2009, however, the requirement to disclose the purchases, sales, issuances, and settlements of Level 3 investments on a gross basis is effective for annual periods beginning after December 15, 2010. The Company adopted this guidance during 2011. As the guidance is limited to enhanced disclosures, the adoption did not have a material impact on the Company's financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends the current guidance on fair value measurements to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amended guidance clarifies that the concepts of highest and best use and valuation premise are relevant only for non-financial assets and are not relevant when measuring the fair value of financial assets and liabilities. The amended guidance includes specific requirements for measuring fair value of those instruments, such as equity interests issued in consideration in a business combination. The guidance also requires enhanced disclosures about fair value measurements including, for fair value measurements categorized within Level 3 of the fair value hierarchy, a quantitative disclosure of the unobservable inputs and assumptions used in the measurement and a description of the valuation processes used. The amended guidance is effective for annual periods beginning after December 15, 2011. As the impact is primarily limited to enhanced disclosures, the adoption of the guidance is not expected to have a material impact on the Company's financial statements.

4. Membership Terms

The Company may accept capital contributions at such times as the Managing Member may permit.

Generally, a member may at any time request, upon not less than 95 days' prior written notice to the Company, to withdraw any or all of the balance of its capital account.

Payment of withdrawal proceeds shall be made promptly after the Company receives withdrawal proceeds from the Pooled Investment Vehicles, Intermediate Entities, BAAM Multi-Manager Funds, Blackstone Affiliate Funds, Financial Instruments or Portfolio Managers in which the Company is invested in ("Investments") subject to applicable holdbacks and/or reserves. The withdrawal request shall be subject to the liquidity and notice provisions of the Investments.

5. Investments

Fair Value Hierarchy

Current fair value guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company may, as a practical expedient, estimate the fair value of an Investee Fund based on the reported net asset value per share or its equivalent if the reported net asset value of the Investee Fund is calculated in a manner consistent with the measurement principles applied to investment companies. The hierarchy established under the fair value guidance gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

See Note 3 to the financial statements for the determination of fair value of the Company's investments.

Investments measured and reported at fair value are classified and disclosed in one of the following levels within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement or based on liquidity, as indicated by the redemption terms:

Level 1 – Quoted prices are available in active markets for identical investments as of the measurement date. The Company does not adjust the quoted price for these investments.

Level 2 – Quoted prices are available in markets that are not active or model inputs are based on inputs that are either directly or indirectly observable as of the measurement date.

The Company's investment in the Investee Fund shall be categorized within Level 2 if the Company has the ability to redeem its investment in the Investee Fund at the reported net asset value per share (or its equivalent) at the measurement date or within 90 days thereof, upon no greater than 90 days prior written notice and there are no other potential liquidity restrictions that could be invoked within 90 days of the measurement date.

Level 3 – Pricing inputs are unobservable for the investment and include instances where there is little, if any, market activity for the investment.

The Company has categorized within Level 3, investments in Investee Funds that are subject to a minimum holding period or lockup greater than 90 days from the measurement date, are in liquidation, cannot be redeemed within 90 days of the measurement date, are subject to redemption notice periods in excess of 90 days, have limited or have the ability to limit the individual and/or aggregate amount of investor redemptions, have the ability to side pocket investments, or have suspended redemptions.

Investee Funds as set forth in their governing legal agreements may offer various liquidity terms for differing classes of investors. The Company's investment in a particular Investee Fund may be comprised of investments with differing liquidity terms or which were made at differing points in time that result in differences in the effective minimum holding period or lockup or participation in side pocket investments. In determining the fair value hierarchy classification under the current guidance, the Company is applying the most restrictive terms available to the Company's investment in Investee Fund. As such, the classification of investments in Investee Funds may not be indicative of the actual liquidity available to the Company associated with each investment at December 31, 2011.

The classification of investments in Investee Funds and affiliated Investee Funds included in the table below is meant to be indicative of the Company's classification of its investments in Investee Funds and affiliated Investee Funds. It is not meant to be indicative of the classification of investments in the underlying portfolios of the Investee Funds and affiliated Investee Funds within the fair value hierarchy.

The following table presents information about the classification of the Company's investments measured at fair value within the fair value hierarchy as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Investments in Investee Funds by Strategy:				
Credit-Driven	$ –	$ 25,159,765	$ 86,226,625	$ 111,386,390
Multi-Category	–	–	108,545,346	108,545,346
Equity	–	19,222,927	64,519,573	83,742,500
Interest Rate-Driven	–	38,980,294	–	38,980,294
Commodities	–	27,114,029	9,367,979	36,482,008
Managed Futures	–	18,374,880	–	18,374,880
Event-Driven	–	–	15,372,142	15,372,142
	$ –	$ 128,851,895	$ 284,031,665	$ 412,883,560

The changes in investments measured at fair value for which the Company used Level 3 inputs to determine fair value are as follows:

	Investments in Investee Funds by Strategy		
	Credit-Driven	Multi-Category	Equity
Beginning Balance September 1, 2011 (commencement of operations)	$ -	$ -	$ -
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Net realized gain	79,773	-	58,275
Net unrealized appreciation (depreciation)	46,852	2,510,346	1,061,298
Purchases	90,100,000	106,035,000	67,400,000
Sales	(4,000,000)	-	(4,000,000)
Ending Balance December 31, 2011	$ 86,226,625	$ 108,545,346	$ 64,519,573
Unrealized appreciation or depreciation related to investments still held as of December 31, 2011	$ 46,852	$ 2,510,346	$ 1,061,298

	Investments in Investee Funds by Strategy		
	Commodities	Event-Driven	Total
Beginning Balance September 1, 2011 (commencement of operations)	$ -	$ -	$ -
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Net realized gain	-	-	138,048
Net unrealized appreciation (depreciation)	(632,021)	372,142	3,358,617
Purchases	10,000,000	15,000,000	288,535,000
Sales	-	-	(8,000,000)
Ending Balance December 31, 2011	$ 9,367,979	$ 15,372,142	$ 284,031,665
Unrealized appreciation or depreciation related to investments still held as of December 31, 2011	$ (632,021)	$ 372,142	$ 3,358,617

Realized and unrealized gains and losses recorded for Level 3 investments are reported as net realized gain from investments in Investee Funds and affiliated Investee Funds and net change in unrealized appreciation from investments in Investee Funds and affiliated Investee Funds, respectively, in the Statement of Operations.

Major Investment Strategies

The following table summarizes investments in Investee Funds, by investment strategy, the unfunded commitment of each strategy (if applicable), and the amount of the investments in Investee Funds that cannot be redeemed because of redemption restrictions put in place by the Investee Funds. In instances where redemptions were restricted, the known remaining redemption restriction period is disclosed. Where the remaining redemption restriction period is not known, the date the earliest redemptions restriction commenced is disclosed.

Investments in Investee Funds by Strategy	Unfunded Commitment $	Category (A) $	Remaining Redemption Restriction Period as of 12/31/11 (A)	Category (B) $	Earliest Redemption Restriction Date (B)	Category (C) $	Total $
Credit-Driven	–	68,093,736	12 months	–	N/A	18,132,889	86,226,625
Multi-Category	–	70,833,921	24 months	–	N/A	37,711,425	108,545,346
Equity	–	32,099,433	24 months	–	N/A	32,420,140	64,519,573
Commodities	–	9,367,979	12 months	–	N/A	–	9,367,979
Event-Driven	–	–	N/A	–	N/A	15,372,142	15,372,142

Category (A) Investments in Investee Funds cannot be redeemed and the remaining redemption restriction period as of December 31, 2011 is disclosed. The remaining redemption restriction period is based on the maximum restriction period for Investee Funds as defined in each respective Investee Fund's governing legal agreements without consideration of the length of time elapsed from the date of investments in the Investee Funds. The Company's investment in a particular Investee Fund classified within the strategies above may be comprised of investments with differing liquidity terms or investments which were made at differing points in time.

Category (B) Investments in Investee Funds cannot be redeemed and the remaining redemption restriction period is not known. The date the earliest redemption restriction commenced is disclosed.

Category (C) Investee Funds allow for redemptions but have the ability to limit the individual and/or aggregate amount of investor redemptions, or have the ability to side pocket investments but have not exercised such rights.

Investments in Investee Funds

The Company's proportional share of any financial instrument owned by an individual Investee Fund that exceeds 5% of the Company's members' capital as of the Company's year end is required to be disclosed, with total long and short positions considered separately.

The Company, through its proportional share of financial instruments held by the individual Investee Funds (based on information available to the Company), has the following exposure to financial instruments that exceed 5% of the Company's members' capital as of December 31, 2011:

Investee Fund	Fair Value
Credit-Driven	
Cerberus RMBS Opportunities Fund L.P. (Non-U.S.)	$22,529,534

6. Related Party Transactions

The Company and the Investment Manager consider their existing owners, employees, affiliated funds, and certain other persons or entities associated with The Blackstone Group L.P. to be affiliates.

Blackstone Holdings Finance Co. L.L.C. ("FINCO"), an affiliate of the Company, pays expenses on behalf of the Company. No fees were charged to the Company for such services by FINCO. As of December 31, 2011, the Company had $22,593 payable to FINCO for reimbursement of such expenses. This amount is recorded as a payable to affiliate in the Statement of Financial Condition.

The Company invests in certain affiliated Investee Funds. There are no management or incentive fees charged to the Company for such investments.

The receivable from affiliated Investee Funds redeemed represents the remaining withdrawal proceeds related to a full or partial withdrawal from the affiliated Investee Funds during 2011.

7. Management Fees and Incentive Allocation

The Company pays the Investment Manager a quarterly management fee (the "Management Fee"), in arrears, equal to 0.125% (0.50% per annum) of the quarter end net asset value of the non-managing members' capital account. The Management Fee for any period less than a full quarter is prorated for the basis of actual number of days elapsed.

In addition to the Management Fee, the non-managing members allocate to the Managing Member an amount based on the performance of the Company (the "Incentive Allocation") on the Incentive Allocation Calculation Date (generally December 31). This amount is calculated after the deduction of the Management Fee. A non-managing member is subject to an Incentive Allocation charge equal to 10% of Net Capital Appreciation during the relevant Measurement Period provided that such income exceeds the sum of 1) the Threshold Amount and 2) the balance in the non-managing members' Loss Recovery Account, if any.

8. Financial Instruments and Off-Balance Sheet Risk

In the normal course of business, the Investee Funds may enter into certain financial instrument transactions which may result in off-balance sheet market risk and credit risk. The Investee Funds invest in these instruments for trading and hedging purposes. The Company is indirectly subject to certain risks arising from investments made by the Investee Funds.

Market Risk

Market risk is the risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements. The Company is exposed to market risk indirectly as a result of the types of investments that the Investee Funds make. The Company actively monitors its exposure to market risk.

Investee Funds may invest in entities that trade or may invest directly in interest rate swaps, credit default swaps, exchange-traded and over-the-counter options, futures transactions, forward transactions, and securities sold, not yet purchased.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform their obligations under the terms of a contract. The Company is indirectly exposed to credit risk related to the amount of accounting loss that the Investee Funds would incur if a counterparty failed to perform its obligations under contractual terms and if the Investee Funds fail to perform under their respective agreements.

9. Borrowings Under Credit Facility

The Company has a $20,000,000 secured revolving borrowing facility (the "Facility"). Borrowings under the Facility are used primarily for bridge financing purposes and are secured by the assets of the Company. Under the terms of the agreement, the Facility amount may be decreased upon mutual written consent of the Company and the lender. Outstanding borrowings bear interest at the Company's option of either (1) LIBOR plus 1.30% per annum (1.60% at December 31, 2011) or (2) the greater of the Federal Funds Rate plus 1.30% or the prime rate (as determined by the lender) per annum (3.25% at December 31, 2011). A commitment fee is charged in the amount of 0.70% per annum on the daily amount of the Facility. Outstanding borrowings and accrued interest are due no later than October 24, 2012, the expiration date of the Facility, at which time the Company and the lender can agree to extend the existing agreement. At December 31, 2011, the Company had outstanding borrowings under the Facility of $5,400,000.

10. Financial Highlights

The financial highlights are calculated for the period from September 1, 2011 (commencement of operations) to December 31, 2011 for the non-managing members and exclude data for the Managing Member.

Financial Ratios:*	
Expenses to average non-managing members' capital account before Incentive Allocation	0.57%
Incentive Allocation	0.00%
Expenses to average non-managing members' capital account after Incentive Allocation	0.57%
Net investment loss to average non-managing members' capital account	(0.57%)
Total Return:*	
Total return before Incentive Allocation	(0.31%)
Incentive Allocation	0.00%
Total return after Incentive Allocation	(0.31%)

*Financial ratios have been annualized except for non-recurring costs and certain professional fees. Total return has not been annualized.

The financial ratios represent the expenses and net investment loss to average monthly non-managing members' capital for the period that are attributable to non-managing members. The computation of such ratios for an individual non-managing member's account may vary from these ratios based on the timing of capital transactions. The ratios do not reflect the Company's share of the income and expenses of the underlying Investee Funds.

The ratio of net investment loss to average non-managing members' capital does not reflect the effect of any Incentive Allocation. An individual non-managing member's return may vary from this total return based on the timing of capital transactions.

11. Subsequent Events

The Company has evaluated the impact of subsequent events through June 22, 2012, which is the date the financial statements were available to be issued, and determined there were no subsequent events outside the normal course of business requiring adjustment to or disclosure in the financial statements.

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FINANCIAL STATEMENTS

Blackstone Henry Clay Fund, LLC

(A Delaware Limited Liability Company)

Year Ended December 31, 2012
and Independent Auditors' Report

This pool operated pursuant to an exemption under Regulation 4.13 (a)(4) of the Commodity Exchange Act

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)

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INDEPENDENT AUDITORS' REPORT

To the Members of
Blackstone Henry Clay Fund, LLC:

We have audited the accompanying financial statements of Blackstone Henry Clay Fund, LLC (the "Company"), which comprise the statement of financial condition, including the condensed schedule of investments, as of December 31, 2012, and the related statements of operations and incentive allocation, changes in members' capital and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackstone Henry Clay Fund, LLC as of December 31, 2012, the results of its operations and incentive allocation, changes in its members' capital and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

June 26, 2013

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Financial Condition
As of December 31, 2012

ASSETS

Investments in Investee Funds, at fair value (cost $236,510,428)	$	264,929,592
Investments in affiliated Investee Funds, at fair value (cost $193,294,170)		214,717,223
Cash and cash equivalents		3,046,869
Receivable from Investee Funds redeemed		5,384,662
Receivable from affiliated Investee Funds redeemed		9,000,000
Investment subscriptions paid in advance to Investee Funds		1,510,000
Investment subscriptions paid in advance to affiliated Investee Funds		8,052,997
Other assets		82,721
Total assets	$	506,724,064

LIABILITIES AND MEMBERS' CAPITAL

Liabilities:		
Borrowings under credit facility	$	8,400,000
Management fees payable		1,184,476
Capital withdrawal payable to affiliate		4,315,854
Capital withdrawal payable		10,731,412
Payable to affiliate		43,701
Interest payable		12,365
Accrued expenses and other liabilities		133,783
Total liabilities		24,821,591
Members' capital		
Managing Member		100,000
Non-Managing Members		481,802,473
Total members' capital		481,902,473
Total liabilities and members' capital	$	506,724,064

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments
As of December 31, 2012

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Investments in Investee Funds:				
Credit-Driven[a]				
Blackstone ABS Fund L.P.[2]	$ 37,055,078	7.69%	Quarterly	95 days
Blackstone CRM Fund L.P.[2]	27,408,458	5.69%	Quarterly	90 days
EJF Debt Opportunities Master Fund II, L.P.[3]	25,323,807	5.25%	Quarterly	60 days
Other[4][5]	64,515,290	13.39%	Monthly - Semi-Annually	10 days - 180 days
Total (cost $136,088,075)	154,302,633	32.02%		
Multi-Category[b]				
Blackstone Strategic Opportunity Fund L.P.[2]	45,963,858	9.54%	Quarterly	90 days
D.E. Shaw Composite Graphite Fund L.L.C.	25,117,624	5.21%	Quarterly	75 days
Other	55,732,223	11.56%	Quarterly - Annually	60 days - 90 days
Total (cost $108,304,742)	126,813,705	26.31%		
Equity[c]				
Other[5]	75,078,397	15.58%	Quarterly - Biennially	30 days - 65 days
Total (cost $65,598,120)	75,078,397	15.58%		
Interest Rate-Driven[d]				
Blackstone Fixed Income And Trading Opportunities Fund L.P.[2]	34,879,695	7.24%	Quarterly	95 days
Total (cost $33,296,942)	34,879,695	7.24%		
Relative Value[e]				
Other	29,048,274	6.03%	Monthly - Quarterly	30 days - 120 days
Total (cost $28,696,346)	29,048,274	6.03%		
Commodities[f]				
Blackstone Commodities Fund L.P.[2]	25,913,095	5.38%	Quarterly	95 days
Other[5],[6]	975,379	0.20%	Monthly	5 day
Total (cost $27,123,526)	26,888,474	5.58%		
Event-Driven[g]				
Other	17,593,246	3.65%	Quarterly	60 days
Total (cost $15,000,000)	17,593,246	3.65%		

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments (continued)
As of December 31, 2012

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Managed Futures[h]				
Other[5]	$ 15,042,391	3.12%	Monthly	35 days
Total (cost $15,696,847)	15,042,391	3.12%		
Total Investments in Investee Funds (cost $429,804,598)[7][8]	$ 479,646,815	99.53%		

Percentage represents each respective investment in Investee Fund at fair value as compared to total members' capital.

"Other" contains one or more individual investments for which the fair value of each represents less than 5% of total members' capital.

The Company is not able to obtain information about certain specific investments held by some of the Investee Funds due to lack of available data.

Investee Funds are organized in the United States, unless otherwise noted.

(1) Represents the terms or range of terms upon which the investment in Investee Fund may be redeemed.
(2) Represents an affiliated Investee Fund.
(3) Represents Investee Fund organized in a non-U.S. offshore jurisdiction.
(4) Includes Investee Funds organized in a non-U.S. offshore jurisdiction with a fair value of $10,437,808.
(5) Includes affiliated Investee Funds.
(6) Includes Investee Funds organized in a non-U.S. offshore jurisdiction with a fair value of $975,379.
(7) The total cost of Investee Funds organized in the United States is $398,646,616.
(8) The total cost of Investee Funds organized in non-U.S. offshore jurisdictions is $31,157,982.
(a) The Credit-Driven strategy generally includes credit-driven focused Investee Funds with a focus on fundamental hedged products or otherwise low net exposure, positional concentration and opportunistic directional exposures, mortgages, and non-mortgage asset-backed securities.
(b) The Multi-Category strategy generally includes Investee Funds that invest across multiple strategies.
(c) The Equity strategy generally includes equity-focused Investee Funds with a bottom-up analysis that do not actively trade exposures, with trading strategies focusing on shorter-term dynamics and appreciation for market technicals, top-down thematic/macro views, and technically driven statistical arbitrage with fundamental quantitative long/short strategies.
(d) The Interest Rate-Driven strategy generally includes interest rate-driven-focused Investee Funds with relative value trades across global fixed income markets, intra-country trades, yield curve trades, basis trades, on the run vs. off the run trades, cash vs. derivative trades, and volatility arbitrage in fixed income.
(e) The Relative Value strategy generally includes relative value-focused Investee Funds with a focus on long/short managers with fundamentally hedged products or otherwise low net exposure.
(f) The Commodities strategy generally includes Investee Funds that are commodities-focused and invest in futures and physical-based commodity driven strategies.
(g) The Event-Driven strategy generally includes Investee Funds that are generally event-driven-focused and seek returns by investing in strategies including catalyst events, share class arbitrage, share buybacks, post re-organization equity, recapitalizations, spin-offs and stub trades.
(h) The Managed Futures strategy generally includes managed futures-focused Investee Funds that invest in systematic futures and foreign exchange forward trading strategies.

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Operations and Incentive Allocation
For the Year Ended December 31, 2012

Net investment loss:		
Income:		
Interest	$ 7,221	
Other	35,153	
Total income	42,374	
Expenses:		
Management fees	2,347,174	
Professional fees	218,335	
Commitment fees	140,445	
Interest	74,869	
Other	10,631	
Total expenses	2,791,454	
Net investment loss		(2,749,080)
Net increase in members' capital from investments:		
Net realized gain from investments in Investee Funds	431,589	
Net realized loss from investments in affiliated Investee Funds	(1,421,961)	
Net change in unrealized appreciation from investments in Investee Funds	28,459,906	
Net change in unrealized appreciation from investments in affiliated Investee Funds	20,291,491	
Net increase in members' capital from investments		47,761,025
Net increase in members' capital from operations		$ 45,011,945
Incentive Allocation to Managing Member		(4,304,706)
Net increase in members' capital from operations after Incentive Allocation		$ 40,707,239

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Changes in Members' Capital
For the Year Ended December 31, 2012

	Managing Member	Non-Managing Members	Total
Members' capital, January 1, 2012	$ 99,844	$ 425,445,597	$ 425,545,441
Capital contributions	–	31,392,353	31,392,353
Capital withdrawals	(4,315,854)	(15,731,412)	(20,047,266)
Allocation of net increase in members' capital from operations:			
Pro-rata allocation	11,304	45,000,641	45,011,945
Incentive Allocation to Managing Member	4,304,706	(4,304,706)	–
Members' capital, December 31, 2012	$ 100,000	$ 481,802,473	$ 481,902,473

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Cash Flows
For the Year Ended December 31, 2012

Cash flows from operating activities:	
Net increase in members' capital from operations	$ 45,011,945
Adjustments to reconcile net increase in members' capital from operations to net cash used in operating activities:	
Net realized gain from investments in Investee Funds	(431,589)
Net realized loss from investments in affiliated Investee Funds	1,421,961
Net change in unrealized appreciation from investments in Investee Funds	(28,459,906)
Net change in unrealized appreciation from investments in affiliated Investee Funds	(20,291,491)
Purchase of investments in Investee Funds and subscriptions paid in advance to Investee Funds	(65,727,439)
Purchase of investments in affiliated Investee Funds and subscriptions paid in advance to affiliated Investee Funds	(78,002,770)
Proceeds from redemptions of investments in Investee Funds	87,727,211
Proceeds from redemptions of investments in affiliated Investee Funds	22,535,584
Increase in other assets	(25,075)
Increase in management fees payable	660,330
Increase in payable to affiliate	21,108
Increase in interest payable	11,850
Increase in accrued expenses and other liabilities	42,675
Net cash used in operating activities	(35,505,606)
Cash flows from financing activities:	
Proceeds from members' capital contributions	31,392,353
Payment for member's capital withdrawal	(5,000,000)
Proceeds from borrowings under credit facility	60,650,000
Repayment of borrowings under credit facility	(57,650,000)
Net cash provided by financing activities	29,392,353
Net change in cash and cash equivalents	(6,113,253)
Cash and cash equivalents, beginning of year	9,160,122
Cash and cash equivalents, end of year	$ 3,046,869
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 63,019

See notes to the financial statements.

1. Organization

Blackstone Henry Clay Fund, LLC (the "Company") is a Delaware limited liability company which was formed on August 16, 2011 and commenced operations on September 1, 2011. The Company is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers.

The managing member of the Company is Blackstone Alternative Asset Management Associates LLC ("BAAMA" or the "Managing Member"), a Commodity Pool Operator. The investment manager of the Company is Blackstone Alternative Asset Management L.P. ("BAAM" or the "Investment Manager"), a Registered Investment Advisor, Commodity Trading Advisor and Commodity Pool Operator.

Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Company's governing legal agreement.

2. Basis of Presentation

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars.

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets, liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates and these differences could be material.

3. Significant Accounting Policies

Fair Value Measurements

Valuation Process

The valuation of the Company's investments is reviewed monthly by the valuation committee ("Valuation Committee"). The Valuation Committee is delegated by the Managing Member with the administration and oversight of the Company's valuation policies and procedures. The Valuation Committee determines the fair value of investments in accordance with the current fair value guidance and as described below. In the event the Valuation Committee determines, in its discretion and based on its own due diligence and investment monitoring procedures, that the valuation of any investment determined, as set further below, does not represent fair value, the Valuation Committee will value such investments at fair value in accordance with procedures adopted in good faith and approved by the Managing Member as the same may be amended from time to time.

Investments in Investee Funds

The fair value of investments in limited partnerships and investment funds ("Investee Fund(s)") is generally determined using the reported net asset value per share of the Investee Fund, or its equivalent, as a practical expedient for fair value.

The Company may, as a practical expedient, estimate the fair value of an Investee Fund based on the reported net asset value per share or its equivalent ("NAV") if the reported NAV of the Investee Fund is calculated in a manner consistent with the measurement principles applied to investment companies, in accordance with Accounting Standards Codification 946, *Financial Services-Investment Companies* ("ASC 946"). In order to use the practical expedient, the Managing Member has internal processes to independently evaluate the fair value measurement process utilized by the underlying Investee Fund to calculate the Investee Fund's NAV in accordance with ASC 946. Such internal process includes the evaluation of the Investee Fund's process and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the Investee Fund's audited financial statements, and ongoing monitoring of other relevant qualitative and quantitative factors.

The fair value of investments in Investee Funds is reported net of management fees and incentive allocations/fees. The Investee Funds' management fees and incentive allocations/fees are reflected in the net increase in members' capital from investments on the Statement of Operations and Incentive Allocation.

Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

The investments in Investee Funds may involve varying degrees of interest rate risk, credit risk, foreign exchange risk, and market, industry or geographic concentration risk.

While the Managing Member monitors and attempts to manage these risks, the varying degrees of transparency into and potential illiquidity of the financial instruments held by the Investee Funds may hinder the Managing Member's ability to effectively manage and mitigate these risks.

The fair value of the Company's assets and liabilities which qualify as financial instruments under existing accounting guidance for *Financial Instruments*, approximates the carrying amounts presented in the Statement of Financial Condition due to their short-term nature.

Investment Transactions and Related Investment Income and Expense

Investment transactions are accounted for on a trade date basis. Income and expenses, including interest, are recorded on an accrual basis.

The net realized gains or losses from investments in Investee Funds are recorded when the Company redeems or partially redeems its interest in the Investee Funds or receives distributions in excess of return of capital. Realized gains and losses from redemptions of investments are calculated using the average cost basis methodology.

Allocation of Gains and Losses

Net increase or decrease in members' capital from operations, is generally allocated on a pro-rata basis to all the members in accordance with the provisions set forth in the Company's governing legal agreement.

Income and loss related to New Issues, as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"), are allocated to the eligible non-managing members.

Income Taxes

The Company is treated as a partnership for tax purposes in the United States of America ("U.S.") and is generally not subject to federal, state or local income tax. Each member of the Company generally is liable for its share of all U.S. federal, state and local taxes, if any, imposed on the net investment income and realized gains of the Company. Certain investments held by the Company may subject the individual members to taxation and filing requirements in non-U.S. jurisdictions as well. Interest, dividends and other income realized by the Company from non-U.S. sources and capital gains realized on the sale of non-U.S. investments may be subject to withholdings and other taxes levied by the jurisdictions in which the income is sourced.

In accordance with U.S. GAAP, the Company is required to determine whether any uncertain tax positions are "more-likely-than-not" to be sustained upon examination by tax authorities in the major jurisdictions where the Company is organized, makes investments, and where the Investment Manager is located. Uncertain tax positions not deemed to meet a "more-likely-than-not" threshold would be recorded as a tax expense in the current year.

The Company has evaluated its uncertain tax positions and is not aware of any matters requiring recognition, measurement, or disclosure as of December 31, 2012. The Company remains subject to examination in its major jurisdictions under varying statutes of limitations (generally three years for filed returns). The Company is not aware of any tax positions for which it is reasonably possible that the total amount of unrecognized tax benefit will change materially in the next twelve months. As a result, no income tax liability or expense, including interest and penalties, has been recorded within these financial statements.

Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents. At December 31, 2012, the Company had $3,046,869 held at a major U.S. bank.

Contingencies

In the normal course of business, the Company enters into contracts that contain a variety of representations and indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends the current guidance on fair value measurements to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amended guidance clarifies that the concepts of highest and best use and valuation premise are relevant only for nonfinancial assets and are not relevant when measuring the fair value of financial assets and liabilities. The amended guidance includes specific requirements for measuring fair value of those instruments, such as equity interests issued in consideration in a business combination. The guidance also requires enhanced disclosures about fair value measurements including, for fair value measurements categorized within Level 3 of the fair value hierarchy, a quantitative disclosure of the unobservable inputs and assumptions used in the measurement and a description of the valuation processes used. The amended guidance was effective for annual periods beginning after December 15, 2011. As the impact is primarily limited to enhanced disclosures, the adoption of the guidance did not have a material impact on the Company's financial statements. In February 2013, the FASB issued ASU 2013-03, *Financial Instruments: Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities* to further clarify the scope of ASU 2011-04. The amendment clarifies certain disclosure requirements for nonpublic entities and is effective upon issuance. The adoption is not expected to have a material impact on the Company's financial statements.

4. Membership Terms

The Company may accept capital contributions at such times as the Managing Member may permit.

Generally, a member may at any time request, upon not less than 95 days' prior written notice to the Company, to withdraw any or all of the balance of its capital account.

Payment of withdrawal proceeds shall be made promptly after the Company receives withdrawal proceeds from the Pooled Investment Vehicles, Intermediate Entities, BAAM Multi-Manager Funds, Blackstone Affiliate Funds, Financial Instruments or Portfolio Managers in which the Company is invested in ("Investments") subject to applicable holdbacks and/or reserves. The withdrawal request shall be subject to the liquidity and notice provisions of the Investments.

5. Investments

Fair Value Hierarchy

Current fair value guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The hierarchy established under the fair value guidance gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

See Note 3 to the financial statements for the determination of fair value of the Company's investments.

Investments measured and reported at fair value are classified and disclosed in one of the following levels within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement or based on liquidity, as indicated by the redemption terms:

Level 1 – Quoted prices are available in active markets for identical investments as of the measurement date. The Company does not adjust the quoted price for these investments.

Level 2 – Quoted prices are available in markets that are not active or model inputs are based on inputs that are either directly or indirectly observable as of the measurement date.

The Company's investments in the Investee Funds shall be categorized within Level 2 if the Company has the ability to redeem its investments in the Investee Funds at the reported net asset value per share (or its equivalent) at the measurement date or within 90 days thereof, upon no greater than 90 days prior written notice and there are no other potential liquidity restrictions that could be invoked within 90 days of the measurement date.

Level 3 – Pricing inputs are unobservable for the investment and include instances where there is little, if any, market activity for the investment.

The Company has categorized within Level 3, investments in Investee Funds that are subject to a minimum holding period or lockup greater than 90 days from the measurement date, are in liquidation, cannot be redeemed within 90 days of the measurement date, are subject to redemption notice periods in excess of 90 days, have limited or have the ability to limit the individual and/or aggregate amount of investor redemptions, or have suspended redemptions.

The fair value hierarchy table below is meant to be indicative of the Company's classification of its investments in Investee Funds and affiliated Investee Funds. It is not meant to be indicative of the classification of investments held in the underlying portfolios of the Investee Funds and affiliated Investee Funds within the fair value hierarchy. The classification of investments in Investee Funds and affiliated Investee Funds may not be indicative of the actual liquidity available to the Company as of December 31, 2012 primarily due to certain investments in Investee Funds and affiliated Investee Funds being classified as Level 3 within the fair value hierarchy and as Category C in the Major Investment Strategies table below. Investments in Investee Funds and affiliated Investee Funds classified within Category C have the ability to limit the individual and/or aggregate amount of investor redemptions but may not exercise their right to limit such investor redemptions.

The following table presents information about the classification of the Company's investments measured at fair value within the fair value hierarchy as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Investments in Investee Funds by Strategy:				
Credit-Driven	$ –	$ 6,831,153	$ 147,471,480	$ 154,302,633
Multi-Category	–	45,963,858	80,849,847	126,813,705
Equity	–	13,192,423	61,885,974	75,078,397
Interest Rate-Driven	–	–	34,879,695	34,879,695
Relative Value	–	16,046,282	13,001,992	29,048,274
Commodities	–	975,379	25,913,095	26,888,474
Event-Driven	–	–	17,593,246	17,593,246
Managed Futures	–	15,042,391	–	15,042,391
	$ –	$ 98,051,486	$ 381,595,329	$ 479,646,815

The changes in investments measured at fair value for which the Company used Level 3 inputs to determine fair value are as follows:

	Investments in Investee Funds by Strategy			
	Credit-Driven	Multi-Category	Equity	Interest Rate-Driven
Beginning Balance January 1, 2012	$ 86,226,625	$ 108,545,346	$ 64,519,573	$ -
Transfers into Level 3 [(a)]	-	-	19,222,927	38,980,294
Transfers out of Level 3 [(a)]	-	(22,140,052)	(16,876,822)	-
Net realized gain (loss)	349,719	103,492	(702,419)	226,887
Net unrealized appreciation (depreciation)	17,554,719	9,852,897	7,740,475	672,514
Purchases	51,440,417	1,380,000	406,000	-
Sales	(8,100,000)	(16,891,836)	(12,423,760)	(5,000,000)
Ending Balance December 31, 2012	$ 147,471,480	$ 80,849,847	$ 61,885,974	$ 34,879,695
Change in unrealized appreciation (depreciation) related to investments still held as of December 31, 2012	$ 17,569,820	$ 10,041,968	$ 6,619,778	$ 786,756

	Investments in Investee Funds by Strategy			
	Relative Value	Commodities	Event-Driven	Total
Beginning Balance January 1, 2012	$ -	$ 9,367,979	$ 15,372,142	$ 284,031,665
Transfers into Level 3 [a]	-	-	-	58,203,221
Transfers out of Level 3 [a]	-	(9,367,979)	-	(48,384,853)
Net realized gain (loss)	-	(9,017)	-	(31,338)
Net unrealized appreciation (depreciation)	494,992	(77,888)	2,221,104	38,458,813
Purchases	12,507,000	29,000,000	-	94,733,417
Sales	-	(3,000,000)	-	(45,415,596)
Ending Balance December 31, 2012	$ 13,001,992	$ 25,913,095	$ 17,593,246	$ 381,595,329
Change in unrealized appreciation (depreciation) related to investments still held as of December 31, 2012	$ 494,992	$ (77,888)	$ 2,221,104	$ 37,656,530

[a] Transfer into and out of Level 3 are primarily due to updated liquidity terms, transfers between strategies, upon expiration of liquidity restrictions, or to reflect Investee Funds which did not exercise their ability to sidepocket.

The Company recognizes transfers within the fair value hierarchy as of the beginning of the year.

Realized and unrealized gains and losses recorded for Level 3 investments are reported as net realized gain from investments in Investee Funds and net realized loss from affiliated Investee Funds and net change in unrealized appreciation from investments in Investee Funds and affiliated Investee Funds, respectively, in the Statement of Operations and Incentive Allocation.

Major Investment Strategies

The following table summarizes investments in Investee Funds, by investment strategy, the unfunded commitment of each strategy (if applicable), and the amount of the investments in Investee Funds that cannot be redeemed because of redemption restrictions put in place by the Investee Funds. In instances where redemptions were restricted, the maximum remaining redemption restriction period is disclosed. Where the remaining redemption restriction period is not known, the date the redemption restriction commenced is disclosed.

Investments in Investee Funds by Strategy	Unfunded Commitment $	Category (A)		Category (B)		Category (C)	Total $ (A) + (B) + (C)
		Amount $	Maximum Remaining Redemption Restriction Period	Amount $	Redemption Restriction Commencement Date	Amount $	
Credit-Driven	4,574,561	52,589,936	36 months	–	N/A	94,881,544	147,471,480
Multi-Category	–	37,536,177	24 months	–	N/A	43,313,670	80,849,847
Equity	–	54,098,710	24 months	–	N/A	7,787,264	61,885,974
Interest Rate-Driven	–	34,879,695	95 days	–	N/A	–	34,879,695
Relative Value	–	3,676,602	6 months	–	N/A	9,325,390	13,001,992
Commodities	–	25,913,095	95 days	–	N/A	–	25,913,095
Event-Driven	–	–	N/A	–	N/A	17,593,246	17,593,246

Category (A) Investments in Investee Funds cannot be redeemed and the maximum remaining redemption restriction period is disclosed. The maximum remaining redemption restriction period is based on the restriction period for Investee Funds as defined in each respective Investee Fund's governing legal agreements without consideration of the length of time elapsed from the date of investments in the Investee Funds. The Company's investment in a particular Investee Fund classified within the strategies above may be comprised of investments with differing liquidity terms or investments which were made at differing points in time.

Category (B) Investments in Investee Funds cannot be redeemed and the remaining redemption restriction period is not known. The date the redemption restriction commenced is disclosed.

Category(C) Investee Funds allow for redemptions but have the ability to limit the individual and/or aggregate amount of investor redemptions.

Investments in Investee Funds

The Company's proportional share of any financial instrument owned by an individual Investee Fund that exceeds 5% of the Company's members' capital as of the Company's year end is required to be disclosed, with total long and short positions considered separately.

The Company, through its proportional share of financial instruments held by the individual Investee Funds (based on information available to the Company), has the following exposure to financial instruments that exceed 5% of the Company's members' capital as of December 31, 2012:

Investee Funds	Fair Value ($)
Credit-Driven	
Cerberus RMBS Opportunities Fund L.P. (Non-U.S.)	27,405,468
Equity	
Viking Global Equities L.P. (U.S.)	24,859,555

6. Related Party Transactions

The Company and the Investment Manager consider their existing owners, employees, affiliated funds, and certain other persons or entities associated with The Blackstone Group L.P. to be affiliates.

Blackstone Holdings Finance Co. L.L.C. ("FINCO"), an affiliate of the Company, pays expenses on behalf of the Company. No fees were charged to the Company for such services by FINCO. As of December 31, 2012, the Company had $43,701 payable to FINCO for the reimbursement of such expenses. This amount is recorded as a payable to affiliate in the Statement of Financial Condition.

The Company invests in certain affiliated Investee Funds. There are no management or incentive fees charged to the Company for such investments.

For the year ended December 31, 2012, contributions and withdrawals to and from affiliated Investee Funds totaled $93,065,607 and $27,037,109, respectively.

The receivable from affiliated Investee Funds redeemed represents the remaining withdrawal proceeds related to a full or partial withdrawal from the affiliated Investee Funds during 2012.

7. Management Fees and Incentive Allocation

The Company pays the Investment Manager a quarterly management fee (the "Management Fee"), in arrears, equal to 0.125% (0.50% per annum) of the quarter end net asset value of the non-managing members' capital account. The Management Fee for any period less than a full quarter is prorated for the basis of actual number of days elapsed.

In addition to the Management Fee, the non-managing members allocate to the Managing Member an amount based on the performance of the Company (the "Incentive Allocation") on the Incentive Allocation Calculation Date (generally December 31). This amount is calculated after the deduction of the Management Fee. A non-managing member is subject to an Incentive Allocation charge equal to 10% of Net Capital Appreciation during the relevant Measurement Period provided that such income exceeds the sum of 1) the Threshold Amount and 2) the balance in the non-managing members' Loss Recovery Account, if any.

8. Financial Instruments and Off-Balance Sheet Risk

In the normal course of business, the Investee Funds may enter into certain financial instrument transactions which may result in off-balance sheet market risk and credit risk. The Company's market risk is also impacted by an Investee Fund's exposure to interest rate risk, foreign exchange risk, and industry or geographic concentration risk. The Investee Funds invest in these instruments for trading and hedging purposes. The Company is indirectly subject to certain risks arising from investments made by the Investee Funds.

Market Risk

Market risk is the risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements. The Company is exposed to market risk indirectly as a result of the types of investments that the Investee Funds make. The Company actively monitors its exposure to market risk.

Investee Funds may invest in entities that trade or may invest directly in interest rate swaps, credit default swaps, exchange-traded and over-the-counter options, futures transactions, forward transactions, and securities sold, not yet purchased.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform their obligations under the terms of a contract. The Company is indirectly exposed to credit risk related to the amount of accounting loss that the Investee Funds would incur if a counterparty failed to perform its obligations under contractual terms and if the Investee Funds failed to perform under their respective agreements.

9. Borrowings Under Credit Facility

The Company has a $20,000,000 secured revolving borrowing facility (the "Facility"). Borrowings under the Facility are used primarily for bridge financing purposes and are secured by the assets of the Company. Under the terms of the agreement, the Facility amount may be decreased upon mutual written consent of the Company and the lender. Outstanding borrowings bear interest at the Company's option of either (1) LIBOR plus 1.30% per annum (1.51% at December 31, 2012) or (2) the greater of the Federal Funds Rate plus 1.30% or the prime rate (as determined by the lender) per annum (3.25% at December 31, 2012). A commitment fee is charged in the amount of 0.70% per annum on the daily amount of the Facility. Outstanding borrowings and accrued interest are due no later than September 30, 2013, the expiration date of the Facility, at which time the Company and the lender can agree to extend the existing agreement. At December 31, 2012, the Company had outstanding borrowings under the Facility of $8,400,000.

10. Financial Highlights

The financial highlights are calculated for the year ended December 31, 2012 for the non-managing members and exclude data for the Managing Member.

Financial Ratios:	
Expenses to average non-managing members' capital account before Incentive Allocation	0.60%
Incentive Allocation	0.93%
Expenses to average non-managing members' capital account after Incentive Allocation	1.53%
Net investment loss to average non-managing members' capital account	(0.59%)
Total Return:	
Total return before Incentive Allocation	10.08%
Incentive Allocation	(0.97%)
Total return after Incentive Allocation	9.11%

The financial ratios represent the expenses and net investment loss to average monthly non-managing members' capital for the year. The computation of such ratios for an individual non-managing member's account may vary from these ratios based on the timing of capital transactions.

The ratios do not reflect the Company's share of the income and expenses of the underlying Investee Funds.

The ratio of net investment loss to average non-managing members' capital does not reflect the effect of any Incentive Allocation. An individual non-managing member's total return may vary from this total return based on the timing of capital transactions.

11. Subsequent Events

The Company has evaluated the impact of subsequent events through June 26, 2013, which is the date the financial statements were available to be issued, and determined there were no subsequent events outside the normal course of business requiring adjustment to or disclosure in the financial statements.

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FINANCIAL STATEMENTS

Blackstone Henry Clay Fund, LLC

(A Delaware Limited Liability Company)

Year Ended December 31, 2013
and Independent Auditors' Report

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)

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INDEPENDENT AUDITORS' REPORT

To Blackstone Henry Clay Fund, LLC:

We have audited the accompanying financial statements of Blackstone Henry Clay Fund, LLC (the "Company"), which comprise the statement of financial condition, including the condensed schedule of investments, as of December 31, 2013, and the related statements of operations and incentive allocation, changes in members' capital and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackstone Henry Clay Fund, LLC as of December 31, 2013, and the results of its operations and incentive allocation, changes in its members' capital, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

June 16, 2014

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Financial Condition
As of December 31, 2013

ASSETS

Investments in Investee Funds, at fair value (cost $223,800,501)	$	274,101,038
Investments in affiliated Investee Funds, at fair value (cost $166,365,069)		208,684,947
Cash and cash equivalents		6,713,002
Receivable from Investee Funds redeemed		13,497,503
Receivable from affiliated Investee Funds redeemed		6,547,351
Investment subscription paid in advance to affiliated Investee Fund		3,775,800
Investment subscriptions paid in advance to Investee Funds		3,720,000
Other assets		106,837
Total assets	$	517,146,478

LIABILITIES AND MEMBERS' CAPITAL

Liabilities:		
Borrowings under credit facility	$	9,500,000
Capital withdrawal payable to affiliate		5,801,625
Management fees payable		633,714
Interest payable		13,948
Payable to affiliate		9,591
Accrued expenses and other liabilities		264,119
Total liabilities		16,222,997
Members' capital		
Managing Member		100,000
Non-Managing Members		500,823,481
Total members' capital		500,923,481
Total liabilities and members' capital	$	517,146,478

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments
As of December 31, 2013

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Investments in Investee Funds:				
Credit-Driven[a]				
Blackstone CRM Fund L.P.[2]	$ 29,718,048	5.93%	Quarterly	90 days
Other[3][4]	106,293,770	21.22%	Monthly - Semi-Annually	30 days - 180 days
Total (cost $106,269,897)	136,011,818	27.15%		
Multi-Category[b]				
Blackstone Strategic Opportunity Fund L.P.[2]	55,340,526	11.05%	Quarterly	90 days
D. E. Shaw Composite Graphite Fund, L.L.C.	29,095,061	5.81%	Quarterly	75 days
Elliott Associates, L.P.	25,163,076	5.02%	Semi-Annually	60 days
Other	9,864,714	1.97%	Quarterly	90 days
Total (cost $89,766,712)	119,463,377	23.85%		
Equity[c]				
Blackstone VK Fund L.P.[2]	26,610,295	5.31%	Annually	45 days
Other	57,931,490	11.57%	Quarterly - Biennially	45 days - 65 days
Total (cost $64,187,545)	84,541,785	16.88%		
Relative Value[d]				
Other	38,933,303	7.77%	Monthly - Quarterly	30 days - 120 days
Total (cost $37,339,775)	38,933,303	7.77%		
Event-Driven[e]				
Other[4]	35,582,907	7.11%	Quarterly - Annually	60 days - 95 days
Total (cost $26,386,177)	35,582,907	7.11%		
Interest Rate-Driven[f]				
Blackstone Fixed Income and Trading Opportunities Fund L.P.[2]	28,862,737	5.76%	Quarterly	95 days
Total (cost $25,242,269)	28,862,737	5.76%		

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments (continued)
As of December 31, 2013

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted(1)	Redemption Notification Period(1)
Commodities(g)				
Other(4)	$ 17,128,249	3.42%	Quarterly	95 days
Total (cost $18,198,705)	17,128,249	3.42%		
Global Macro(h)				
Other	12,328,490	2.46%	Quarterly	60 days
Total (cost $12,000,000)	12,328,490	2.46%		
Managed Futures(i)				
Other(4)	9,933,319	1.98%	Monthly	35 days
Total (cost $10,774,490)	9,933,319	1.98%		
Total Investments in Investee Funds (cost $390,165,570)(5)(6)	$ 482,785,985	96.38%		

Percentage represents each respective investment in Investee Fund at fair value as compared to total members' capital.

"Other" contains one or more individual investments for which the fair value of each represents less than 5% of total members' capital.

The Company is not able to obtain information about certain specific investments held by some of the Investee Funds due to lack of available data.

Investee Funds are organized in the United States, unless otherwise noted.

(1) Represents the terms or range of terms upon which the investment in Investee Fund may be redeemed.
(2) Represents an affiliated Investee Fund.
(3) Includes Investee Funds organized in a non-U.S. offshore jurisdiction with a fair value of $42,210,318.
(4) Includes affiliated Investee Funds.
(5) The total cost of Investee Funds organized in the United States is $356,478,599.
(6) The total cost of Investee Funds organized in non-U.S. offshore jurisdictions is $33,686,971.
(a) The Credit-Driven strategy generally includes credit-driven focused Investee Funds with a focus on fundamental hedged products or otherwise low net exposure, positional concentration and opportunistic directional exposures, mortgages, and non-mortgage asset-backed securities.
(b) The Multi-Category strategy generally includes Investee Funds that invest across multiple strategies.
(c) The Equity strategy generally includes equity-focused Investee Funds with a bottom-up analysis that do not actively trade exposures, with trading strategies focusing on shorter-term dynamics and appreciation for market technicals, top-down thematic/macro views, and technically driven statistical arbitrage with fundamental quantitative long/short strategies.
(d) The Relative Value strategy generally includes relative value-focused Investee Funds with a focus on long/short managers with fundamentally hedged products or otherwise low net exposure.
(e) The Event-Driven strategy generally includes Investee Funds that are generally event-driven-focused and seek returns by investing in strategies including catalyst events, share class arbitrage, share buybacks, post re-organization equity, recapitalizations, spin-offs and stub trades.
(f) The Interest Rate-Driven strategy generally includes interest rate-driven-focused Investee Funds with relative value trades across global fixed income markets, intra-country trades, yield curve trades, basis trades, on the run vs. off the run trades, cash vs. derivative trades, and volatility arbitrage in fixed income.
(g) The Commodities strategy generally includes Investee Funds that are commodities-focused and invest in futures and physical-based commodity driven strategies.
(h) The Global Macro strategy generally includes global macro-focused Investee Funds with discretionary, directional, and inter-country exposure to commodities, equity, interest rates and currencies.
(i) The Managed Futures strategy generally includes managed futures-focused Investee Funds that invest in systematic futures and foreign exchange forward trading strategies.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Operations and Incentive Allocation
For the Year Ended December 31, 2013

Net investment loss:		
Income:		
Interest	$ 11,836	
Other	34,036	
Total income	45,872	
Expenses:		
Management fees	2,546,351	
Professional fees	283,353	
Commitment fees	139,999	
Interest	56,455	
Other	10,631	
Total expenses	3,036,789	
Net investment loss		(2,990,917)
Net increase in members' capital from investments:		
Net realized gain from investments in Investee Funds	12,969,417	
Net realized gain from investments in affiliated Investee Funds	6,315,935	
Net change in unrealized appreciation from investments in Investee Funds	21,881,373	
Net change in unrealized appreciation from investments in affiliated Investee Funds	20,896,825	
Net increase in members' capital from investments		62,063,550
Net increase in members' capital from operations		$ 59,072,633
Incentive Allocation to Managing Member		(5,776,844)
Net increase in members' capital from operations after Incentive Allocation		$ 53,295,789

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Changes in Members' Capital
For the Year Ended December 31, 2013

	Managing Member's Capital Account	Non-Managing Members' Capital Account	Total
Members' capital, January 1, 2013	$ 100,000	$ 481,802,473	$ 481,902,473
Capital contributions	–	3,500,000	3,500,000
Capital withdrawals	(5,801,625)	(37,750,000)	(43,551,625)
Allocation of net increase in members' capital from operations:			
Pro-rata allocation	24,781	59,047,852	59,072,633
Incentive Allocation to Managing Member	5,776,844	(5,776,844)	–
Members' capital, December 31, 2013	$ 100,000	$ 500,823,481	$ 500,923,481

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Cash Flows
For the Year Ended December 31, 2013

Cash flows from operating activities:	
Net increase in members' capital from operations	$ 59,072,633
Adjustments to reconcile net increase in members' capital from operations to net cash provided by operating activities:	
Net realized gain from investments in Investee Funds	(12,969,417)
Net realized gain from investments in affiliated Investee Funds	(6,315,935)
Net change in unrealized appreciation from investments in Investee Funds	(21,881,373)
Net change in unrealized appreciation from investments in affiliated Investee Funds	(20,896,825)
Purchase of investments in Investee Funds and subscriptions paid in advance to Investee Funds	(60,667,532)
Purchase of investments in affiliated Investee Funds and subscription paid in advance to affiliated Investee Fund	(12,314,471)
Proceeds from redemptions of investments in Investee Funds	75,878,204
Proceeds from redemptions of investments in affiliated Investee Funds	52,289,353
Proceeds from Investee Fund distribution	145,831
Increase in other assets	(24,116)
Decrease in management fees payable	(550,762)
Increase in interest payable	1,583
Decrease in payable to affiliate	(34,110)
Increase in accrued expenses and other liabilities	130,336
Net cash provided by operating activities	51,863,399
Cash flows from financing activities:	
Proceeds from members' capital contributions	3,500,000
Payments for members' capital withdrawals	(52,797,266)
Proceeds from borrowings under credit facility	31,000,000
Repayment of borrowings under credit facility	(29,900,000)
Net cash used in financing activities	(48,197,266)
Net change in cash and cash equivalents	3,666,133
Cash and cash equivalents, beginning of year	3,046,869
Cash and cash equivalents, end of year	$ 6,713,002
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 54,872

See notes to the financial statements.

1. Organization

Blackstone Henry Clay Fund, LLC (the "Company") is a Delaware limited liability company which was formed on August 16, 2011 and commenced operations on September 1, 2011. The Company is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers.

The managing member of the Company is Blackstone Alternative Asset Management Associates LLC ("BAAMA" or the "Managing Member"), a Commodity Pool Operator. The investment manager of the Company is Blackstone Alternative Asset Management L.P. ("BAAM" or the "Investment Manager"), a Registered Investment Advisor, Commodity Trading Advisor and Commodity Pool Operator.

Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Company's governing legal agreement.

2. Basis of Presentation

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars.

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets, liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material.

3. Significant Accounting Policies

Fair Value Measurements

Valuation Process

The valuation of the Company's investments is reviewed monthly by the valuation committee ("Valuation Committee"). The Valuation Committee is delegated by the Managing Member with the administration and oversight of the Company's valuation policies and procedures. The Valuation Committee determines the fair value of investments in accordance with the current fair value guidance and as described below. In the event the Valuation Committee determines, in its discretion and based on its own due diligence and investment monitoring procedures, that the valuation of any investment determined, as set further below, does not represent fair value, the Valuation Committee will value such investments at fair value in accordance with procedures adopted in good faith and approved by the Managing Member as the same may be amended from time to time.

Investments in Investee Funds

The fair value of investments in limited partnerships and investment funds ("Investee Fund(s)") is generally determined using the reported net asset value per share of the Investee Fund, or its equivalent, as a practical expedient for fair value.

The Company may, as a practical expedient, estimate the fair value of an Investee Fund based on the reported net asset value per share or its equivalent ("NAV") if the reported NAV of the Investee Fund is calculated in a manner consistent with the measurement principles applied to investment companies, in accordance with Accounting Standards Codification 946, *Financial Services-Investment Companies* ("ASC 946"). In order to use the practical expedient, the Managing Member has internal processes to independently evaluate the fair value measurement process utilized by the underlying Investee Fund to calculate the Investee Fund's NAV in accordance with ASC 946. Such internal process includes the evaluation of the Investee Fund's process and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the Investee Fund's audited financial statements, and ongoing monitoring of other relevant qualitative and quantitative factors.

The fair value of investments in Investee Funds is reported net of management fees and incentive allocations/fees. The Investee Funds' management fees and incentive allocations/fees are reflected in the net increase in members' capital from investments on the Statement of Operations and Incentive Allocation.

Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

The investments in Investee Funds may involve varying degrees of interest rate risk, credit risk, foreign exchange risk, and market, industry or geographic concentration risk.

While the Managing Member monitors and attempts to manage these risks, the varying degrees of transparency into and potential illiquidity of the financial instruments held by the Investee Funds may hinder the Managing Member's ability to effectively manage and mitigate these risks.

The fair value of the Company's assets and liabilities which qualify as financial instruments under existing accounting guidance for *Financial Instruments*, approximates the carrying amounts presented in the Statement of Financial Condition due to their short term nature.

Investment Transactions and Related Investment Income and Expense

Investment transactions are accounted for on a trade date basis. Income and expenses, including interest, are recorded on an accrual basis.

The net realized gains or losses from investments in Investee Funds are recorded when the Company redeems or partially redeems its interest in the Investee Funds or receives distributions in excess of return of capital. Realized gains and losses from redemptions of investments are calculated using the average cost basis methodology.

Allocation of Gains and Losses

Net increase or decrease in members' capital from operations, is generally allocated on a pro-rata basis to all the members in accordance with the provisions set forth in the Company's governing legal agreement.

Income and loss related to New Issues, as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"), are allocated to the eligible non-managing members.

Income Taxes

The Company is treated as a partnership for tax purposes in the United States of America ("U.S.") and is generally not subject to federal, state or local income tax. Each member of the Company generally is liable for its share of all U.S. federal, state and local taxes, if any, imposed on the net income and realized gains of the Company. Certain investments held by the Company may subject the individual members to taxation and filing requirements in non-U.S. jurisdictions as well. Interest, dividends and other income realized by the Company from non-U.S. sources and capital gains realized on the sale of non-U.S. investments may be subject to withholding and other taxes levied by the jurisdictions in which the income is sourced.

In accordance with U.S. GAAP, the Company is required to determine whether any uncertain tax positions are "more-likely-than-not" to be sustained upon examination by tax authorities in the major jurisdictions where the Company is organized, makes investments, and where the Investment Manager is located. Uncertain tax positions not deemed to meet a "more-likely-than-not" threshold would be recorded as a tax expense in the current year.

The Company has evaluated its uncertain tax positions and is not aware of any matters requiring recognition, measurement, or disclosure as of December 31, 2013. The Company remains subject to examination in its major jurisdictions under varying statutes of limitations (generally three years for filed returns). The Company is not aware of any tax positions for which it is reasonably possible that the total amount of unrecognized tax benefit will change materially in the next twelve months. As a result, no income tax liability or expense, including interest and penalties, has been recorded within these financial statements.

Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents. At December 31, 2013, the Company had $6,713,002 held at a major U.S. bank.

Contingencies

In the normal course of business, the Company enters into contracts that contain a variety of representations and indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, *Balance Sheet: Disclosures and Offsetting Assets and Liabilities*, guidance to enhance disclosures about financial instruments and derivative instruments that are either (a) offset or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the amended guidance, an entity is required to disclose information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including (a) the gross amounts of those recognized assets and liabilities, (b) the amounts offset to determine the net amount presented in the statement of financial condition, and (c) the net amount presented in the statement of financial condition. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, the required disclosures are (a) the amounts related to recognized financial instruments and other derivative instruments, (b) the amount related to financial collateral (including cash collateral), and (c) the overall net amount after considering amounts that have not been offset. In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet: Clarifying the*

Scope of Disclosures about Offsetting Assets and Liabilities, to clarify that the scope of ASU 2011-11 applies only to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments were effective for interim and annual periods beginning on or after January 1, 2013. The adoption of the guidance did not have a material impact on the Company's financial statements.

In April 2013, the FASB issued ASU No. 2013-07, *Presentation of Financial Statements: Liquidation Basis of Accounting*. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities. The liabilities shall be recognized and measured in accordance with U.S. GAAP. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities when such costs are reasonably estimable. The guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively from the day that liquidation becomes imminent. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In June 2013, the FASB issued ASU No. 2013-08, *Financial Services-Investment Companies: Amendments to the Scope, Measurement, and Disclosure Requirements*, to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies rather than using equity method of accounting. The guidance also requires certain additional disclosures, such as the fact that the entity is an investment company and is applying such guidance, information about changes, if any, in an entity's status as an investment company and information about financial support provided or contractually required to be provided by an investment company to any of its investees. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

4. Membership Terms

The Company may accept capital contributions at such times as the Managing Member may permit.

Generally, a member may at any time request, upon not less than 95 days' prior written notice to the Company, to withdraw any or all of the balance of its capital account.

Payment of withdrawal proceeds shall be made promptly after the Company receives withdrawal proceeds from the Pooled Investment Vehicles, Intermediate Entities, BAAM Multi-Manager Funds, Blackstone Affiliate Funds, Financial Instruments or Portfolio Managers in which the Company is invested in ("Investments") subject to applicable holdbacks and/or reserves. The withdrawal request shall be subject to the liquidity and notice provisions of the Investments.

5. Investments

Fair Value Hierarchy

Current fair value guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The hierarchy established under the fair value guidance gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

See Note 3 to the financial statements for the determination of fair value of the Company's investments.

Investments measured and reported at fair value are classified and disclosed in one of the following levels within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement or based on liquidity, as indicated by the redemption terms:

Level 1 – Quoted prices are available in active markets for identical investments as of the measurement date. The Company does not adjust the quoted price for these investments.

Level 2 – Quoted prices are available in markets that are not active or model inputs are based on inputs that are either directly or indirectly observable as of the measurement date.

The Company's investments in the Investee Funds shall be categorized within Level 2 if the Company has the ability to redeem its investments in the Investee Funds at the reported net asset value per share (or its equivalent) at the measurement date or within 90 days thereof, upon no greater than 90 days prior written notice and there are no other potential liquidity restrictions that could be invoked within 90 days of the measurement date.

Level 3 – Pricing inputs are unobservable for the investment and include instances where there is little, if any, market activity for the investment.

The Company has categorized within Level 3, investments in Investee Funds that are subject to a minimum holding period or lockup greater than 90 days from the measurement date, are in liquidation, cannot be redeemed within 90 days of the measurement date, are subject to redemption notice periods in excess of 90 days, have limited or have the ability to limit the individual and/or aggregate amount of investor redemptions, or have suspended redemptions.

The fair value hierarchy table below is meant to be indicative of the Company's classification of its investments in Investee Funds and affiliated Investee Funds. It is not meant to be indicative of the classification of investments in the underlying portfolios of the Investee Funds and affiliated Investee Funds within the fair value hierarchy.

The following table presents information about the classification of the Company's investments measured at fair value within the fair value hierarchy as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
Assets				
Investments in Investee Funds by Strategy:				
Credit-Driven	$ –	$ 3,067,965	$ 132,943,853	$ 136,011,818
Multi-Category	–	55,340,526	64,122,851	119,463,377
Equity	–	–	84,541,785	84,541,785
Relative Value	–	13,396,203	25,537,100	38,933,303
Event-Driven	–	–	35,582,907	35,582,907
Interest Rate-Driven	–	–	28,862,737	28,862,737
Commodities	–	–	17,128,249	17,128,249
Global Macro	–	–	12,328,490	12,328,490
Managed Futures	–	9,933,319	–	9,933,319
	$ –	$ 81,738,013	$ 401,047,972	$ 482,785,985

The changes in investments measured at fair value for which the Company used Level 3 inputs to determine fair value are as follows:

	Investments in Investee Funds by Strategy			
	Credit-Driven	Multi-Category	Equity	Relative Value
Beginning Balance January 1, 2013	$ 147,471,480	$ 80,849,847	$ 61,885,974	$ 13,001,992
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Net realized gain (loss)	9,786,133	5,396,437	2,294,448	-
Net unrealized appreciation (depreciation)	10,574,390	3,865,531	11,625,433	(874,892)
Purchases	14,206,707	830,000	18,990,000	13,410,000
Sales	(49,094,857)	(26,818,964)	(10,254,070)	-
Ending Balance December 31, 2013	$ 132,943,853	$ 64,122,851	$ 84,541,785	$ 25,537,100
Change in unrealized appreciation (depreciation) related to investments still held as of December 31, 2013	$ 8,458,210	$ 7,516,241	$ 12,864,543	$ (874,892)

	Investments in Investee Funds by Strategy				
	Event-Driven	Interest Rate-Driven	Commodities	Global Macro	Total
Beginning Balance January 1, 2013	$ 17,593,246	$ 34,879,695	$ 25,913,095	$ -	$ 381,595,329
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Net realized gain (loss)	164,920	945,328	(292,278)	-	18,294,988
Net unrealized appreciation (depreciation)	6,603,484	2,037,714	(992,568)	328,490	33,167,582
Purchases	13,462,997	-	-	12,000,000	72,899,704
Sales	(2,241,740)	(9,000,000)	(7,500,000)	-	(104,909,631)
Ending Balance December 31, 2013	$ 35,582,907	$ 28,862,737	$ 17,128,249	$ 12,328,490	$ 401,047,972
Change in unrealized appreciation (depreciation) related to investments still held as of December 31, 2013	$ 6,603,484	$ 2,420,508	$ (1,015,998)	$ 328,490	$ 36,300,586

The Company recognizes transfers within the fair value hierarchy as of the beginning of the year.

Realized and unrealized gains and losses recorded for the Level 3 investments are reported as net realized gain from investments in Investee Funds and affiliated Investee Funds and net change in unrealized appreciation from investments in Investee Funds and affiliated Investee Funds, respectively, in the Statement of Operations and Incentive Allocation.

Major Investment Strategies

The following table summarizes investments in Investee Funds, by investment strategy, the unfunded commitment of each strategy (if applicable), and the amount of the investments in Investee Funds that cannot be redeemed because of redemption restrictions put in place by the Investee Funds. In instances where redemptions were restricted, the maximum remaining redemption restriction period is disclosed. Where the remaining redemption restriction period is not known, the date the redemption restriction commenced is disclosed.

Investments in Investee Funds by Strategy	Unfunded Commitment $	Category (A)		Category (B)		Category (C)	Total $ (A) + (B) + (C)
		Amount $	Maximum Remaining Redemption Restriction Period	Amount $	Redemption Restriction Commencement Date	Amount $	
Credit-Driven	12,987,860	42,569,191	36 months	–	N/A	90,374,662	132,943,853
Multi-Category	–	25,163,076	24 months	–	N/A	38,959,775	64,122,851
Equity	–	80,070,827	24 months	–	N/A	4,470,958	84,541,785
Relative Value	–	4,196,575	6 months	–	N/A	21,340,525	25,537,100
Event-Driven	–	13,350,163	12 months	–	N/A	22,232,744	35,582,907
Interest Rate-Driven	–	28,862,737	95 days	–	N/A	–	28,862,737
Commodities	–	17,128,249	95 days	–	N/A	–	17,128,249
Global Macro	–	12,328,490	12 months	–	N/A	–	12,328,490

Category (A) Investments in Investee Funds cannot be redeemed and the maximum remaining redemption restriction period is disclosed. The maximum remaining redemption restriction period is based on the restriction period for Investee Funds as defined in each respective Investee Fund's governing legal agreements without consideration of the length of time elapsed from the date of investments in the Investee Funds. The Company's investment in a particular Investee Fund classified within the strategies above may be comprised of investments with differing liquidity terms or investments which were made at differing points in time.

Category (B) Investments in Investee Funds cannot be redeemed and the remaining redemption restriction period is not known. The date the redemption restriction commenced is disclosed.

Category(C) Investee Funds allow for redemptions but have the ability to limit the individual and/or aggregate amount of investor redemptions.

Investments in Investee Funds

The Company's proportional share of any financial instrument owned by an individual Investee Fund that exceeds 5% of the Company's members' capital as of the Company's year end is required to be disclosed, with total long and short positions considered separately.

The Company, through its proportional share of financial instruments held by the individual Investee Funds (based on information available to the Company), has the following exposure to financial instruments that exceed 5% of the Company's members' capital as of December 31, 2013:

Investee Funds	Fair Value ($)
Credit-Driven	
Cerberus RMBS Opportunities Fund L.P (Non-U.S)	29,833,728
Equity	
Viking Global Equities LP (U.S.)	26,621,832

6. Related Party Transactions

The Company and the Investment Manager consider their existing owners, employees, affiliated funds, and certain other persons or entities associated with The Blackstone Group L.P. to be affiliates.

Blackstone Holdings Finance Co. L.L.C. ("FINCO"), an affiliate of the Company, pays expenses on behalf of the Company. No fees were charged to the Company for such services by FINCO. As of December 31, 2013, the Company had $9,591 payable to FINCO for the reimbursement of such expenses. This amount is recorded as a payable to affiliate in the Statement of Financial Condition.

The Company invests in certain affiliated Investee Funds. There are no management or incentive fees charged to the Company for such investments.

For the year ended December 31, 2013, contributions and withdrawals to and from affiliated Investee Funds totaled $16,591,668 and $49,836,704, respectively.

The receivable from affiliated Investee Funds redeemed represents the remaining withdrawal proceeds related to a full or partial withdrawal from the affiliated Investee Funds during 2013.

7. Management Fees and Incentive Allocation

The Company pays the Investment Manager a quarterly management fee (the "Management Fee"), in arrears, equal to 0.125% (0.50% per annum) of the quarter end net asset value of the non-managing members' capital account. The Management Fee for any period less than a full quarter is prorated for the basis of actual number of days elapsed.

In addition to the Management Fee, the non-managing members allocate to the Managing Member an amount based on the performance of the Company (the "Incentive Allocation") on the Incentive Allocation Calculation Date (generally December 31). This amount is calculated after the deduction of the Management Fee. A non-managing member is subject to an Incentive Allocation charge equal to 10% of Net Capital Appreciation during the relevant Measurement Period provided that such income exceeds the sum of 1) the Threshold Amount and 2) the balance in the non-managing members' Loss Recovery Account, if any.

8. Financial Instruments and Off-Balance Sheet Risk

In the normal course of business, the Investee Funds may enter into certain financial instrument transactions which may result in off-balance sheet market risk and credit risk. The Company's market risk is also impacted by an Investee Fund's exposure to interest rate risk, foreign exchange risk, and industry or geographic concentration risk. The Investee Funds invest in these instruments for trading and hedging purposes. The Company is indirectly subject to certain risks arising from investments made by the Investee Funds.

Market Risk

Market risk is the risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements. The Company is exposed to market risk indirectly as a result of the types of investments that the Investee Funds make. The Company actively monitors its exposure to market risk.

Investee Funds may invest in entities that trade or may invest directly in interest rate swaps, credit default swaps, exchange-traded and over-the-counter options, futures transactions, forward transactions, and securities sold, not yet purchased.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform their obligations under the terms of a contract. The Company is indirectly exposed to credit risk related to the amount of accounting loss that the Investee Funds would incur if a counterparty failed to perform its obligations under contractual terms and if the Investee Funds fail to perform under their respective agreements.

9. Borrowings Under Credit Facility

The Company has a $20,000,000 secured revolving borrowing facility (the "Facility"). Borrowings under the Facility are used primarily for bridge financing purposes and are secured by the assets of the Company. Under the terms of the agreement, the Facility amount may be decreased upon mutual written consent of the Company and the lender. Outstanding borrowings bear interest at the Company's option of either (1) LIBOR plus 1.30% per annum (1.47% at December 31, 2013) or (2) the greater of the Federal Funds Rate plus 1.30% or the prime rate (as determined by the lender) per annum (3.25% at December 31, 2013). A commitment fee is charged in the amount of 0.70% per annum on the total commitment amount of the Facility. Outstanding borrowings and accrued interest are due no later than September 29, 2014, the expiration date of the Facility, at which time the Company and the lender can agree to extend the existing agreement. At December 31, 2013, the Company had outstanding borrowings under the Facility of $9,500,000.

10. Financial Highlights

The financial highlights are calculated for the year ended December 31, 2013 for the non-managing members and exclude data for the Managing Member.

Financial Ratios:	
Expenses to average non-managing members' capital account before Incentive Allocation	0.61%
Incentive Allocation	1.16%
Expenses to average non-managing members' capital account after Incentive Allocation	1.77%
Net investment loss to average non-managing members' capital account	(0.60%)
Total Return:	
Total return before Incentive Allocation	12.58%
Incentive Allocation	(1.23%)
Total return after Incentive Allocation	11.35%

The financial ratios represent the expenses and net investment loss to average monthly non-managing members' capital for the year. The computation of such ratios for an individual non-managing member's account may vary from these ratios based on the timing of capital transactions.

The ratios do not reflect the Company's share of the income and expenses of the underlying Investee Funds.

The ratio of net investment loss to average non-managing members' capital does not reflect the effect of any Incentive Allocation. An individual non-managing member's total return may vary from this total return based on the timing of capital transactions.

11. Subsequent Events

The Company has evaluated the impact of subsequent events through June 16, 2014, which is the date the financial statements were available to be issued, and determined there were no subsequent events outside the normal course of business requiring adjustment to or disclosure in the financial statements.

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FINANCIAL STATEMENTS

Blackstone Henry Clay Fund, LLC

(A Delaware Limited Liability Company)

Year Ended December 31, 2014
and Independent Auditors' Report

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)

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INDEPENDENT AUDITORS' REPORT

To Blackstone Henry Clay Fund, LLC:

We have audited the accompanying financial statements of Blackstone Henry Clay Fund, LLC (the "Fund"), which comprise the statement of financial condition, including the condensed schedule of investments, as of December 31, 2014, and the related statements of operations and incentive allocation, changes in members' capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackstone Henry Clay Fund, LLC as of December 31, 2014, and the results of its operations and incentive allocation, changes in its members' capital, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

June 10, 2015

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Financial Condition
As of December 31, 2014

ASSETS

Investments in Investee Funds, at fair value (cost $239,130,443)	$	303,847,450
Investments in affiliated Investee Funds, at fair value (cost $128,894,623)		177,986,730
Cash and cash equivalents		579,789
Receivable from Investee Funds redeemed		23,153,345
Receivable from affiliated Investee Funds redeemed		15,540,015
Investment subscriptions paid in advance to Investee Funds		18,259,000
Other assets		43,521
Total assets	$	539,409,850

LIABILITIES AND MEMBERS' CAPITAL

Liabilities:		
Borrowings under credit facility	$	13,250,000
Capital withdrawal payable to affiliate		4,028,833
Management fees payable		657,529
Payable to affiliate		98,597
Interest payable		1,082
Accrued expenses and other liabilities		148,918
Total liabilities		18,184,959
Members' capital:		
Managing Member		99,964
Non-Managing Members		521,124,927
Total members' capital		521,224,891
Total liabilities and members' capital	$	539,409,850

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments
As of December 31, 2014

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Investments in Investee Funds:				
Multi-Category[(a)]				
Blackstone Strategic Opportunity Fund L.P.[(2)]	$ 56,673,146	10.87%	Quarterly	90 days
D.E. Shaw Composite Graphite Fund, L.L.C.	34,270,525	6.58%	Quarterly	75 days
Elliott Associates, L.P.	27,384,559	5.25%	Semi-Annually	60 days
Other[(3)]	3,774,349	0.73%	Quarterly	65 days
Total (cost $85,032,939)	122,102,579	23.43%		
Credit-Driven[(b)]				
Blackstone CRM Fund L.P.[(2)]	29,651,757	5.69%	Quarterly	90 days
Other[(3),(4)]	82,389,889	15.81%	Monthly - Semi-Annually	60 days - 180 days
Total (cost $84,499,259)	112,041,646	21.50%		
Equity[(c)]				
Blackstone VK Fund L.P.[(2)]	30,217,536	5.80%	Annually	45 days
Other[(3)]	76,542,704	14.68%	Quarterly	45 days - 90 days
Total (cost $78,112,545)	106,760,240	20.48%		
Event-Driven[(d)]				
Senator Global Opportunity Fund L.P.	27,939,996	5.36%	Quarterly	60 days
Other[(3)]	22,570,394	4.33%	Annually	90 days - 95 days
Total (cost $41,970,679)	50,510,390	9.69%		
Relative Value[(e)]				
Other	39,858,945	7.65%	Monthly - Quarterly	30 days - 90 days
Total (cost $33,354,775)	39,858,945	7.65%		
Interest Rate-Driven[(f)]				
Other[(3)]	24,402,090	4.68%	Quarterly	95 days
Total (cost $20,949,672)	24,402,090	4.68%		

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments (continued)
As of December 31, 2014

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Global Macro[g]				
Other	$ 16,124,850	3.09%	Quarterly	60 days
Total (cost $15,500,000)	16,124,850	3.09%		
Managed Futures[h]				
Other	10,033,440	1.92%	Monthly	15 days - 17 days
Total (cost $8,605,197)	10,033,440	1.92%		
Total Investments in Investee Funds (cost $368,025,066)[5][6]	$ 481,834,180	92.44%		

Percentage represents each respective investment in Investee Fund at fair value as compared to total members' capital.

"Other" contains one or more individual investments for which the fair value of each represents less than 5% of total members' capital.

The Fund is not able to obtain information about certain specific investments held by some of the Investee Funds due to lack of available data.

Investee Funds are organized in the United States, unless otherwise noted.

(1) Represents the terms or range of terms upon which the investment in Investee Fund may be redeemed.
(2) Represents an affiliated Investee Fund.
(3) Includes Investee Funds organized in a non-U.S. offshore jurisdiction with a fair value of $37,239,835.
(4) Includes affiliated Investee Funds.
(5) The total cost of Investee Funds organized in the United States is $337,364,870.
(6) The total cost of Investee Funds organized in non-U.S. offshore jurisdictions is $30,660,196.
(a) The Multi-Category strategy generally includes Investee Funds that invest across multiple strategies.
(b) The Credit-Driven strategy generally includes credit-driven focused Investee Funds with a focus on fundamental hedged products or otherwise low net exposure, positional concentration and opportunistic directional exposures, mortgages and non-mortgage asset-backed securities.
(c) The Equity strategy generally includes equity-focused Investee Funds with a bottom-up analysis that do not actively trade exposures, with trading strategies focusing on shorter-term dynamics and appreciation for market technicals, top-down thematic/macro views and technically driven statistical arbitrage with fundamental quantitative long/short strategies.
(d) The Event-Driven strategy generally includes Investee Funds that are generally event-driven-focused and seek returns by investing in strategies including catalyst events, share class arbitrage, share buybacks, post re-organization equity, recapitalizations, spin-offs and stub trades.
(e) The Relative Value strategy generally includes relative value-focused Investee Funds with a focus on long/short managers with fundamentally hedged products or otherwise low net exposure.
(f) The Interest Rate-Driven strategy generally includes interest rate-driven-focused Investee Funds with relative value trades across global fixed income markets, intra-country trades, yield curve trades, basis trades, on the run vs. off the run trades, cash vs. derivative trades and volatility arbitrage in fixed income.
(g) The Global Macro strategy generally includes global macro-focused Investee Funds with discretionary, directional and inter-country exposure to commodities, equity, interest rates and currencies.
(h) The Managed Futures strategy generally includes managed futures-focused Investee Funds that invest in systematic futures and foreign exchange forward trading strategies.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Operations and Incentive Allocation
For the Year Ended December 31, 2014

Net investment loss:		
Income:		
Interest	$ 15,100	
Other	44,141	
Total income	59,241	
Expenses:		
Management fees	2,604,581	
Professional fees	285,532	
Commitment fees	166,850	
Interest	80,917	
Other	10,657	
Total expenses	3,148,537	
Net investment loss		(3,089,296)
Net increase in members' capital from investments:		
Net realized gain from investments in Investee Funds	17,779,835	
Net realized gain from investments in affiliated Investee Funds	5,451,004	
Net change in unrealized appreciation from investments in Investee Funds	14,458,416	
Net change in unrealized appreciation from investments in affiliated Investee Funds	6,730,284	
Net increase in members' capital from investments		44,419,539
Net increase in members' capital from operations		$ 41,330,243
Allocation of net increase in members' capital from operations attributable to:		
Non-Managing Members		$ 37,301,446
Managing Member		11,879
Incentive Allocation to Managing Member		4,016,918
Total net increase in members' capital resulting from operations		$ 41,330,243

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Changes in Members' Capital
For the Year Ended December 31, 2014

	Managing Member's Capital Account	Non-Managing Members' Capital Account	Total
Members' capital, January 1, 2014	$ 100,000	$ 500,823,481	$ 500,923,481
Capital contribution	–	5,000,000	5,000,000
Capital withdrawals	(4,028,833)	(22,000,000)	(26,028,833)
Allocation of net increase in members' capital from operations:			
Pro-rata allocation	11,879	41,318,364	41,330,243
Incentive Allocation to Managing Member	4,016,918	(4,016,918)	–
Members' capital, December 31, 2014	$ 99,964	$ 521,124,927	$ 521,224,891

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Cash Flows
For the Year Ended December 31, 2014

Cash flows from operating activities:	
Net increase in members' capital from operations	$ 41,330,243
Adjustments to reconcile net increase in members' capital from operations to net cash provided by operating activities:	
Net realized gain from investments in Investee Funds	(17,779,835)
Net realized gain from investments in affiliated Investee Funds	(5,451,004)
Net change in unrealized appreciation from investments in Investee Funds	(14,458,416)
Net change in unrealized appreciation from investments in affiliated Investee Funds	(6,730,284)
Purchase of investments in Investee Funds and subscriptions paid in advance to Investee Funds	(96,129,885)
Purchase of investments in affiliated Investee Funds	(21,835,000)
Proceeds from redemptions of investments in Investee Funds	74,090,481
Proceeds from redemptions of investments in affiliated Investee Funds	58,234,391
Proceeds from Investee Fund distributions	1,599,651
Decrease in other assets	63,316
Increase in management fees payable	23,815
Increase in payable to affiliate	89,006
Decrease in interest payable	(12,866)
Decrease in accrued expenses and other liabilities	(115,201)
Net cash provided by operating activities	12,918,412
Cash flows from financing activities:	
Proceeds from members' capital contribution	5,000,000
Payments for members' capital withdrawals	(27,801,625)
Proceeds from borrowings under credit facility	58,650,000
Repayment of borrowings under credit facility	(54,900,000)
Net cash used in financing activities	(19,051,625)
Net change in cash and cash equivalents	(6,133,213)
Cash and cash equivalents, beginning of year	6,713,002
Cash and cash equivalents, end of year	$ 579,789
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 93,783

See notes to the financial statements.

1. Organization

Blackstone Henry Clay Fund, LLC (the "Fund") is a Delaware limited liability company which was formed on August 16, 2011 and commenced operations on September 1, 2011. The Fund is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers.

The managing member of the Fund is Blackstone Alternative Asset Management Associates LLC ("BAAMA" or the "Managing Member"), a Commodity Pool Operator. The investment manager of the Fund is Blackstone Alternative Asset Management L.P. ("BAAM" or the "Investment Manager"), a Registered Investment Advisor, Commodity Trading Advisor and Commodity Pool Operator. The Managing Member and the Investment Manager are subsidiaries of The Blackstone Group L.P.

Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Fund's governing legal agreement (the "Governing Legal Agreement").

2. Basis of Presentation

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars.

The Fund is an investment company in accordance with Accounting Standards Codification 946, *Financial Services-Investment Companies* ("ASC 946"), which defines investment companies and prescribes specialized accounting and reporting requirements for investment companies.

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets, liabilities, the disclosure of contingent assets and liabilities and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material.

3. Significant Accounting Policies

Fair Value Measurements

Valuation Process

The valuation of the Fund's investments is reviewed monthly by the valuation committee ("Valuation Committee"). The Valuation Committee is delegated by the Managing Member with the administration and oversight of the Fund's valuation policies and procedures. The Valuation Committee determines the fair value of investments in accordance with the current fair value guidance and as described below. In the event the Valuation Committee determines, in its discretion and based on its own due diligence and investment monitoring procedures, that the valuation of any investment determined, as set further below, does not represent fair value, the Valuation Committee will value such investments at fair value in accordance with procedures adopted in good faith and approved by the Managing Member as the same may be amended from time to time.

Investments in Investee Funds

The fair value of investments in limited partnerships and investment funds and affiliated limited partnerships and investment funds ("Investee Fund(s)") is generally determined using the reported net asset value per share of the Investee Fund, or its equivalent, as a practical expedient for fair value.

The Fund may, as a practical expedient, estimate the fair value of an Investee Fund based on the reported net asset value per share or its equivalent ("NAV") if the reported NAV of the Investee Fund is calculated in a manner consistent with the measurement principles applied to investment companies, in accordance with ASC 946. In order to use the practical expedient, the Managing Member has internal processes to independently evaluate the fair value measurement process utilized by the underlying Investee Fund to calculate the Investee Fund's NAV in accordance with ASC 946. Such internal process includes the evaluation of the Investee Fund's process and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the Investee Fund's audited financial statements and ongoing monitoring of other relevant qualitative and quantitative factors.

The fair value of investments in Investee Funds is reported net of management fees and incentive allocations/fees. The Investee Funds' management fees and incentive allocations/fees are reflected in the net increase in members' capital from investments on the Statement of Operations and Incentive Allocation.

Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

The investments in Investee Funds may involve varying degrees of interest rate risk, credit risk, foreign exchange risk and market, industry or geographic concentration risk.

While the Managing Member monitors and attempts to manage these risks, the varying degrees of transparency into and potential illiquidity of the financial instruments held by the Investee Funds may hinder the Managing Member's ability to effectively manage and mitigate these risks.

Fair Value of Financial Instruments

The fair value of the Fund's assets and liabilities which qualify as financial instruments under existing accounting guidance for *Financial Instruments*, approximates the carrying amounts presented in the Statement of Financial Condition due to their short-term nature.

Investment Transactions and Related Investment Income and Expense

Investment transactions are accounted for on a trade date basis. Income and expenses, including interest, are recorded on an accrual basis.

The net realized gains or losses from investments in Investee Funds are recorded when the Fund redeems or partially redeems its interest in the Investee Funds or receives distributions in excess of return of capital. Realized gains and losses from redemptions of investments are calculated using the average cost basis methodology.

Allocation of Gains and Losses

Net increase or decrease in members' capital from operations is generally allocated on a pro-rata basis to all the members in accordance with the provisions set forth in the Governing Legal Agreement.

Income and loss related to New Issues, as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"), are allocated to the eligible non-managing members.

Income Taxes

The Fund is treated as a partnership for tax purposes in the United States ("U.S.") and is generally not subject to federal, state or local income tax in the United States of America ("U.S."). Each member of the Fund generally is liable for its share of all U.S. federal, state and local taxes, if any, imposed on the net income and realized gains of the Fund. Certain investments held by the Fund may subject the individual members to taxation and filing requirements in non-U.S. jurisdictions as well. Interest, dividends and other income realized by the Fund from non-U.S. sources and capital gains realized on the sale of non-U.S. investments may be subject to withholding and other taxes levied by the jurisdictions in which the income is sourced.

In accordance with U.S. GAAP, the Fund is required to determine whether any uncertain tax positions, which if sustained upon examination by tax authorities in the major jurisdictions where the Fund is organized, makes investments, and where the Investment Manager is located would result in a tax being imposed on the Fund. Uncertain tax positions not deemed to meet a "more-likely-than-not" threshold would be generally recorded as a tax expense in the current year.

The Fund has evaluated its uncertain tax positions and is not aware of any matters requiring recognition, measurement, or disclosure as of year-end. The Fund remains subject to examination in its major jurisdictions under varying statutes of limitations (generally three years for filed returns). The Fund is not aware of any tax positions for which it is reasonably possible that the total amount of unrecognized tax benefit will change materially in the next twelve months. As a result, no income tax liability or expense, including interest and penalties, has been recorded within these financial statements.

Cash and Cash Equivalents

The Fund considers short-term, highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents. As of year-end, the Fund had cash of $579,789 held at a major North American bank.

Contingencies

In the normal course of business, the Fund enters into contracts that contain a variety of representations and indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Recent Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-07, *Presentation of Financial Statements: Liquidation Basis of Accounting*. The guidance requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The financial statements prepared using the liquidation basis of accounting shall measure and present assets at the amount of the expected cash proceeds from liquidation. The presentation of assets shall include any items that had not previously been recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities. The liabilities shall be recognized and measured in accordance with U.S. GAAP. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities when such costs are reasonably estimable. The guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim periods therein. The guidance should be applied prospectively from the day that liquidation becomes imminent. The adoption of this guidance did not have a material impact on the financial statements.

In June 2013, the FASB issued ASU No. 2013-08, *Financial Services-Investment Companies: Amendments to the Scope, Measurement, and Disclosure Requirements*, to clarify the characteristics of an investment company and to provide guidance for assessing whether an entity is an investment company. Consistent with existing guidance for investment companies, all investments are to be measured at fair value including non-controlling ownership interests in other investment companies rather than using equity method of accounting. The guidance also requires certain additional disclosures, such as the fact that the entity is an investment company and is applying such guidance, information about changes, if any, in an entity's status as an investment company and information about financial support provided or contractually required to be provided by an investment company to any of its investees. The guidance is effective for interim and annual periods beginning after December 15, 2013 and early application is prohibited. The adoption of this guidance did not have a material impact on the financial statements with the exception of additional disclosure which is reflected in Note 2.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurements: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07"). The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods within those years and early adoption is permitted. The Fund did not early adopt this guidance as of year-end and is evaluating the impact of ASU 2015-07 on future reporting periods.

4. Membership Terms

The Fund may accept capital contributions at such times as the Managing Member may permit.

Generally, a member may at any time request, upon not less than 95 days' prior written notice to the Fund, to withdraw any or all of the balance of its capital account.

Payment of withdrawal proceeds shall be made promptly after the Fund receives withdrawal proceeds from the Pooled Investment Vehicles, Intermediate Entities, BAAM Multi-Manager Funds, Blackstone Affiliate Funds, Financial Instruments or Portfolio Managers in which the Fund is invested in ("Investments") subject to applicable holdbacks and/or reserves. The withdrawal request shall be subject to the liquidity and notice provisions of the Investments.

5. Investments

Fair Value Hierarchy

Current fair value guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The hierarchy established under the fair value guidance gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

See Note 3 to the financial statements for the determination of fair value of the Fund's investments.

Investments measured and reported at fair value are classified and disclosed in one of the following levels within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement or based on liquidity, as indicated by the redemption terms:

Level 1 – Quoted prices are available in active markets for identical investments as of the measurement date. Quoted prices for these investments are not adjusted.

Level 2 – Quoted prices are available in markets that are not active or model inputs are based on inputs that are either directly or indirectly observable as of the measurement date.

Investments in Investee Funds shall be categorized within Level 2 if there is an ability to redeem from the Investee Funds at the reported net asset value per share (or its equivalent) at the measurement date or within 90 days thereof, upon no greater than 90 days prior written notice and there are no other potential liquidity restrictions that could be invoked within 90 days of the measurement date.

Level 3 – Pricing inputs are unobservable for the investment and include instances where there is little, if any, market activity for the investment.

Investments in Investee Funds that are subject to a minimum holding period or lockup greater than 90 days from the measurement date, are in liquidation, cannot be redeemed within 90 days of the measurement date, are subject to redemption notice periods in excess of 90 days, have limited or have the ability to limit the individual and/or aggregate amount of investor redemptions or have suspended redemptions shall be classified within Level 3 of the fair value hierarchy.

The fair value hierarchy table below is not meant to be indicative of the classification of investments held in the underlying portfolios of the Investee Funds and affiliated Investee Funds.

The classification of investments in Investee Funds and affiliated Investee Funds may not be indicative of the actual liquidity available as of year-end primarily due to certain investments in Investee Funds and affiliated Investee Funds being classified as Level 3 within the fair value hierarchy and as Category C in the Major Investment Strategies table below. Investments in Investee Funds and affiliated Investee Funds classified within Category C have the ability to limit the individual and/or aggregate amount of investor redemptions but may not exercise their right to limit such investor redemptions.

The following table presents information about the classification of the investments measured at fair value within the fair value hierarchy at year-end:

	Level 1	Level 2	Level 3	Total
Assets				
Investments in Investee Funds by Strategy:				
Multi-Category	$ –	$ 56,673,146	$ 65,429,433	$ 122,102,579
Credit-Driven	–	2,279,782	109,761,864	112,041,646
Equity	–	–	106,760,240	106,760,240
Event-Driven	–	–	50,510,390	50,510,390
Relative Value	–	15,585,423	24,273,522	39,858,945
Interest Rate-Driven	–	–	24,402,090	24,402,090
Global Macro	–	–	16,124,850	16,124,850
Managed Futures	–	10,033,440	–	10,033,440
	$ –	$ 84,571,791	$ 397,262,389	$ 481,834,180

The table below summarizes the change in fair value associated with Level 3 investments for the current period. Transfers within the fair value hierarchy are recognized as of the beginning of the period.

	Investments in Investee Funds by Strategy			
	Multi-Category	Credit-Driven	Equity	Event-Driven
Beginning Balance January 1, 2014	$ 64,122,851	$ 132,943,853	$ 84,541,785	$ 35,582,907
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Net realized gain	1,902,477	11,691,578	6,529,066	2,831,871
Net unrealized appreciation (depreciation)	5,797,712	(1,081,188)	8,293,455	(657,020)
Purchases	3,798,000	23,887,885	28,925,000	28,575,800
Sales	(10,191,607)	(57,680,264)	(21,529,066)	(15,823,168)
Ending Balance December 31, 2014	$ 65,429,433	$ 109,761,864	$ 106,760,240	$ 50,510,390
Change in unrealized appreciation related to investments still held as of December 31, 2014	$ 5,797,712	$ 6,447,565	$ 13,190,250	$ 612,638

	Investments in Investee Funds by Strategy				
	Relative Value	Interest Rate-Driven	Global Macro	Commodities	Total
Beginning Balance January 1, 2014	$ 25,537,100	$ 28,862,737	$ 12,328,490	$ 17,128,249	$ 401,047,972
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
Net realized gain (loss)	(61,476)	707,402	-	(258,407)	23,342,511
Net unrealized appreciation (depreciation)	2,721,422	(168,049)	296,360	1,070,456	16,273,148
Purchases	-	-	3,500,000	-	88,686,685
Sales	(3,923,524)	(5,000,000)	-	(17,940,298)	(132,087,927)
Ending Balance December 31, 2014	$ 24,273,522	$ 24,402,090	$ 16,124,850	$ -	$ 397,262,389
Change in unrealized appreciation related to investments still held as of December 31, 2014	$ 2,932,996	$ 447,491	$ 296,360	$ -	$ 29,725,012

Realized and unrealized gains and losses recorded for Level 3 investments are reported as net realized gain from investments in Investee Funds and affiliated Investee Funds and net change in unrealized appreciation from investments in Investee Funds and affiliated Investee Funds, respectively, in the Statement of Operations and Incentive Allocation.

Major Investment Strategies

The following table summarizes investments in Investee Funds, by investment strategy, the unfunded commitment of each strategy (if applicable), and the amount of the investments in Investee Funds that cannot be redeemed because of redemption restrictions put in place by the Investee Funds. In instances where redemptions were restricted, the maximum remaining redemption restriction period is disclosed. Where the remaining redemption restriction period is not known, the date the redemption restriction commenced is disclosed.

Investments in Investee Funds by Strategy	Unfunded Commitment $	Category (A)		Category (B)		Category (C)	Total $ (A) + (B) + (C)
		Amount $	Maximum Remaining Redemption Restriction Period	Amount $	Redemption Restriction Commencement Date	Amount $	
Multi-Category	–	31,158,908	24 months	–	N/A	34,270,525	65,429,433
Credit-Driven	24,794,627	64,586,137	60 months	–	N/A	45,175,727	109,761,864
Equity	–	49,470,583	18 months	–	N/A	57,289,657	106,760,240
Event-Driven	–	22,570,394	25 months	–	N/A	27,939,996	50,510,390
Relative Value	–	–	N/A	–	N/A	24,273,522	24,273,522
Interest Rate-Driven	–	24,402,090	95 days	–	N/A	–	24,402,090
Global Macro	–	1,009,765	12 months	–	N/A	15,115,085	16,124,850

Category (A) Investments in Investee Funds cannot be redeemed and the maximum remaining redemption restriction period is disclosed. The maximum remaining redemption restriction period is based on the restriction period for Investee Funds as defined in each respective Investee Fund's governing legal agreements without consideration of the length of time elapsed from the date of investments in the Investee Funds. The Fund's investment in a particular Investee Fund classified within the strategies above may be comprised of investments with differing liquidity terms or investments which were made at differing points in time.

Category (B) Investments in Investee Funds cannot be redeemed and the remaining redemption restriction period is not known. The date the redemption restriction commenced is disclosed.

Category(C) Investee Funds allow for redemptions but have the ability to limit the individual and/or aggregate amount of investor redemptions.

Investments in Investee Funds

The proportional share of any financial instrument owned by an individual Investee Fund that exceeds 5% of the Fund's members' capital as of year-end is required to be disclosed, with total long and short positions considered separately.

The Fund, through its proportional share of financial instruments held by the individual Investee Funds (based on information available to the Fund), has the following exposure to financial instruments that exceed 5% of the Fund's members' capital as of year-end:

Investee Funds	**Fair Value ($)**
Credit-Driven	
Cerberus RMBS Opportunities Fund L.P (Non-U.S)	29,652,179
Equity	
Viking Global Equities LP (U.S.)	30,218,713

6. Related Party Transactions

Blackstone Holdings Finance Co. L.L.C. ("FINCO"), an affiliate of the Fund, pays expenses on behalf of the Fund. No fees were charged to the Fund for such services by FINCO. This amount is recorded as a payable to affiliate in the Statement of Financial Condition.

The Fund invests in certain affiliated Investee Funds. There are no management or incentive fees charged to the Fund for such investments.

For the current period, contributions and withdrawals to and from affiliated Investee Funds totaled $25,610,800 and $68,490,305, respectively.

The receivable from affiliated Investee Funds redeemed represents the remaining withdrawal proceeds related to a full or partial withdrawal from the affiliated Investee Funds during 2014.

7. Management Fees and Incentive Allocation

The Fund pays the Investment Manager a quarterly management fee (the "Management Fee"), in arrears, equal to 0.125% (0.50% per annum) of the quarter end net asset value of the non-managing members' capital account. The Management Fee for any period less than a full quarter is prorated for the basis of actual number of days elapsed.

In addition to the Management Fee, the non-managing members allocate to the Managing Member an amount based on the performance of the Fund (the "Incentive Allocation") on the Incentive Allocation Calculation Date (generally December 31). This amount is calculated after the deduction of the Management Fee. A non-managing member is subject to an Incentive Allocation charge equal to 10% of Net Capital Appreciation during the relevant Measurement Period provided that such income exceeds the sum of 1) the Threshold Amount and 2) the balance in the non-managing members' Loss Recovery Account, if any.

8. Financial Instruments and Off-Balance Sheet Risk

In the normal course of business, the Investee Funds and underlying investments held by the Investee Funds may enter into certain financial instrument transactions which may result in off-balance sheet market risk and credit risk. The Fund's market risk is also impacted by an Investee Fund's exposure to interest rate risk, foreign exchange risk and industry or geographic concentration risk. The Investee Funds and underlying investments held by the Investee Funds invest in these instruments for trading and hedging purposes. The Fund is indirectly subject to certain risks arising from investments made by the Investee Funds and underlying investments held by the Investee Funds.

Market Risk

Market risk is the risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements. The Fund is exposed to market risk indirectly as a result of the types of investments that the Investee Funds make. The Fund actively monitors its exposure to market risk.

Investee Funds may invest in entities that trade or may invest directly in interest rate swaps, credit default swaps, exchange-traded and over-the-counter ("OTC") options, futures transactions, forward transactions and securities sold, not yet purchased.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform their obligations under the terms of a contract. The Fund is indirectly exposed to credit risk related to the amount of accounting loss that the Investee Funds would incur if a counterparty fails to perform its obligations under contractual terms and if the Investee Funds fail to perform under their respective agreements.

9. Borrowings Under Credit Facility

The Fund has a $25,750,000 secured revolving borrowing facility (the "Facility"). Borrowings under the Facility are used primarily for bridge financing purposes and are secured by the assets of the Fund. Under the terms of the agreement, the Facility amount may be decreased upon mutual written consent of the Fund and the lender. Outstanding borrowings bear interest at the Fund's option of either (1) LIBOR plus 1.30% per annum (1.47% at December 31, 2014) or (2) the greater of the Federal Funds Rate plus 1.36% or the prime rate (as determined by the lender) per annum (3.25% at December 31, 2014). A commitment fee is charged in the amount of 0.70% per annum on the total commitment amount of the Facility. Outstanding borrowings and accrued interest are due no later than September 28, 2015, the expiration date of the Facility, at which time the Fund and the lender can agree to extend the existing agreement. At December 31, 2014, the Fund had outstanding borrowings under the Facility of $13,250,000.

10. Financial Highlights

The financial highlights are calculated for the current period for the non-managing members and exclude data for the Managing Member.

Financial Ratios:	
Expenses to average non-managing members' capital account before Incentive Allocation	0.61%
Incentive Allocation	0.78%
Expenses to average non-managing members' capital account after Incentive Allocation	1.39%
Net investment loss to average non-managing members' capital account	(0.60%)
Total Return:	
Total return before Incentive Allocation	8.36%
Incentive Allocation	(0.81%)
Total return after Incentive Allocation	7.55%

The financial ratios represent the expenses and net investment loss to average monthly non-managing members' capital for the period. The computation of such ratios for an individual non-managing member's account may vary from these ratios based on the timing of capital transactions.

The ratios do not reflect the Fund's share of the income and expenses of the underlying Investee Funds.

The ratio of net investment loss to average non-managing members' capital does not reflect the effect of any Incentive Allocation.

An individual non-managing member's total return may vary from this total return based on the timing of capital transactions.

11. Subsequent Events

The Fund has evaluated the impact of subsequent events through June 10, 2015, which is the date the financial statements were available to be issued, and determined there were no subsequent events outside the normal course of business requiring adjustment to or disclosure in the financial statements.

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FINANCIAL STATEMENTS

Blackstone Henry Clay Fund, LLC

(A Delaware Limited Liability Company)

Year Ended December 31, 2015
and Independent Auditors' Report

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)

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INDEPENDENT AUDITORS' REPORT

To Blackstone Henry Clay Fund, LLC:

We have audited the accompanying financial statements of Blackstone Henry Clay Fund, LLC (the "Fund"), which comprise the statement of financial condition, including the condensed schedule of investments, as of December 31, 2015, and the related statements of operations and incentive allocation, changes in members' capital, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackstone Henry Clay Fund, LLC as of December 31, 2015, and the results of its operations and incentive allocation, changes in its members' capital, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter

As noted in Note 11 to the financial statements, prior to the date of issuance on May 25, 2016, the non-managing members requested to fully redeem from the Fund and the Fund's Managing Member commenced the process of liquidation shortly thereafter. Our opinion is not modified with respect to this matter.

Deloitte + Touche LLP

May 25, 2016

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Financial Condition
As of December 31, 2015

ASSETS

Investments in Investee Funds, at fair value (cost $226,154,793)	$	298,944,284
Investments in affiliated Investee Funds, at fair value (cost $112,965,153)		153,067,170
Cash and cash equivalents		2,174,968
Receivable from Investee Funds redeemed		6,531,443
Receivable from affiliated Investee Funds redeemed		24,143,827
Investment subscription paid in advance to affiliated Investee Fund		566,000
Other assets		33,887
Total assets	$	485,461,579

LIABILITIES AND MEMBERS' CAPITAL

Liabilities:		
Capital withdrawals payable	$	25,000,000
Capital withdrawal payable to affiliate		3,004,337
Management fees payable		616,985
Payable to affiliate		3,377
Accrued expenses and other liabilities		215,534
Total liabilities		28,840,233
Members' capital:		
Managing Member		99,884
Non-Managing Members		456,521,462
Total members' capital		456,621,346
Total liabilities and members' capital	$	485,461,579

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments
As of December 31, 2015

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Investments in Investee Funds:				
Equity[a]				
SRS Partners US, LP	$ 28,349,525	6.21%	Quarterly	60 days
Blackstone VK Fund L.P.[2]	28,133,315	6.16%	Annually	45 days
Blackstone Senfina Fund L.P.[2]	24,858,863	5.44%	Quarterly	90 days
Other[3][4]	80,159,604	17.56%	Quarterly - Annually	60 days - 90 days
Total (cost $125,383,180)	161,501,307	35.37%		
Multi-Category[b]				
Blackstone Strategic Opportunity Fund L.P.[2]	46,088,150	10.09%	Quarterly	90 days
D.E. Shaw Composite Graphite Fund, L.L.C.	39,854,891	8.73%	Quarterly	75 days
Elliott Associates, L.P.	28,221,152	6.18%	Semi-Annually	60 days
Other[4]	13,423,721	2.94%	Quarterly	65 days - 90 days
Total (cost $83,811,314)	127,587,914	27.94%		
Credit-Driven[c]				
Other[4],[5]	65,247,058	14.29%	Quarterly - Non-Redeemable	60 days - Non-Redeemable
Total (cost $55,034,462)	65,247,058	14.29%		
Relative Value[d]				
Other	50,200,994	10.99%	Monthly - Quarterly	30 days - 90 days
Total (cost $35,304,775)	50,200,994	10.99%		
Interest Rate-Driven[e]				
Blackstone Fixed Income and Trading Opportunities Fund L.P.[2]	26,054,669	5.71%	Quarterly	95 days
Total (cost $21,181,883)	26,054,669	5.71%		
Managed Futures[f]				
Other	11,257,493	2.47%	Monthly	15 days
Total (cost $8,605,197)	11,257,493	2.47%		

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments (continued)
As of December 31, 2015

	Fair Value	Percentage of Total Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Global Macro[g]				
Other	$ 10,096,574	2.21%	Quarterly	60 days
Total (cost $9,740,809)	10,096,574	2.21%		
Event-Driven[h]				
Other[4]	65,445	0.01%	Annually	95 days
Total (cost $58,326)	65,445	0.01%		
Total Investments in Investee Funds (cost $339,119,946)[6][7]	$ 452,011,454	98.99%		

Percentage represents each respective investment in Investee Fund at fair value as compared to total members' capital.

"Other" contains one or more individual investments for which the fair value of each represents less than 5% of total members' capital.

The Fund is not able to obtain information about certain specific investments held by some of the Investee Funds due to lack of available data.

Investee Funds are organized in the United States, unless otherwise noted.

(1) Represents the terms or range of terms upon which the investment in Investee Fund may be redeemed. Investments that are disclosed as non-redeemable may not be redeemed currently due to redemption restrictions put in place by the Investee Fund.
(2) Represents an affiliated Investee Fund.
(3) Includes an affiliated Investee Fund organized in a non-U.S. offshore jurisdiction with a fair value of $8,020,690.
(4) Includes affiliated Investee Funds.
(5) Includes Investee Funds organized in a non-U.S. offshore jurisdiction with a fair value of $22,425,341.
(6) The total cost of Investee Funds organized in the United States is $310,946,613.
(7) The total cost of Investee Funds organized in non-U.S. offshore jurisdictions is $28,173,333.
(a) The Equity strategy generally includes equity focused Investee Funds with a bottom-up analysis that do not actively trade exposures, with trading strategies focusing on shorter-term dynamics and appreciation for market technicals, top-down thematic/macro views, and technically driven statistical arbitrage with fundamental quantitative long/short strategies.
(b) The Multi-Category strategy generally includes Investee Funds that invest across multiple strategies.
(c) The Credit-Driven strategy generally includes credit-driven focused Investee Funds with a focus on fundamental hedged products or otherwise low net exposure, positional concentration and opportunistic directional exposures, mortgages, and non-mortgage asset-backed securities.
(d) The Relative Value strategy generally includes relative value focused Investee Funds with a focus on long/short managers with fundamentally hedged products or otherwise low net exposure.
(e) The Interest Rate-Driven strategy generally includes interest rate-driven focused Investee Funds with relative value trades across global fixed income markets, intra-country trades, yield curve trades, basis trades, on the run vs. off the run trades, cash vs. derivative trades, and volatility arbitrage in fixed income.
(f) The Managed Futures strategy generally includes managed futures-focused Investee Funds that invest in systematic futures and foreign exchange forward trading strategies.
(g) The Global Macro strategy generally includes global macro focused Investee Funds with discretionary, directional, and inter-country exposure to commodities, equity, interest rates and currencies.
(h) The Event-Driven strategy generally includes Investee Funds that are generally event-driven focused and seek returns by investing in strategies including catalyst events, share class arbitrage, share buybacks, post re-organization equity, recapitalizations, spin-offs and stub trades.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Operations and Incentive Allocation
For the Year Ended December 31, 2015

Net investment loss:		
Income:		
Interest	$ 18,248	
Other	1,332	
Total income	19,580	
Expenses:		
Management fees	2,545,651	
Professional fees	233,248	
Commitment fees	176,934	
Interest	21,063	
Other	11,604	
Total expenses	2,988,500	
Net investment loss		(2,968,920)
Net increase in members' capital from investments:		
Net realized gain from investments in Investee Funds	14,873,090	
Net realized gain from investments in affiliated Investee Funds	20,414,228	
Net change in unrealized appreciation from investments in Investee Funds	8,072,483	
Net change in unrealized depreciation from investments in affiliated Investee Funds	(8,990,089)	
Net increase in members' capital from investments		34,369,712
Net increase in members' capital from operations		$ 31,400,792
Allocation of net increase in members' capital from operations attributable to:		
Non-Managing Members		$ 31,389,611
Managing Member		11,181
Incentive Allocation from Non-Managing Members		(2,993,076)
Incentive Allocation to Managing Member		2,993,076
Total net increase in members' capital resulting from operations		$ 31,400,792

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Changes in Members' Capital
For the Year Ended December 31, 2015

	Managing Member's Capital Account	Non-Managing Members' Capital Account	Total
Members' capital, January 1, 2015	$ 99,964	$ 521,124,927	$ 521,224,891
Capital contributions	–	–	–
Capital withdrawals	(3,004,337)	(93,000,000)	(96,004,337)
Allocation of net increase in members' capital from operations:			
Pro-rata allocation	11,181	31,389,611	31,400,792
Incentive Allocation to Managing Member	2,993,076	(2,993,076)	–
Members' capital, December 31, 2015	$ 99,884	$ 456,521,462	$ 456,621,346

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash flows from operating activities:	
Net increase in members' capital from operations	$ 31,400,792
Adjustments to reconcile net increase in members' capital from operations to net cash provided by operating activities:	
Net realized gain from investments in Investee Funds	(14,873,090)
Net realized gain from investments in affiliated Investee Funds	(20,414,228)
Net change in unrealized appreciation from investments in Investee Funds	(8,072,483)
Net change in unrealized depreciation from investments in affiliated Investee Funds	8,990,089
Purchase of investments in Investee Funds	(16,724,270)
Purchase of investments in affiliated Investee Funds and subscription paid in advance to affiliated Investee Fund	(30,131,000)
Proceeds from redemptions of investments in Investee Funds	79,453,915
Proceeds from redemptions of investments in affiliated Investee Funds	57,304,883
Decrease in other assets	9,634
Decrease in management fees payable	(40,544)
Decrease in payable to affiliate	(95,220)
Decrease in interest payable	(1,082)
Increase in accrued expenses and other liabilities	66,616
Net cash provided by operating activities	86,874,012
Cash flows from financing activities:	
Payments for members' capital withdrawals	(72,028,833)
Proceeds from borrowings under credit facility	11,900,000
Repayment of borrowings under credit facility	(25,150,000)
Net cash used in financing activities	(85,278,833)
Net change in cash and cash equivalents	1,595,179
Cash and cash equivalents, beginning of year	579,789
Cash and cash equivalents, end of year	$ 2,174,968
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 22,145

See notes to the financial statements.

1. Organization

Blackstone Henry Clay Fund, LLC (the "Fund") is a Delaware limited liability company which was formed on August 16, 2011 and commenced operations on September 1, 2011. The Fund is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers.

The managing member of the Fund is Blackstone Alternative Asset Management Associates LLC ("BAAMA" or the "Managing Member"), a Commodity Pool Operator. The investment manager of the Fund is Blackstone Alternative Asset Management L.P. ("BAAM" or the "Investment Manager"), a Registered Investment Advisor, Commodity Trading Advisor and Commodity Pool Operator. The Managing Member and the Investment Manager are subsidiaries of The Blackstone Group L.P.

Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Fund 's governing legal agreement (the "Governing Legal Agreement").

2. Basis of Presentation

The Fund's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars.

The Fund is an investment company in accordance with Accounting Standards Codification 946, *Financial Services-Investment Companies* ("ASC 946"), which defines investment companies and prescribes specialized accounting and reporting requirements for investment companies.

The preparation of financial statements in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets, liabilities, the disclosure of contingent assets and liabilities and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material.

3. Significant Accounting Policies

Fair Value Measurements

Valuation Process

The fair value of the Fund's investments is reviewed monthly by the valuation committee ("Valuation Committee"). The Valuation Committee is delegated by the Managing Member with the administration and oversight of the Fund's valuation policies and procedures. The Valuation Committee determines the fair value of investments in accordance with the fair value guidance and as described below. In the event the Valuation Committee determines, in its discretion and based on its own due diligence and investment monitoring procedures, that the fair value of any investment determined, as set further below, does not represent fair value, the Valuation Committee will value such investments at fair value in accordance with procedures adopted in good faith and approved by the Managing Member as the same may be amended from time to time.

Investments in Investee Funds

The fair value of investments in limited partnerships and investment funds and affiliated limited partnerships and investment funds ("Investee Funds") is generally determined using the reported net asset value per share of the Investee Fund, or its equivalent, as a practical expedient for fair value.

The Fund may, as a practical expedient, estimate the fair value of an Investee Fund based on the reported net asset value per share or its equivalent ("NAV") if the reported NAV of the Investee Fund is calculated in a manner consistent with the measurement principles applied to investment companies. In order to use the practical expedient, the Managing Member has internal processes to independently evaluate the fair value measurement process utilized by the underlying Investee Fund to calculate the Investee Fund's NAV. Such internal processes include the evaluation of the Investee Fund's policies and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the Investee Fund's audited financial statements and ongoing monitoring of other relevant qualitative and quantitative factors.

The fair value of investments in Investee Funds is reported net of management fees and incentive allocations/fees. The Investee Funds' management fees and incentive allocations/fees are reflected in the net increase in members' capital from investments on the Statement of Operations and Incentive Allocation.

Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

Investments in Investee Funds may involve varying degrees of interest rate risk, credit risk, foreign exchange risk and market, industry or geographic concentration risk.

While the Managing Member monitors and attempts to manage these risks, the varying degrees of transparency into and potential illiquidity of the financial instruments held by the Investee Funds may hinder the Managing Member's ability to effectively manage and mitigate these risks.

Fair Value of Financial Instruments

The fair value of the Fund's assets and liabilities that qualify as financial instruments under existing accounting guidance for *Financial Instruments*, approximates the carrying amounts presented in the Statement of Financial Condition due to their short-term nature.

Investment Transactions and Related Investment Income and Expense

Investment transactions are accounted for on a trade date basis. Income and expenses, including interest, are recorded on an accrual basis.

The net realized gains or losses from investments in Investee Funds are recorded when the Fund redeems or partially redeems its interest in the Investee Funds or receives distributions in excess of return of capital or receives capital gain distributions. Realized gains and losses from redemptions of investments are calculated using the average cost basis methodology. Distributions that represent return of capital, based on information provided by the Investee Funds, are recorded as a reduction of the cost of investments in Investee Funds.

Allocation of Gains and Losses

Net increase or decrease in members' capital from operations is generally allocated on a pro-rata basis to the members in accordance with the provisions set forth in the Governing Legal Agreement.

Income and loss related to New Issues, as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"), are allocated to the eligible non-managing members.

Income Taxes

The Fund is treated as a partnership for tax purposes in the United States of America ("U.S.") and is generally not subject to federal, state or local income tax. Each member of the Fund generally is liable for its share of all U.S. federal, state and local taxes, if any, imposed on the net income and realized gains of the Fund. Certain investments held by the Fund may subject the individual members to taxation and filing requirements in non-U.S. jurisdictions as well. Interest, dividends and other income realized by the Fund from non-U.S. sources and capital gains realized on the sale of non-U.S. investments may be subject to withholding and other taxes levied by the jurisdictions in which the income is sourced.

In accordance with U.S. GAAP, the Fund is required to determine whether any uncertain tax positions are "more-likely-than-not" to be sustained upon examination by tax authorities in the major jurisdictions where the Fund is organized, makes investments, and where the Investment Manager is located. Uncertain tax positions not deemed to meet a "more-likely-than-not" threshold would generally be recorded as a tax expense in the current year.

The Fund has evaluated its uncertain tax positions and is not aware of any matters requiring recognition, measurement, or disclosure as of year-end. The Fund remains subject to examination in its major jurisdictions under varying statutes of limitations (generally three years for filed returns). The Fund is not aware of any tax positions for which it is reasonably possible that the total amount of unrecognized tax benefit will change materially in the next twelve months. As a result, no income tax liability or expense, including interest and penalties, has been recorded within these financial statements.

Cash and Cash Equivalents

The Fund considers short-term, highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents. As of year-end, the Fund had cash of $2,174,968 held at a major North American bank.

Contingencies

In the normal course of business, the Fund enters into contracts that contain a variety of representations and indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued amended guidance on the disclosures for investments in certain entities that calculate NAV per share or its equivalent. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV as a practical expedient. The guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods within those years and early adoption is permitted. The Fund has elected to early adopt and apply this guidance as of year-end. Prior to the issuance of the amended guidance, investments that were fair valued using the NAV as a practical expedient were categorized within the fair value hierarchy based on the Fund's ability to redeem its investment on the measurement date. As of year-end, all of the Fund's investments in Investee Funds were valued using the practical expedient. As a result of adoption of this guidance, disclosure of investments in Investee Funds within the fair value hierarchy is excluded.

In August 2014, the FASB issued guidance on the disclosure of uncertainties about an entity's ability to continue as a going concern which provides guidance on management's responsibility in evaluating whether there is substantial doubt about the Fund's ability to continue as a going concern and related footnote disclosures. For each reporting period, management is required to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern within one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. The guidance is effective for annual periods ending after December 15, 2016 and interim periods and annual periods thereafter. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on future financial statements.

4. Membership Terms

The Fund may accept capital contributions at such times as the Managing Member may permit.

Generally, a member may at any time request, upon not less than 95 days' prior written notice to the Fund, to withdraw any or all of the balance of its capital account.

Payment of withdrawal proceeds shall be made promptly after the Fund receives withdrawal proceeds from the Pooled Investment Vehicles, Intermediate Entities, BAAM Multi-Manager Funds, Blackstone Affiliate Funds, Financial Instruments or Portfolio Managers in which the Fund is invested in ("Investments") subject to applicable holdbacks and/or reserves. The withdrawal request shall be subject to the liquidity and notice provisions of the Investments.

5. Investments

Major Investment Strategies

Investments in Investee Funds that are non-redeemable or subject to other restrictions such as a lockup at the measurement date or have the ability to limit the individual amount of investor redemptions shall be classified as having a redemption restriction.

The following table summarizes investments in Investee Funds, by investment strategy, the unfunded commitment of each strategy (if applicable) and the amount of the investments in Investee Funds that cannot be redeemed because of redemption restrictions put in place by the Investee Funds as of year-end.

Investments in Investee Funds by Strategy	Unfunded Commitment $	Non-Redeemable Investments (A)		Other Restricted Investments (B)		Investments Subject to No Restrictions	Total $
		Amount $	Redemption Restriction Commencement Date	Amount $	Redemption Restriction Term	Amount $	
Equity	–	–	N/A	135,870,319	12 months - 36 months	25,630,988	161,501,307
Multi-Category	–	–	N/A	29,878,474	24 months	97,709,440	127,587,914
Credit-Driven	29,291,705	2,709,885	March 2015	38,450,640	12 months - 60 months	24,086,533	65,247,058
Relative Value	–	–	N/A	11,086,095	12 months	39,114,899	50,200,994
Interest Rate-Driven	–	–	N/A	–	N/A	26,054,669	26,054,669
Managed Futures	–	–	N/A	–	N/A	11,257,493	11,257,493
Global Macro	–	–	N/A	10,096,574	12 months	–	10,096,574
Event-Driven	–	–	N/A	–	N/A	65,445	65,445

(A) Investments in Investee Funds cannot be redeemed and the remaining redemption restriction period is not known. The date the redemption restriction commenced is disclosed.

(B) Investments subject to other restrictions include investments in Investee Funds that are subject to a lockup at the measurement date and/or have the ability to limit the individual amount of investor redemptions. The redemption restriction term is based on the restriction period (or range of restriction periods) for Investee Funds as defined in each respective Investee Fund's governing legal agreement without consideration of the length of time elapsed from the date of the investments in the Investee Funds. The Fund's investment in a particular Investee Fund classified within the strategies above may be comprised of investments with differing liquidity terms or investments which were made at differing points in time.

Investments in Investee Funds

The proportional share of any financial instrument owned by an individual Investee Fund that exceeds 5% of the Fund's members' capital as of year-end is required to be disclosed, with total long and short positions considered separately.

The Fund, through its proportional share of financial instruments held by the individual Investee Funds (based on information available to the Fund), has the following exposure to financial instruments that exceed 5% of the Fund's members' capital as of year-end:

Investee Funds	**Fair Value ($)**
Equity	
Viking Global Equities LP (U.S.)	28,367,047

6. Related Party Transactions

The Fund and the Investment Manager consider their existing owners, employees, affiliated funds and certain other persons or entities associated with The Blackstone Group L.P. to be affiliates.

Blackstone Holdings Finance Co. L.L.C. ("FINCO"), an affiliate of the Fund, pays expenses on behalf of the Fund. The Fund reimburses FINCO for such expenses paid on behalf of the Fund. FINCO does not charge any fees for providing such administrative services. This amount is recorded as a payable to affiliate in the Statement of Financial Condition.

The Fund invests in certain affiliated Investee Funds. There are no management or incentive fees charged to the Fund for such investments.

For the current period, contributions and withdrawals to and from affiliated Investee Funds totaled \$29,565,000 and \$65,908,695, respectively.

The receivable from affiliated Investee Funds redeemed represents the remaining withdrawal proceeds related to a full or partial withdrawal from the affiliated Investee Funds during 2015.

7. Management Fees and Incentive Allocation

The Fund pays the Investment Manager a quarterly management fee (the "Management Fee"), in arrears, equal to 0.125% (0.50% per annum) of the quarter end net asset value of the non-managing members' capital account. The Management Fee for any period less than a full quarter is prorated for the basis of actual number of days elapsed.

In addition to the Management Fee, the non-managing members allocate to the Managing Member an amount based on the performance of the Fund (the "Incentive Allocation") on the Incentive Allocation Calculation Date (generally December 31). This amount is calculated after the deduction of the Management Fee. A non-managing member is subject to an Incentive Allocation charge equal to 10% of Net Capital Appreciation during the relevant Measurement Period provided that such income exceeds the sum of 1) the Threshold Amount and 2) the balance in the non-managing members' Loss Recovery Account, if any.

8. Financial Instruments and Off-Balance Sheet Risk

In the normal course of business, the Investee Funds and underlying investments held by the Investee Funds may enter into certain financial instrument transactions which may result in off-balance sheet market risk and credit risk. The Fund's market risk is also impacted by an Investee Fund's exposure to interest rate risk, foreign exchange risk and industry or geographic concentration risk. The Investee Funds and underlying investments held by the Investee Funds invest in these instruments for trading and hedging purposes. The Fund is indirectly subject to certain risks arising from investments made by the Investee Funds and underlying investments held by the Investee Funds.

Market Risk

Market risk is the risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements. The Fund is exposed to market risk indirectly as a result of the types of investments that the Investee Funds make. The Fund actively monitors its exposure to market risk.

Investee Funds may invest in entities that trade or may invest directly in interest rate swaps, credit default swaps, exchange-traded and over-the-counter options, futures transactions, forward transactions and securities sold, not yet purchased.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform their obligations under the terms of a contract. The Fund is indirectly exposed to credit risk related to the amount of accounting loss that the Investee Funds would incur if a counterparty fails to perform its obligations under contractual terms and if the Investee Funds fail to perform under their respective agreements.

9. Borrowings Under Credit Facility

The Fund has a $25,750,000 secured revolving borrowing facility (the "Facility"). Borrowings under the Facility are used primarily for bridge financing purposes and are secured by the assets of the Fund. Under the terms of the agreement, the Facility amount may be decreased or increased upon mutual written consent of the Fund and the lender. Outstanding borrowings bear interest at the Fund's option of either (1) LIBOR plus 1.00% per annum (1.43% at December 31, 2015) or (2) the greater of the Federal Funds Rate plus 1.00% or the prime rate (as determined by the lender) per annum (3.50% at December 31, 2015). A commitment fee is charged in the amount of 0.65% per annum on the total commitment amount of the Facility. Outstanding borrowings and accrued interest are due no later than September 26, 2016, the expiration date of the Facility, at which time the Fund and the lender can agree to extend the existing agreement. As of year-end, the Fund had no borrowings outstanding under the Facility.

10. Financial Highlights

The financial highlights are calculated for the current period for the non-managing members and exclude data for the Managing Member.

Financial Ratios:	
Expenses to average non-managing members' capital account before Incentive Allocation	0.59%
Incentive Allocation	0.60%
Expenses to average non-managing members' capital account after Incentive Allocation	1.19%
Net investment loss to average non-managing members' capital account	(0.59%)
Total Return:	
Total return before Incentive Allocation	6.30%
Incentive Allocation	(0.60%)
Total return after Incentive Allocation	5.70%

The financial ratios represent the expenses and net investment loss to average monthly non-managing members' capital for the period. The computation of such ratios for an individual non-managing member's account may vary from these ratios based on the timing of capital transactions.

The ratios do not reflect the Fund's share of the income and expenses of the underlying Investee Funds.

The ratio of net investment loss to average non-managing members' capital does not reflect the effect of any Incentive Allocation.

An individual non-managing member's total return may vary from this total return based on the timing of capital transactions.

11. Subsequent Events

The Fund has evaluated the impact of subsequent events through May 25, 2016, which is the date the financial statements were available to be issued.

Prior to the date of issuance on May 25, 2016, the non-managing members requested to fully redeem from the Fund and the Fund's Managing Member commenced the process of liquidation shortly thereafter.

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FINANCIAL STATEMENTS IN LIQUIDATION

Blackstone Henry Clay Fund, LLC

(A Delaware Limited Liability Company)

Year Ended December 31, 2016
and Independent Auditors' Report

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)

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INDEPENDENT AUDITORS' REPORT

To Blackstone Henry Clay Fund, LLC:

We have audited the accompanying financial statements of Blackstone Henry Clay Fund, LLC (the "Fund"), which comprise the statement of financial condition in liquidation, including the condensed schedule of investments in liquidation, as of December 31, 2016, and the related statements of operations and incentive allocation and changes in members' capital for the period from January 1, 2016 to March 31, 2016, and the related statements of operations and incentive allocation in liquidation and changes in members' capital in liquidation for the period from April 1, 2016 to December 31, 2016, and the statement of cash flows in liquidation for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position in liquidation of Blackstone Henry Clay Fund, LLC as of December 31, 2016, and the results of its operations and incentive allocation and changes in its members' capital for the period from January 1, 2016 to March 31, 2016, and the related statements of operations and incentive allocation in liquidation and changes in members' capital in liquidation for the period from April 1, 2016 to December 31, 2016, and its cash flows in liquidation for the year then ended, in accordance with accounting principles generally accepted in the United States of America applied on the bases described in Note 2 to the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter Regarding Liquidation Basis of Accounting

As discussed in Note 2 to the financial statements, effective April 1, 2016, the Fund adopted a formal plan of liquidation. The Fund advised its members of its decision to dissolve the Fund and the Fund's management commenced the process of liquidation shortly thereafter. As a result, the Fund has changed its basis of accounting from the going concern basis to the liquidation basis effective April 1, 2016. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

June 7, 2017

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Financial Condition in Liquidation
As of December 31, 2016

ASSETS

Investments in Investee Funds, at fair value (cost $15,972,701)	$	19,720,230
Investments in affiliated Investee Funds, at fair value (cost $29,426,019)		32,098,616
Cash and cash equivalents		35,195,477
Receivable from Investee Funds redeemed		11,082,149
Receivable from affiliated Investee Funds redeemed		79,605,453
Other assets		6,271
Total assets	$	177,708,196

LIABILITIES AND MEMBERS' CAPITAL

Liabilities:		
Liquidating distributions payable	$	78,141,810
Liquidating distributions payable to affiliate		50,926
Management fees payable		208,094
Payable to affiliate		25,754
Accrued expenses and other liabilities		590,650
Total liabilities		79,017,234
Members' capital:		
Managing Member		71,646
Non-Managing Members		98,619,316
Total members' capital		98,690,962
Total liabilities and members' capital	$	177,708,196

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Condensed Schedule of Investments in Liquidation
As of December 31, 2016

	Fair Value	Percentage of Members' Capital	Redemptions Permitted[1]	Redemption Notification Period[1]
Investments in Investee Funds:				
Equity[a]				
Blackstone Senfina Fund L.P.[2]	$ 16,471,956	16.69%	Quarterly	90 days
SRS Partners US, LP	12,832,444	13.00%	Quarterly	60 days
Other	2,235,668	2.27%	Quarterly	65 days
Total (cost $29,322,596)	31,540,068	31.96%		
Multi-Category[b]				
Blackstone Strategic Opportunity Fund L.P.[2]	15,626,660	15.84%	Quarterly	90 days
Total (cost $10,420,146)	15,626,660	15.84%		
Credit-Driven[c]				
Other[3]	4,652,118	4.71%	Semi-Annually - Non-Redeemable	180 days - Non-Redeemable
Total (cost $5,655,978)	4,652,118	4.71%		
Total Investments in Investee Funds (cost $45,398,720)[4][5]	$ 51,818,846	52.51%		

"Other" contains one or more individual investments for which the fair value of each represents less than 5% of total members' capital.

Investee Funds are organized in the United States, unless otherwise noted.

(1) Represents the terms or range of terms upon which the investment in the Investee Fund may be redeemed subject to the restrictions disclosed in Note 5. Non-redeemable investments may not be redeemed due to redemption restrictions imposed by the Investee Fund.
(2) Represents an affiliated Investee Fund.
(3) Includes Investee Fund organized in a non-U.S. offshore jurisdiction with a fair value of $4,573,096.
(4) The total cost of Investee Funds organized in the United States is $40,656,208.
(5) The total cost of Investee Fund organized in non-U.S. offshore jurisdictions is $4,742,512.
(a) The Equity strategy generally includes Investee Funds with a bottom-up analysis that do not actively trade exposures, with trading strategies focusing on shorter-term dynamics and appreciation for market technicals, top-down thematic/macro views, and technically driven statistical arbitrage with fundamental quantitative long/short strategies.
(b) The Multi-Category strategy generally includes Investee Funds that invest across multiple strategies.
(c) The Credit-Driven strategy generally includes Investee Funds with a focus on fundamental hedged products or otherwise low net exposure, positional concentration and opportunistic directional exposures, mortgages, and non-mortgage asset-backed securities.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Operations and Incentive Allocation in Liquidation

	For the Period January 1, 2016 - March 31, 2016		For the Period April 1, 2016 - December 31, 2016 (Liquidation Basis)	
Net investment loss:				
Income:				
Interest	$ 2,248		$ 19,563	
Other	333		54,283	
Total income	2,581		73,846	
Expenses:				
Management fees	551,085		1,024,597	
Professional fees	62,184		565,947	
Commitment fees	41,616		13,720	
Other	2,683		9,176	
Total expenses	657,568		1,613,440	
Net investment loss		(654,987)		(1,539,594)
Net increase/(decrease) in members' capital from investments:				
Net realized gain from investments in Investee Funds	2,144,588		57,435,465	
Net realized gain from investments in affiliated Investee Funds	179,042		46,280,410	
Net change in unrealized depreciation from investments in Investee Funds	(8,297,204)		(47,343,973)	
Net change in unrealized depreciation from investments in affiliated Investee Funds	(9,147,254)		(41,682,951)	
Net increase/(decrease) in members' capital from investments		(15,120,828)		14,688,951
Net increase/(decrease) in members' capital from operations		$ (15,775,815)		$ 13,149,357
Allocation of net increase/(decrease) in members' capital from operations attributable to:				
Non-Managing Members		$ (15,772,482)		$ 13,146,263
Managing Member		(3,333)		3,094
Incentive Allocation from Non-Managing Members		–		(83,697)
Incentive Allocation to Managing Member		–		83,697
Total net increase/(decrease) in members' capital from operations		$ (15,775,815)		$ 13,149,357

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Changes in Members' Capital in Liquidation

	Managing Member's Capital Account	Non-Managing Members' Capital Account	Total
Members' capital, January 1, 2016	$ 99,884	$ 456,521,462	$ 456,621,346
Allocation of net decrease in members' capital from operations:			
Pro-rata allocation	(3,333)	(15,772,482)	(15,775,815)
Members' capital, March 31, 2016	$ 96,551	$ 440,748,980	$ 440,845,531

(Liquidation Basis)	Managing Member's Capital Account	Non-Managing Members' Capital Account	Total
Members' capital, April 1, 2016	$ 96,551	$ 440,748,980	$ 440,845,531
Liquidating distributions	(111,696)	(355,192,230)	(355,303,926)
Allocation of net increase in members' capital from operations:			
Pro-rata allocation	3,094	13,146,263	13,149,357
Incentive Allocation to Managing Member	83,697	(83,697)	–
Members' capital, December 31, 2016	$ 71,646	$ 98,619,316	$ 98,690,962

See notes to the financial statements.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Cash Flows in Liquidation
For the Year Ended December 31, 2016

Cash flows from operating activities:	
Net decrease in members' capital from operations	$ (2,626,458)
Adjustments to reconcile net decrease in members' capital from operations to net cash provided by operating activities:	
Net realized gain from investments in Investee Funds	(59,580,053)
Net realized gain from investments in affiliated Investee Funds	(46,459,452)
Net change in unrealized depreciation from investments in Investee Funds	55,641,177
Net change in unrealized depreciation from investments in affiliated Investee Funds	50,830,205
Purchase of investments in Investee Funds	(6,370,892)
Purchase of investments in affiliated Investee Funds	(2,736,000)
Proceeds from redemptions of investments in Investee Funds	227,807,436
Proceeds from redemptions of investments in affiliated Investee Funds	102,156,932
(Increase)/decrease in operating assets	
Other assets	27,616
Increase/(decrease) in operating liabilities	
Management fees payable	(408,891)
Payable to affiliate	22,377
Accrued expenses and other liabilities	375,116
Net cash provided by operating activities	318,679,113
Cash flows from financing activities:	
Payments for members' capital withdrawals	(28,004,337)
Payments for members' liquidating distributions	(257,654,267)
Net cash used in financing activities	(285,658,604)
Net change in cash and cash equivalents	33,020,509
Cash and cash equivalents, beginning of year	2,174,968
Cash and cash equivalents, end of year	$ 35,195,477
Supplemental disclosure of non-cash financing activities:	
In-kind withdrawals by non-managing members for withdrawn Investments in Investee Fund, at fair value	$ (19,456,923)

See notes to the financial statements.

1. Organization

Blackstone Henry Clay Fund, LLC (the "Fund") is a Delaware limited liability company which was formed on August 16, 2011 and commenced operations on September 1, 2011. The Fund is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers.

The managing member of the Fund is Blackstone Alternative Asset Management Associates LLC ("BAAMA" or the "Managing Member"), a Commodity Pool Operator. The investment manager of the Fund is Blackstone Alternative Asset Management L.P. ("BAAM" or the "Investment Manager"), a Registered Investment Advisor under the Investment Advisers Act of 1940, Commodity Trading Advisor and Commodity Pool Operator. The Managing Member and the Investment Manager are subsidiaries of The Blackstone Group L.P.

Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Fund's governing legal agreement (the "Governing Legal Agreement").

2. Basis of Presentation

The Fund's financial statements in liquidation have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars.

The Fund is an investment company in accordance with Accounting Standards Codification 946, *Financial Services-Investment Companies* ("ASC 946"), which defines investment companies and prescribes specialized accounting and reporting requirements for investment companies.

The preparation of financial statements in liquidation in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets, liabilities, the disclosure of contingent assets and liabilities and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material.

Liquidation Basis of Accounting

Effective April 1, 2016, the Fund adopted a formal plan of liquidation. The Fund advised its non-managing members of its decision to dissolve the Fund and the Fund's Managing Member commenced the process of liquidation shortly thereafter.

The Fund's financial statements in liquidation have been prepared under the liquidation basis of accounting. The Statement of Operations and Statement of Changes in Members' Capital for the period January 1, 2016 to March 31, 2016 are prepared on a going concern basis and for the period April 1, 2016 to December 31, 2016 are prepared under the liquidation basis of accounting. The liquidation basis of accounting is appropriate when liquidation is imminent. Under this method of accounting, assets are stated at their estimated net realizable values and liabilities are stated at their anticipated settlement amounts. Liabilities are re-measured to reflect estimated amounts to be paid upon settlement of the final liabilities and include all expenses expected to be incurred during the liquidation process. Investments are stated at fair value (which approximates net realizable value) as the Fund intends to realize fair value for its investments as defined below in Note 3.

In accordance with the liquidation basis of accounting, the Fund's Managing Member is required to accrue and separately present the costs that the Fund expects to incur and the income that the Fund expects to earn during the expected duration of the liquidation.

Based on the best available information, the Fund's Managing Member has estimated, in good faith, that the expected period of liquidation shall be approximately two years from the date of the Statement of Financial Condition in Liquidation. The estimate of the expected liquidation date may incorporate the Managing Member's own assumptions and involves a significant degree of judgment, taking into consideration a combination of external factors, such as the timing of distributions from investments held as of year-end. It is reasonably possible that a change in the estimate may occur in the near-term. While the Managing Member monitors risk associated with these estimates, there are no guarantees that the Fund will be able to finalize the liquidation process by this date and such liquidation period may be extended at the Managing Member's discretion. To the extent that the liquidation is completed in advance of two years, excess accrued expenses related to future periods will be reversed.

The Statement of Operations in Liquidation includes expenses the Fund incurred from January 1, 2016 through the date the Fund adopted a formal plan of liquidation. Additionally, the Statement of Operations in Liquidation includes certain expenses recorded in connection with the adoption of liquidation basis of approximately $588,843 ("Liquidating Expenses"). The Fund did not recognize any additional income or management fees in connection with the liquidation basis of accounting. Liquidating Expenses represent total estimated expenses the Fund expects to incur during the expected period of liquidation for approximately two years which represents the expected liquidation period from the date liquidation basis was adopted. Liquidating Expenses consist primarily of professional fees which generally include audit, administrative, and/or custody. Liquidating Expenses recorded that are not yet paid as of year-end, are classified as accrued expenses and other liabilities in the Statement of Financial Condition in Liquidation.

3. Significant Accounting Policies

Fair Value Measurements

Valuation Process

The fair value of the Fund's investments is reviewed monthly by the valuation committee ("Valuation Committee"). The Valuation Committee is delegated by the Managing Member with the administration and oversight of the Fund's valuation policies and procedures. The Valuation Committee determines the fair value of investments in accordance with the fair value guidance and as described below. In the event the Valuation Committee determines, in its discretion and based on its own due diligence and investment monitoring procedures, that the fair value of any investment determined, as set further below, does not represent fair value, the Valuation Committee will value such investments at fair value in accordance with procedures adopted in good faith and approved by the Managing Member as the same may be amended from time to time.

Investments in Investee Funds

The fair value of investments in limited partnerships and investment funds and affiliated limited partnerships and investment funds ("Investee Funds") is generally determined using the reported net asset value per share of the Investee Fund, or its equivalent, as a practical expedient for fair value.

The Fund may, as a practical expedient, estimate the fair value of an Investee Fund based on the reported net asset value per share or its equivalent ("NAV") if the reported NAV of the Investee Fund is calculated in a manner consistent with the measurement principles applied to investment companies. In order to use the practical expedient, the Managing Member has internal processes to independently evaluate the fair value measurement process utilized by the underlying Investee Fund to calculate the Investee Fund's NAV. Such internal processes include the evaluation of the Investee Fund's policies and related internal controls in place to estimate the fair value of its underlying investments that are included in the NAV calculation, performing ongoing operational due diligence, review of the Investee Fund's audited financial statements and ongoing monitoring of other relevant qualitative and quantitative factors.

The fair value of investments in Investee Funds is reported net of management fees and incentive allocations/fees. The Investee Funds' management fees and incentive allocations/fees are reflected in the net decrease in members' capital from investments on the Statement of Operations and Incentive Allocation in Liquidation.

Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed and the differences could be material.

Investments in Investee Funds may involve varying degrees of interest rate risk, credit risk, foreign exchange risk and market, industry or geographic concentration risk.

While the Managing Member monitors and attempts to manage these risks, the varying degrees of transparency into and potential illiquidity of the financial instruments held by the Investee Funds may hinder the Managing Member's ability to effectively manage and mitigate these risks.

Investment Transactions and Related Investment Income and Expense

Investment transactions are accounted for on a trade date basis. Income and expenses, including interest, are recorded on an accrual basis.

The net realized gains or losses from investments in Investee Funds are recorded when the Fund redeems or partially redeems its interest in the Investee Funds or receives distributions in excess of return of capital or receives capital gain distributions. Realized gains and losses from redemptions of investments are calculated using the average cost basis methodology. Distributions that represent return of capital, based on information provided by the Investee Funds, are recorded as a reduction of the cost of investments in Investee Funds.

Allocation of Gains and Losses

Net increase or decrease in members' capital from operations is generally allocated on a pro-rata basis to the members in accordance with the provisions set forth in the Governing Legal Agreement.

Income and loss related to New Issues, as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"), are allocated to the eligible non-managing members.

Income Taxes

The Fund is treated as a partnership for tax purposes in the United States of America ("U.S.") and is generally not subject to federal, state or local income tax in the U.S. Each member of the Fund generally is liable for its share of all U.S. federal, state and local taxes, if any, imposed on the net income and realized gains of the Fund. Certain investments held by the Fund may subject the individual members to taxation and filing requirements in non-U.S. jurisdictions as well. Interest, dividends and other income realized by the Fund from non-U.S. sources and capital gains realized on the sale of non-U.S. investments may be subject to withholding and other taxes levied by the jurisdictions in which the income is sourced.

In accordance with U.S. GAAP, the Fund is required to determine whether any uncertain tax positions are "more-likely-than-not" to be sustained upon examination by tax authorities in the major jurisdictions where the Fund is organized, makes investments, and where the Investment Manager is located. Uncertain tax positions not deemed to meet a "more-likely-than-not" threshold would generally be recorded as a tax expense in the current year.

The Fund has evaluated its uncertain tax positions and is not aware of any matters requiring recognition, measurement, or disclosure as of year-end. The Fund remains subject to examination in its major jurisdictions under varying statutes of limitations (generally three years for filed returns). The Fund is not aware of any tax position for which it is reasonably possible that the total amount of unrecognized tax benefit will change materially in the next twelve months. As a result, no income tax liability or expense, including interest and penalties, has been recorded within these financial statements in liquidation.

Cash and Cash Equivalents

The Fund considers short-term, highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents. As of year-end, the Fund had cash of $35,195,477 held at a major North American bank.

Contingencies

In the normal course of business, the Fund enters into contracts that contain a variety of representations and indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued guidance on the disclosure of uncertainties about an entity's ability to continue as a going concern which provides guidance on management's responsibility in evaluating whether there is substantial doubt about the Fund's ability to continue as a going concern and related footnote disclosures. For each reporting period, management is required to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern within one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. The guidance is effective for annual periods ending after December 15, 2016 and interim periods and annual periods thereafter. The adoption of this guidance did not have a material impact on the financial statements in liquidation.

In January 2016, the FASB issued guidance on recognition and measurement of financial assets and liabilities. The new guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information and addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. One of the amendments in this update eliminates the requirement to disclose the fair value of financial instruments not recognized at fair value in the financial statements for entities that do not meet the definition of a public business entity. The amended guidance is effective for fiscal years beginning after December 15, 2018, however, early adoption is permitted. The Fund early adopted the amendment in this update related to the elimination of the fair value disclosure of financial instruments not recognized at fair value, and such adoption did not have a material impact on the Fund's financial statements in liquidation. The adoption of the remaining amendments is not expected to have a material impact on the Fund's financial statements in liquidation.

4. Membership Terms

Capital contributions are no longer accepted subsequent to the date of liquidation. As part of the liquidation process, the Managing Member will continue to liquidate the assets at the earliest date permissible under the terms of such investment. The proceeds from liquidation shall generally be paid first to satisfy the debts, liabilities and obligations of the Fund. The remaining proceeds shall be distributed pro-rata to the non-managing members in accordance with, and up to the positive balance of their respective capital accounts. As of year-end, liquidating distributions payable to the non-managing members totaled $78,141,810.

5. Investments

As of year-end, all of the Fund's investments in Investee Funds were valued using the practical expedient. As a result, disclosure of investments in Investee Funds within the fair value hierarchy is excluded.

Major Investment Strategies

Investments in Investee Funds that are non-redeemable or subject to other restrictions such as a lockup at the measurement date or have the ability to limit the individual amount of investor redemptions shall be classified as having a redemption restriction.

The following table summarizes investments in Investee Funds, by investment strategy, the unfunded commitment of each strategy (if applicable) and the amount of the investments in Investee Funds that cannot be redeemed because of redemption restrictions put in place by the Investee Funds as of year-end.

Investments in Investee Funds by Strategy	Unfunded Commitment $	Non-Redeemable Investments (A)		Other Restricted Investments (B)		Investments Subject to No Restrictions	Total $
		Amount $	Redemption Restriction Commencement Date	Amount $	Redemption Restriction Term	Amount $	
Equity	–	–	N/A	31,540,068	12 months - 36 months	–	31,540,068
Multi-Category	–	–	N/A	–	N/A	15,626,660	15,626,660
Credit-Driven	3,087,488	4,573,097	March 2015	–	N/A	79,021	4,652,118

(A) Investments in Investee Funds cannot be redeemed and the remaining redemption restriction period is not known. The date the redemption restriction commenced is disclosed.

(B) Investments subject to other restrictions include investments in Investee Funds that are subject to a lockup at the measurement date and/or have the ability to limit the individual amount of investor redemptions. The redemption restriction term is based on the restriction period (or range of restriction periods) for Investee Funds as defined in each respective Investee Fund's governing legal agreement without consideration of the length of time elapsed from the date of the investments in the Investee Funds. The Fund's investment in a particular Investee Fund classified within the strategies above may be comprised of investments with differing liquidity terms or investments which were made at differing points in time.

6. Related Party Transactions

The Fund and the Investment Manager consider their existing owners, employees, affiliated funds and certain other persons or entities associated with The Blackstone Group L.P. to be affiliates.

Blackstone Holdings Finance Co. L.L.C. ("FINCO"), an affiliate of the Fund, pays expenses on behalf of the Fund. The Fund reimburses FINCO for such expenses paid on behalf of the Fund. FINCO does not charge any fees for providing such administrative services. This amount outstanding as of year-end is recorded as a payable to affiliate in the Statement of Financial Condition in Liquidation.

The Fund invests in certain affiliated Investee Funds. There are no management or incentive fees charged to the Fund for such investments.

For the period, contributions and withdrawals (inclusive of non-cash activity) to and from affiliated Investee Funds totaled $41,020,758 and $157,618,558, respectively.

The receivable from affiliated Investee Funds redeemed represents the remaining withdrawal proceeds related to a full or partial withdrawal from the affiliated Investee Funds during 2016.

7. Management Fees and Incentive Allocation

The Fund pays the Investment Manager a quarterly management fee (the "Management Fee"), in arrears, equal to 0.125% (0.50% per annum) of the quarter end net asset value of the non-managing members' capital account. The Management Fee for any period less than a full quarter is prorated for the basis of actual number of days elapsed.

In addition to the Management Fee, the non-managing members allocate to the Managing Member an amount based on the performance of the Fund (the "Incentive Allocation") on the Incentive Allocation Calculation Date (generally December 31). This amount is calculated after the deduction of the Management Fee. A non-managing member is subject to an Incentive Allocation charge equal to 10% of Net Capital Appreciation during the relevant Measurement Period provided that such income exceeds the sum of 1) the Threshold Amount and 2) the balance in the non-managing members' Loss Recovery Account, if any.

8. Financial Instruments and Off-Balance Sheet Risk

In the normal course of business, the Investee Funds and underlying investments held by the Investee Funds may enter into certain financial instrument transactions which may result in off-balance sheet market risk and credit risk. The Fund's market risk is also impacted by an Investee Fund's exposure to interest rate risk, foreign exchange risk and industry or geographic concentration risk. The Investee Funds and underlying investments held by the Investee Funds invest in these instruments for trading and hedging purposes. The Fund is indirectly subject to certain risks arising from investments made by the Investee Funds and underlying investments held by the Investee Funds.

Market Risk

Market risk is the risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements. The Fund is exposed to market risk indirectly as a result of the types of investments that the Investee Funds make. The Fund actively monitors its exposure to market risk.

Investee Funds may invest in entities that trade or may invest directly in interest rate swaps, credit default swaps, exchange-traded and over-the-counter options, futures transactions, forward transactions and securities sold, not yet purchased.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform their obligations under the terms of a contract. The Fund is indirectly exposed to credit risk related to the amount of accounting loss that the Investee Funds would incur if a counterparty fails to perform its obligations under contractual terms and if the Investee Funds fail to perform under their respective agreements.

9. Financial Highlights

The financial highlights are calculated for the period January 1, 2016 to March 31, 2016 for the non-managing members and exclude data for the Managing Member.

Financial Ratios: [(1)]	
Expenses to average non-managing members' capital account before Incentive Allocation	0.15%
Incentive Allocation	0.00%
Expenses to average non-managing members' capital account after Incentive Allocation	0.15%
Net investment loss to average non-managing members' capital account	(0.15%)
Total Return: [(1)]	
Total return before Incentive Allocation	(3.45%)
Incentive Allocation	0.00%
Total return after Incentive Allocation	(3.45%)

[(1)] Financial ratios and total return have not been annualized.

The financial highlights are calculated for the period April 1, 2016 to December 31, 2016 for the non-managing members and exclude data for the Managing Member.

Financial Ratios: [(1)]	
Expenses to average non-managing members' capital account before Incentive Allocation	0.62%
Incentive Allocation	0.03%
Expenses to average non-managing members' capital account after Incentive Allocation	0.65%
Net investment loss to average non-managing members' capital account	(0.60%)
Total Return: [(1)]	
Total return before liquidating expenses and Incentive Allocation	5.47%
Liquidating expenses	(0.58%)
Incentive Allocation	(0.06%)
Total return after liquidating expenses and Incentive Allocation	4.83%

[(1)] Financial ratios and total return have not been annualized.

The financial ratios represent the expenses and net investment loss to average monthly non-managing members' capital for the period. Liquidating Expenses associated with liquidation of the Fund are further discussed in Note 2.

The ratios do not reflect the Fund's share of the income and expenses of the underlying Investee Funds.

The ratio of net investment loss to average non-managing members' capital does not reflect the effect of any Incentive Allocation.

10. Subsequent Events

The Fund has evaluated the impact of subsequent events through June 7, 2017, which is the date the financial statements in liquidation were available to be issued.

The amounts recorded as a receivable from Investee Funds and affiliated Investee Funds redeemed at year-end were subsequently partially collected in an amount of $83,785,914.

The liquidating distributions payable to managing and non-managing members were fully paid subsequent to year-end. Additional liquidating distributions of $34,129 and $54,965,871 were fully paid to managing and non-managing members subsequent to year-end.

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FINANCIAL STATEMENTS IN LIQUIDATION

Blackstone Henry Clay Fund, LLC

(A Delaware Limited Liability Company)

As of June 30, 2017 and for the period January 1, 2017 to June 30, 2017
and Independent Auditors' Report

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)

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INDEPENDENT AUDITORS' REPORT

To Blackstone Henry Clay Fund, LLC:

We have audited the accompanying financial statements of Blackstone Henry Clay Fund, LLC (the "Fund"), which comprise the statement of financial condition in liquidation as of June 30, 2017, and the related statements of operations and incentive allocation in liquidation, changes in members' capital in liquidation, and cash flows in liquidation for the period January 1, 2017 to June 30, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position in liquidation of Blackstone Henry Clay Fund, LLC as of June 30, 2017, and the results of its operations and incentive allocation in liquidation, changes in its members' capital in liquidation, and its cash flows in liquidation for the period January 1, 2017 to June 30, 2017, in accordance with accounting principles generally accepted in the United States of America applied on the basis described in Note 2 to the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter Regarding Liquidation Basis of Accounting

As discussed in Note 2 to the financial statements, effective April 1, 2016, the Fund adopted a formal plan of liquidation. The Fund advised its members of its decision to dissolve the Fund and the Fund's management commenced the process of liquidation shortly thereafter. As a result, these financial statements have been prepared on liquidation basis of accounting. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

September 19, 2017

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Financial Condition in Liquidation
As of June 30, 2017

ASSETS

Cash and cash equivalents	$	3,796,825
Receivable from Investee Funds redeemed		17,884,662
Receivable from affiliated Investee Funds redeemed		16,536,254
Total assets	$	38,217,741

LIABILITIES AND MEMBERS' CAPITAL

Liabilities:		
Liquidating distributions payable	$	37,924,804
Liquidating distribution payable to affiliate		9,000
Management fees payable		56,501
Payable to affiliate		2,101
Accrued expenses and other liabilities		225,335
Total liabilities		38,217,741
Members' capital:		
Managing Member		–
Non-Managing Members		–
Total members' capital		–
Total liabilities and members' capital	$	38,217,741

See notes to the financial statements in liquidation.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Operations and Incentive Allocation in Liquidation
For the Period January 1, 2017 to June 30, 2017

Net investment income:		
Expenses:		
Management fees	$ 141,354	
Expense reversal due to liquidation	(230,527)	
Total expenses	(89,173)	
Management fee rebate	(9,247)	
Net expenses	(98,420)	
Net investment income		98,420
Net increase in members' capital from investments:		
Net realized gain from investments in Investee Funds	4,339,136	
Net realized gain from investments in affiliated Investee Funds	3,059,120	
Net change in unrealized depreciation from investments in Investee Funds	(3,747,529)	
Net change in unrealized depreciation from investments in affiliated Investee Funds	(2,672,597)	
Net increase in members' capital from investments		978,130
Net increase in members' capital from operations		$ 1,076,550

Allocation of net increase in members' capital from operations attributable to:	
Non-Managing Members	$ 1,075,496
Managing Member	1,054
Incentive Allocation from Non-Managing Members	(77,168)
Incentive Allocation to Managing Member	77,168
Total net increase in members' capital from operations	$ 1,076,550

See notes to the financial statements in liquidation.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Changes in Members' Capital in Liquidation
For the Period January 1, 2017 to June 30, 2017

	Managing Member's Capital Account	Non-Managing Members' Capital Account	Total
Members' capital, January 1, 2017	$ 71,646	$ 98,619,316	$ 98,690,962
Liquidating distributions	(149,868)	(99,617,644)	(99,767,512)
Allocation of net increase in members' capital from operations:			
Pro-rata allocation	1,054	1,075,496	1,076,550
Incentive Allocation to Managing Member	77,168	(77,168)	–
Members' capital, June 30, 2017	$ –	$ –	$ –

See notes to the financial statements in liquidation.

Blackstone Henry Clay Fund, LLC
(A Delaware Limited Liability Company)
Statement of Cash Flows in Liquidation
For the Period January 1, 2017 to June 30, 2017

Cash flows from operating activities:	
Net increase in members' capital from operations	$ 1,076,550
Adjustments to reconcile net increase in members' capital from operations to net cash provided by operating activities:	
Net realized gain from investments in Investee Funds	(4,339,136)
Net realized gain from investments in affiliated Investee Funds	(3,059,120)
Net change in unrealized depreciation from investments in Investee Funds	3,747,529
Net change in unrealized depreciation from investments in affiliated Investee Funds	2,672,597
Purchase of investments in Investee Fund	(1,217,314)
Proceeds from redemptions of investments in Investee Funds	14,726,637
Proceeds from redemptions of investments in affiliated Investee Funds	95,554,339
(Increase)/decrease in operating assets	
Other assets	6,271
Increase/(decrease) in operating liabilities	
Management fees payable	(151,593)
Payable to affiliate	(23,653)
Accrued expenses and other liabilities	(365,315)
Net cash provided by operating activities	108,627,792
Cash flows from financing activities:	
Payments for members' liquidating distributions	(140,026,444)
Cash used in financing activities	(140,026,444)
Net change in cash and cash equivalents	(31,398,652)
Cash and cash equivalents, beginning of period	35,195,477
Cash and cash equivalents, end of period	$ 3,796,825

See notes to the financial statements in liquidation.

1. Organization

Blackstone Henry Clay Fund, LLC (the "Fund") is a Delaware limited liability company which was formed on August 16, 2011 and commenced operations on September 1, 2011. The Fund is organized for the primary purpose of developing and actively managing an investment portfolio of non-traditional portfolio managers.

The managing member of the Fund is Blackstone Alternative Asset Management Associates LLC ("BAAMA" or the "Managing Member"), a Commodity Pool Operator. The investment manager of the Fund is Blackstone Alternative Asset Management L.P. ("BAAM" or the "Investment Manager"), a Registered Investment Advisor under the Investment Advisers Act of 1940, Commodity Trading Advisor and Commodity Pool Operator. The Managing Member and the Investment Manager are subsidiaries of The Blackstone Group L.P.

Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Fund's governing legal agreement (the "Governing Legal Agreement").

2. Basis of Presentation

The Fund's financial statements in liquidation have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars.

The Fund is an investment company in accordance with Accounting Standards Codification 946, *Financial Services-Investment Companies* ("ASC 946"), which defines investment companies and prescribes specialized accounting and reporting requirements for investment companies.

The preparation of financial statements in liquidation in accordance with U.S. GAAP requires management to make certain estimates and assumptions that affect the amount of reported assets, liabilities, the disclosure of contingent assets and liabilities and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material.

Liquidation Basis of Accounting

Effective April 1, 2016, the Fund adopted a formal plan of liquidation. The Fund advised its non-managing members of its decision to dissolve the Fund and the Fund's Managing Member commenced the process of liquidation shortly thereafter.

The Fund's financial statements in liquidation have been prepared under the liquidation basis of accounting. The liquidation basis of accounting is appropriate when liquidation is imminent. Under this method of accounting, assets are stated at their estimated net realizable values and liabilities are stated at their anticipated settlement amounts. Liabilities are re-measured to reflect estimated amounts to be paid upon settlement of the final liabilities and include all expenses expected to be incurred during the liquidation process.

As of period-end, the Managing Member has revised its estimate of the expected period of liquidation and expects the Fund to liquidate within one year of the Statement of Financial Condition in Liquidation. As a result, the Fund re-measured its liabilities and consequently recorded an expense reversal in the Statement of Operations and Incentive Allocation in Liquidation which reflects the change in estimate.

3. Significant Accounting Policies

Fair Value Measurements

Valuation Process

The fair value of the Fund's investments is reviewed monthly by the valuation committee ("Valuation Committee"). The Valuation Committee is delegated by the Managing Member with the administration and oversight of the Fund's valuation policies and procedures. The Valuation Committee determines the fair value of investments in accordance with the fair value guidance and as described below. In the event the Valuation Committee determines, in its discretion and based on its own due diligence and investment monitoring procedures, that the fair value of any investment determined, as set further below, does not represent fair value, the Valuation Committee will value such investments at fair value in accordance with procedures adopted in good faith and approved by the Managing Member as the same may be amended from time to time.

Investments in Investee Funds

The Fund's investments in limited partnerships and investment funds ("Investee Funds") were redeemed prior to June 30, 2017.

Prior to June 30, 2017, the Investee Funds' fair value was determined using the reported net asset value per share of the Investee Fund, or its equivalent, as a practical expedient for fair value.

If the Managing Member determined, based on its own due diligence and investment monitoring procedures, that the reported net asset value per share or its equivalent of any Investee Fund could not be used to represent fair value, the Managing Member estimated the fair value of the Investee Funds in good faith and in a manner that it reasonably chose.

Investments in Investee Funds may involve varying degrees of interest rate risk, credit risk, foreign exchange risk and market, industry or geographic concentration risk.

While the Managing Member monitors and attempts to manage these risks, the varying degrees of transparency into and potential illiquidity of the financial instruments held by the Investee Funds may hinder the Managing Member's ability to effectively manage and mitigate these risks.

Investment Transactions and Related Investment Income and Expense

Investment transactions are accounted for on a trade date basis. Income and expenses, including interest, are recorded on an accrual basis.

The net realized gains or losses from investments in Investee Funds are recorded when the Fund redeems or partially redeems its interest in the Investee Funds or receives distributions in excess of return of capital or receives capital gain distributions. Realized gains and losses from redemptions of investments are calculated using the average cost basis methodology. Distributions that represent return of capital, based on information provided by the Investee Funds, are recorded as a reduction of the cost of investments in Investee Funds.

Allocation of Gains and Losses

Net increase or decrease in members' capital from operations is generally allocated on a pro-rata basis to the members in accordance with the provisions set forth in the Governing Legal Agreement.

Income and loss related to New Issues, as defined by the Financial Industry Regulatory Authority, Inc. ("FINRA"), are allocated to the eligible non-managing members.

Income Taxes

The Fund is treated as a partnership for tax purposes in the United States of America ("U.S.") and is generally not subject to federal, state or local income tax in the U.S. Each member of the Fund generally is liable for its share of all U.S. federal, state and local taxes, if any, imposed on the net income and realized gains of the Fund. Certain investments held by the Fund may subject the individual members to taxation and filing requirements in non-U.S. jurisdictions as well. Interest, dividends and other income realized by the Fund from non-U.S. sources and capital gains realized on the sale of non-U.S. investments may be subject to withholding and other taxes levied by the jurisdictions in which the income is sourced.

In accordance with U.S. GAAP, the Fund is required to determine whether any uncertain tax positions are "more-likely-than-not" to be sustained upon examination by tax authorities in the major jurisdictions where the Fund is organized, makes investments, and where the Investment Manager is located. Uncertain tax positions not deemed to meet a "more-likely-than-not" threshold would generally be recorded as a tax expense in the current period.

The Fund has evaluated its uncertain tax positions and is not aware of any matters requiring recognition, measurement, or disclosure as of period-end. The Fund remains subject to examination in its major jurisdictions under varying statutes of limitations (generally three years for filed returns). The Fund is not aware of any tax position for which it is reasonably possible that the total amount of unrecognized tax benefit will change materially in the next twelve months. As a result, no income tax liability or expense, including interest and penalties, has been recorded within these financial statements in liquidation.

Cash and Cash Equivalents

The Fund considers short-term, highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents. As of period-end, the Fund had cash of $3,796,825 held at a major North American bank.

Contingencies

In the normal course of business, the Fund enters into contracts that contain a variety of representations and indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Recent Accounting Pronouncements

In January 2016, the FASB issued guidance on recognition and measurement of financial assets and liabilities. The new guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information and addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. One of the amendments in this update eliminates the requirement to disclose the fair value of financial instruments not recognized at fair value in the financial statements for entities that do not meet the definition of a public business entity. The amended guidance is effective for fiscal years beginning after December 15, 2018, however, early adoption is permitted. The Fund early adopted the amendment in this update related to the elimination of the fair value disclosure of financial instruments not recognized at fair value, and such adoption did not have a material impact on the Fund's financial statements in liquidation. The adoption of the remaining amendments is not expected to have a material impact on the Fund's financial statements in liquidation.

4. Membership Terms

Capital contributions are no longer accepted subsequent to the date of liquidation. As part of the liquidation process, the Managing Member will continue to liquidate the assets at the earliest date permissible under the terms of such investment. The proceeds from liquidation shall generally be paid first to satisfy the debts, liabilities and obligations of the Fund. The remaining proceeds shall be distributed pro-rata to the non-managing members in accordance with, and up to the positive balance of their respective capital accounts. As of period-end, liquidating distributions payable to the non-managing members totaled $37,924,804.

5. Related Party Transactions

The Fund and the Investment Manager consider their existing owners, employees, affiliated funds and certain other persons or entities associated with The Blackstone Group L.P. to be affiliates.

Blackstone Holdings Finance Co. L.L.C. ("FINCO"), an affiliate of the Fund, pays expenses on behalf of the Fund. The Fund reimburses FINCO for such expenses paid on behalf of the Fund. FINCO does not charge any fees for providing such administrative services. This amount outstanding as of period-end is recorded as a payable to affiliate in the Statement of Financial Condition in Liquidation.

For the period, withdrawals (inclusive of non-cash activity) from affiliated Investee Funds totaled $32,485,140.

The receivable from affiliated Investee Funds redeemed represents the remaining withdrawal proceeds related to a full withdrawal from the affiliated Investee Funds during 2017.

6. Management Fees and Incentive Allocation

The Fund pays the Investment Manager a quarterly management fee (the "Management Fee"), in arrears, equal to 0.125% (0.50% per annum) of the quarter end net asset value of the non-managing members' capital account. The Management Fee for any period less than a full quarter is prorated for the basis of actual number of days elapsed.

In addition to the Management Fee, the non-managing members allocate to the Managing Member an amount based on the performance of the Fund (the "Incentive Allocation") on the Incentive Allocation Calculation Date (generally December 31). This amount is calculated after the deduction of the Management Fee. A non-managing member is subject to an Incentive Allocation charge equal to 10% of Net Capital Appreciation during the relevant Measurement Period provided that such income exceeds the sum of 1) the Threshold Amount and 2) the balance in the non-managing members' Loss Recovery Account, if any.

7. Financial Instruments and Off-Balance Sheet Risk

In the normal course of business, the Investee Funds and underlying investments held by the Investee Funds may enter into certain financial instrument transactions which may result in off-balance sheet market risk and credit risk. The Fund's market risk is also impacted by an Investee Fund's exposure to interest rate risk, foreign exchange risk and industry or geographic concentration risk. The Investee Funds and underlying investments held by the Investee Funds invest in these instruments for trading and hedging purposes. The Fund is indirectly subject to certain risks arising from investments made by the Investee Funds and underlying investments held by the Investee Funds.

Market Risk

Market risk is the risk of potential adverse changes to the value of financial instruments because of changes in market conditions such as interest and currency rate movements. The Fund is exposed to market risk indirectly as a result of the types of investments that the Investee Funds make. The Fund actively monitors its exposure to market risk.

Investee Funds may invest in entities that trade or may invest directly in interest rate swaps, credit default swaps, exchange-traded and over-the-counter options, futures transactions, forward transactions and securities sold, not yet purchased.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform their obligations under the terms of a contract. The Fund is indirectly exposed to credit risk related to the amount of accounting loss that the Investee Funds would incur if a counterparty fails to perform its obligations under contractual terms and if the Investee Funds fail to perform under their respective agreements.

8. Financial Highlights

The financial highlights are calculated for the period for the non-managing members and exclude data for the Managing Member.

Financial Ratios:[(1)]	
Expenses to average non-managing members' capital account after expense reversal due to liquidation and before management fee rebate and Incentive Allocation	(0.16%)
Management fee rebate	(0.02%)
Incentive Allocation	0.14%
Expenses to average non-managing members' capital account after expense reversal due to liquidation, management fee rebate and Incentive Allocation	(0.04%)
Net investment income to average non-managing members' capital account after expense reversal due to liquidation	0.18%
Total Return:[(1)]	
Total return before expense reversal due to liquidation and Incentive Allocation	0.94%
Expense reversal due to liquidation	0.37%
Incentive Allocation	(0.08%)
Total return after expense reversal due to liquidation and Incentive Allocation	1.23%

[(1)] Financial ratios and total return have not been annualized.

The financial ratios represent the expenses and net investment income to average monthly non-managing members' capital for the period. The financial ratios reflect the impact of the expense reversal due to liquidation as discussed in Note 2.

The total return is presented before and after the impact of the expense reversal due to liquidation as discussed in Note 2.

The ratios do not reflect the Fund's share of the income and expenses of the underlying Investee Funds.

The ratio of net investment income to average non-managing members' capital does not reflect the effect of any Incentive Allocation.

9. Subsequent Events

The Fund has evaluated the impact of subsequent events through September 19, 2017, which is the date the financial statements in liquidation were available to be issued.

The amounts recorded as a receivable from Investee Funds and affiliated Investee Funds redeemed at period-end were subsequently partially collected in cash and transferred in-kind in the amounts of $725,648 and $33,692,255 respectively.

The liquidating distributions payable to managing and non-managing members were partially paid in cash of $4,081,174 and through an in-kind transfer of $33,692,255 subsequent to period-end.

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Exhibit 45

Deloitte.

Newport Colonels, LLC

Financial Statements

As of December 31, 2011 and for the period from September 1, 2011 (commencement of operations) through December 31, 2011, and Independent Auditors' Report

This report qualifies under the exemptive provisions of Regulation 4.13 of the Commodity Exchange Act.

Newport Colonels, LLC

Corporate Information

Registered Office	Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808 USA
Administrator	International Fund Services (N.A.), L.L.C. 1290 Avenue of the Americas, 10th Floor New York, NY 10104 United States of America
Legal Advisor	K&L Gates LLP 1601 K Street,NW Washington, DC 20006 USA
Manager and Investment Advisor	Pacific Alternative Asset Management Company, LLC 19540 Jamboree Road, Suite 400 Irvine, CA 92612 USA
Custodian	The Northern Trust Company 50 South LaSalle Street Chicago, IL 60675 USA
Independent Auditor	Deloitte & Touche LLP Suite 1200 695 Town Center Drive Costa Mesa, CA 92626-7188 USA

Newport Colonels, LLC

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INDEPENDENT AUDITORS' REPORT

To the Member of
Newport Colonels, LLC:

We have audited the accompanying statement of assets and liabilities of Newport Colonels, LLC (the "Company"), including the condensed schedule of investments, as of December 31, 2011, and the related statements of operations, changes in net assets, and cash flows for the period from September 1, 2011 (commencement of operations) through December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Colonels, LLC as of December 31, 2011, the results of its operations, changes in its net assets, and its cash flows for the period from September 1, 2011 (commencement of operations) through December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 30, 2012

Newport Colonels, LLC

STATEMENT OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2011

ASSETS	
Investments, at fair value (cost $ 409,916,419)	$ 407,602,190
Cash and cash equivalents	3,099,646
Investments funded in advance	1,500,000
Dividends receivable	66
Total assets	412,201,902
LIABILITIES	
Accrued management fees	515,232
Administration fees	14,260
Accrued liabilities	12,000
Total liabilities	541,492
NET ASSETS:	$ 411,660,410

See notes to financial statements.

Newport Colonels, LLC

CONDENSED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2011

	Cost	Fair Value	Percent of Net Assets	
Investments:				
Convertible bond hedging				
United States	$ 24,070,000	$ 23,019,155	5.59	%*
Europe	6,470,000	6,514,737	1.58	
Total convertible bond hedging	30,540,000	29,533,892	7.17	
Distressed debt – United States	51,766,824	50,093,106	12.17	*
Equity market neutral – United States	8,300,000	8,422,994	2.05	
Event-driven equity – United States	35,277,000	34,692,467	8.43	*
Fixed income relative value				
United States	22,793,000	22,903,128	5.56	*
Europe	10,375,000	10,452,999	2.54	
Total fixed income relative value	33,168,000	33,356,127	8.10	
Long/short credit – United States	115,934,235	118,535,021	28.79	*
Long/short equity				
United States	74,080,000	72,958,361	17.72	*
Europe	20,751,000	20,450,754	4.97	
South America	6,225,000	5,908,402	1.44	
Asia	6,225,000	5,521,735	1.34	
Total long/short equity	107,281,000	104,839,252	25.47	
Opportunistic investments				
United States	24,070,000	24,632,438	5.98	*
Australia	3,579,360	3,496,893	0.85	
Total opportunistic investments	27,649,360	28,129,331	6.83	
TOTAL	$ 409,916,419	$ 407,602,190	99.01	%

*No single investment vehicle represents more than 5% of net assets

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF OPERATIONS
FOR THE PERIOD FROM SEPTEMBER 1, 2011 (COMMENCEMENT OF OPERATIONS)
THROUGH DECEMBER 31, 2011

INVESTMENT INCOME – Dividend income	$ 358
INVESTMENT EXPENSES:	
Management fees	1,025,639
Administration fees	33,007
Professional fees	15,970
Total investment expenses	1,074,616
NET INVESTMENT LOSS	(1,074,258)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	
Net realized gain on investments	23,897
Net change in unrealized depreciation on investments	(2,314,229)
Net realized and unrealized loss on investments	(2,290,332)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (3,364,590)

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD FROM SEPTEMBER 1, 2011 (COMMENCEMENT OF OPERATIONS)
THROUGH DECEMBER 31, 2011

BALANCE – SEPTEMBER 1, 2011	$ -
Capital contribution	415,025,000
Change in net assets resulting from operations:	
Net investment loss	(1,074,258)
Net realized gain on investments	23,897
Net change in unrealized depreciation on investments	(2,314,229)
Net decrease in net assets resulting from operations	(3,364,590)
BALANCE – DECEMBER 31, 2011	$ 411,660,410

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM SEPTEMBER 1, 2011 (COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net decrease in net assets resulting from operations	$ (3,364,590)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash used in operating activities	
Purchase of investments	(411,065,541)
Proceeds from disposition of investments	1,173,019
Net realized gain on investments	(23,897)
Net change in unrealized depreciation on investments	2,314,229
Increase in investments funded in advance	(1,500,000)
Increase in accrued management fees	515,232
Increase in administration fee payable	14,260
Increase in accrued liabilities	12,000
Increase in dividends receivable	(66)
Net cash used in operating activities	(411,925,354)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital contribution	415,025,000
Net cash provided by financing activities	415,025,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,099,646
CASH AND CASH EQUIVALENTS – Beginning of period	-
CASH AND CASH EQUIVALENTS – End of period	$ 3,099,646

See notes to financial statements.

Newport Colonels, LLC

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD FROM SEPTEMBER 1, 2011 (COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2011

1. ORGANIZATION AND NATURE OF BUSINESS

Newport Colonels, LLC (the "Company") was organized as a Delaware limited liability company on August 11, 2011, and commenced operations on September 1, 2011. A related party, Pacific Alternative Asset Management Company, a California limited liability company, serves as the investment manager of the Company (the "Investment Manager").

The Company's objective is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle. In pursuit of the objective, the Company may allocate substantially all of its assets across a variety of investment vehicles, generally with fixed income and equity orientations, covering many different investment styles. There is no assurance that the Company will achieve its investment objective.

Investment in the Company may involve risk factors and is suitable only for sophisticated investors who have limited need for liquidity of their investment and who can accept a degree of risk in their investment. See the Company's formation documents for a complete description of the Company and the risks associated therewith.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company uses the accrual basis of accounting. Accordingly, investment transactions are recorded on a trade-date basis, and income and expenses are recorded as earned and incurred, respectively.

Basis of Presentation

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditures during the reporting period. Actual results could differ from those estimates.

Income and Expense Recognition

Income is accrued through dividend income on cash and cash equivalents. The Company incurs expenses primarily through the payment of management fees to the Investment Manager. Other expenses include payments for professional services rendered by third parties.

Cash and Cash Equivalents

Cash balances are swept nightly to the Northern Institutional Treasury Fund, a money market fund that qualifies as a registered investment company. The money fund invests in U.S. Treasury securities, which are guaranteed as to principal and interest by the U.S. government, and related tri-party repurchase agreements.

Money market funds that qualify as a registered investment company are considered Level 1 securities under Accounting Standards Update ("ASU") 2009-12, as defined subsequently in these disclosures.

Investments

The Company invests in non-readily marketable investment vehicles that are valued at $407,602,190, representing approximately 99.01% of net assets at December 31, 2011, whose values are based on the Company's proportionate share of the net asset values of the investment vehicles as reported by the hedge fund managers. Such investment vehicles generally mark their investments to market, with changes in unrealized gain or loss recorded in net change in unrealized depreciation on investments in the accompanying statement of operations. Accordingly, the Company's share of the income or loss primarily consists of realized gains and losses, unrealized appreciation and depreciation on investments, and interest and dividend income and expenses, including management and performance fees.

In addition, the fair values related to the underlying investment vehicles may have been estimated by the management of the respective managers of the funds in the absence of readily ascertainable market values. In accordance with the Investment Manager's Valuation Policy and pursuant to Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures,* the Investment Manager has the right, in its discretion and in good faith, to deviate from valuation information provided by the managers of the investment vehicles when the Investment Manager deems it appropriate. There were no such changes made to the investment vehicle valuations by the Investment Manager at December 31, 2011. Because of the inherent uncertainty of valuations in the investment vehicles, values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

Since the investment vehicles' interests are not publicly traded, the Company's ability to make withdrawals from its investments in the investment vehicles is subject to certain restrictions which vary for each respective investment vehicle. These restrictions include notice requirements for withdrawals and additional restrictions which limit withdrawals to specified times during the year. In addition, such restrictions can, and in some cases did, include the suspension or delay in withdrawals from the respective investment vehicles.

Realized and unrealized gains and losses are included in operations in the current year and are computed using the average cost method. Change in unrealized appreciation/depreciation on investments in investment vehicles, including those for which partial liquidations were effected in the course of the year, is calculated as the difference between the fair value of the investment at year-end less the fair value of the investment at the beginning of the year, as adjusted for additions and redemptions made during the year.

Income Taxes

The Company is generally not subject to federal or state income taxes, and accordingly, no provision for income taxes has been made in the accompanying financial statements. Taxable investors are required to report their proportional share of gains, losses, credits, or deductions on their own income tax returns.

The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability that would reduce net assets.

The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Based on this review, the Company has determined the major tax jurisdictions where the Company is organized and where the Company makes investments; however, no reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years. The Company's U.S. federal 2011 and state 2011 tax returns remain open for examination by tax authorities. The Company is additionally not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months. As a result, no income tax liability or expense has been recorded in the accompanying financial statements, including expenses for interest or penalties.

Capital Transactions

A Member may request a withdrawal from its capital account effective immediately after the valuation time on any quarterly valuation date by delivering written notice to the Investment Manager at least 90 days (or other shorter period the Investment Manager in its reasonable discretion determines) before the relevant quarterly valuation date.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, on January 1, 2008 requires the Company to classify its assets and liabilities based on valuation methods using three levels. Level 1 values are based on quoted unadjusted prices in active markets for identical investments. Level 2 values are based on significant observable market inputs, such as quoted prices for similar investments and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the investments. The valuation levels are not necessarily an indication of risk or liquidity associated with the underlying investments.

ASU 2009-12 amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV") per share. Due to the updated guidance, underlying investment vehicles with the following criteria are classified as Level 2 per the Investment Manager's policy:

- Quarterly liquidity or better
- Redemption notice period of 90 days or less
- No hard lock that is effective as of December 31, 2011
- No gates or suspension of redemptions / withdrawals as of December 31, 2011

Underlying investment vehicles not meeting the above criteria are classified as Level 3.

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Company's investments fall as of December 31, 2011:

Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 3,099,646	$ -	$ -	$ 3,099,646
Convertible bond hedging	-	29,533,892	-	29,533,892
Distressed debt	-	29,856,373	20,236,733	50,093,106
Equity market neutral	-	8,422,994	-	8,422,994
Event-driven equity	-	34,692,467	-	34,692,467
Fixed income relative value	-	33,356,127	-	33,356,127
Long/short credit	-	113,341,275	5,193,746	118,535,021
Long/short equity	-	104,839,252	-	104,839,252
Opportunistic investments	-	28,129,331	-	28,129,331
	$ 3,099,646	**$ 382,171,711**	**$ 25,430,479**	**$ 410,701,836**

The following table reconciles the valuation of the Company's Level 3 investments recorded at fair value on a recurring basis and related transactions during the period ended December 31, 2011:

Level 3 Rollforward	Distressed debt	Long/short credit	Total
Balance at September 1, 2011	$ -	$ -	$ -
Purchases	21,165,000	5,120,000	26,285,000
Sales	-	-	-
Net Realized loss	-	-	-
Net change in unrealized depreciation	(928,267)	73,746	(854,521)
Transfers in*	-	-	-
Transfers out*	-	-	-
Ending Value at December 31, 2011	$ 20,236,733	$ 5,193,746	$ 25,430,479
Change in unrealized depreciation relating to investments still held as of December 31, 2011	$ (928,267)	$ 73,746	$ (854,521)

*Transfers into and out of level 3 occur at the beginning of the year. Transfers into level 3 occur if any of the criteria described in the "Fair Value Measurements" section is not met by an underlying investment that was previously classified as level 1 or 2. Transfers out of level 3 occur if all criteria described in the "Fair Value Measurements" section are met by an underlying investment that was previously classified as level 3.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which, among other things, amends ASC 820 to require entities to separately present purchases, sales, issuances, and settlements in their reconciliation of Level 3 fair value measurements (i.e., to present such items on a gross basis rather than on a net basis) and which clarifies existing disclosure requirements provided by ASC 820 regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value for measurements that fall within either Level 2 or Level 3 of the fair value hierarchy. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements (which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years). The Company adopted the standard effective December 31, 2010. The adoption did not have a material effect on the Company's financial statements.

3. INVESTMENTS

As of December 31, 2011, the Company invested in multiple Segregated Portfolios of the PM Manager Fund structure (often referred to informally as its separate fund platform), which is a related party. These investments are included in the fixed income relative value, equity market neutral, long/short equity and event-driven equity investment objectives. The funds are subadvised by external, unrelated hedge fund managers. The investments represent 25.22%, or $103,812,188, of the Company's net assets at December 31, 2011. These investments represent 15.42%, or $(356,812), of the net change in unrealized depreciation on investments on the accompanying statement of operations. The Investment Manager does not receive any additional fees from this arrangement.

The following table summarizes the Company's investments in funds as of December 31, 2011. Funds in which the Company invested more than 5% of its net assets are individually identified, while smaller investments in other funds are aggregated. The management agreements of the investee funds provide for compensation to the managers in the form of management fees ranging from 0% to 2% annually of NAV and performance incentive fees ranging from 9% to 20% of net profits earned as defined in the management agreement. All vehicles in which the Company invests are denominated in U.S. dollars.

Investment	Net Realized and Unrealized Gains/(Losses)	Management Fees	Performance / Incentive Fees	Redemptions Permitted	Notice Period	Unfunded Commitments
Convertible bond hedging	$ (1,006,108)	1-1.375%	11.5-15%	Monthly / Quarterly	14-60 days	$ 0
Distressed debt	(1,666,756)	0-1.75%	10-20%	Daily / Quarterly / Semi-Annually	45-90 days	0
Equity market neutral	122,994	1-1.5%	10-16%	Monthly	15-45 days	0
Event-driven equity	(584,533)	0.75-1.5%	10-18%	Monthly / Quarterly	15-90 days	0
Fixed income relative value	188,127	0.75-2%	10-20%	Daily / Monthly	5-90 days	0
Long/short credit	2,627,018	0.75-1.5%	9-20%	Monthly / Quarterly	45-90 days	0
Long/short equity	(2,441,748)	0.375-2%	10-20%	Monthly / Quarterly	15-90 days	0
Opportunistic investments	470,674	0.5-1%	10-15%	Monthly / Quarterly	30-90 days	0
Total	$ (2,290,332)					$ 0

The following summarizes a description of the investment vehicles' investment objectives:

Convertible Bond Hedging
Convertible bond hedging generates profits by identifying pricing disparities between a company's convertible bonds and its underlying stock. Convertible bond hedging managers actively monitor the factors that will change the relationship between the convertible bond and underlying equity and typically execute a hedge by purchasing the convertible bond and selling short the stock. Beyond this typical convertible hedge position, managers also use various techniques to hedge other influential factors, such as interest rate movements and credit spreads.

Distressed Debt
Hedge fund managers that focus on distressed debt strategies invest in the securities of companies that are experiencing financial or operational difficulties. Typically, based on manager style, a distressed debt hedge fund invests in bank debt, corporate debt, trade claims, common stock, or warrants. Distressed situations can include reorganizations, bankruptcies, distressed sales, and other corporate restructurings. The mispricing of these securities often occurs because traditional buyers often must sell the securities of troubled companies. When this happens, distressed debt hedge fund managers attempt to capture the pricing discount that occurs.

Equity Market Neutral
Equity market neutral hedge fund managers construct portfolios that balance long and short positions in order to hedge systemic factors or exposures. Portfolios are generally constructed to be neutral across sectors, industries, and investment styles. Many equity market neutral hedge fund managers use sophisticated, computer-run quantitative models to select stocks. These models are used to create both a statistical advantage in picking stocks and a strategic advantage in controlling exposure to systemic risk.

Event-Driven Equity
This broad strategy area focuses on event-driven trades implemented mainly through equity positions. In executing this strategy, managers seek to profit from discontinuities in the valuation of securities caused by "events". These discontinuities may occur as a result of pending "traditional" merger and acquisitions negotiations, but also through pending restructurings, reorganizations, spin-offs, asset sales, liquidations and share class or company holdings being discounted. In the case of merger arbitrage, typically the trade is to buy the equity of the "target" and sell short the equity of the "acquirer", making a profit (capturing the "merger spread") if the deal closes as expected. The managers may go long or short the affected securities and will generally seek to hedge out risk on a position by position basis; in addition many managers have overlay hedges at the portfolio level. Thus generally, the portfolio is relatively equity, duration and credit duration neutral, although this may tactically change.

Fixed Income Relative Value
Managers employing these strategies seek to capture profit from taking offsetting long and short positions in related fixed income securities and derivatives. The pricing difference between very closely related fixed income securities is often narrow. As a result, hedge fund managers typically use leverage to magnify the small pricing discrepancies between the instruments. Generally, fixed income relative value managers are positioned with moderate risk and will be able to take advantage of volatility movements in interest rates and foreign exchange.

Long/Short Credit
This area focuses on fixed income securities where the majority of the return is derived from credit exposure and selection as opposed to the general term structure of interest rates. Strategies utilized by long/short credit include the purchase or short sale of stressed and distressed bonds, bank loans, high-yield debt and securities from recently reorganized firms. Long/short credit managers employ a wide variety of strategies to invest across the capital structure on a long and short basis. Typically, hedge fund managers take positions as a result of bottom-up, fundamental credit analysis on the company and its capital structure. The strategy attempts to capitalize on inefficiencies in the marketplace while maintaining a lower degree of cyclicality and directionality than a typical distressed debt investment.

Long/Short Equity
Long/short equity managers construct net long or net short portfolios by using equity hedging strategies. These strategies typically involve taking a long position in a stock while shorting an individual stock or broad based market instrument. Net and gross exposures are managed in order to take advantage of both current market conditions and the resulting investment opportunity set. Long/short equity hedge fund managers use short positions to hedge against a general stock market decline as well as to generate alpha.

Opportunistic Investments
This area aims to capitalize on strategies not captured by the above sectors and take advantage of niche opportunistic investments that may have a shorter investment horizon or a focused mandate. Such mandates are sourced by specialty managers across a range of strategies. Another goal of this area is to improve the overall risk composition of our portfolios, including but not limited to hedging mandates and the pursuit of other asymmetric investments.

4. RELATED-PARTY TRANSACTIONS

As compensation for its services to be rendered to the Company, the Investment Manager shall be entitled to receive from the Company with respect to each Member, each month, a management fee in an amount equal to one-twelfth of 0.75% of the Member's capital account balance as of the last day of the month. The Investment Manager may, however, with the consent of the applicable Member, waive the payment of all or part of the management fee payable with respect to such Member for any month or other period the Investment Manager determines is appropriate. For the period ended December 31, 2011, such fees amounted to $1,025,639, of which $515,232 were payable at December 31, 2011.

As of the last day of each fiscal year, the Investment Manager shall receive a performance fee with respect to each Member equal to 5% of the excess, if any, of (i) the net profits (less any Net Losses) otherwise allocable for such year to each Member's capital account minus the sum of (ii) any balance remaining in such Member's loss recovery account as of the beginning of such fiscal year and (iii) the hurdle amount with respect to such Member, if any. For the period ended December 31, 2011, no performance fees were accrued or payable at December 31, 2011.

In addition to management fees paid to the Investment Manager, the Company pays management fees, incentive fees and expenses as a member, partner, or shareholder of each underlying investment company or investment fund. These underlying investments have varied expense and fee structures, which are described in more detail in Note 3. The expenses and fees of such investments are included as part of each investment's fair value and are not presented as expenses of the Company in the accompanying statement of operations.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISKS

At December 31, 2011, the Company had no direct commitments to purchase or sell securities, financial instruments, or commodities relating to forward or futures contracts. The Company's operating activities involve trading, including indirectly through its investments in funds, in short selling activities and derivative financial instruments that involve varying degrees of market, illiquidity, and credit risk. With respect to investments in funds, the Company has limited liability, and therefore, its maximum exposure to either market or credit loss is limited to its carrying value in these investments, as set forth in the accompanying statement of assets and liabilities.

6. INVESTMENTS FUNDED IN ADVANCE

As of December 31, 2011, investments funded in advance, which represent purchases of investment companies and partnerships effective as of January 1, 2012, consist of the following:

Fixed income relative value	$ 1,500,000

7. FINANCIAL HIGHLIGHTS

For the period ended December 31, 2011, the following represents the financial highlights of the Company's member:

Ratios to average net assets: [1]	
Expenses	0.26%
Net Investment Loss	(0.26)%
Total Return [2]	(0.81)%

[1] Does not include expenses of the investment vehicles in which the Company invests. This amount has not been annualized.
[2] Total return amounts are calculated for a member invested on September 1, net of expenses and standard management fees, based on the change in value relative to the average capital invested. An individual investor's return may vary from these returns based on different management fee arrangements and timing of capital transactions. This amount has not been annualized.

8. SUBSEQUENT EVENTS

As of April 30, 2012, the date the financial statements were available to be issued, no subsequent events or transactions had occurred after December 31, 2011 that would materially impact the financial statements presented.

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Deloitte.

Newport Colonels, LLC

Financial Statements

As of and for the Year Ended December 31, 2012,
and Independent Auditors' Report

This report qualifies under the exemptive provisions of
Regulation 4.13 of the Commodity Exchange Act.

Newport Colonels, LLC

Corporate Information

Registered Office	Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808 USA
Administrator	International Fund Services (N.A.), L.L.C. 1290 Avenue of the Americas, 10th Floor New York, NY 10104 United States of America
Legal Advisor	K&L Gates LLP 1601 K Street,NW Washington, DC 20006 USA
Manager and Investment Advisor	Pacific Alternative Asset Management Company, LLC 19540 Jamboree Road, Suite 400 Irvine, CA 92612 USA
Custodian	The Northern Trust Company 50 South LaSalle Street Chicago, IL 60675 USA
Independent Auditor	Deloitte & Touche LLP Suite 1200 695 Town Center Drive Costa Mesa, CA 92626-7188 USA

Newport Colonels, LLC

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INDEPENDENT AUDITORS' REPORT

To the Members of
Newport Colonels, LLC:

We have audited the accompanying financial statements of Newport Colonels, LLC (the "Company"), which comprise the statement of assets and liabilities, including the condensed schedule of investments, as of December 31, 2012, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Colonels, LLC as of December 31, 2012, the results of its operations, changes in its net assets, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 30, 2013

Newport Colonels, LLC

STATEMENT OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2012

ASSETS	
Investments, at fair value (cost $ 436,672,484)	$ 468,271,669
Cash and cash equivalents	1,737,781
Investments funded in advance	13,840,000
Receivable from investments sold	1,357,710
Dividends receivable	323
Total assets	485,207,483
LIABILITIES	
Performance fee payable	1,360,354
Accrued management fees	603,183
Administration fees	22,776
Accrued liabilities	12,400
Total liabilities	1,998,713
NET ASSETS:	$ 483,208,770

See notes to financial statements.

Newport Colonels, LLC

CONDENSED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2012

	Cost	Fair Value	Percent of Net Assets	
Investments:				
Convertible bond hedging				
United States	$ 20,551,569	$ 22,225,512	4.60	%
Europe	6,470,000	6,458,396	1.34	
Total convertible bond hedging	27,021,569	28,683,908	5.94	
Distressed debt – United States	39,682,730	41,642,628	8.62	*
Equity market neutral – United States	9,000,000	9,524,142	1.97	
Event-driven equity				
United States	28,184,612	29,874,338	6.18	*
Europe	9,320,000	9,331,681	1.93	
Total event-driven equity	37,504,612	39,206,019	8.11	
Fixed income relative value – United States	51,865,456	55,550,866	11.50	*
Long/short credit				
United States	95,625,581	104,269,890	21.58	*
Asia	6,960,000	7,404,762	1.53	
Total long/short credit	102,585,581	111,674,652	23.11	*
Long/short equity				
United States	84,650,465	90,690,418	18.77	*
Europe	37,091,000	38,424,406	7.95	*
South America	6,033,620	6,238,094	1.29	
Asia	5,782,980	5,642,109	1.17	
Total long/short equity	133,558,065	140,995,027	29.18	
Opportunistic investments – United States	35,454,47	40,994,427	8.48	*
TOTAL	$ 436,672,484	$ 468,271,669	96.91	%

*No single investment vehicle represents more than 5% of net assets

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

INVESTMENT INCOME – Dividend income	$ 389
INVESTMENT EXPENSES:	
Management fees	3,410,588
Performance fees	1,360,354
Administration fees	89,776
Professional fees	15,939
Other fees	8,826
Total investment expenses	4,885,483
NET INVESTMENT LOSS	(4,885,094)
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
Net realized gain on investments	2,116,880
Net change in unrealized appreciation on investments	33,913,414
Net realized and unrealized gain on investments	36,030,294
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 31,145,200

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

BALANCE – JANUARY 1, 2012	$ 411,660,410
Change in net assets resulting from operations:	
Net investment loss	(4,885,094)
Net realized gain on investments	2,116,880
Net change in unrealized appreciation on investments	33,913,414
Net increase in net assets resulting from operations	31,145,200
Capital contributions	45,403,160
Capital redemptions	(5,000,000)
BALANCE – DECEMBER 31, 2012	$ 483,208,770

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 31,145,200
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities	
Purchase of investments	(186,317,267)
Proceeds from disposition of investments	161,678,082
Net realized gain on investments	(2,116,880)
Net change in unrealized appreciation on investments	(33,913,414)
Increase in investments funded in advance	(12,340,000)
Increase in receivable from investments sold	(1,357,710)
Increase in accrued management fees	87,951
Increase in performance fee payable	1,360,354
Increase in administration fee payable	8,516
Increase in accrued liabilities	400
Increase in dividends receivable	(257)
Net cash used in operating activities	(41,765,025)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital contribution	45,403,160
Capital redemption	(5,000,000)
Net cash provided by financing activities	40,403,160
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,361,865)
CASH AND CASH EQUIVALENTS – Beginning of year	3,099,646
CASH AND CASH EQUIVALENTS – End of year	$ 1,737,781

See notes to financial statements.

Newport Colonels, LLC

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. ORGANIZATION AND NATURE OF BUSINESS

Newport Colonels, LLC (the "Company")

- Organized as a Delaware limited liability company on August 11, 2011.
    - Commenced operations September 1, 2011.
    - Pacific Alternative Asset Management Company serves as the investment manager of the Company (the "Investment Manager").
        - Related party.
        - California limited liability company.
- Objective is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle.
    - May allocate substantially all of its assets across a variety of investment vehicles.
        - Generally fixed income and equity orientations.
        - Many different investment styles.
    - No assurance that the Company will achieve its investment objective.
- Investment in the Company may involve risk factors.
    - Suitable only for sophisticated investors who have limited need for liquidity of their investment and who can accept a degree of risk in their investment.
    - See the Company's formation documents for a complete description of the Company and the risks associated therewith.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

- Accrual basis of accounting.
- Investment transactions recorded on a trade-date basis.
- Income and expenses recorded as earned and incurred.

Basis of Presentation

- Prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

- GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditures.

- Actual results could differ from those estimates.

Income and Expense Recognition

- Income is accrued through dividend income on cash and cash equivalents.

- Expenses are incurred primarily through the payment of management fees to the Investment Manager.

    - Other expenses include payments for professional services rendered by third parties.

Cash and Cash Equivalents

- Cash balances swept nightly to the Northern Institutional Treasury Fund

    - Money market fund that qualifies as a registered investment company.

    - Invests in U.S. Treasury securities and related tri-party repurchase agreements.

        - Money market funds that qualify as a registered investment company are considered Level 1 securities under Accounting Standards Update ("ASU") 2009-12, as defined subsequently in these disclosures.

Investments

- Invests in non-readily marketable investment vehicles

    - Valued at $468,271,669 (96.91% of net assets) at December 31, 2012.

        - Based on the Company's proportionate share of the net asset values of the investment vehicles as reported by the hedge fund managers.
        - Investment vehicles generally mark their investments to market, with changes in unrealized gain or loss recorded in net change in unrealized depreciation on investments in the accompanying statement of operations.
        - Income or loss primarily consists of realized gains and losses, unrealized appreciation and depreciation on investments, and interest and dividend income and expenses, including management and performance fees.
        - Fair values related to the underlying investment vehicles may have been estimated by the management of the respective managers of the funds in the absence of readily ascertainable market values.

    - In accordance with the Investment Manager's Valuation Policy and pursuant to Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, the Investment Manager has the right, in its discretion and in good faith, to deviate from valuation information provided by the managers of the investment vehicles when the Investment Manager deems it appropriate.

        - There were no such changes made to the investment vehicle valuations by the Investment Manager at December 31, 2012.

    - Because of the inherent uncertainty of valuations in the investment vehicles, values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

- Since the investment vehicles' interests are not publicly traded, the Company's ability to make withdrawals from its investments in the investment vehicles is subject to certain restrictions which vary for each respective investment vehicle.

  - Restrictions include notice requirements for withdrawals and additional restrictions which limit withdrawals to specified times during the year.

  - Such restrictions can, and in some cases did, include the suspension or delay in withdrawals from the respective investment vehicles.

- Realized and unrealized gains and losses are included in operations in the current year and are computed using the average cost method.

  - Change in unrealized appreciation/depreciation on investments in investment vehicles, including those for which partial liquidations were effected in the course of the year, is calculated as the difference between the fair value of the investment at year-end less the fair value of the investment at the beginning of the year, as adjusted for additions and redemptions made during the year.

Income Taxes

- The Company is generally not subject to federal or state income taxes

  - No provision for income taxes has been made in the accompanying financial statements.

  - Taxable investors are required to report their proportional share of gains, losses, credits, or deductions on their own income tax returns.

- The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position.

  - The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability that would reduce net assets.

- The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition.

  - No reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years.

  - The Company's U.S. federal 2011 through 2012 and state 2011 through 2012 tax returns remain open for examination by tax authorities.

  - The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Capital Transactions

- A Member may request a withdrawal from its capital account effective immediately after the valuation time on any quarterly valuation date by delivering written notice to the Investment Manager at least 90 days (or other shorter period the Investment Manager in its reasonable discretion determines) before the relevant quarterly valuation date.

Fair Value Measurements

- FASB ASC 820, *Fair Value Measurements and Disclosures*, requires the Company to classify its assets and liabilities based on valuation methods using three levels.

  - Level 1 values are based on quoted unadjusted prices in active markets for identical investments.

  - Level 2 values are based on significant observable market inputs, such as quoted prices for similar investments and quoted prices in inactive markets.

  - Level 3 values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the investments.

  - The valuation levels are not necessarily an indication of risk or liquidity associated with the underlying investments.

- ASU 2009-12 amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV") per share.

  - Underlying investment vehicles with the following criteria are classified as Level 2 per the Investment Manager's policy:

    - ☒ Quarterly liquidity or better
    - ☒ Redemption notice period of 90 days or less
    - ☒ No hard lock that is effective as of December 31, 2012
    - ☒ No gates or suspension of redemptions / withdrawals as of December 31, 2012

  - Underlying investment vehicles not meeting the above criteria are classified as Level 3.

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Company's investments fall as of December 31, 2012:

Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 1,737,781	$ -	$ -	$ 1,737,781
Convertible bond hedging	-	23,508,768	5,175,140	28,683,908
Distressed debt	-	27,489,530	14,153,098	41,642,628
Equity market neutral	-	9,524,142	-	9,524,142
Event-driven equity	-	37,436,114	1,769,905	39,206,019
Fixed income relative value	-	55,550,866	-	55,550,866
Long/short credit	-	111,476,052	198,600	111,674,652
Long/short equity	-	140,995,027	-	140,995,027
Opportunistic investments	-	40,994,427	-	40,994,427
	$ 1,737,781	**$ 446,974,926**	**$ 21,296,743**	**$ 470,009,450**

The following table reconciles the valuation of the Company's Level 3 investments recorded at fair value on a recurring basis and related transactions during the year ended December 31, 2012:

Level 3 Rollforward	Convertible bond hedging	Distressed debt	Event-driven equity	Long/short credit	Total
Balance at December 31, 2011	$ -	$ 20,236,733	$ -	$ 5,193,746	$ 25,430,479
Purchases	282,069	-	-	168,259	450,328
Sales	(3,805,820)	(7,849,020)	(4,096,421)	(457)	(15,751,718)
Net Realized gain	140,320	(865,980)	(838,605)	457	(1,563,808)
Net change in unrealized depreciation	198,517	2,631,365	(20,064)	30,341	2,840,159
Transfers in*	8,360,054	-	6,724,995	-	15,085,049
Transfers out*	-	-	-	(5,193,746)	(5,193,746)
Ending value at December 31, 2012	$ 5,175,140	$ 14,153,098	$ 1,769,905	$ 198,600	$ 21,296,743
Change in unrealized depreciation relating to investments still held as of December 31, 2012	$ 198,517	$ 1,492,264	$ (20,064)	$ 30,341	$ 1,701,058

*Transfers into and out of level 3 occur at the beginning of the year. Transfers into level 3 occur if any of the criteria described in the "Fair Value Measurements" section is not met by an underlying investment that was previously classified as level 1 or 2. Transfers out of level 3 occur if all criteria described in the "Fair Value Measurements" section are met by an underlying investment that was previously classified as level 3.

3. INVESTMENTS

- Throughout the year ended December 31, 2012 the Company invested in multiple Segregated Portfolios of the PM Manager Fund structure, which is a related party.
  - Included in the fixed income relative value, equity market neutral, long/short equity and event-driven equity investment objectives.
  - The funds are subadvised by external, unrelated hedge fund managers.
  - Represent 24.88%, or $120,230,383, of the Company's net assets at December 31, 2012.
  - Represent 12.73%, or $269,432, of the net realized gain on investments on the accompanying statement of operations.
  - Represent 22.25%, or $7,545,781 of the net change in unrealized depreciation on investments on the accompanying statement of operations.
  - The Investment Manager does not receive any additional fees from this arrangement.
- The following table summarizes the Company's investments in funds as of December 31, 2012.
  - Funds in which the Company invested more than 5% of its net assets are individually identified, while smaller investments in other funds are aggregated.
  - The management agreements of the investee funds provide for compensation to the managers in the form of management fees ranging from 0.38% to 2% annually of NAV and

performance incentive fees ranging from 0% to 20% of net profits earned as defined in the management agreement.

- All vehicles in which the Company invests are denominated in U.S. dollars.

Investment	Net Realized and Unrealized Gains/(Losses)	Management Fees	Performance / Incentive Fees	Redemptions Permitted*	Notice Period*	Unfunded Commitments
Convertible bond hedging	$ 1,182,905	0.38-1.25%	11.5-15%	Monthly / Quarterly	45-60 days	$ 0
Distressed debt	2,960,433	1%	10-20%	Quarterly / Semi-Annually	45-90 days	0
Equity market neutral	385,590	1%	10%	Monthly	45 days	0
Event-driven equity	1,709,973	0.5-1.5%	10-18%	Monthly / Quarterly	15-90 days	0
Fixed income relative value	4,557,172	0.85-2%	0-20%	Monthly	5-60 days	0
Long/short credit	8,658,474	0.75-1.5%	10-20%	Monthly / Quarterly	45-90 days	0
Long/short equity	11,430,651	0.38-1.5%	9-20%	Monthly / Quarterly	15-90 days	0
Opportunistic investments	5,145,096	0.5-1%	0-15%	Monthly / Quarterly	5-90 days	0
Total	$ 36,030,294					$ 0

*Please see description of investment objectives below for information regarding investment vehicles not included in redemptions permitted and notice period columns that have redemption restrictions in place as of December 31, 2012.

- The following summarizes a description of the investment vehicles' investment objectives:

  - *Convertible Bond Hedging*
    - Generates profits by identifying pricing disparities between a company's convertible bonds and its underlying stock.

  - *Distressed Debt*
    - Managers invest in the securities of companies that are experiencing financial or operational difficulties, including reorganizations, bankruptcies, distressed sales and other corporate restructurings.

  - *Equity Market Neutral*
    - Managers construct portfolios that balance long and short positions in order to hedge systemic factors or exposures.

  - *Event-Driven Equity*
    - Focuses on event-driven trades implemented mainly through equity positions.

  - *Fixed Income Relative Value*
    - Managers seek to capture profit from taking offsetting long and short positions in related fixed income securities and derivatives.

- *Long/Short Credit*
  - Focuses on fixed income securities where the majority of the return is derived from credit exposure and selection as opposed to the general term structure of interest rates.
  - As of December 31, 2012, investments representing 0.04% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.

- *Long/Short Equity*
  - Managers construct net long or net short portfolios by using equity hedging strategies.

- *Opportunistic Investments*
  - Aims to capitalize on strategies not captured by the above sectors and take advantage of niche opportunistic investments that may have a shorter investment horizon or a focused mandate.

4. RELATED-PARTY TRANSACTIONS

- As compensation for its services to be rendered to the Company, the Investment Manager shall be entitled to receive from the Company with respect to each Member, each month, a management fee in an amount equal to one-twelfth of 0.75% of the Member's capital account balance as of the last day of the month.

  - The Investment Manager may, however, with the consent of the applicable Member, waive the payment of all or part of the management fee payable with respect to such Member for any month or other period the Investment Manager determines is appropriate.

  - For the year ended December 31, 2012, such fees amounted to $3,410,588, of which $603,183 were payable at December 31, 2012.

- As of the last day of each fiscal year, the Investment Manager shall receive a performance fee with respect to each Member equal to 5% of the excess, if any, of (i) the net profits (less any Net Losses) otherwise allocable for such year to each Member's capital account minus the sum of (ii) any balance remaining in such Member's loss recovery account as of the beginning of such fiscal year and (iii) the hurdle amount with respect to such Member, if any

  - For the year ended December 31, 2012, $1,360,354 in performance fees was accrued and payable at December 31, 2012.

- In addition to management fees paid to the Investment Manager, the Company pays management fees, incentive fees and expenses as a member, partner, or shareholder of each underlying investment company or investment fund.

  - These underlying investments have varied expense and fee structures, which are described in more detail in Note 3.

  - The expenses and fees of such investments are included as part of each investment's fair value and are not presented as expenses of the Company in the accompanying statement of operations.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISKS

- At December 31, 2012, the Company had no direct commitments to purchase or sell securities, financial instruments, or commodities relating to forward or futures contracts.

- The Company's operating activities involve trading, including indirectly through its investments in funds, in short selling activities and derivative financial instruments that involve varying degrees of market, illiquidity, and credit risk.

- With respect to investments in funds, the Company has limited liability, and therefore, its maximum exposure to either market or credit loss is limited to its carrying value in these investments, as set forth in the accompanying statement of assets and liabilities

6. INVESTMENTS FUNDED IN ADVANCE

- As of December 31, 2012, investments funded in advance, which represent purchases of investment companies and partnerships effective as of January 1, 2013, consist of the following:

Long/Short Credit	$2,540,000
Convertible Bond Hedging	$2,690,000
Fixed Income Relative Value	$1,350,000
Event-Driven Equity	$3,570,000
Long/Short Equity	$1,240,000
Distressed Debt	$2,450,000
Total investments funded in advance	$13,840,000

7. FINANCIAL HIGHLIGHTS

- For the year ended December 31, 2012, the following represents the financial highlights of the Company's members:

Ratios to average net assets: (1)	
Operating expenses before performance fee	0.78%
Performance fees	0.30%
Total expenses	1.08%
Net Investment Loss	(0.78)%
Total Return (2)	
Total return before performance fees	7.35%
Performance fees	(0.30)%
Total return after performance fees	7.05%

(1) Does not include expenses of the investment vehicles in which the Company invests.
(2) Total return amounts are calculated for a member invested on January 1, net of expenses and standard management fees, based on the change in value relative to the average capital invested. An individual investor's return may vary from these returns based on different management fee arrangements and timing of capital transactions.

8. SUBSEQUENT EVENTS

- As of April 30, 2013, the date the financial statements were available to be issued, the Company had capital contributions in the amount of $2,285,685 and capital redemptions in the amount of $(13,457,607) effective after December 31, 2012.

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Deloitte.

Newport Colonels, LLC

Financial Statements

As of and for the Year Ended December 31, 2013, and Independent Auditors' Report

This report qualifies under the exemptive provisions of the CFTC No Action Letter No. 12-38.

Newport Colonels, LLC

Corporate Information

Registered Office	Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808 USA
Administrator	International Fund Services (N.A.), L.L.C. 1290 Avenue of the Americas, 10th Floor New York, NY 10104 United States of America
Legal Advisor	K&L Gates LLP 1601 K Street,NW Washington, DC 20006 USA
Manager and Investment Advisor	Pacific Alternative Asset Management Company, LLC 19540 Jamboree Road, Suite 400 Irvine, CA 92612 USA
Custodian	The Northern Trust Company 50 South LaSalle Street Chicago, IL 60675 USA
Independent Auditor	Deloitte & Touche LLP Suite 1200 695 Town Center Drive Costa Mesa, CA 92626-7188 USA

Newport Colonels, LLC

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INDEPENDENT AUDITORS' REPORT

To Newport Colonels, LLC:

We have audited the accompanying financial statements of Newport Colonels, LLC (the "Company"), which comprise the statement of assets and liabilities, including the condensed schedule of investments, as of December 31, 2013, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Colonels, LLC as of December 31, 2013, the results of its operations, changes in its net assets, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 30, 2014

Newport Colonels, LLC

STATEMENT OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2013

ASSETS	
Investments, at fair value (cost $414,909,542)	$ 512,663,045
Cash and cash equivalents	6,469,493
Investments funded in advance	9,550,000
Receivable from investments sold	318,909
Dividends receivable	88
Total assets	529,001,535
LIABILITIES	
Capital redemptions payable	11,500,000
Performance fee payable	3,779,346
Accrued management fees	661,286
Administration fees	22,976
Accrued liabilities	16,920
Total liabilities	15,980,528
NET ASSETS:	$ 513,021,007

See notes to financial statements.

Newport Colonels, LLC

CONDENSED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2013

	Cost	Fair Value	Percent of Net Assets	
Investments:				
Convertible bond hedging				
United States	$ 20,374,485	$ 23,561,030	4.59 %	
South America	7,440,000	6,916,377	1.35	
Total convertible bond hedging	27,814,485	30,477,407	5.94	
Distressed debt – United States	43,618,567	64,887,884	12.65	*
Equity market neutral – United States	10,605,173	13,158,438	2.56	
Event-driven equity – United States	47,242,556	58,910,151	11.49	*
Fixed income relative value – United States	61,469,104	74,441,742	14.52	*
Long/short credit				
United States	93,959,537	117,759,312	22.95	*
Asia	9,500,000	10,574,220	2.06	
Total long/short credit	103,459,537	128,333,532	25.01	*
Long/short equity				
United States	59,936,988	71,884,075	14.01	*
Europe	39,351,351	46,594,537	9.08	*
South America	6,033,620	5,844,769	1.14	
Total long/short equity	105,321,959	124,323,381	24.23	
Opportunistic investments – United States	15,378,161	18,130,510	3.53	
TOTAL	$ 414,909,542	$ 512,663,045	99.93 %	

*No single investment vehicle represents more than 5% of net assets

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013

INVESTMENT INCOME – Dividend income	$ 652
INVESTMENT EXPENSES:	
Management fees	3,851,709
Performance fees	3,779,346
Administration fees	91,955
Professional fees	22,371
Other fees	13,942
Total investment expenses	7,759,323
NET INVESTMENT LOSS	(7,758,671)
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
Net realized gain on investments	14,688,512
Net change in unrealized appreciation on investments	66,154,318
Net realized and unrealized gain on investments	80,842,830
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 73,084,159

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

BALANCE – JANUARY 1, 2013	$ 483,208,770
Change in net assets resulting from operations:	
Net investment loss	(7,758,671)
Net realized gain on investments	14,688,512
Net change in unrealized appreciation on investments	66,154,318
Net increase in net assets resulting from operations	73,084,159
Capital contributions	4,685,685
Capital redemptions	(47,957,607)
BALANCE – DECEMBER 31, 2013	$ 513,021,007

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 73,084,159
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities	
Purchase of investments	(130,324,403)
Proceeds from disposition of investments	166,775,857
Net realized gain on investments	(14,688,512)
Net change in unrealized appreciation on investments	(66,154,318)
Decrease in investments funded in advance	4,290,000
Decrease in receivable from investments sold	1,038,801
Increase in accrued management fees	58,103
Increase in performance fee payable	2,418,992
Increase in administration fee payable	200
Increase in accrued liabilities	4,520
Decrease in dividends receivable	235
Net cash provided by operating activities	36,503,634
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital contribution	4,685,685
Capital redemption net of change in capital redemptions payable	(36,457,607)
Net cash used in financing activities	(31,771,922)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,731,712
CASH AND CASH EQUIVALENTS – Beginning of year	1,737,781
CASH AND CASH EQUIVALENTS – End of year	$ 6,469,493

See notes to financial statements.

Newport Colonels, LLC

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

1. ORGANIZATION AND NATURE OF BUSINESS

Newport Colonels, LLC (the "Company")

- Organized as a Delaware limited liability company on August 11, 2011.
    - Commenced operations September 1, 2011.
    - Pacific Alternative Asset Management Company serves as the investment manager of the Company (the "Investment Manager").
        - Related party.
        - California limited liability company.
- Objective is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle.
    - May allocate substantially all of its assets across a variety of investment vehicles.
        - Generally fixed income and equity orientations.
        - Many different investment styles.
    - No assurance that the Company will achieve its investment objective.
- Investment in the Company may involve risk factors.
    - Suitable only for sophisticated investors who have limited need for liquidity of their investment and who can accept a degree of risk in their investment.
    - See the Company's formation documents for a complete description of the Company and the risks associated therewith.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

- Accrual basis of accounting.
- Investment transactions recorded on a trade-date basis.
- Income and expenses recorded as earned and incurred.

Basis of Presentation

- Prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

- GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditures.
- Actual results could differ from those estimates.

Income and Expense Recognition

- Income is accrued through dividend income on cash and cash equivalents.
- Expenses are incurred primarily through the payment of management fees to the Investment Manager.
    - Other expenses include payments for professional services rendered by third parties.

Cash and Cash Equivalents

- Cash balances swept nightly to the Northern Institutional Treasury Fund
    - Money market fund that qualifies as a registered investment company.
    - Invests in U.S. Treasury securities and related tri-party repurchase agreements.
        - Money market funds that qualify as a registered investment company are considered Level 1 securities under Accounting Standards Update ("ASU") 2009-12, as defined subsequently in these disclosures.

Investments

- Invests in non-readily marketable investment vehicles
    - Valued at $512,663,045 (99.93% of net assets) at December 31, 2013.
        - Based on the Company's proportionate share of the net asset values of the investment vehicles as reported by the hedge fund managers.
        - Investment vehicles generally mark their investments to market, with changes in unrealized gain or loss recorded in net change in unrealized depreciation on investments in the accompanying statement of operations.
        - Income or loss primarily consists of realized gains and losses, unrealized appreciation and depreciation on investments, and interest and dividend income and expenses, including management and performance fees.
        - Fair values related to the underlying investment vehicles may have been estimated by the management of the respective managers of the funds in the absence of readily ascertainable market values.
    - In accordance with the Investment Manager's Valuation Policy and pursuant to Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, the Investment Manager has the right, in its discretion and in good faith, to deviate from valuation information provided by the managers of the investment vehicles when the Investment Manager deems it appropriate.
        - There were no such changes made to the investment vehicle valuations by the Investment Manager at December 31, 2013.
    - Because of the inherent uncertainty of valuations in the investment vehicles, values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

- Since the investment vehicles' interests are not publicly traded, the Company's ability to make withdrawals from its investments in the investment vehicles is subject to certain restrictions which vary for each respective investment vehicle.

    - Restrictions include notice requirements for withdrawals and additional restrictions which limit withdrawals to specified times during the year.

    - Such restrictions can, and in some cases did, include the suspension or delay in withdrawals from the respective investment vehicles.

- Realized and unrealized gains and losses are included in operations in the current year and are computed using the average cost method.

    - Change in unrealized appreciation/depreciation on investments in investment vehicles, including those for which partial liquidations were effected in the course of the year, is calculated as the difference between the fair value of the investment at year-end less the fair value of the investment at the beginning of the year, as adjusted for additions and redemptions made during the year.

Income Taxes

- The Company is generally not subject to federal or state income taxes

    - No provision for income taxes has been made in the accompanying financial statements.

    - Taxable investors are required to report their proportional share of gains, losses, credits, or deductions on their own income tax returns.

- The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position.

    - The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability that would reduce net assets.

- The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition.

    - No reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years.

    - The Company's U.S. federal 2011 through 2013 and state 2011 through 2013 tax returns remain open for examination by tax authorities.

    - The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Capital Transactions

- A Member may request a withdrawal from its capital account effective immediately after the valuation time on any quarterly valuation date by delivering written notice to the Investment Manager at least 90 days (or other shorter period the Investment Manager in its reasonable discretion determines) before the relevant quarterly valuation date.

Recent Accounting Pronouncement

- In June 2013, the FASB issued ASU No. 2013-08, Financial Services – Investment Companies – Topic 946 ("ASU 2013-08").
  - The amendments in this ASU change the assessment of whether an entity is an investment company by developing a new two-tiered approach for that assessment, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics.
  - The amendments in this ASU also reduce complexity in the accounting for non-controlling ownership interests in other investment companies by requiring fair value measurement for those interests rather than the equity method of accounting.
  - The fair value of an interest in an investment company could be measured using the net asset value per share practical expedient in Topic 820.
  - Finally, the amendments in this ASU also include disclosure requirements that provide financial statement users with additional information about an entity's status as an investment company and financial support provided or contractually required to be provided by an investment company to its investees.
  - The amendments in this ASU are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited.
  - The Partnership is currently evaluating the impact, if any, that the implementation of ASU 2013-08 will have on the Partnership's financial statements.

Fair Value Measurements

- FASB ASC 820, *Fair Value Measurements and Disclosures*, requires the Company to classify its assets and liabilities based on valuation methods using three levels.
  - Level 1 values are based on quoted unadjusted prices in active markets for identical investments.
  - Level 2 values are based on significant observable market inputs, such as quoted prices for similar investments and quoted prices in inactive markets.
  - Level 3 values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the investments.
  - The valuation levels are not necessarily an indication of risk or liquidity associated with the underlying investments.
- ASU 2009-12 amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV") per share.
  - Underlying investment vehicles with the following criteria are classified as Level 2 per the Investment Manager's policy:
    - Quarterly liquidity or better
    - Redemption notice period of 90 days or less
    - No hard lock that is effective as of December 31, 2013
    - No gates or suspension of redemptions / withdrawals as of December 31, 2013
  - Underlying investment vehicles not meeting the above criteria are classified as Level 3.

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Company's investments fall as of December 31, 2013:

Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,469,493	$ -	$ -	$ 6,469,493
Convertible bond hedging	-	29,819,969	657,438	30,477,407
Distressed debt	-	64,887,884	-	64,887,884
Equity market neutral	-	13,158,438	-	13,158,438
Event-driven equity	-	58,910,151	-	58,910,151
Fixed income relative value	-	74,441,742	-	74,441,742
Long/short credit	-	128,099,663	233,869	128,333,532
Long/short equity	-	124,323,381	-	124,323,381
Opportunistic investments	-	18,130,510	-	18,130,510
	$ 6,469,493	**$ 511,771,738**	**$ 891,307**	**$ 519,132,538**

The following table reconciles the valuation of the Company's Level 3 investments recorded at fair value on a recurring basis and related transactions during the year ended December 31, 2013:

Level 3 Rollforward	Convertible bond hedging	Distressed debt	Event-driven equity	Long/short credit	Total
Balance at December 31, 2012	$ 5,175,140	$ 14,153,098	$ 1,769,905	$ 198,600	$ 21,296,743
Purchases	437,416	-	-	-	437,416
Sales	(4,925,803)	(14,153,098)	(1,831,228)	-	(20,910,129)
Net Realized gain	291,304	1,703,098	(496,745)	-	1,497,657
Net change in unrealized depreciation	(320,619)	(1,703,098)	558,068	35,269	(1,430,380)
Transfers in*	-	-	-	-	-
Transfers out*	-	-	-	-	-
Ending value at December 31, 2013	$ 657,438	$ -	$ -	$ 233,869	$ 891,307
Change in unrealized depreciation relating to investments still held as of December 31, 2013	$ (320,619)	$ -	$ -	$ 35,269	$ (285,350)

*Transfers into and out of level 3 occur at the beginning of the year. Transfers into level 3 occur if any of the criteria described in the "Fair Value Measurements" section is not met by an underlying investment that was previously classified as level 1 or 2. Transfers out of level 3 occur if all criteria described in the "Fair Value Measurements" section are met by an underlying investment that was previously classified as level 3.

3. INVESTMENTS

- Throughout the year ended December 31, 2013 the Company invested in multiple Segregated Portfolios of the PM Manager Fund and NPB Manager Fund structures, which are related parties.
    - Included in the long/short credit, long/short equity and event-driven equity investment objectives.
    - The funds are subadvised by external, unrelated hedge fund managers.
    - Represent 32.19%, or $165,148,479, of the Company's net assets at December 31, 2013.
    - Represent 17.58%, or $2,582,444, of the net realized gain on investments on the accompanying statement of operations.
    - Represent 32.37%, or $21,415,659 of the net change in unrealized appreciation on investments on the accompanying statement of operations.
    - The Investment Manager does not receive any additional fees from this arrangement.
- The following table summarizes the Company's investments in funds as of December 31, 2013.
    - Funds in which the Company invested more than 5% of its net assets are individually identified, while smaller investments in other funds are aggregated.
    - The management agreements of the investee funds provide for compensation to the managers in the form of management fees ranging from 0% to 2% annually of NAV and performance incentive fees ranging from 0% to 20% of net profits earned as defined in the management agreement.
    - All vehicles in which the Company invests are denominated in U.S. dollars.

Investment	Net Realized and Unrealized Gains/(Losses)	Management Fees	Performance / Incentive Fees	Redemptions Permitted*	Notice Period*	Unfunded Commitments
Convertible bond hedging	$ 1,350,169	0-1.13%	0-12.5%	Monthly / Quarterly	10-60 days	$ 0
Distressed debt	23,147,916	1%	10-20%	Quarterly	45-90 days	0
Equity market neutral	2,236,232	0.89%	10%	Monthly	45 days	0
Event-driven equity	8,197,725	0.75-1.5%	15-18%	Monthly / Quarterly	15-90 days	0
Fixed income relative value	9,039,504	0.33-1.5%	0-20%	Monthly / Quarterly	5-90 days	0
Long/short credit	18,682,148	0-1%	10-20%	Monthly / Quarterly	45-90 days	0
Long/short equity	19,084,730	0.38-2%	9-20%	Monthly / Quarterly	15-90 days	0
Opportunistic investments	(895,594)	0.5-1%	10%	Monthly	25-30 days	0
Total	$ 80,842,830					$ 0

*Please see description of investment objectives below for information regarding investment vehicles not included in redemptions permitted and notice period columns that have redemption restrictions in place as of December 31, 2013.

- The following summarizes a description of the investment vehicles' investment objectives:
    - *Convertible Bond Hedging*
        - Generates profits by identifying pricing disparities between a company's convertible bonds and its underlying stock.
        - As of December 31, 2013, investments representing 0.13% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.
    - *Distressed Debt*
        - Managers invest in the securities of companies that are experiencing financial or operational difficulties, including reorganizations, bankruptcies, distressed sales and other corporate restructurings.
    - *Equity Market Neutral*
        - Managers construct portfolios that balance long and short positions in order to hedge systemic factors or exposures.
    - *Event-Driven Equity*
        - Focuses on event-driven trades implemented mainly through equity positions.
    - *Fixed Income Relative Value*
        - Managers seek to capture profit from taking offsetting long and short positions in related fixed income securities and derivatives.
    - *Long/Short Credit*
        - Focuses on fixed income securities where the majority of the return is derived from credit exposure and selection as opposed to the general term structure of interest rates.

        - As of December 31, 2013, investments representing 0.04% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.

    - *Long/Short Equity*
        - Managers construct net long or net short portfolios by using equity hedging strategies.

    - *Opportunistic Investments*
        - Aims to capitalize on strategies not captured by the above sectors and take advantage of niche opportunistic investments that may have a shorter investment horizon or a focused mandate.

4. RELATED-PARTY TRANSACTIONS

- As compensation for its services to be rendered to the Company, the Investment Manager shall be entitled to receive from the Company with respect to each Member, each month, a management fee in an amount equal to one-twelfth of 0.75% of the Member's capital account balance as of the last day of the month.

    - The Investment Manager may, however, with the consent of the applicable Member, waive the payment of all or part of the management fee payable with respect to such Member for any month or other period the Investment Manager determines is appropriate.

    - For the year ended December 31, 2013, such fees amounted to $3,851,709, of which $661,286 were payable at December 31, 2013.

- As of the last day of each fiscal year, the Investment Manager shall receive a performance fee with respect to each Member equal to 5% of the excess, if any, of (i) the net profits (less any Net Losses) otherwise allocable for such year to each Member's capital account minus the sum of (ii) any balance remaining in such Member's loss recovery account as of the beginning of such fiscal year and (iii) the hurdle amount with respect to such Member, if any

    - For the year ended December 31, 2013, $3,779,346 in performance fees was accrued and payable at December 31, 2013.

- In addition to management fees paid to the Investment Manager, the Company pays management fees, incentive fees and expenses as a member, partner, or shareholder of each underlying investment company or investment fund.

    - These underlying investments have varied expense and fee structures, which are described in more detail in Note 3.

    - The expenses and fees of such investments are included as part of each investment's fair value and are not presented as expenses of the Company in the accompanying statement of operations.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISKS

- At December 31, 2013, the Company had no direct commitments to purchase or sell securities, financial instruments, or commodities relating to forward or futures contracts.

- The Company's operating activities involve trading, including indirectly through its investments in funds, in short selling activities and derivative financial instruments that involve varying degrees of market, illiquidity, and credit risk.

- With respect to investments in funds, the Company has limited liability, and therefore, its maximum exposure to either market or credit loss is limited to its carrying value in these investments, as set forth in the accompanying statement of assets and liabilities

6. INVESTMENTS FUNDED IN ADVANCE

- As of December 31, 2013, investments funded in advance, which represent purchases of investment companies and partnerships effective as of January 1, 2014, consist of the following:

Opportunistic Investments	$ 1,240,000
Long/Short Equity	5,780,000
Event-Driven Equity	2,530,000
Total investments funded in advance	$ 9,550,000

7. FINANCIAL HIGHLIGHTS

- For the year ended December 31, 2013, the following represents the financial highlights of the Company's members:

Ratios to average net assets: [1]	
Operating expenses before performance fee	0.78%
Performance fees	0.74%
Total expenses	1.52%
Net Investment Loss	(0.78)%
Total Return [2]	
Total return before performance fees	16.33%
Performance fees	(0.80)%
Total return after performance fees	15.53%

[1] Does not include expenses of the investment vehicles in which the Company invests.
[2] Total return amounts are calculated for a member invested on January 1, net of expenses and standard management fees, based on the change in value relative to the average capital invested. An individual investor's return may vary from these returns based on different management fee arrangements and timing of capital transactions.

8. SUBSEQUENT EVENTS

- As of April 30, 2014, the date the financial statements were available to be issued, the Company paid capital redemptions in the amount of $4,000,000 that were effective after December 31, 2013.

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Deloitte.

Newport Colonels, LLC

Financial Statements

As of and for the Year Ended December 31, 2014,
and Independent Auditors' Report

This report qualifies under the exemptive provisions
of the CFTC No Action Letter No. 12-38.

Newport Colonels, LLC

Corporate Information

Registered Office	Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808 USA
Administrator	International Fund Services (N.A.), L.L.C. 1290 Avenue of the Americas, 10th Floor New York, NY 10104 United States of America
Legal Advisor	K&L Gates LLP 1601 K Street,NW Washington, DC 20006 USA
Manager and Investment Advisor	Pacific Alternative Asset Management Company, LLC 19540 Jamboree Road, Suite 400 Irvine, CA 92612 USA
Custodian	The Northern Trust Company 50 South LaSalle Street Chicago, IL 60675 USA
Independent Auditor	Deloitte & Touche LLP 695 Town Center Drive, Suite 1200 Costa Mesa, CA 92626-7188 USA

Newport Colonels, LLC

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INDEPENDENT AUDITORS' REPORT

To Newport Colonels, LLC:

We have audited the accompanying financial statements of Newport Colonels, LLC (the “Company”), which comprise the statement of assets and liabilities, including the condensed schedule of investments, as of December 31, 2014, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Colonels, LLC as of December 31, 2014, the results of its operations, changes in its net assets, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 30, 2015

Newport Colonels, LLC

STATEMENT OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2014

ASSETS	
Investments, at fair value (cost $419,492,605)	$ 498,728,499
Cash and cash equivalents	925,455
Investments funded in advance	1,500,000
Receivable from investments sold	3,745,048
Dividends receivable	18
Total assets	504,899,020
LIABILITIES	
Performance fee payable	601,516
Accrued management fees	630,224
Administration fees	20,676
Accrued liabilities	25,945
Total liabilities	1,278,361
NET ASSETS:	$ 503,620,659

See notes to financial statements.

Newport Colonels, LLC

CONDENSED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2014

	Cost	Fair Value	Percent of Net Assets	
Investments:				
Convertible bond hedging – Untied States	$ 14,910,772	$ 15,895,197	3.16 %	
Distressed debt – United States				
Rapax OC Offshore Fund, Ltd	25,916,555	28,855,279	5.73	
Other	37,450,621	51,294,924	10.19	*
Total distressed debt	63,367,176	80,150,203	15.92	
Equity market neutral – United States	13,902,578	14,853,187	2.95	
Event-driven equity				
United States	34,355,159	38,336,348	7.61	*
Europe	5,040,000	5,069,176	1.01	
Total event-driven equity	39,395,159	43,405,525	8.62	
Fixed income relative value – United States				
Concordia Institutional Multi-Strategy, Ltd	25,387,005	28,721,359	5.70	
OC 523 Offshore Fund, Ltd. (Axonic)	31,400,146	39,133,345	7.77	
OC 528 Offshore Fund, Ltd. (Peters)	24,380,000	25,773,637	5.12	
Total fixed income relative value	81,167,151	93,628,340	18.59	
Long/short credit - United States				
Ultra OC, Ltd	28,397,488	36,159,506	7.18	
Other	66,081,929	80,562,948	16.00	*
Total long/short credit	94,479,417	116,722,454	23.18	
Long/short equity				
United States	67,357,678	84,398,709	16.76	*
Asia	7,800,000	8,039,477	1.60	
Europe	33,850,772	37,556,393	7.46	*
Total long/short equity	109,008,450	129,994,579	25.82	
Opportunistic investments – United States	3,261,902	4,079,014	0.81	
TOTAL	$ 419,492,605	$ 498,728,499	99.05	

*No single investment vehicle represents more than 5% of net assets

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

INVESTMENT INCOME – Dividend income	$ 865
INVESTMENT EXPENSES:	
Management fees	3,874,904
Performance fees	601,516
Administration fees	87,250
Professional fees	34,889
Other fees	13,466
Total investment expenses	4,612,025
NET INVESTMENT LOSS	(4,611,160)
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS	
Net realized gain on investments	35,728,420
Net change in unrealized depreciation on investments	(18,517,608)
Net realized and unrealized gain on investments	17,210,812
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 12,599,652

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

BALANCE – JANUARY 1, 2014	$ 513,021,007
Change in net assets resulting from operations:	
Net investment loss	(4,611,160)
Net realized gain on investments	35,728,420
Net change in unrealized depreciation on investments	(18,517,608)
Net increase in net assets resulting from operations	12,599,652
Capital redemptions	(22,000,000)
BALANCE – DECEMBER 31, 2014	$ 503,620,659

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 12,599,652
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities	
Purchase of investments	(180,796,578)
Proceeds from disposition of investments	211,941,936
Net realized gain on investments	(35,728,420)
Net change in unrealized depreciation on investments	18,517,608
Decrease in investments funded in advance	8,050,000
Increase in receivable from investments sold	(3,426,139)
Decrease in accrued management fees	(31,062)
Decrease in performance fee payable	(3,177,830)
Decrease in administration fee payable	(2,300)
Increase in accrued liabilities	9,025
Decrease in dividends receivable	70
Net cash provided by operating activities	27,955,962
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital redemption net of change in capital redemptions payable	(33,500,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,544,038)
CASH AND CASH EQUIVALENTS – Beginning of year	6,469,493
CASH AND CASH EQUIVALENTS – End of year	$ 925,455

See notes to financial statements.

Newport Colonels, LLC

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. ORGANIZATION AND NATURE OF BUSINESS

Newport Colonels, LLC (the "Company")

- Organized as a Delaware limited liability company on August 11, 2011.
    - Commenced operations September 1, 2011.
    - Pacific Alternative Asset Management Company serves as the investment manager of the Company (the "Investment Manager").
        - Related party.
        - California limited liability company.
- Objective is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle.
    - May allocate substantially all of its assets across a variety of investment vehicles.
        - Generally fixed income and equity orientations.
        - Many different investment styles.
    - No assurance that the Company will achieve its investment objective.
- Investment in the Company may involve risk factors.
    - Suitable only for sophisticated investors who have limited need for liquidity of their investment and who can accept a degree of risk in their investment.
    - See the Company's formation documents for a complete description of the Company and the risks associated therewith.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

- Accrual basis of accounting.
- Investment transactions recorded on a trade-date basis.
- Income and expenses recorded as earned and incurred.
- The Company applies the investment company accounting and reporting guidance issued in Topic 946 by the U.S. Financial Accounting Standards Board ("FASB").

Basis of Presentation

- Prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

- GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditures.

- Actual results could differ from those estimates.

Income and Expense Recognition

- Income is accrued through dividend income on cash and cash equivalents.

- Expenses are incurred primarily through the payment of management fees to the Investment Manager.

    - Other expenses include payments for professional services rendered by third parties.

Cash and Cash Equivalents

- Cash balances swept nightly to the Northern Institutional Treasury Fund

    - Money market fund that qualifies as a registered investment company.

    - Invests in U.S. Treasury securities and related tri-party repurchase agreements.

        - Money market funds that qualify as a registered investment company are considered Level 1 securities under ASC 820: Fair Value Measurement, as defined subsequently in these disclosures.

Investments

- The Company invests in non-readily marketable investment vehicles.

    - Valued at $498,728,499 (99.03% of net assets) at December 31, 2014.

        - Based on the Company's proportionate share of the net asset values of the investment vehicles as reported by the hedge fund managers.
        - Investment vehicles generally mark their investments to market, with changes in unrealized gain or loss recorded in net change in unrealized depreciation on investments in the accompanying statement of operations.
        - Income or loss primarily consists of realized gains and losses, unrealized appreciation and depreciation on investments, and interest and dividend income and expenses, including management and performance fees.
        - Fair values related to the underlying investment vehicles may have been estimated by the management of the respective managers of the funds in the absence of readily ascertainable market values.

    - In accordance with the Investment Manager's Valuation Policy and pursuant to Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, the Investment Manager has the right, in its discretion and in good faith, to deviate from valuation information provided by the managers of the investment vehicles when the Investment Manager deems it appropriate.

        - There were no such changes made to the investment vehicle valuations by the Investment Manager at December 31, 2014.

  - Because of the inherent uncertainty of valuations in the investment vehicles, values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

- Since the investment vehicles' interests are not publicly traded, the Company's ability to make withdrawals from its investments in the investment vehicles is subject to certain restrictions which vary for each respective investment vehicle.

  - Restrictions include notice requirements for withdrawals and additional restrictions which limit withdrawals to specified times during the year.

  - Such restrictions can, and in some cases did, include the suspension or delay in withdrawals from the respective investment vehicles.

- Realized and unrealized gains and losses are included in operations in the current year and are computed using the average cost method.

  - Change in unrealized appreciation/depreciation on investments in investment vehicles, including those for which partial liquidations were effected in the course of the year, is calculated as the difference between the fair value of the investment at year-end less the fair value of the investment at the beginning of the year, as adjusted for additions and redemptions made during the year.

Income Taxes

- The Company is generally not subject to federal or state income taxes

  - No provision for income taxes has been made in the accompanying financial statements.

  - Taxable investors are required to report their proportional share of gains, losses, credits, or deductions on their own income tax returns.

- The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position.

  - The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability that would reduce net assets.

- The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition.

  - No reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years.

  - The Company's U.S. federal 2011 through 2014 and state 2011 through 2014 tax returns remain open for examination by tax authorities.

  - The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Capital Transactions

- A Member may request a withdrawal from its capital account effective immediately after the valuation time on any quarterly valuation date by delivering written notice to the Investment Manager at least 90 days (or other shorter period the Investment Manager in its reasonable discretion determines) before the relevant quarterly valuation date.

Fair Value Measurements

- FASB ASC 820, *Fair Value Measurement*, requires the Company to classify its assets and liabilities based on valuation methods using three levels.
    - Level 1 values are based on quoted unadjusted prices in active markets for identical investments.
    - Level 2 values are based on significant observable market inputs, such as quoted prices for similar investments and quoted prices in inactive markets.
    - Level 3 values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the investments.
    - The valuation levels are not necessarily an indication of risk or liquidity associated with the underlying investments.
- ASC 820 offers investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV") per share.
    - Underlying investment vehicles with the following criteria are classified as Level 2 per the Investment Manager's policy:
        - Quarterly liquidity or better;
        - Redemption notice period of 90 days or less;
        - No hard lock-up that is effective as of December 31, 2014; and
        - No gates or suspension of redemptions / withdrawals as of December 31, 2014
    - Underlying investment vehicles not meeting the above criteria are classified as Level 3.

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Company's investments fall as of December 31, 2014:

Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 925,455	$ -	$ -	$ 925,455
Convertible bond hedging	-	15,895,197	-	15,895,197
Distressed debt	-	64,089,901	16,060,302	80,150,203
Equity market neutral	-	14,853,187	-	14,853,187
Event-driven equity	-	43,405,525	-	43,405,525
Fixed income relative value	-	93,628,340	-	93,628,340
Long/short credit	-	116,432,955	289,499	116,722,454
Long/short equity	-	129,994,579	-	129,994,579
Opportunistic investments	-	4,079,014	-	4,079,014
	$ 925,455	**$ 482,378,698**	**$ 16,349,801**	**$ 499,653,954**

The following table reconciles the valuation of the Company's Level 3 investments recorded at fair value on a recurring basis and related transactions during the year ended December 31, 2014:

Level 3 Rollforward	Convertible bond hedging	Distressed debt	Long/short credit	Total
Balance at December 31, 2013	$ 657,438	$ -	$ 233,869	$ 891,307
Purchases		1,960,000	-	1,960,000
Sales	(222,692)	(1,627,299)	-	(1,849,991)
Net Realized loss	(496,793)	452,635	-	(44,158)
Net change in unrealized depreciation	62,047	(3,727,727)	55,630	(3,610,050)
Transfers in*	-	19,002,693	-	19,002,693
Transfers out*	-	-	-	-
Ending value at December 31, 2014	$ -	$ 16,060,302	$ 289,499	$ 16,349,801
Change in unrealized depreciation relating to investments still held as of December 31, 2014	$ -	$ (3,727,727)	$ 55,630	$ ($3,672,097)

*Transfers into and out of level 3 occur at the beginning of the year. Transfers into level 3 occur if any of the criteria described in the "Fair Value Measurements" section is not met by an underlying investment that was previously classified as level 1 or 2. Transfers out of level 3 occur if all criteria described in the "Fair Value Measurements" section are met by an underlying investment that was previously classified as level 3.

3. INVESTMENTS

- Throughout the year ended December 31, 2014 the Company invested in multiple Segregated Portfolios of the PCH Manager Fund, PM Manager Fund ,and NPB Manager Fund structures, which are related parties.
    - Included in the convertible bond hedging, distressed debt, equity market neutral, long/short credit, long/short equity, and event-driven equity investment objectives.
    - The funds are subadvised by external, unrelated hedge fund managers.
    - Represent 35.65%, or $179,518,019, of the Company's net assets at December 31, 2014.
    - Represent 23.92%, or $8,547,771, of the net realized gain on investments on the accompanying statement of operations.
    - Represent 14.88%, or ($2,755,960) of the net change in unrealized appreciation on investments on the accompanying statement of operations.
    - The Investment Manager does not receive any additional fees from this arrangement.

- The following table summarizes the Company's investments in funds as of December 31, 2014.
  - Funds in which the Company invested more than 5% of its net assets are individually identified, while smaller investments in other funds are aggregated.
  - The management agreements of the investee funds provide for compensation to the managers in the form of management fees ranging from 0% to 2% annually of NAV and performance incentive fees ranging from 0% to 20% of net profits earned as defined in the management agreement.
  - All vehicles in which the Company invests are denominated in U.S. dollars.

Investment	Net Realized and Unrealized Gains/(Losses)	Management Fees	Performance / Incentive Fees	Redemptions Permitted*	Notice Period*
Convertible bond hedging	$ (1,816,554)	1.13%	12.5%	Quarterly	60 days
Distressed debt					
Rapax OC Offshore Fund, Ltd	(1,500,374)	1%	14%	Quarterly	87 days
Other	712,779	1-1.25%	10-20%	Monthly/Quarterly	90 days
Total distressed debt	(787,595)	1-1.25%	10-20%	Monthly/Quarterly	87-90 days
Equity market neutral	1,267,226	1%	10%	Monthly	45 days
Event-driven equity	(2,786,886)	0.75-1.5%	10-18%	Monthly/Quarterly	15-90 days
Fixed income relative value					
Concordia Institutional Multi-Strategy, Ltd	1,737,541	1.5%	20%	Monthly	25 days
OC 523 Offshore Fund, Ltd. (Axonic)	3,188,104	1%	12.5%	Monthly	60 days
OC 528 Offshore Fund, Ltd. (Peters)	1,639,561	0.33%	1.5%	Monthly	30 days
Investments redeemed in 2014	2,098,755	-	-	-	-
Total fixed income relative value	8,663,961	0.33-1.5%	1.5-20%	Monthly	25-60 days
Long/short credit					
Ultra OC, Ltd	2,301,916	0.9%	17.5%	Quarterly	90 days
Other	3,733,249	0-1%	10-20%	Monthly/Quarterly	45-90 days
Total long/short credit	6,035,165	0-1%	10-20%	Monthly/Quarterly	45-90 days
Long/short equity	5,767,703	0.85-1.5%	10-20%	Monthly/Quarterly	30-90 days
Opportunistic investments	867,792	1%	10%	Monthly	25 days
Total	$ 17,210,812				

*Please see description of investment objectives below for information regarding investment vehicles not included in redemptions permitted and notice period columns that have redemption restrictions in place as of December 31, 2014.

  - As of December 31, 2014, the Company had no unfunded commitments.

- The following summarizes a description of the investment vehicles' investment objectives:
  - *Convertible Bond Hedging*
    - Generates profits by identifying pricing disparities between a company's convertible bonds and its underlying stock.
  - *Distressed Debt*
    - Managers invest in the securities of companies that are experiencing financial or operational difficulties, including reorganizations, bankruptcies, distressed sales and other corporate restructurings.
    - As of December 31, 2014, investments representing 3.19% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.
  - *Equity Market Neutral*
    - Managers construct portfolios that balance long and short positions in order to hedge systemic factors or exposures.
  - *Event-Driven Equity*
    - Focuses on event-driven trades implemented mainly through equity positions.
  - *Fixed Income Relative Value*
    - Managers seek to capture profit from taking offsetting long and short positions in related fixed income securities and derivatives.
  - *Long/Short Credit*
    - Focuses on fixed income securities where the majority of the return is derived from credit exposure and selection as opposed to the general term structure of interest rates.
    - As of December 31, 2014, investments representing 0.06% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.
  - *Long/Short Equity*
    - Managers construct net long or net short portfolios by using equity hedging strategies.
  - *Opportunistic Investments*
    - Aims to capitalize on strategies not captured by the above sectors and take advantage of niche opportunistic investments that may have a shorter investment horizon or a focused mandate.

4. RELATED-PARTY TRANSACTIONS

- As compensation for its services to be rendered to the Company, the Investment Manager shall be entitled to receive from the Company with respect to each Member, each month, a management fee in an amount equal to one-twelfth of 0.75% of the Member's capital account balance as of the last day of the month.
  - The Investment Manager may, however, with the consent of the applicable Member, waive the payment of all or part of the management fee payable with respect to such Member for any month or other period the Investment Manager determines is appropriate.
  - For the year ended December 31, 2014, such fees amounted to $ 3,874,904, of which $630,224 were payable at December 31, 2014.

- As of the last day of each fiscal year, the Investment Manager shall receive a performance fee with respect to each Member equal to 5% of the excess, if any, of (i) the net profits (less any Net Losses) otherwise allocable for such year to each Member's capital account minus the sum of (ii) any balance remaining in such Member's loss recovery account as of the beginning of such fiscal year and (iii) the hurdle amount with respect to such Member, if any

    - For the year ended December 31, 2014, $601,516 in performance fees was accrued and payable at December 31, 2014.

- In addition to management fees paid to the Investment Manager, the Company pays management fees, incentive fees and expenses as a member, partner, or shareholder of each underlying investment company or investment fund.

    - These underlying investments have varied expense and fee structures, which are described in more detail in Note 3.

    - The expenses and fees of such investments are included as part of each investment's fair value and are not presented as expenses of the Company in the accompanying statement of operations.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISKS

- At December 31, 2014, the Company had no direct commitments to purchase or sell securities, financial instruments, or commodities relating to forward or futures contracts.

- The Company's operating activities involve trading, including indirectly through its investments in funds, in short selling activities and derivative financial instruments that involve varying degrees of market, illiquidity, and credit risk.

- With respect to investments in funds, the Company has limited liability, and therefore, its maximum exposure to either market or credit loss is limited to its carrying value in these investments, as set forth in the accompanying statement of assets and liabilities

6. INVESTMENTS FUNDED IN ADVANCE

- As of December 31, 2014, investments funded in advance, which represent purchases of investment companies and partnerships effective as of January 1, 2015, consist of the following:

Long/Short Equity	$1,500,000

7. FINANCIAL HIGHLIGHTS

- For the year ended December 31, 2014, the following represents the financial highlights of the Company's members:

Ratios to average net assets: [1]	
Operating expenses before performance fee	0.78%
Performance fees	0.12%
Total expenses	0.90%
Net Investment Loss	(0.90)%
Total Return [2]	
Total return before performance fees	2.53%
Performance fees	(0.12)%
Total return after performance fees	2.41%

[1] Does not include expenses of the investment vehicles in which the Company invests.
[2] Total return amounts are calculated for a member invested on January 1, net of expenses and standard management fees, based on the change in value relative to the average capital invested. An individual investor's return may vary from these returns based on different management fee arrangements and timing of capital transactions.

8. SUBSEQUENT EVENTS

- As of April 30, 2015, the date the financial statements were available to be issued, the Company paid capital redemptions in the amount of $28,000,000 that were effective after December 31, 2014.

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Newport Colonels, LLC

Financial Statements

As of and for the Year Ended December 31, 2015,

and Independent Auditors’ Report

This report qualifies under the exemptive provisions
of the CFTC No Action Letter No. 12-38.

Newport Colonels, LLC

Corporate Information

Registered Office	Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808 USA
Administrator	International Fund Services (N.A.), L.L.C. 1290 Avenue of the Americas, 10th Floor New York, NY 10104 United States of America
Legal Advisor	K&L Gates LLP 1601 K Street,NW Washington, DC 20006 USA
Manager and Investment Advisor	Pacific Alternative Asset Management Company, LLC 19540 Jamboree Road, Suite 400 Irvine, CA 92612 USA
Custodian	The Northern Trust Company 50 South LaSalle Street Chicago, IL 60675 USA
Independent Auditor	Deloitte & Touche LLP 695 Town Center Drive, Suite 1200 Costa Mesa, CA 92626-7188 USA

Newport Colonels, LLC

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INDEPENDENT AUDITORS' REPORT

To the Members of
Newport Colonels, LLC:

We have audited the accompanying financial statements of Newport Colonels, LLC (the "Company"), which comprise the statement of assets and liabilities, including the condensed schedule of investments, as of December 31, 2015, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Colonels, LLC as of December 31, 2015, the results of its operations, changes in its net assets, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 29, 2016

Newport Colonels, LLC

STATEMENT OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2015

ASSETS	
Investments, at fair value (cost $357,398,424)	$ 409,379,675
Cash and cash equivalents	10,780,028
Receivable from investments sold	1,687,859
Dividends receivable	294
Total assets	421,847,856
LIABILITIES	
Capital redemptions payable	20,000,000
Accrued management fees	527,472
Performance fee payable	72,538
Administration fees	31,085
Accrued liabilities	27,100
Total liabilities	20,658,195
NET ASSETS:	$ 401,189,661

See notes to financial statements.

Newport Colonels, LLC

CONDENSED SCHEDULE OF INVESTMENTS
AS OF DECEMBER 31, 2015

	Cost	Fair Value	Percent of Net Assets	
Investments:				
Convertible bond hedging – Untied States	$ 2,795,628	$ 2,915,755	0.73	%
Distressed debt – United States	52,032,972	55,032,356	13.72	*
Equity market neutral – United States	14,542,578	16,271,887	4.06	
Event-driven equity				
United States				
PM Manager Fund, SPC - SP14	19,402,808	23,873,171	5.95	
Other	6,291,852	3,817,611	0.95	
Total United States	25,694,660	27,690,782	6.90	
Europe	13,070,000	13,035,371	3.25	
Total event-driven equity	38,764,660	40,726,153	10.15	
Fixed income relative value – United States				
Concordia Institutional Multi-Strategy, Ltd	28,217,005	34,063,714	8.49	
OC 523 Offshore Fund, Ltd.	27,718,491	34,785,891	8.67	
OC 528 Offshore Fund, Ltd.	26,710,000	27,280,738	6.80	
Total fixed income relative value	82,645,496	96,130,343	23.96	
Long/short credit - United States				
CWD OC 522 Offshore Fund, Ltd.	20,581,704	20,705,309	5.16	
Ultra OC, Ltd	26,934,093	33,688,182	8.40	
Other	42,035,570	45,312,430	11.29	*
Total long/short credit	89,551,367	99,705,921	24.85	
Long/short equity				
United States	44,119,500	59,089,780	14.73	*
Asia	10,547,370	13,518,217	3.37	
Europe	16,196,950	18,602,344	4.64	
Total long/short equity	70,863,820	91,210,341	22.74	
Opportunistic investments – United States	6,201,903	7,386,919	1.83	
TOTAL	$ 357,398,424	$ 409,379,675	102.04	

*No single investment vehicle represents more than 5% of net assets

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

INVESTMENT INCOME – Dividend income	$ 1,305
INVESTMENT EXPENSES:	
Management fees	3,523,912
Performance fees	72,538
Administration fees	78,103
Professional fees	32,205
Other fees	19,171
Total investment expenses	3,725,929
NET INVESTMENT LOSS	(3,724,624)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	
Net realized gain on investments	21,548,269
Net change in unrealized depreciation on investments	(27,254,643)
Net realized and unrealized loss on investments	(5,706,374)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (9,430,998)

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

BALANCE – JANUARY 1, 2015	$ 503,620,659
Change in net assets resulting from operations:	
Net investment loss	(3,724,624)
Net realized gain on investments	21,548,269
Net change in unrealized depreciation on investments	(27,254,643)
Net decrease in net assets resulting from operations	(9,430,998)
Capital redemptions	(93,000,000)
BALANCE – DECEMBER 31, 2015	$ 401,189,661

See notes to financial statements.

Newport Colonels, LLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net decrease in net assets resulting from operations	$ (9,430,998)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities	
Purchase of investments	(61,373,694)
Proceeds from disposition of investments	145,016,144
Net realized gain on investments	(21,548,269)
Net change in unrealized depreciation on investments	27,254,643
Decrease in investments funded in advance	1,500,000
Decrease in receivable from investments sold	2,057,189
Decrease in accrued management fees	(102,752)
Decrease in performance fee payable	(528,978)
Increase in administration fee payable	10,409
Increase in accrued liabilities	1,155
Increase in dividends receivable	(276)
Net cash provided by operating activities	82,854,573
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital redemption net of change in capital redemptions payable	(73,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,854,573
CASH AND CASH EQUIVALENTS – Beginning of year	925,455
CASH AND CASH EQUIVALENTS – End of year	$ 10,780,028

See notes to financial statements.

Newport Colonels, LLC

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. ORGANIZATION AND NATURE OF BUSINESS

Newport Colonels, LLC (the "Company")

* Organized as a Delaware limited liability company on August 11, 2011.
    * Commenced operations September 1, 2011.
    * Pacific Alternative Asset Management Company serves as the investment manager of the Company (the "Investment Manager").
        * Related party.
        * California limited liability company.
* Objective is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle.
    * May allocate substantially all of its assets across a variety of investment vehicles.
        * Generally fixed income and equity orientations.
        * Many different investment styles.
    * No assurance that the Company will achieve its investment objective.
* Investment in the Company may involve risk factors.
    * Suitable only for sophisticated investors who have limited need for liquidity of their investment and who can accept a degree of risk in their investment.
    * See the Company's formation documents for a complete description of the Company and the risks associated therewith.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

* Accrual basis of accounting.
* Investment transactions recorded on a trade-date basis.
* Income and expenses recorded as earned and incurred.
* The Company applies the investment company accounting and reporting guidance issued in Topic 946 by the U.S. Financial Accounting Standards Board ("FASB").

Basis of Presentation

* Prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

* GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditures.

* Actual results could differ from those estimates.

Income and Expense Recognition

* Income is accrued through dividend income on cash and cash equivalents.

* Expenses are incurred primarily through the payment of management fees to the Investment Manager.

    - Other expenses include payments for professional services rendered by third parties.

Cash and Cash Equivalents

* Cash balances swept nightly to the Northern Institutional Treasury Fund

    - Money market fund that qualifies as a registered investment company.

    - Invests in U.S. Treasury securities and related tri-party repurchase agreements.

        - Money market funds that qualify as a registered investment company are considered Level 1 securities under ASC 820: Fair Value Measurement, as defined subsequently in these disclosures.

Investments

* The Company invests in non-readily marketable investment vehicles.

    - Valued at $409,379,675 (102.04% of net assets) at December 31, 2015.

        - Based on the Company's proportionate share of the net asset values of the investment vehicles as reported by the hedge fund managers.
        - Investment vehicles generally mark their investments to market, with changes in unrealized gain or loss recorded in net change in unrealized depreciation on investments in the accompanying statement of operations.
        - Income or loss primarily consists of realized gains and losses, unrealized appreciation and depreciation on investments, and interest and dividend income and expenses, including management and performance fees.
        - Fair values related to the underlying investment vehicles may have been estimated by the management of the respective managers of the funds in the absence of readily ascertainable market values.

    - In accordance with the Investment Manager's Valuation Policy and pursuant to Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, the Investment Manager has the right, in its discretion and in good faith, to deviate from valuation information provided by the managers of the investment vehicles when the Investment Manager deems it appropriate.

        - There were no such changes made to the investment vehicle valuations by the Investment Manager at December 31, 2015.

    - Because of the inherent uncertainty of valuations in the investment vehicles, values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

* Since the investment vehicles' interests are not publicly traded, the Company's ability to make withdrawals from its investments in the investment vehicles is subject to certain restrictions which vary for each respective investment vehicle.
    - Restrictions include notice requirements for withdrawals and additional restrictions which limit withdrawals to specified times during the year.
    - Such restrictions can, and in some cases did, include the suspension or delay in withdrawals from the respective investment vehicles.
* Realized and unrealized gains and losses are included in operations in the current year and are computed using the average cost method.
    - Change in unrealized appreciation/depreciation on investments in investment vehicles, including those for which partial liquidations were effected in the course of the year, is calculated as the difference between the fair value of the investment at year-end less the fair value of the investment at the beginning of the year, as adjusted for additions and redemptions made during the year.

Income Taxes

* The Company is generally not subject to federal or state income taxes
    - No provision for income taxes has been made in the accompanying financial statements.
    - Taxable investors are required to report their proportional share of gains, losses, credits, or deductions on their own income tax returns.
* The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position.
    - The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability that would reduce net assets.
* The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition.
    - No reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years.
    - The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Capital Transactions

* A Member may request a withdrawal from its capital account effective immediately after the valuation time on any quarterly valuation date by delivering written notice to the Investment Manager at least 90 days (or other shorter period the Investment Manager in its reasonable discretion determines) before the relevant quarterly valuation date.

Fair Value Measurements

* FASB ASC 820, *Fair Value Measurement*, requires the Company to classify its assets and liabilities based on valuation methods using three levels.

    - Level 1 values are based on quoted unadjusted prices in active markets for identical investments.

    - Level 2 values are based on significant observable market inputs, such as quoted prices for similar investments and quoted prices in inactive markets.

    - Level 3 values are based on significant unobservable inputs that reflect the Company's determination of assumptions that market participants might reasonably use in valuing the investments.

    - The valuation levels are not necessarily an indication of risk or liquidity associated with the underlying investments.

* ASC 820 offers investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV") per share.

    - Underlying investment vehicles with the following criteria are classified as Level 2 per the Investment Manager's policy:

        - Quarterly liquidity or better;
        - Redemption notice period of 90 days or less;
        - No hard lock-up that is effective as of December 31, 2015; and
        - No gates or suspension of redemptions / withdrawals as of December 31, 2015

    - Underlying investment vehicles not meeting the above criteria are classified as Level 3.

The following table summarizes the levels within the fair value hierarchy in which the fair value measurements of the Company's investments fall as of December 31, 2015:

Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 10,780,028	$ -	$ -	$ 10,780,028
Convertible bond hedging	-	2,915,755	-	2,915,755
Distressed debt	-	43,235,690	11,796,666	55,032,356
Equity market neutral	-	16,271,887	-	16,271,887
Event-driven equity	-	36,908,542	3,817,611	40,726,153
Fixed income relative value	-	96,130,343	-	96,130,343
Long/short credit	-	99,705,921	-	99,705,921
Long/short equity	-	91,210,341	-	91,210,341
Opportunistic investments	-	7,386,919	-	7,386,919
	$ 10,780,028	**$ 393,765,398**	**$ 15,614,277**	**$ 420,159,703**

The following table reconciles the valuation of the Company's Level 3 investments recorded at fair value on a recurring basis and related transactions during the year ended December 31, 2015:

Level 3 Rollforward	Event-driven equity	Distressed debt	Long/short credit	Total
Balance at December 31, 2014	$ -	$ 16,060,302	$ 289,499	$ 16,349,801
Purchases	-	-	-	-
Sales	(9,450,916)	(13,653,929)	(304,032)	(23,408,877)
Net realized gain	289,768	4,184,323	135,773	4,609,864
Net change in unrealized depreciation	(2,171,376)	(10,100,527)	(121,240)	(12,393,143)
Transfers in*	15,150,135	15,306,497	-	30,456,632
Transfers out*	-	-	-	-
Ending value at December 31, 2015	$ 3,817,611	$ 11,796,666	$ -	$ 15,614,277
Change in unrealized depreciation relating to investments still held as of December 31, 2015	$ (2,171,376)	$ (10,100,527)	$ -	$ (12,271,903)

*Transfers into and out of level 3 occur at the beginning of the year. Transfers into level 3 occur if any of the criteria described in the "Fair Value Measurements" section is not met by an underlying investment that was previously classified as level 1 or 2. Transfers out of level 3 occur if all criteria described in the "Fair Value Measurements" section are met by an underlying investment that was previously classified as level 3.

New Accounting Pronouncements

- In May 2015, the FASB issued Accounting Standard Update ("ASU") 2015-07 which eliminates the requirement to classify the investments measured at an investment's fair value using the net asset value per share practical expedient within the fair value hierarchy.
  - The ASU eliminates the requirement to make specific disclosures for all investments eligible to be assessed at fair value with the net asset value per share practical expedient.
  - This ASU is effective for fiscal years beginning after December 15, 2016 but early adoption is permitted.
  - The Investment Manager is currently evaluating the impact that the implementation of this ASU will have on the Company's financial statement disclosures.

3. INVESTMENTS

- Throughout the year ended December 31, 2015 the Company invested in multiple Segregated Portfolios of the PCH Manager Fund, PM Manager Fund, and NPB Manager Fund structures, which are related parties.
  - Included in the distressed debt, equity market neutral, long/short credit, long/short equity, and event-driven equity investment objectives.
  - The funds are subadvised by external, unrelated hedge fund managers.
  - Represent 39.23%, or $157,401,428, of the Company's net assets at December 31, 2015.
  - Represent 27.61%, or $5,949,426, of the net realized gain on investments on the accompanying statement of operations.
  - Represent (5.51)%, or $1,501,779 of the net change in unrealized depreciation on investments on the accompanying statement of operations.

- The Investment Manager does not receive any additional fees from this arrangement.

* The following table summarizes the Company's investments in funds as of December 31, 2015.

  - Funds in which the Company invested more than 5% of its net assets are individually identified, while smaller investments in other funds are aggregated.

  - The management agreements of the investee funds provide for compensation to the managers in the form of management fees ranging from 0% to1.63% annually of NAV and performance incentive fees ranging from 10% to 20% of net profits earned as defined in the management agreement.

  - All vehicles in which the Company invests are denominated in U.S. dollars.

Investment	Net Realized and Unrealized Gains/(Losses)	Management Fees	Performance / Incentive Fees	Redemptions Permitted*	Notice Period*
Convertible bond hedging	$ (175,808)	1.5%	20%	Quarterly	60 days
Distressed debt	(8,193,918)	0.9-1%	10-20%	Monthly/Quarterly	87-90 days
Equity market neutral	780,826	1%	10%	Monthly	45 days
Event-driven equity					
PM Manager Fund, SPC - SP14	996,957	0.75%	14%	Monthly	15 days
Other	(1,950,665)	1-1.5%	15-18%	Monthly/Quarterly	15-90 days
Total event-driven equity	(953,708)	0.75-1.5%	14-18%	Monthly/Quarterly	15-90 days
Fixed income relative value					
Concordia Institutional Multi-Strategy, Ltd	2,512,355	1.5%	20%	Monthly	25 days
OC 523 Offshore Fund, Ltd.	302,547	1%	12.5%	Monthly	60 days
OC 528 Offshore Fund, Ltd.	(822,899)	1.63%	10.75%	Monthly	30 days
Total fixed income relative value	1,992,003	1-1.63%	10.75-20%	Monthly	25-60 days
Long/short credit					
CWD OC 522 Offshore Fund, Ltd.	(3,461,125)	0.75%	20%	Quarterly	65 days
Ultra OC, Ltd	(311,324)	0.9%	17.5%	Quarterly	90 days
Other	(1,131,957)	0-1%	10-17.5%	Monthly/Quarterly	45-90 days
Total long/short credit	(4,904,406)	0-1%	10-20%	Monthly/Quarterly	45-90 days
Long/short equity	5,380,732	0.85-1.5%	10-20%	Monthly/Quarterly	30-90 days
Opportunistic investments	367,905	1%	10%	Monthly	25 days
Total	$ (5,706,374)				

*Please see description of investment objectives below for information regarding investment vehicles not included in redemptions permitted and notice period columns that have redemption restrictions in place as of December 31, 2015.

- As of December 31, 2015, the Company had no unfunded commitments.

∗ The following summarizes a description of the investment vehicles' investment objectives:

- *Convertible Bond Hedging*
  - Generates profits by identifying pricing disparities between a company's convertible bonds and its underlying stock.
- *Distressed Debt*
  - Managers invest in the securities of companies that are experiencing financial or operational difficulties, including reorganizations, bankruptcies, distressed sales and other corporate restructurings.
  - As of December 31, 2015, investments representing 2.94% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.

- *Equity Market Neutral*
  - Managers construct portfolios that balance long and short positions in order to hedge systemic factors or exposures.

- *Event-Driven Equity*
  - Focuses on event-driven trades implemented mainly through equity positions.

- *Fixed Income Relative Value*
  - Managers seek to capture profit from taking offsetting long and short positions in related fixed income securities and derivatives.

- *Long/Short Credit*
  - Focuses on fixed income securities where the majority of the return is derived from credit exposure and selection as opposed to the general term structure of interest rates.

- *Long/Short Equity*
  - Managers construct net long or net short portfolios by using equity hedging strategies.

- *Opportunistic Investments*
  - Aims to capitalize on strategies not captured by the above sectors and take advantage of niche opportunistic investments that may have a shorter investment horizon or a focused mandate.

4. RELATED-PARTY TRANSACTIONS

- As compensation for its services to be rendered to the Company, the Investment Manager shall be entitled to receive from the Company with respect to each Member, each month, a management fee in an amount equal to one-twelfth of 0.75% of the Member's capital account balance as of the last day of the month.

  - The Investment Manager may, however, with the consent of the applicable Member, waive the payment of all or part of the management fee payable with respect to such Member for any month or other period the Investment Manager determines is appropriate.

  - For the year ended December 31, 2015, such fees amounted to $3,523,912, of which $527,472 were payable at December 31, 2015.

- As of the last day of each fiscal year, the Investment Manager shall receive a performance fee with respect to each Member equal to 5% of the excess, if any, of (i) the net profits (less any Net Losses) otherwise allocable for such year to each Member's capital account minus the sum of (ii) any balance remaining in such Member's loss recovery account as of the beginning of such fiscal year and (iii) the hurdle amount with respect to such Member, if any

  - For the year ended December 31, 2015, such fees amounted to 72,538, all of which was payable at December 31, 2015.

- In addition to management fees paid to the Investment Manager, the Company pays management fees, incentive fees and expenses as a member, partner, or shareholder of each underlying investment company or investment fund.

  - These underlying investments have varied expense and fee structures, which are described in more detail in Note 3.

- o The expenses and fees of such investments are included as part of each investment's fair value and are not presented as expenses of the Company in the accompanying statement of operations.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISKS

- ∗ At December 31, 2015, the Company had no direct commitments to purchase or sell securities, financial instruments, or commodities relating to forward or futures contracts.

- ∗ The Company's operating activities involve trading, including indirectly through its investments in funds, in short selling activities and derivative financial instruments that involve varying degrees of market, illiquidity, and credit risk.

- ∗ With respect to investments in funds, the Company has limited liability, and therefore, its maximum exposure to either market or credit loss is limited to its carrying value in these investments, as set forth in the accompanying statement of assets and liabilities

6. FINANCIAL HIGHLIGHTS

- ∗ For the year ended December 31, 2015, the following represents the financial highlights of the Company's members:

Ratios to average net assets: (1)	
Operating expenses before performance fee	0.78%
Performance fees	0.02%
Total expenses	0.80%
Net Investment Loss	(0.78)%
Total Return (2)	
Total return before performance fees	(2.42)%
Performance fees	(0.00)%
Total return after performance fees	(2.42)%

(1) Does not include expenses of the investment vehicles in which the Company invests.
(2) Total return amounts are calculated for a member invested on January 1, net of expenses and standard management fees, based on the change in value relative to the average capital invested. An individual investor's return may vary from these returns based on different management fee arrangements and timing of capital transactions.

7. SUBSEQUENT EVENTS

- ∗ As of April 29, 2016, the date the financial statements were available to be issued, the Company paid capital redemptions in the amount of $90,000,000 that were effective after December 31, 2015.

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Newport Colonels, LLC

Financial Statements in Liquidation

As of and for the Year Ended December 31, 2016,

and Independent Auditors' Report

This report qualifies under the exemptive provisions
of the CFTC No Action Letter No. 12-38.

Newport Colonels, LLC

Corporate Information

Registered Office	Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808 USA
Administrator	International Fund Services (N.A.), L.L.C. 1290 Avenue of the Americas, 10th Floor New York, NY 10104 United States of America
Legal Advisor	K&L Gates LLP 1601 K Street,NW Washington, DC 20006 USA
Manager and Investment Advisor	Pacific Alternative Asset Management Company, LLC 19540 Jamboree Road, Suite 400 Irvine, CA 92612 USA
Custodian	The Northern Trust Company 50 South LaSalle Street Chicago, IL 60675 USA
Independent Auditor	Deloitte & Touche LLP 695 Town Center Drive, Suite 1200 Costa Mesa, CA 92626-7188 USA

Newport Colonels, LLC

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INDEPENDENT AUDITORS' REPORT

To the Members of
Newport Colonels, LLC:

We have audited the accompanying financial statements of Newport Colonels, LLC (the "Company"), which comprise the statement of assets and liabilities in liquidation, including the schedule of investments in liquidation, as of December 31, 2016, and the related statements of operations in liquidation, changes in net assets in liquidation, and cash flows in liquidation for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Colonels, LLC as of December 31, 2016, the results of its operations in liquidation, changes in its net assets in liquidation, and its cash flows in liquidation for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in note 1 to the financial statements in liquidation, the Company is in the process of being liquidated. As a result, the Company has changed its basis of accounting from the going concern basis to the liquidation basis effective January 1, 2016. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

April 28, 2017

Newport Colonels, LLC

STATEMENT OF ASSETS AND LIABILITIES IN LIQUIDATION
AS OF DECEMBER 31, 2016

ASSETS	
Investments, at fair value (cost $1,977,434)	$ 2,136,581
Cash and cash equivalents	1,322,295
Receivable from investments sold	8,228,129
Dividends receivable	657
Total assets	11,687,662
LIABILITIES	
Accrued management fees	16,292
Accrued administration fees	13,500
Accrued liquidation expenses	187,900
Total liabilities	217,692
NET ASSETS:	$ 11,469,970

See notes to financial statements in liquidation.

Newport Colonels, LLC

SCHEDULE OF INVESTMENTS IN LIQUIDATION
AS OF DECEMBER 31, 2016

	Cost	Fair Value	Percent of Net Assets
Investments:			
Distressed debt – United States			
Standard General OC Offshore Fund Ltd	$ 975,340	$ 1,562,364	13.62 %
Total fixed income relative value	975,340	1,562,364	13.62 %
Event-driven equity – United States			
OC 19 Offshore Fund, Ltd.	1,002,094	574,217	5.01
Total event-driven equity	1,002,094	574,217	5.01
TOTAL	$ 1,977,434	$ 2,136,581	18.63 %

See notes to financial statements in liquidation.

Newport Colonels, LLC

STATEMENT OF OPERATIONS IN LIQUIDATION
FOR THE YEAR ENDED DECEMBER 31, 2016

INVESTMENT INCOME – Dividend income	$ 41,303
INVESTMENT EXPENSES:	
Management fees	1,158,527
Administration fees	60,983
Professional fees	9,728
Estimated liquidation expenses	187,900
Total investment expenses	1,417,138
NET INVESTMENT LOSS	(1,375,835)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	
Net realized gain on investments	44,435,877
Net change in unrealized depreciation on investments	(51,822,104)
Net realized and unrealized loss on investments	(7,386,227)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (8,762,062)

See notes to financial statements in liquidation.

Newport Colonels, LLC

STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION
FOR THE YEAR ENDED DECEMBER 31, 2016

BALANCE – JANUARY 1, 2016	$ 401,189,661
Change in net assets resulting from operations:	
Net investment loss	(1,103,651)
Net realized gain on investments	27,552,531
Net change in unrealized depreciation on investments	(34,856,124)
Net decrease in net assets resulting from operations	(8,407,244)
Capital redemptions	(195,457,629)
NET ASSETS – June 30, 2016	$ 197,324,788
Change in net assets resulting from operations:	
Net investment loss	(272,184)
Net realized gain on investments	16,883,346
Net change in unrealized depreciation on investments	(16,965,980)
Net decrease in net assets resulting from operations	(354,818)
Capital redemptions	(185,500,000)
NET ASSETS IN LIQUIDATION – DECEMBER 31, 2016	$ 11,469,970

See notes to financial statements in liquidation.

Newport Colonels, LLC

STATEMENT OF CASH FLOWS IN LIQUIDATION
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net decrease in net assets resulting from operations	$ (8,762,062)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities	
Proceeds from disposition of investments	399,856,867
Net realized gain on investments	(44,435,877)
Net change in unrealized depreciation on investments	51,822,104
Increase in receivable from investments sold	(6,540,270)
Decrease in accrued management fees	(511,180)
Increase in accrued liquidation expenses	187,900
Decrease in performance fee payable	(72,538)
Decrease in administration fee payable	(17,585)
Decrease in accrued liabilities	(27,100)
Increase in dividends receivable	(363)
Net cash provided by operating activities	391,499,896
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital redemptions net of change in capital redemptions payable	(400,957,629)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,457,733)
CASH AND CASH EQUIVALENTS – Beginning of year	10,780,028
CASH AND CASH EQUIVALENTS – End of year	$ 1,322,295

See notes to financial statements.

Newport Colonels, LLC

NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. ORGANIZATION AND NATURE OF BUSINESS

Newport Colonels, LLC (the "Company")

- Organized as a Delaware limited liability company on August 11, 2011.
  - Commenced operations September 1, 2011.
  - Pacific Alternative Asset Management Company serves as the investment manager of the Company (the "Investment Manager").
    - Related party.
    - California limited liability company.
- Objective is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle.
  - May allocate substantially all of its assets across a variety of investment vehicles.
    - Generally fixed income and equity orientations.
    - Many different investment styles.
  - No assurance that the Company will achieve its investment objective.
- Investment in the Company may involve risk factors.
  - Suitable only for sophisticated investors who have limited need for liquidity of their investment and who can accept a degree of risk in their investment.
  - See the Company's formation documents for a complete description of the Company and the risks associated therewith.
- Effective June 30, 2016, the limited partners requested a full redemption from the Company
  - Liquidation is deemed imminent as the Investment Manager does not intend to continue to solicit new investors and does not expect the Company to continue its previous operation.
  - For purposes of the audited financials the Investment Manager estimates the time to liquidate the Company will be 2 years, although the actual time to fully liquidate the Company may differ significantly.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

- Liquidation basis of accounting.
- Investment transactions recorded on a trade-date basis.
- The Company applies the investment company accounting and reporting guidance issued in Topic 946 by the U.S. Financial Accounting Standards Board ("FASB").

Basis of Presentation

- Prepared under the liquidation basis of accounting.
    - Financial statements prepared on a liquidation basis in accordance with principles generally accepted in the United States of American ("GAAP") (Topic 205 – Presentation of Financial Statements).
    - The liquidation basis of accounting is appropriate when liquidation is considered imminent and the Company is not viewed as a going concern.
    - Under this method of accounting, assets and liabilities are stated at their estimated fair value, which approximates the amount the Company expects to collect.
    - Under this method the entity accrues costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities.

Use of Estimates

- The preparation of financial statements in conformity with the liquidation basis requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditures.
- Actual results could differ from those estimates.

Income and Expense Recognition

- Income is accrued through dividend income on cash and cash equivalents.
- Expenses are incurred primarily through the payment of management fees to the Investment Manager.
    - Other expenses include payments for professional services rendered by third parties.

Cash and Cash Equivalents

- Cash balances swept nightly to the Northern Institutional Treasury Fund
    - Money market fund that qualifies as a registered investment company.
    - Invests in U.S. Treasury securities and related tri-party repurchase agreements.
        - Money market funds that qualify as a registered investment company are considered Level 1 securities under ASC 820: Fair Value Measurement, as defined subsequently in these disclosures.

Liquidation Fees

- Liquidation fees relate to all future costs associated with liquidating the fund, and include management, professional, and custody fees.
- Upon designating liquidation basis of accounting, the Investment Manager estimated future liquidation fees based on an anticipated timeline to liquidate the Company. As of 12/31/2016, the Investment Manager reassessed the estimated timeline to liquidate the fund and adjusted liquidation expenses by ($187,900).

Investments

- The Company invests in non-readily marketable investment vehicles.

- Valued at $2,136,581 (18.63% of net assets) at December 31, 2016.
    - Based on the Company's proportionate share of the net asset values of the investment vehicles as reported by the hedge fund managers.
    - Investment vehicles generally mark their investments to market, with changes in unrealized gain or loss recorded in net change in unrealized depreciation on investments in the accompanying statement of operations.
    - Income or loss primarily consists of realized gains and losses, unrealized appreciation and depreciation on investments, and interest and dividend income and expenses, including management and performance fees.
    - Fair values related to the underlying investment vehicles may have been estimated by the management of the respective managers of the funds in the absence of readily ascertainable market values.
- In accordance with the Investment Manager's Valuation Policy and pursuant to Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, the Investment Manager has the right, in its discretion and in good faith, to deviate from valuation information provided by the managers of the investment vehicles when the Investment Manager deems it appropriate.
    - There were no such changes made to the investment vehicle valuations by the Investment Manager at December 31, 2016.
- Because of the inherent uncertainty of valuations in the investment vehicles, values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

- Since the investment vehicles' interests are not publicly traded, the Company's ability to make withdrawals from its investments in the investment vehicles is subject to certain restrictions which vary for each respective investment vehicle.
    - Restrictions include notice requirements for withdrawals and additional restrictions which limit withdrawals to specified times during the year.
    - Such restrictions can, and in some cases did, include the suspension or delay in withdrawals from the respective investment vehicles.
- Realized and unrealized gains and losses are included in operations in the current year and are computed using the average cost method.
    - Change in unrealized appreciation/depreciation on investments in investment vehicles, including those for which partial liquidations were effected in the course of the year, is calculated as the difference between the fair value of the investment at year-end less the fair value of the investment at the beginning of the year, as adjusted for additions and redemptions made during the year.

Income Taxes

- The Company is generally not subject to federal or state income taxes
    - No provision for income taxes has been made in the accompanying financial statements.
    - Taxable investors are required to report their proportional share of gains, losses, credits, or deductions on their own income tax returns.

- The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position.
    - The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability that would reduce net assets.
- The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition.
    - No reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years.
    - The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Capital Transactions

- A Member may request a withdrawal from its capital account effective immediately after the valuation time on any quarterly valuation date by delivering written notice to the Investment Manager at least 90 days (or other shorter period the Investment Manager in its reasonable discretion determines) before the relevant quarterly valuation date.

Fair Value Measurements

- In May 2015, the FASB issued Accounting Standard Update ("ASU") 2015-07 which eliminates the requirement to classify the investments measured at an investment's fair value using the net asset value per share practical expedient within the fair value hierarchy. The ASU eliminates the requirement to make specific disclosures for all investments eligible to be assessed at fair value with the net asset value per share practical expedient. This guidance was adopted by the Company on January 1, 2016 and did not have a material impact on the Company's financial statements.

3. INVESTMENTS

- Throughout the year ended December 31, 2016 the Company invested in multiple Segregated Portfolios of the PCH Manager Fund, PM Manager Fund, and NPB Manager Fund structures, which are related parties.
    - Included in the distressed debt, equity market neutral, long/short credit, long/short equity, and event-driven equity investment objectives.
    - The funds are subadvised by external, unrelated hedge fund managers.
    - Represent 52.60%, or $23,371,143 of the net realized gain on investments on the accompanying statement of operations in liquidation.
    - Represent 52.78%, or $(27,350,447), of the net change in unrealized depreciation on investments on the accompanying statement of operations in liquidation.
    - The Investment Manager does not receive any additional fees from this arrangement.
- The following table summarizes the Company's investments in funds as of December 31, 2016.
    - Funds in which the Company invested more than 5% of its net assets are individually identified, while smaller investments in other funds are aggregated.

- The management agreements of the investee funds provide for compensation to the managers in the form of management fees ranging from 0% to1.5% annually of NAV and performance incentive fees ranging from 18% to 20% of net profits earned as defined in the management agreement.

- All vehicles in which the Company invests are denominated in U.S. dollars.

Investment	Net Realized and Unrealized Gains/(Losses)	Management Fees	Performance Incentive Fees	Redemptions Permitted*	Notice Period*
Distressed debt					
Standard General OC Offshore Fund Ltd	$ 288,082	0%	20%	*	*
Other	(228,333)	-	-	-	-
Total distressed debt	59,749	0%	20%	*	*
Equity market neutral (investments redeemed in 2016)	(1,150,842)	-	-	-	-
Event-driven equity					
OC 19 Offshore Fund, Ltd.	(151,928)	1.5%	18%	*	*
Other	664,295	0%	0%	-	-
Total event-driven equity	512,367	0-1.5%	0-18%	*	*
Fixed income relative value (investments redeemed in 2016)	(147,849)	-	-	-	-
Long/short credit (investments redeemed in 2016)	(4,624,036)	-	-	-	-
Long/short equity (investments redeemed in 2016)	(2,009,496)	-	-	-	-
Opportunistic investments (investments redeemed in 2016)	(26,120)	-	-	-	-
Total	$ (7,386,227)				

*Please see description of investment objectives below for information regarding investment vehicles not included in redemptions permitted and notice period columns that have redemption restrictions in place as of December 31, 2016.

- As of December 31, 2016, the Company had no unfunded commitments.

- The following summarizes a description of the investment vehicles' investment objectives:

  - *Distressed Debt*
    - Managers invest in the securities of companies that are experiencing financial or operational difficulties, including reorganizations, bankruptcies, distressed sales and other corporate restructurings.
    - As of December 31, 2016, investments representing 13.62% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.

  - *Event-Driven Equity*
    - Focuses on event-driven trades implemented mainly through equity positions.

    - As of December 31, 2016, investments representing 5.01% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.

4. RELATED-PARTY TRANSACTIONS

- As compensation for its services to be rendered to the Company, the Investment Manager shall be entitled to receive from the Company with respect to each Member, each month, a management fee in an amount equal to one-twelfth of 0.75% of the Member's capital account balance as of the last day of the month.
    - The Investment Manager may, however, with the consent of the applicable Member, waive the payment of all or part of the management fee payable with respect to such Member for any month or other period the Investment Manager determines is appropriate.
    - For the year ended December 31, 2016, such fees amounted to $1,158,527, of which $16,292 were payable at December 31, 2016.
- As of the last day of each fiscal year, the Investment Manager shall receive a performance fee with respect to each Member equal to 5% of the excess, if any, of (i) the net profits (less any Net Losses) otherwise allocable for such year to each Member's capital account minus the sum of (ii) any balance remaining in such Member's loss recovery account as of the beginning of such fiscal year and (iii) the hurdle amount with respect to such Member, if any
    - For the year ended December 31, 2016, no such fees were expensed or payable at December 31, 2016.
- In addition to management fees paid to the Investment Manager, the Company pays management fees, incentive fees and expenses as a member, partner, or shareholder of each underlying investment company or investment fund.
    - These underlying investments have varied expense and fee structures, which are described in more detail in Note 3.
    - The expenses and fees of such investments are included as part of each investment's fair value and are not presented as expenses of the Company in the accompanying statement of operations.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISKS

- At December 31, 2016, the Company had no direct commitments to purchase or sell securities, financial instruments, or commodities relating to forward or futures contracts.
- The Company's operating activities involve trading, including indirectly through its investments in funds, in short selling activities and derivative financial instruments that involve varying degrees of market, illiquidity, and credit risk.
- With respect to investments in funds, the Company has limited liability, and therefore, its maximum exposure to either market or credit loss is limited to its carrying value in these investments, as set forth in the accompanying statement of assets and liabilities

6. FINANCIAL HIGHLIGHTS

- For the year ended December 31, 2016, the following represents the financial highlights of the Company's members:

Ratios to average net assets: [1]	
Operating expenses before performance fee	0.98%
Performance fees	0.00%
Total expenses	0.98%
Net Investment Loss	(0.96)%
Total Return [2]	
Total return before performance fees	(4.51)%
Performance fees	(0.00)%
Total return after performance fees	(4.51)%

[1] Does not include expenses of the investment vehicles in which the Company invests.
[2] Total return amounts are calculated for a member invested on January 1, net of expenses and standard management fees, based on the change in value relative to the average capital invested. An individual investor's return may vary from these returns based on different management fee arrangements and timing of capital transactions.

7. SUBSEQUENT EVENTS

- As of April 28, 2017, the date the financial statements were available to be issued, no subsequent events or transactions had occurred after December 31, 2016 that would materially impact the financial statements presented.

******

Newport Colonels, LLC

Financial Statements in Liquidation

As of and for the Year Ended December 31, 2017, and Independent Auditors' Report

This report qualifies under the exemptive provisions of the CFTC No Action Letter No. 12-38.

Newport Colonels, LLC

Corporate Information

Registered Office	Corporation Service Company 2711 Centerville Road, Suite 400 Wilmington, DE 19808 USA
Administrator	International Fund Services (N.A.), L.L.C. 1290 Avenue of the Americas, 10th Floor New York, NY 10104 United States of America
Legal Advisor	K&L Gates LLP 1601 K Street,NW Washington, DC 20006 USA
Manager and Investment Advisor	Pacific Alternative Asset Management Company, LLC 19540 Jamboree Road, Suite 400 Irvine, CA 92612 USA
Custodian	The Northern Trust Company 50 South LaSalle Street Chicago, IL 60675 USA
Independent Auditor	Deloitte & Touche LLP 695 Town Center Drive, Suite 1000 Costa Mesa, CA 92626-7188 USA

Newport Colonels, LLC

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INDEPENDENT AUDITORS' REPORT

To the Members of
Newport Colonels, LLC:

We have audited the accompanying financial statements of Newport Colonels, LLC (the “Company”), which comprise the statement of assets and liabilities in liquidation, including the schedule of investment in liquidation, as of December 31, 2017, and the related statements of operations in liquidation, changes in net assets in liquidation, and cash flows in liquidation for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newport Colonels, LLC as of December 31, 2017, the results of its operations in liquidation, changes in its net assets in liquidation, and its cash flows in liquidation for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Liquidation Basis of Accounting

As discussed in note 1 to the financial statements in liquidation, the Company is in the process of being liquidated. As a result, the Company has changed its basis of accounting from the going concern basis to the liquidation basis effective June 30, 2016. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

May 18, 2018

Newport Colonels, LLC

STATEMENT OF ASSETS AND LIABILITIES IN LIQUIDATION
AS OF DECEMBER 31, 2017

ASSETS			
Investments, at fair value	cost:	$ 691,378	$ 411,879
Cash and cash equivalents			715,595
Receivable from investments sold			121,981
Dividends receivable			626
Total assets			1,250,081
LIABILITIES			
Accrued management fees			1,320
Accrued estimated liquidation expenses			87,700
Accrued professional fees			18,000
Total liabilities			107,020
NET ASSETS			$ 1,143,061

See notes to financial statements

Newport Colonels, LLC

SCHEDULE OF INVESTMENT IN LIQUIDATION
AS OF DECEMBER 31, 2017

	Cost	Fair Value	Percent of Net Assets
Investment:			
Event-driven equity – United States			
OC 19 Offshore Fund, Ltd.	$ 691,378	411,879	36.03 %
Total event-driven equity	691,378	411,879	36.03
TOTAL	$ 691,378	411,879	36.03 %

See notes to financial statements in liquidation.

Newport Colonels, LLC

STATEMENT OF OPERATIONS IN LIQUIDATION
FOR THE YEAR ENDED DECEMBER 31, 2017

INVESTMENT INCOME		
Dividend income	$	10,818
INVESTMENT EXPENSES		
Management fees		33,868
Administration fees		54,000
Professional fees		12,041
Adjustment to estimated liquidation expenses		(100,025)
Total investment expenses		(116)
NET INVESTMENT INCOME		10,934
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS		
Net realized gain on investments		520,804
Net change in unrealized depreciation on investments		(438,647)
Net realized and unrealized gain on investments		82,157
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$	93,091

See notes to financial statements

Newport Colonels, LLC

STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION
FOR THE YEAR ENDED DECEMBER 31, 2017

BALANCE – JANUARY 1, 2017	$ 11,469,970
Change in net assets resulting from operations:	
Net investment income	10,934
Net realized gain on investments	520,804
Net change in unrealized depreciation on investments	(438,647)
Net increase in net assets resulting from operations	93,091
Capital redemptions	(10,420,000)
NET ASSETS IN LIQUIDATION – DECEMBER 31, 2017	$ 1,143,061

See notes to financial statements in liquidation.

Newport Colonels, LLC

STATEMENT OF CASH FLOWS IN LIQUIDATION
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 93,091
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities	
Proceeds from disposition of investments	1,806,859
Net realized gain on investments	(520,804)
Net change in unrealized depreciation on investments	438,647
Decrease in receivable from investments sold	8,106,148
Decrease in accrued management fees	(14,972)
Decrease in accrued liquidation expenses	(100,200)
Increase in administration fee payable	4,500
Decrease in dividends receivable	31
Net cash provided by operating activities	9,813,300
CASH FLOWS FROM FINANCING ACTIVITIES:	
Capital redemptions	(10,420,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(606,700)
CASH AND CASH EQUIVALENTS – Beginning of year	1,322,295
CASH AND CASH EQUIVALENTS – End of year	$ 715,595

See notes to financial statements.

Newport Colonels, LLC

NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

1. ORGANIZATION AND NATURE OF BUSINESS

Newport Colonels, LLC (the "Company")

- Organized as a Delaware limited liability company on August 11, 2011.
    - Commenced operations September 1, 2011.
    - Pacific Alternative Asset Management Company serves as the investment manager of the Company (the "Investment Manager").
        - Related party.
        - California limited liability company.
- Objective is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle.
    - May allocate substantially all of its assets across a variety of investment vehicles.
        - Generally fixed income and equity orientations.
        - Many different investment styles.
    - No assurance that the Company will achieve its investment objective.
- Investment in the Company may involve risk factors.
    - Suitable only for sophisticated investors who have limited need for liquidity of their investment and who can accept a degree of risk in their investment.
    - See the Company's formation documents for a complete description of the Company and the risks associated therewith.
- Effective June 30, 2016, the limited partners requested a full redemption from the Company
    - Liquidation is deemed imminent as the Investment Manager does not intend to continue to solicit new investors and does not expect the Company to continue its previous operation.
    - For purposes of the audited financials the Investment Manager estimates the time to liquidate the Company will be 2 years, although the actual time to fully liquidate the Company may differ significantly.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

- Liquidation basis of accounting.
- Investment transactions recorded on a trade-date basis.
- The Company applies the investment company accounting and reporting guidance issued in Topic 946 by the U.S. Financial Accounting Standards Board ("FASB").

Basis of Presentation

- Prepared under the liquidation basis of accounting.
  - Financial statements prepared on a liquidation basis in accordance with principles generally accepted in the United States of American ("GAAP") (Topic 205 – Presentation of Financial Statements).
  - The liquidation basis of accounting is appropriate when liquidation is considered imminent and the Company is not viewed as a going concern.
  - Under this method of accounting, assets and liabilities are stated at their estimated fair value, which approximates the amount the Company expects to collect.
  - Under this method the entity accrues costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities.

Use of Estimates

- The preparation of financial statements in conformity with the liquidation basis requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditures.
- Actual results could differ from those estimates.

Income and Expense Recognition

- Income is accrued through dividend income on cash and cash equivalents.
- Expenses are incurred primarily through the payment of management fees to the Investment Manager.
  - Other expenses include payments for professional services rendered by third parties.

Cash and Cash Equivalents

- Cash balances swept nightly to the Northern Institutional Treasury Fund
  - Money market fund that qualifies as a registered investment company.
  - Invests in U.S. Treasury securities and related tri-party repurchase agreements.
    - Money market funds that qualify as a registered investment company are considered Level 1 securities under ASC 820: Fair Value Measurement, as defined subsequently in these disclosures.

Liquidation Fees

- Liquidation fees relate to all future costs associated with liquidating the fund, and include management, professional, and custody fees.
- Upon designating liquidation basis of accounting, the Investment Manager estimated future liquidation fees based on an anticipated timeline to liquidate the Company. As of December 31, 2017, the Investment Manager reassessed the estimated timeline to liquidate the fund and adjusted liquidation expenses by ($100,025).

Investments

- The Company invests in non-readily marketable investment vehicles.

- Valued at $411,879 (36.03% of net assets) at December 31, 2017.
  - Based on the Company's proportionate share of the net asset values, the practical expedient, of the investment vehicles as reported by the hedge fund managers.
  - Investment vehicles generally mark their investments to market, with changes in unrealized gain or loss recorded in net change in unrealized depreciation on investments in the accompanying statement of operations.
  - Income or loss primarily consists of realized gains and losses, unrealized appreciation and depreciation on investments, and interest and dividend income and expenses, including management and performance fees.
  - Fair values related to the underlying investment vehicles may have been estimated by the management of the respective managers of the funds in the absence of readily ascertainable market values.
- In accordance with the Investment Manager's Valuation Policy and pursuant to Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, the Investment Manager has the right, in its discretion and in good faith, to deviate from valuation information provided by the managers of the investment vehicles when the Investment Manager deems it appropriate.
  - There were no such changes made to the investment vehicle valuations by the Investment Manager at December 31, 2017.
- Because of the inherent uncertainty of valuations in the investment vehicles, values may differ significantly from the values that would have been used had a ready market for these investments existed, and the differences could be material.

- Since the investment vehicles' interests are not publicly traded, the Company's ability to make withdrawals from its investments in the investment vehicles is subject to certain restrictions which vary for each respective investment vehicle.
  - Restrictions include notice requirements for withdrawals and additional restrictions which limit withdrawals to specified times during the year.
  - Such restrictions can, and in some cases did, include the suspension or delay in withdrawals from the respective investment vehicles.
- Realized and unrealized gains and losses are included in operations in the current year and are computed using the average cost method.
  - Change in unrealized appreciation/depreciation on investments in investment vehicles, including those for which partial liquidations were effected in the course of the year, is calculated as the difference between the fair value of the investment at year-end less the fair value of the investment at the beginning of the year, as adjusted for additions and redemptions made during the year.

Income Taxes

- The Company is generally not subject to federal or state income taxes
  - No provision for income taxes has been made in the accompanying financial statements.
  - Taxable investors are required to report their proportional share of gains, losses, credits, or deductions on their own income tax returns.

- The Company determines whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including the resolution of any related appeals or litigation processes, based on the technical merits of the position.
    - The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability that would reduce net assets.
- The Company reviews and evaluates tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition.
    - No reserves for uncertain tax positions were required to have been recorded as a result of the adoption of such guidance for any of the Company's open tax years.
    - The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

Capital Transactions

- A Member may request a withdrawal from its capital account effective immediately after the valuation time on any quarterly valuation date by delivering written notice to the Investment Manager at least 90 days (or other shorter period the Investment Manager in its reasonable discretion determines) before the relevant quarterly valuation date.

Fair Value Measurements

- In May 2015, the FASB issued Accounting Standard Update ("ASU") 2015-07 which eliminates the requirement to classify the investments measured at an investment's fair value using the net asset value per share practical expedient within the fair value hierarchy. The ASU eliminates the requirement to make specific disclosures for all investments eligible to be assessed at fair value with the net asset value per share practical expedient. This guidance was adopted by the Company on January 1, 2016 and did not have a material impact on the Company's financial statements.

3. INVESTMENTS

- The following table summarizes the Company's investments in funds as of December 31, 2017.
    - Funds in which the Company invested more than 5% of its net assets are individually identified, while smaller investments in other funds are aggregated.
    - The management agreements of the investee funds provide for compensation to the managers in the form of management fees equal to 1.5% annually of NAV and performance incentive fees of 18% of net profits earned as defined in the management agreement.
    - All vehicles in which the Company invests are denominated in U.S. dollars.

Investment	Net Realized and Unrealized Gains/(Losses)	Management Fees	Performance / Incentive Fees	Redemptions Permitted*	Notice Period*
Event-driven equity					
OC 19 Offshore Fund, Ltd.	$ 23,857	1.5%	18%	*	*
Investments redeemed in prior years	19,865	-	-	-	-
Total event-driven equity	43,722	1.5%	18%	*	*
Long/short credit (investments redeemed in prior years)	28,644	-	-	-	-
Long/short equity (investments redeemed in prior years)	9,791	-	-	-	-
Total	$ 82,157				

*Please see description of investment objectives below for information regarding investment vehicles not included in redemptions permitted and notice period columns that have redemption restrictions in place as of December 31, 2017.

- As of December 31, 2017, the Company had no unfunded commitments.

- The following summarizes a description of the investment vehicles' investment objectives:

  - *Distressed Debt*
    - Managers invest in the securities of companies that are experiencing financial or operational difficulties, including reorganizations, bankruptcies, distressed sales and other corporate restructurings.

  - *Event-Driven Equity*
    - Focuses on event-driven trades implemented mainly through equity positions.
    - As of December 31, 2017, investments representing 36.03% of the Company's net asset value were in liquidation. The time at which the redemption restriction might lapse cannot be estimated.

4. RELATED-PARTY TRANSACTIONS

- As compensation for its services to be rendered to the Company, the Investment Manager shall be entitled to receive from the Company with respect to each Member, each month, a management fee in an amount equal to one-twelfth of 0.75% of the Member's capital account balance as of the last day of the month.

  - The Investment Manager may, however, with the consent of the applicable Member, waive the payment of all or part of the management fee payable with respect to such Member for any month or other period the Investment Manager determines is appropriate.

  - For the year ended December 31, 2017, such fees amounted to $33,868, of which $1,320 were payable at December 31, 2017.

- As of the last day of each fiscal year, the Investment Manager shall receive a performance fee with respect to each Member equal to 5% of the excess, if any, of (i) the net profits (less any Net Losses) otherwise allocable for such year to each Member's capital account minus the sum of (ii) any balance remaining in such Member's loss recovery account as of the beginning of such fiscal year and (iii) the hurdle amount with respect to such Member, if any

    - For the year ended December 31, 2017, no such fees were expensed or payable at December 31, 2017.

- In addition to management fees paid to the Investment Manager, the Company pays management fees, incentive fees and expenses as a member, partner, or shareholder of each underlying investment company or investment fund.

    - These underlying investments have varied expense and fee structures, which are described in more detail in Note 3.

    - The expenses and fees of such investments are included as part of each investment's fair value and are not presented as expenses of the Company in the accompanying statement of operations.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF RISKS

- At December 31, 2017, the Company had no direct commitments to purchase or sell securities, financial instruments, or commodities relating to forward or futures contracts.

- The Company's operating activities involve trading, including indirectly through its investments in funds, in short selling activities and derivative financial instruments that involve varying degrees of market, illiquidity, and credit risk.

- With respect to investments in funds, the Company has limited liability, and therefore, its maximum exposure to either market or credit loss is limited to its carrying value in these investments, as set forth in the accompanying statement of assets and liabilities

6. FINANCIAL HIGHLIGHTS

- For the year ended December 31, 2017, the following represents the financial highlights of the Company's members:

Ratios to average net assets: [1]	
Operating expenses before performance fee	0.00%
Performance fees	0.00%
Total expenses	0.00%
Net investment income	0.26%
Total Return [2]	
Total return before performance fees	9.31%
Performance fees	(0.00)%
Total return after performance fees	9.31%

[1] Does not include expenses of the investment vehicles in which the Company invests.
[2] Total return amounts are calculated for a member invested on January 1, net of expenses and standard management fees, based on the change in value relative to the average capital invested. An individual investor's return may vary from these returns based on different management fee arrangements and timing of capital transactions.

7. SUBSEQUENT EVENTS

- As of May 18, 2018, the date the financial statements were available to be issued, no subsequent events or transactions had occurred after December 31, 2017 that would materially impact the financial statements presented.

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EXHIBIT 46

Absolute Return Review & Agenda

February 4th, 2014

Annual Review Outline

- Calendar Year 2013 Performance Review
- KRS Absolute Return Activity Year in Review
- Forward Looking Plans

Absolute Return Strategies - Annual Review Summary

Why KRS Invests in Absolute Return Strategies ?

• Broadly, KRS pursues Absolute Return Strategies due to favorable risk adjusted returns, broadened exposure to different investment strategies and instruments, and for overall portfolio diversification.

• Per IPS the guidelines for the Absolute Return Strategies are to :

1) Short-term benchmark: For periods less than five years or a full market cycle, the allocation should achieve an annual rate of return that exceeds the appropriate benchmark (HFRI Diversified Fund of Fund Composite), net of all investment management fees, with similar risk relative to the benchmark.
2) Strategic objective: For periods greater than five years or a full market cycle, the allocation should not only outperform the short-term benchmark, but also achieve a rate of return that exceeds the appropriate long-term benchmark (1 Year Treasury Bill Rate + 500 basis points) as well.

• RVK's long term capital market expectations for absolute return strategies is to have an expected return of 6.75% and expected standard deviation of 9.75%. This is comparable to RVK's long term projections in terms of the risk-return trade-off to core fixed income (3.5% expected return and 5.75% expected standard deviation) and favorable to the risk-return trade-off of global equity (7.90% expected return and 17.95% expected standard deviation).

Absolute Return Strategies Defined

Absolute Return Strategies, by definition, are not necessarily a separate asset class, but broaden the opportunity set within existing asset classes such as stocks, bonds, currencies and commodities by going both long and short, employing derivatives and leverage, and shortening and extending investment horizons, amongst others.

This may include hedge funds utilizing strategies such as convertible arbitrage, fixed income arbitrage, credit/distressed, long/short equity and global macro. However, unconstrained mutual funds and ETFs can pursue absolute return strategies as well.

The key differentiator is a focus on absolute returns, largely uncorrelated to systematic market factors, such as equities or credit.

Calendar Year 2013 Review

Allocations: Pension plans are broadly in-line with 10% targets, with the exception of an overweight in KERS. Staff notes that insurance plans have become underweight Absolute Return given their positive cash flows, and Staff is currently rebalancing all plans back to 10% targets.

Table 1 – Plan Summaries

Table A-2: Current Absolute Return Allocations			
	Absolute Return	**Plan Value**	**Percent**
KERS	$289,004,019	$2,638,285,713	10.95%
KERSH	$53,979,143	$535,361,906	10.08%
CERS	$606,335,539	$6,116,490,922	9.91%
CERSH	$192,311,305	$1,951,593,668	9.85%
SPRS	$26,201,465	$257,613,939	10.17%
Pension	**$1,167,831,471**	**$11,499,346,148**	**10.16%**
KERS	$50,536,304	$563,351,852	8.97%
KERSH	$39,213,279	$398,395,344	9.84%
CERS	$169,458,673	$1,732,745,330	9.78%
CERSH	$93,547,191	$954,068,297	9.81%
SPRS	$14,909,297	$152,430,100	9.78%
Insurance	**$367,664,745**	**$3,800,990,924**	**9.67%**
Sum Total	**$1,535,496,215**	**$15,300,337,073**	**10.04%**

As of November 31, 2013 accounting figures.

Calendar Year 2013 Review

Table 2 – Manager Summaries

	Pension	Insurance	System
Blackstone Henry Clay LP	$373,237,835	$117,728,651	$490,966,486
PAAMCO Newport Colonels LLC	$394,648,767	$123,066,951	$517,715,717
Prisma Daniel Boone LLC	$369,706,707	$116,789,753	$486,496,460
MKP Opportunity Fund LP	$15,238,167	$5,079,389	$20,317,556
HBK Fund II LP	$15,000,000	$5,000,000	$20,000,000
Knighthead Domestic Fund LP*	$15,000,000	$5,000,000	$20,000,000
Absolute Return	**$1,167,831,476**	**$367,664,744**	**$1,535,496,220**

As of November 31, 2013 accounting figures.

* Funded December 1, 2013

Individual manager allocations are provided in table 2. The portfolio is still largely invested via Funds of Funds, and these are roughly equal weighted.

Calendar Year 2013 Review

Chart 1. Strategy Allocation

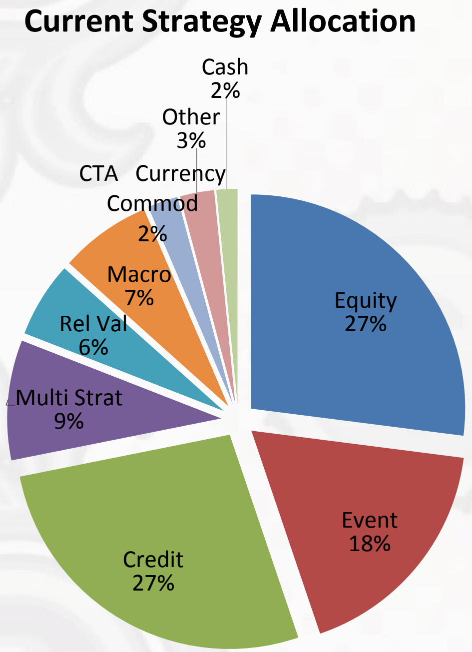


Table 3. Largest manager look-through concentration

Manager	Position	% of portfolio	% of plan assets
DE Shaw	$59,973,565	3.9%	0.39%
BSOF LP Feeder	$58,409,352	3.8%	0.38%
LibreMax	$45,495,391	2.9%	0.29%
Axonic	$39,118,340	2.5%	0.25%
Mast	$34,176,200	2.2%	0.22%

Calendar Year 2013 Performance Review

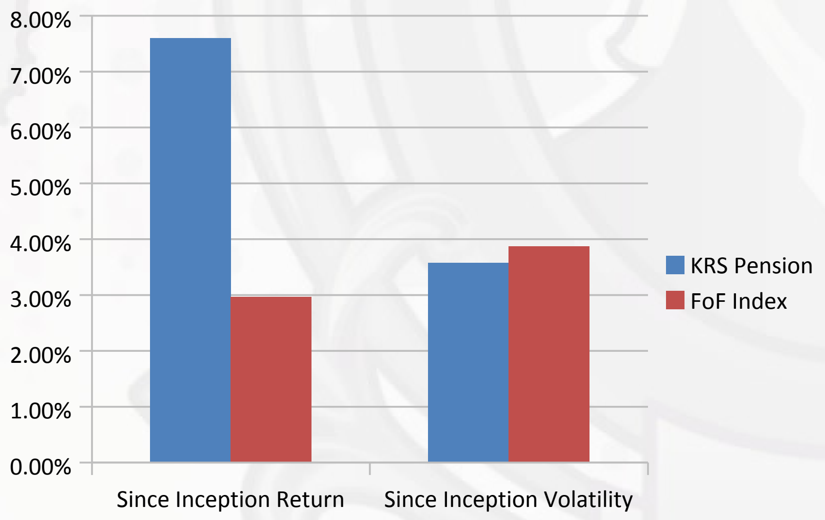
The Pension fund Absolute Return portfolio gained 12.1% in calendar year 2013, while the Insurance fund added 12.0%, both significantly outpacing the HFRI Diversified FoF Index which yielded 8.5% (lagged one month).

More impressive has been the performance on a risk adjusted basis, as the KRS Absolute Return portfolio has generated strong returns on extremely low levels of total risk. In 2013, the volatility was only 2.7% – a Sharpe ratio of 4.4 for the year!

Table 4 - Performance Summary

Calendar Year 2013	KRS Absolute Return Portfolio	HFRI Diversified FoF (lagged)	Relative Performance
KRS Pension	12.08%	8.54%	3.54%
KRS Insurance	11.99%	8.54%	3.45%
Since Inception			
KRS Pension	7.60%	2.97%	4.63%
KRS Insurance	7.60%	2.97%	4.63%

We note the Absolute Return portfolio began on September 2011, hence three and five year performance periods are not yet available.



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Calendar Year 2013 Performance Review

At the manager level, all 3 Fund of Fund portfolios generated strong returns in absolute returns as well as excess returns relative to the benchmark.

PAAMCO was the strongest contributor to the portfolio's return, and much of their outperformance was driven by customized and concentrated investments with event-driven managers.

Table 5. Manager Returns for 2013

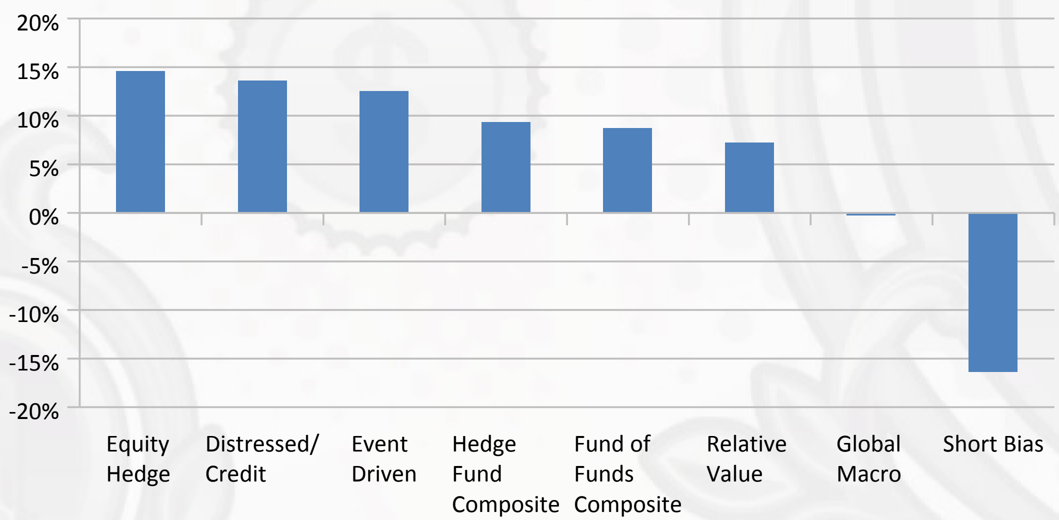
Pension	2013 Lagged Performance	2013 Lagged Benchmark	Excess Return
Blackstone Henry Clay LP	11.54%	8.54%	3.00%
PAAMCO Newport Colonels LLC	15.09%	8.54%	6.55%
Prisma Daniel Boone LLC	9.78%	8.54%	1.24%

Insurance	2013 Lagged Performance	2013 Lagged Benchmark	Excess Return
Blackstone Henry Clay LP	11.51%	8.68%	2.83%
PAAMCO Newport Colonels LLC	14.91%	8.68%	6.23%
Prisma Daniel Boone LLC	9.75%	8.68%	1.07%

Calendar Year 2013 Market Review

2013 was another strong year for risky assets. Equities surged, with most domestic indices including the S&P 500 eclipsing 30% for the year. Credit markets performed well, up 6% to 7% while long duration high grade corporates and treasuries fell sharply, down from 2% to 15% depending upon maturity. Hedge funds posted decent returns, with FoFs up 8.5% and the hedge fund composite rising 9.3%. Not surprisingly, equity hedge funds were the strongest performers, achieving average returns of 14.6% for the year.

Chart 2. HFRI Index Returns for 2013



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Absolute Return Activity Year in Review

2013 Investment Activity:

Staff continues to spend significant time conducting ongoing manager research on direct hedge funds.

	Total Managers	Meetings	Calls
Equity	96	10	11
Event	61	11	11
Credit	106	15	11
Multistrategy	35	9	7
Relative Value	68	6	4
Macro	88	8	6
CTA	52	3	5
Other	37	3	4
Total	543	65	59

Investments:

Proposed: At the August 6th, 2013 Investment Committee meeting, Staff and Albourne proposed an aggregate investment of $100 million across in plans in an equal weighted portfolio of 5 hedge funds – Senator, Soroban, HBK, Knighthead and MKP Opportunity, which the committee approved.

MKP Opportunity Fund: Discretionary global macro fund, contrarian and negatively correlated, 12-yr track record, $4 bil in assets. $20 mil across all plans funded on October 1st, 2013

HBK Fund II: Diversified market-neutral multi-strategy fund, 22-yr history, $7 bil in AUM and 180 employees. $20 mil total across all plans was funded on October 30th, 2013

Knighthead Domestic Fund: $3.8 bill distressed credit manager, ability to go long and short, access smaller & middle market opportunities. $20 mil total was funded on December 1st, 2013

Absolute Return Forward Looking Plans

2014 Investment Activity:

Objectives:

• Continue discussions with Soroban, seek replacement for Senator

• Proposed additional direct hedge funds at a measured pace and continue to slowly reduce fund of funds exposure

• Tactical focus on equity related strategies but complement with similar attention to diversifying managers

• Pacing schedule

Date	Item		Total Managers	Total Assets
Q1 2013	Roadmap	Approved	0	$0
Q2 2013			0	$0
Q3 2013	5	Managers	4	$80
Q4 2013			4	$80
Q1 2014	3	Managers	7	$140
Q2 2014	3	Managers	10	$200
Q3 2014			10	$200
Q4 2014	5	Managers	15	$300
Q1 2015			15	$300
Q2 2015	5	Managers	20	$400
Q3 2015			20	$400
Q4 2015			20	$400
Q1 2016			20	$400
Q2 2016		Upsize	20	$800

Directs vs. Fund of Fund

Arguments for a Direct Portfolio:

• Fees: First, reducing allocations to Funds of Funds can lower the total fees an institutional investor pays on the underlying portfolio and subsequently, and most importantly, increase the net return on investment by removing this added layer of fee drag. (Average FoF fee structure of 0.65% management fee and 10.0% of performance)

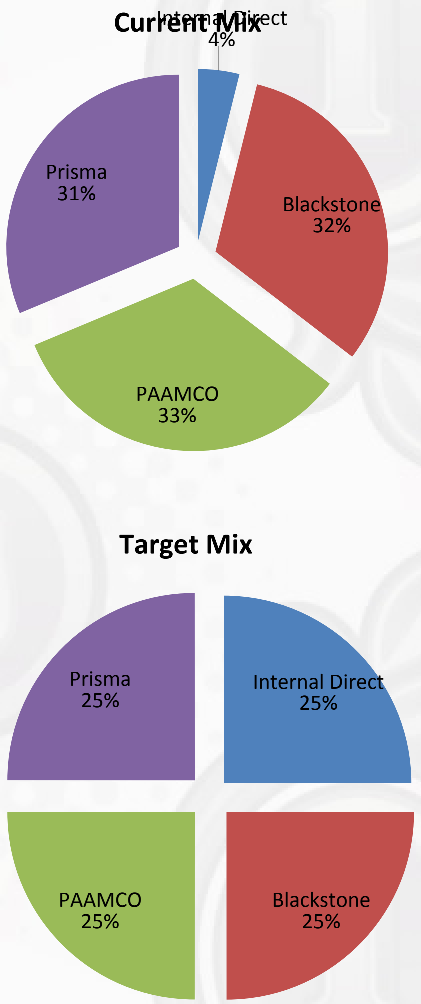
• Idiosyncratic risk: If the argument for manager selection in absolute return is to pick those that generate alpha, or above average returns, then the larger the number of managers in a portfolio, the more the return on the portfolio must regress to the mean. That is, alpha is a zero sum game. By concentrating a portfolio of higher conviction, top-quartile managers, an investor may be able to generate higher net returns with no incremental increase in systematic risk.

• Systematic risk: Staff believes the current strategy allocation, while certainly diversified, is overly reliant on broad corporate/credit risk. Nearly 73% of the underlying hedge fund assets are in funds that in one way or the other invest in either equities or credit instruments, or some combination of both. This results in a higher equity correlation that could be lowered with different strategy mix.

Target Portfolio Objective

Direct Portfolio

The Absolute Return portfolio is still 96% Fund of Funds and just 4% in the direct portfolio. As was presented to and approved by the Investment Committee on February 5th, 2013, Staff and Consultant believe that an objective of 25% internally directed hedge funds and 75% external fund of fund managers is an appropriate and prudent near-term objective in order to achieve some benefits of direct exposure. The forward looking plans include reaching the targeted mix over the next 18 to 24 months.



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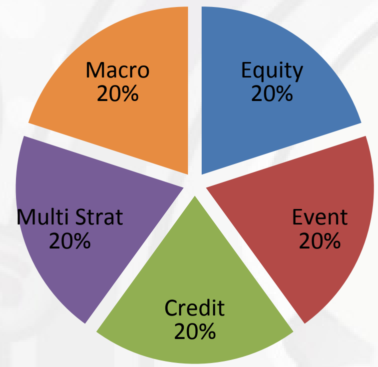
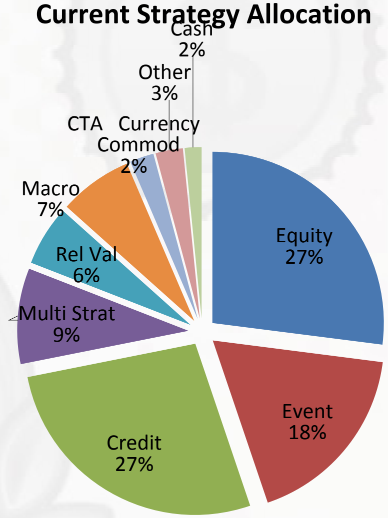
Target Portfolio Objective
Strategy Allocations

The current direct portfolio has the strategy allocation mix to the right. Recall that the changes to the Investment Policy Statement approved May 7th, 2013 included the target strategy allocation for Absolute Return to the bottom right, a more diversified mix than the current allocation.

Current Direct Allocation



Current Strategy Allocation



Target Strategy Allocation

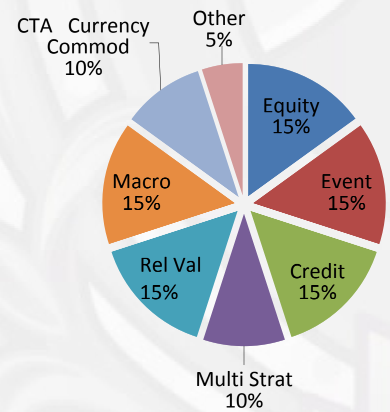


EXHIBIT 47

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Thielen, Bill (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=BILL.THIELEN]
Sent: Thur 5/8/2014 10:26:00 AM (UTC-04:00)
Subject: RE: inquiries for Blackstone - I know you aren't going to use these, but they're the response we should!

Great. Thanks David. I'll review and get back to you before we decide to respond.

From: Peden, David (KRS)
Sent: Thursday, May 08, 2014 10:02 AM
To: Thielen, Bill (KRS)
Cc: Schelling, Chris (KRS); Murnighan, Bill (KRS)
Subject: FW: inquiries for Blackstone - I know you aren't going to use these, but they're the response we should!

Bill, Below is a response to one of David Sirota's original questions that Chris Schelling put together and I think it makes some great points that we can use when answering the Blackstone question.

To add to this, it is no more appropriate to compare hedge funds to public equity than it is fixed income to public equity. Investing is not about guessing which asset class is going to be the best in any given year and put all your money in that asset class. That is at best trading and at worst gambling and that is not what we are trying to accomplish. We are trying to build an all weather portfolio that stands the test of time.

From: Schelling, Chris (KRS)
Sent: Thursday, May 01, 2014 5:11 PM
To: Peden, David (KRS)
Subject: FW: inquiries for Blackstone - I know you aren't going to use these, but they're the response we should!

- According to KRS documents, BAAM earned an 11.54 percent return for the pension system. That was 17 percent below the S&P 500 that year, meaning Kentucky taxpayers would have earned $78 million more in an almost fee-less S&P index fund. One observer says that up to 35 percent of the marginal difference had to do with Blackstone fees. Can you offer any comment on why Blackstone believes such fees are justified?

The S&P 500 is not an appropriate benchmark for hedge funds. Equity markets will demonstrate wildly greater dispersion of returns over time. Hence, in years where stocks make 32%, it is unlikely a diversified portfolio of hedge funds will keep pace. Even in such years, hedge funds may outperform on risk adjusted terms. For instance, in 2013 the S&P 500 generated returns of 32.4% with a volatility of 8.5%, as you point out – a very attractive Sharpe ratio of 3.81 (a measure of return per unit of risk). Blackstone's result of 11.54% came with a volatility of 2.3%, an even better Sharpe ratio of 4.97. When looking at the realized risk in the Blackstone returns of 2.3%, perhaps bonds (as proxied by the Barclays Aggregate Bond Index) with a volatility of 3.2% for the year 2013 are a more comparable benchmark. Bonds gained -2.0% last year, so one could argue that Blackstone outperformed that liquid market comparable by 13.5%. Also, periods of one year are not appropriate time frame over which to base allocation decisions for a long term investment portfolio, such as a public pension plan. In fact, picking 2013 as the comparison period is easy to do in hindsight. However, one might ask why not select April and May of 2012, where stocks plunged 7% in two months but Blackstone was only down 0.9% in the same period, doing an admirable job of protecting capital for our pensioners and taxpayers? It is impossible for equities to average 32% per year over 30 years. In fact, over any period greater than 20 years, stocks almost invariably generate returns between 7% and 10%. This path comes with great risk, however, as the volatility of 15% to 18% can attest as well as significant recent draw-downs such as in 2008. Since inception in September of 2011, Blackstone's fund of fund portfolio for KRS has generated annualized returns of 8.72% with volatility of 3.32%, returns that match the long term expected rate of returns on equities with far lower risk. This also exceeds the system's required rate of return on investments of 7.75%, and does so with far fewer negative months than any liquid market comparable, something that is important especially for a plan which needs to sell assets on a monthly basis to meet actual current benefit obligations.

- There are sections in these documents outlining severe investment risks - and potential loss of all money - to investors. For example, the document shows Blackstone admitting that investing in the fund "involves a high degree of risk"; that "the possibility of partial or total loss of capital will exist"; that "there can be no assurance that any (investor) will receive any distribution"; and an investment "should only be considered by persons who can afford a loss of their entire investment." Additionally, the document says investments made by the fund could subject investors "certain additional potential liabilities" and that an investor "may be required to make capital contributions in excess" of what it originally pledged. Does Blackstone believe such risks are appropriate for public pension funds?

The following risk factors can be disclosed with regard to an investment KRS currently holds (emphasis added):

> *Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus, including filings made with the Securities and Exchange Commission ("SEC") subsequent to the date of this prospectus. These risks could materially affect our business, results of operations or financial condition and cause the value of the common stock to decline.* ***You could lose all or part of your investment.***

However, this specific legal disclosure does not reference an alternative investment; this is from the prospectus for shares in General Electric, the oldest company in the Dow Jones Industrial Average. KRS currently has approximately $35 million in GE shares. (By way of reference, our largest stock holding is probably Apple, at approximately $80 million). While the risk of losing 100% of your investment in shares of GE is improbable, it is not impossible. Further, such an improbable risk does not make the investment an imprudent one; it merely requires prudent investment selection, diversification, and position sizing. Correspondingly, the Investment Committee of KRS has required that the equity portfolio be built such that there are sufficient managers and sufficient underlying holdings that should such losses occur, they will not damage the overall portfolio. At any given time, KRS has roughly $3.6 billion with 8 to 10 separate equity managers overseeing give or take 1,000 different stocks in US listed companies alone.

Since 2000, on average, 7.5 publicly listed companies have declared bankruptcy in the United States each year. Over this same period, there has been on average 4,600 exchange listed US companies which gives any individual stock a 0.16% chance of bankruptcy during a given year. In the vast majority of these bankruptcies, the loss is total. Ergo, assuming no security selection skill, KRS could assume 1.6 stocks in our 1,000 stock portfolio will declare bankruptcy in any given year resulting in permanent losses of $5.7 million (1.6 companies * average position of $3.6 million * 100% loss). Clearly, diversification and position sizing mitigate the effects of these risks on the portfolio (and I would add, KRS experiences less than 1 bankruptcy per year by avoiding companies with higher proclivities to bankruptcy, such as microcaps or those with excessively leveraged balance sheets.)

Much like the similarities present in the legal disclosures, the actual risks in hedge funds are fundamentally not so different: the real risk is probability of permanently losing money. Above, we discussed how the volatility in hedge funds is far less than public equities, meaning the probability of locking in a loss during a sale is much lower for hedge funds than it is for equities. However, as noted, hedge funds, like public companies, can and do fail. In any given year, hundreds of hedge funds close for a number of reasons. However, isolating those that shut their doors due to forced liquidations or significant losses is a bit tougher, but this is the appropriate comparable to a bankruptcy event for shareholders in public equities. Research from several sources has documented 117 cases of hedge funds closing their doors or being permanently impaired due to fraud, trading losses, excessive leverage, or operational blow-ups between 2006 and 2013, an average of 14.6 per year. Over that same time period, there were perhaps 10,000 hedge funds on average in any given year according to several large databases. Interestingly, these quasi-bankruptcies occur at a rate of 0.14% per annum, not terribly different than the rate of bankruptcies of public companies. As we have narrowed the definition of hedge fund liquidation to situations where significant losses occurred to investors, we assume aggressive losses of 90% of capital.

At any given time, KRS has between 130 and 150 individual underlying hedge fund managers in our portfolio managing $1.5 billion. The largest position is $45 million, and on average the balance is $10 million with a given manager. Assuming no manager selection skill, KRS should expect 0.2 managers per year of having a permanent loss of capital. In dollar weighted probability terms, this is $1.9 million of risk – 33% that of the same risk of permanent capital impairment as the US public equity portfolio, which is over twice the size. It could even be argued that while a hedge fund may be risky, the KRS hedge fund portfolio is very safe, and possibly a bit over-diversified.

From: Aldridge, Brent (KRS)
Sent: Thursday, May 01, 2014 10:35 AM
To: Peden, David (KRS); Schelling, Chris (KRS)
Subject: FW: inquiries for Blackstone

Guys,

You might want to read below. Evidently, Chris is stepping across the line.

From: McMullan, Robert [mailto:McMullan@Blackstone.com]
Sent: Thursday, May 01, 2014 10:31 AM
To: Aldridge, Brent (KRS)
Cc: Pedley, Matthew
Subject: FW: inquiries for Blackstone

Brent,

Per my voicemail, please see below. Please call when you can at 212-583-5637. My hedge fund colleagues are also reaching out to yours.

Thanks,

Robert

From: David Sirota [mailto:davidsirota@gmail.com]
Sent: Wednesday, April 30, 2014 6:19 PM
To: Rose, Peter; Rose, Peter
Subject: inquiries for Blackstone

Mr. Rose:

I just left a message at your office. We are working on a story about documents from the Kentucky Retirement System that we obtained from an SEC whistleblower. One of these documents is an August 2011 memo from KRS staff outlining the terms and fee structure of the pension fund's investment in BAAM. Another document is a Strategic Investment Solutions memo outlining the fee structure for Blackstone Capital Partners V. And another document appears to be the text of a Blackstone Capital Partners agreement outlining possible risk factors and conflicts of interest.

Here are my questions:

- Does Blackstone believe these kind of documents should be kept secret and unavailable to the public when they relate to investments by public pension funds?

- On the question of fees, one document prepared by the investment consulting firm Strategic Investment Solutions shows that in Capital Partners V, Blackstone is guaranteed management fees of 1.5 percent of all investments up to $1 billion. Another document about BAAM says Blackstone was guaranteed whopping fees of 50 basis points plus 10 percent of overall profits on retirees' money. In addition, the memo notes 1.62 percent management fees and 19.78% incentive fees to be paid on top of the Blackstone fees to the underlying (and undisclosed) individual hedge fund managers in the "fund of funds." What do you say to those who say these fees are not justified?

- According to KRS documents, BAAM earned an 11.54 percent return for the pension system. That was 17 percent below the S&P 500 that year, meaning Kentucky taxpayers would have earned $78 million more in an almost fee-less S&P index fund.

One observer says that up to 35 percent of the marginal difference had to do with Blackstone fees. Can you offer any comment on why Blackstone believes such fees are justified?

- There are sections in these documents outlining severe investment risks - and potential loss of all money - to investors. For example, the document shows Blackstone admitting that investing in the fund "involves a high degree of risk"; that "the possibility of partial or total loss of capital will exist"; that "there can be no assurance that any (investor) will receive any distribution"; and an investment "should only be considered by persons who can afford a loss of their entire investment." Additionally, the document says investments made by the fund could subject investors "certain additional potential liabilities" and that an investor "may be required to make capital contributions in excess" of what it originally pledged. Does Blackstone believe such risks are appropriate for public pension funds?

- There are sections in these documents in which Blackstone admits that it may have severe conflicts of interest with respect to investors money. For example, one section of the document declares that "Blackstone has long-term relationships with a significant number of corporations and their senior management" and that when making investment decisions, Blackstone "will consider those relationships." Another section declares that "Blackstone may have conflicting loyalties" between the different funds it operates, and that "actions may be taken for the Other Blackstone Funds that are adverse" to investors. What can you say to reassure public pension funds that those conflicts will not harm them?

- A former trustee of the Kentucky pension system says that when he requested the names of the hedge funds in BAAM, he was denied that information. Are the names of the underlying hedge funds in BAAM - and allocations to those hedge funds - available to the public and/or to public pension trustees? If not, why not?

- Blackstone and its subsidiaries have roughly 19 lobbyists in Kentucky, and Blackstone executives are together one of U.S. Sen. Mitch McConnell's largest campaign contributors. What is your response to those who argue that such campaign contributions are influencing public pension investment decisions? And can you provide some detail on what, precisely, those lobbyists are actually lobbying for in the Kentucky legislature?

We are planning to run this story sometime after 10am PT/1pm ET on Thursday, 5/1 (though because of the sensitive nature of the documents in question, we reserve the right to publish earlier if they are leaked). We hope to have your comments in the piece when we first publish. Additionally, if you do not respond to us in time but do so later, we would be happy to include comment from Blackstone in an immediate update.

I can be reached at 720-854-4875 or by email. Thank you in advance for your help on this story.

David Sirota

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DAVID SIROTA
Newspaper Columnist, Creators Syndicate
Staff Writer, PandoDaily
Website: davidsirota.com
Twitter: @davidsirota
Facebook: facebook.com/rocktheboat
Books: Hostile Takeover (2006), The Uprising (2008), Back to Our Future (2011)

SIGN UP FOR SIROTA'S EMAIL NEWSLETTER HERE

EXHIBIT 48

To: Rupnik, Stan[RRupnik@TRS.Illinois.Gov]
From: Carlson, TJ (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=TJ.CARLSON]
Sent: Mon 10/21/2013 3:18:39 PM (UTC-04:00)
Subject: RE: "Leaving"?

Hi Stan,

Thanks for the note. The book idea would have been great! Especially since Tobe's book is making the rounds. I'm looking forward to getting to TMRS and being able to focus more on investments again, rather than funding and politics.

I hope you are doing well and if I can ever do anything for you, please let me know.

Thanks again.

TJ

From: Rupnik, Stan [mailto:RRupnik@TRS.Illinois.Gov]
Sent: Wednesday, October 16, 2013 2:46 PM
To: Carlson, TJ (KRS)
Subject: "Leaving"?

Such an informal word for a media headline. Should have told them you were leaving to write a book.
Good luck in the future endeavors and keep me posted when you are able to discuss (don't worry…I'm not being nosy and can wait until the next P&I breaking news alert). As always, feel free to reach out any time.

Stan

R. Stanley Rupnik, CFA
Chief Investment Officer
Teachers' Retirement System of the State of Illinois
(217) 753-0370 Phone
(217) 753-0966 Fax
srupnik@trs.illinois.gov

EXHIBIT 49

To: Bobby Henson[bdhenson@hotmail.com]; Daniel Bauer[dbauer@bellarmine.edu]; David Rich[usasafetyman@gmail.com]; Ed Davis [eddavis614@insightbb.com]; J T Fulkerson [ukcats78@roadrunner.com]; Joseph Hardesty [jhardesty@stites.com]; Mike Cherry[votemikecherry@bellsouth.net]; Randy Overstreet[roverstreet@bardstowncable.net]; Richard Tanner[Tanners@fewpb.net]; Susan Smith[go-transy71@hotmail.com]; Thomas K. Elliott [tommy.elliott@oldnational.com]; Timothy Longmeyer[timothy.longmeyer@ky.gov]
From: Thielen, Bill (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=BILL.THIELEN]
Sent: Tue 11/5/2013 8:17:10 AM (UTC-05:00)
Subject: usm: Interim CIO Appointment

Board Members,

Yesterday, the KRS Investment Committee met to discuss the Chief Investment Officer (CIO) position that will soon be vacant. With the full support of the Investment Committee members and other board members in attendance at that meeting, I intend to appoint David Peden as Interim CIO, effective January 1, 2014. I have drafted the following press release/website article regarding this decision:

The Kentucky Retirement Systems (KRS) is pleased to announce that Executive Director William A. Thielen has appointed David Peden, MBA, CFA, as Interim Chief Investment Officer (CIO) to replace TJ Carlson, KRS' current CIO, who will be leaving KRS on December 31, 2013. This decision is fully supported by the KRS Investment Committee, which met to discuss the matter on November 4, and by the KRS Board of Trustees. Mr. Peden will officially take over the CIO responsibilities beginning January 1, 2014. In the meantime, he will work with Mr. Carlson, to ensure a smooth transition before Mr. Carlson's departure.

Mr. Peden joined KRS on March 1, 2009 as the Director of Fixed Income with the KRS Investment Division. He previously was with J.J.B. Hilliard, W.L. Lyons, LLC, Louisville, Kentucky. David received a Bachelor's Degree in Finance with a minor in Economics from Western Kentucky University. He received his MBA from the University of Louisville. He received his designation as a Chartered Financial Analyst (CFA) in 2012. According to the Chartered Financial Analyst Institute: "to earn the CFA charter, you must have four years of qualifying investment work experience; you must become a member of CFA Institute (the global association of investment professionals that administers the CFA charter), pledging to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis; you must apply for membership to a local CFA member society; and you must complete the CFA program."

The plan is to make the announcement this afternoon, after you have had a chance to make any comments on the decision. Please let me know if you have any thoughts/comments.

Bill

William A. Thielen
Executive Director
Kentucky Retirement Systems
Tel: (502) 696-8444
Fax: (502) 696-8801
bill.thielen@kyret.ky.gov

EXHIBIT 50

From: chris schelling [mailto:chrisschelling@yahoo.com]
Sent: Friday, October 24, 2014 03:44 PM
To: Girish Reddy
Subject: question

Hi Girish,

Hope all is well.

At the risk of being direct, I recently was notified that I did not receive the CIO post at UK. I'm shocked by the candidate they selected instead. And given the direction of things here at KRS, I've lost my appetite for anything Kentucky.

I'm looking for an opportunity to move to another allocator - OCIO, family office, E&F, etc. - where I can employ my experience in multi-alt, cross liquidity portfolio construction and manager selection. I don't mean to put you in a comprised position, but given your extensive network, experience, and familiarity with my work, I was hoping you may be able to at least pass along some attractive opportunities. To that end, given that moving my family so soon, while now clearly a necessity, is still undesirable, I want to make sure I am casting as broad a search as possible and exploring as many options as possible. Quite honestly, I believe my experience, intelligence and work ethic makes me as a very undervalued asset, and I'd like to close that gap considerably.

To provide some additional information up front, I've attached a resume and several recent articles I've published for your review. I would be very grateful for an assistance or advice you may be able to offer.

Thank you in advance,
Chris

EXHIBIT 51

Review of Staff Qualifications

April 5, 2012

Highly Qualified and Experienced Staff

Staff Educational Qualifications

•Traditional Education
•Industry Certifications

Work Experience

•Years of pension experience
•Organizations where experience was earned

Staff Educational Qualifications (10 staff)

- Traditional Education – Advanced Degrees
  - 7 MBA's
  - 2 MS Finance

- Industry Certifications
  - 1 Chartered Financial Analyst (CFA) Charter holder
    - 6 CFA Candidates (all 7 covered by Code of Ethics)
  - 2 Chartered Alternative Investment Analysts (CAIA)
    - 2 CAIA Candidates
  - 1Certified Treasury Professional (CTP)
    - 1 CTP Candidate
  - 2 Financial Risk Management Candidates (FRM)

Designations previously held: Licensed International Financial Analyst (LIFA), 6,7,63,65, Life and Annuity, Chartered Mutual Fund Counselor

Diversified Work Experience

- Combined 148 years of experience
- Previous Employers
  - Fidelity, Bear Stearns, American Express, Prudential, Bank One, Farmers Bank, Mercer, EnnisKnupp, Prisma, the CBOE, Hilliard Lyons, Thomson Reuters, Boatmen's Investments
- Consulted Clients
  - US Treasury, UK Pension Protection Fund, State of North Carolina, FINRA, Goldman Sachs, Accenture, Cigna, OPERS, Chicago Teachers, NY Common (short period), University of Hartford
- Direct Exchange Trading Experience
  - CBOE, CME, Chicago Board of Trade, Eurex, Amex
- Plan Sponsors
  - State of Iowa
  - State of West Virginia

EXHIBIT 52

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
From: TJ and Misty Carlson[tjcarlson123@gmail.com]
Sent: Fri 12/12/2014 6:35:41 AM (UTC-05:00)
Subject: Re: SPEAKER CHANGE. USM

Sorry to hear that. All I can say is keep fighting for what you know is right, and as long as you can, it I s needed and there are people who appreciate it, even though they don't tell you. Please don't hesitate to call if you ever need anything or just need to bitch.

Take care and some time to decompress over the holidays.

TJ

From: "Peden, David (KRS)" <david.peden@kyret.ky.gov>
Date: Thursday, December 11, 2014 at 8:28 PM
To: TJ and Misty Carlson <tjcarlson123@gmail.com>
Subject: Re: SPEAKER CHANGE. USM

Had a lunch meeting and couldn't go. Hopefully someone I know went and I can get a rundown. Not a good day. Chamber trying to get the APA to audit investments. KRS being talked about in so many places and by so many people this week it scares me what's coming. I'm guessing Bill T. is close to the end. This week has been one that you throw your hands up and walk away if you can.

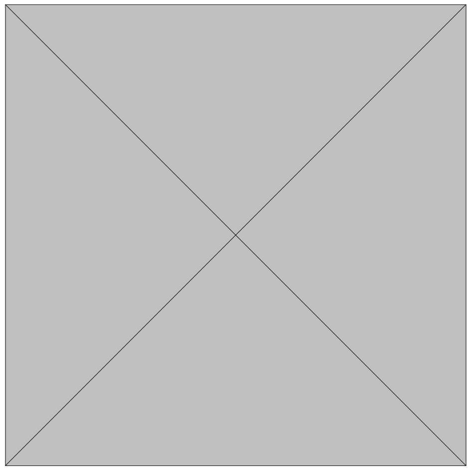
Sent from my iPhone using ZixOne

On Dec 11, 2014 at 8:45 PM "TJ Carlson" <tjcarlson123@gmail.com> wrote:

> Hey David,
> Did you go to this?
>
> Hope you are well and we can get caught up soon.
>
> TJ
>
>> Begin forwarded message:
>>
>> **Date:** December 11, 2014 at 9:33:45 AM CST
>> **Subject: SPEAKER CHANGE**
>> **From:** CFA Society of Louisville CFA Society of Louisville <cfasocietyoflouisville@gmail.com>
>> **To:** CFA Society of Louisville CFA Society of Louisville <cfasocietyoflouisville@gmail.com>
>>
>> # SPEAKER CHANGE
>>
>> Due to travel difficulties Lawrence Cunningham will not be speaking today. Instead Chris Tobe has graciously agreed to speak to the society regarding his recent book, Kentucky Friend Pension: A Culture of Cover-up and Corruption. The first 50 attendees will still receive a copy of Mr. Cunningham's book, Berkshire Beyond Buffett: the Enduring Value of Values.
>>
>> **CFA Society Louisville: Lunch Lecture Series**
>>
>> **Thursday, December 11, 2014**

Chris Tobe

Author of Kentucky Fried Pension: A Culture of Cover-up and Corruption



CHRIS TOBE, CFA, CAIA has 25 years of institutional investment experience with a focus on Public Pension plans. Recently he has consulted to major public plans in Texas and Maryland with his firm Stable Value Consultants. From 2008-2012 he served as a Trustee and on the Investment Committee for the $13 billion Kentucky Retirement Systems. From 2008-2009 he was a Sr. Consultant with NEPC and worked with a number of public pension plans including Oklahoma Investment Commission, Oklahoma Tobacco Fund, St. Louis Sewer District, St. Louis Public Schools, Amtrak & City of Dearborn. While at AEGON 2001-2008 he worked with Public Plans such as Montana, Pennsylvania, LA County, Cook County, Chicago, Ohio, Vermont, & Memphis. While at Fund Evaluation group 1999-2001 he worked with Public University Endowments at Purdue, U. of South Carolina, Indiana State and U. of Memphis.

From 1997-1999 he worked with Kentucky State Auditor Ed Hatchett and published a report on the investments of both the Kentucky Retirement Systems and the Kentucky Teachers Retirements Systems. He has published articles on public pension investing in the Financial Analysts Journal, Journal of Investment Consulting, Journal of Performance Measurement, and Plan Sponsor Magazine. He holds an MBA in Finance and Accounting from Indiana University Bloomington and a BA in Economics from Tulane. He has the taught the MBA investment course at the University of Louisville, and is the former President of the CFA society of Louisville. As a

The first 50 attendees will receive Berkshire Beyond Buffett: the Enduring Value of Values

Thursday, December 11, 2014 at the Pendennis Club
11:30 Registration / 12:00 Presentation

Please RSVP to cfasocietyoflouisville@gmail.com by Monday, December 8, 2014
Please indicate member number when you RSVP (lunch included in dues)
Non-members $35 / Candidates and Students $15

EXHIBIT 53

To: Chang, Brook[Brook.Chang@Blackstone.com]
Cc: Wise, Lucy[Lucy.Wise@Blackstone.com]; Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Murnighan, Bill (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=BILL.MURNINGHAN]
Sent: Thur 2/5/2015 11:10:55 AM (UTC-05:00)
Subject: RE: BAAM Quarterly Call Schedule USM

Hi Brook,

Thank you for reaching out. A couple of update items to take note of:

David Peden (CIO of KRS) will be heading up the Absolute Return Strategies effort until we are able to replace Chris Schelling. (The position has been posted)

Please still include me on the emails and invitations for the Abs Ret. portfolio updates etc as I will be helping out the team on a secondary basis. (My main focus will be in PE.)

It looks like you can circulate a Sched+ for 2015 based on below:

BAAM Quarterly w/Steve Sullens:
4/22 @ 10am ET (I will be out of the office on my Honeymoon, but it appears that David is available at that time.)
7/22 @ 10am ET (Both myself and David are available)
10/21 @ 10am ET (Both myself and David are available)

Thanks,

Bill Murnighan, MSF, MBA, CFA, CAIA

EXHIBIT 54

[redacted]

Feb-3-2015-Tape-1

[Start of recorded material 00:00:00]

Respondent: There's been a change in that situation, it's not as critical, but I wanted to give you an update on what that was, why that was in there. We had a situation where we had an opportunity to move a hedge fund manager from one of our fund of funds into our direct program. The time we could've inherit also – even more importantly, we could've inherited their fee which is an incredibly attractive fee. Unfortunately the time period in which we were going to have to make that decision was a big crunched, so what we were going to ask originally was that we could move that to our direct program on a temporary basis until Albourne had time to evaluate that manager and come to you and decide whether it was going to be a permanent fixture of our direct program.

That's not necessary at this point because Pamco, who is currently in the Pamco portfolio, has decided to keep that investment till the end of the year, giving Albourne and [Staff] time to evaluate whether that fund belongs into our direct program. The reason I wanted to continue to talk about it is that will be a method for building out our direct program going forward. We haven't really utilized that before, but more so with Pamco, probably because they hire smaller managers originally that then grow, develop a track record, and then have the potential to graduate from the Pamco portfolio into our direct program. And so I just wanted to highlight the fact that you may see this in the future where we take a manager out of one of the fund of funds portfolio, you know, in Albourne, in Staff, conduct due diligence on that manager, independently from the fund of funds decision decide whether we're both comfortable with it and then recommend it to the investment committee for approval into the direct program.

And all the fund of funds, especially since Chris has left, they have all been very good about stepping up, offering their services, saying, "Is there anything I can do in the meantime to help out?" And it's not exactly generosity on their part. They all want to engrain themselves with us. It all moved to these strategic partnership models where they essentially provide you even more service for the same level of fee. And they've had to do that, they've had to modify their business models in order to remain relevant for the various public plans around the country. That's not a model we're moving to immediately, but something we may look at late, in 2016 and how to incorporate that type of philosophy into that model. I also just wanted to – I know there may be some sensitivity to having Chris' position open.

I just want to remind this committee that I worked for one of our fund of funds that's in our portfolio for five years and that I grew up in the hedge fund space. Actually, that's where I learned institutional investing, and so I'm fully comfortable looking at hedge funds and working with Albourne to not only monitor the existing managers, but we will still bring some new investments this year. We can't have a lost year in that initiative and not bring any hedge fund manager. So I'll be working closely with Albourne. We may even bring a manager in the main meeting, even though we probably would've just recently sold out the director of [Absolute] return spots – just to kind of give you a sense of what's going to occur there.

Interviewer: And on the absolute return, so we have a lot of – we have eight or nine in different entities in that class that we have allocation of dollars to that we're not fully invested.

Respondent: No, they're fully –

Interviewer: All of them?

Respondent: Hedge funds are such an – you go ahead and fully invest, unlike [unintelligible 00:04:10] –

Interviewer: We just have a lot of, you know, 15, less than $20 million investments.

Respondent: Yeah.

Interviewer: And then we look at Pamco and we've got 300 and something.

Respondent: The goal there was to get to a quarter, quarter, quarter, like of the total, absolute return dollars, 25 percent in all four of those direct in the 30 fund of funds. And then, at that point, we would evaluate to cease using one of the fund of funds providers and move those assets – and basically top up all of our investments in the direct program. So the goal is to get to 15, to 18 core direct relationships. That gets you to a proper level of due diligence – not due diligence, but diversification in a hedge fund portfolio, and then once those all have 15 on the pension side and five on the insurance, then we would top them up and get them to a full position. And that timing was all going to kind of work out in the sense that by that point we would have had a long history with the existing fund of fund providers and could have determined – do we still need the three?

Is two more appropriate? And I think the numbers kind of bare out. Unfortunately there is one that's trailing the other two and their correlation benefits aren't quite there. If we were to make that decision today, it would be obvious. We'll see if there's any change in that as we approach the more appropriate timing for that decision. And the other component is the strategic partnerships that I mentioned earlier, which is the other component to that decision will be making them compete with one another to offer more services for less fees. So we'll [p]it them against each other and sort it out that way as well.

Interviewer: Okay.

Respondent: One more thing before I let [ORG] come up and finish the continuation of the real estate co-investment discussion – Rich and I and [Harvey Coons] have been – if you paid attention or not paid attention, it's not important. Stone Harbor is an emerging market debt manager in our fixed income portfolio. That's been an incredibly challenging space the past two years on an absolute basis, and then their relative performance is not particularly good either. We're not prepared to make a recommendation today on Stone Harbor, but let me just say that the emerging markets in general, both EME, Emerging Market Equity, and then EMD, Emerging Market Debt – the amount of volatility that's entered those markets, and just you all are well aware of the headlines that are occurring globally.

Harvey Coons and I are going to be working to decide on a forward-looking basis what all emerging markets are going to play in the portfolio. There's some initial sense that I have that there – because of the volatility there is opportunity there, but it might be opportunity more appropriate for our private side of our portfolio and not the public side where the majority of the exposure currently resides. It's not a conclusion yet. We're looking at it, and at some point probably as we talk about the asset allocation we'll be having some recommendations around emerging markets and what role they're going to play in our portfolio going forward. In the meantime we're going to be evaluating opportunities on the emerging market side, on the product side of the portfolio.

And if we see some attractive opportunities, we may bring them. But just kind of separate that out mentally that emerging markets are still attractive, just maybe not attractive for [Arborne Liquid], public equity, public fixed income. May be more appropriate in another part of the portfolio. I just wanted to T that up so that when we do talk about that it's not a new concept. Any questions on anything we just discussed? If not, I'm going to bring ORG up to do the real estate co-investment discussion. Just so you know what this – obviously we brought this discussion up last time. It was an educational piece. This is still not necessarily something for action. You're welcome to take action on it if you get to a comfort level today. If not, we'll bring it back for a recommendation next meeting. But we've developed some initial policies around –

[End of recorded material 00:08:39]

EXHIBIT 55

KENTUCKY RETIREMENT SYSTEMS
INVESTMENTS

DATE: May 5, 2015

TO: Members of the Investment Committee

FROM: David Peden, Chief Investment Officer

Subject: Strategic Partnership for Absolute Return

Recommendation

KRS staff recommends approving an informal strategic partnership with PRISMA/KKR to help staff continue to build out its direct hedge fund portfolio.

What is a strategic partnership?

A strategic partnership is where an investment manager manages a discretionary portfolio for the client at normal market fees and then offers additional services on either a free basis or below market value basis. It's beneficial to the investment manager because it makes for a stronger relationship with the client, but it's beneficial to the client because the manager effectively becomes a second consultant or an extension of staff depending on how the relationship is structured.

Need and Rationale

PRISMA Capital Partners approached me in December 2014, after Chris had announced his intentions to depart, to offer their services to help KRS continue to build out its direct hedge fund portfolio. This was an arrangement I was interested in exploring at some point in the future, but I first wanted to see if KRS could find a quality candidate to be a full time employee.

After conducting first round interviews with four candidates to replace Chris Schelling, it became apparent that KRS was going to be in the unfortunate position of having to make an offer to someone who had maybe interviewed 50 hedge fund managers in their careers. These were very intelligent candidates, but not terribly experienced in the hedge fund asset class. This matters because you "have to kiss a lot of frogs to recognize a prince" in the hedge fund space. With my background in alternative investments KRS certainly could have counted on my ability to "train up" the individual, but while I was spending a large part of my time on our hedge fund portfolio, I would have less time to spend on the other parts of the portfolio that also need attention.

PRISMA approached me again in March with the idea of doing a strategic partnership, but this time with two components that made me pull forward the timing of considering for such a relationship. The first component was that Michael Rudzik, a senior PRISMA portfolio manager, would be made available to come to the KRS office and work on the KRS hedge fund portfolio. This would allow him to interact with the broader KRS investment team and provide additional thought leadership. The second component was that we could structure the strategic partnership in two phases.

Phase one would be informal, meaning no commitment on the part of KRS to continue this arrangement for any amount of time and there would be no change to our current fee arrangement with PRISMA. Phase one would allow PRISMA and Michael Rudzik to begin working with KRS staff and consultant to conduct due diligence on hedge funds and make direct hedge fund manager recommendations to the Investment Committee. There will be no changes to KRS investment management expenses and KRS will not be responsible for due diligence expenses incurred by PRISMA. I expect phase one to last until February 2016, when KRS will need to decide if it would like to continue the relationship formally under phase two.

The formal strategic partnership will have all the components of the informal strategic partnership (i.e. discretionary fund of funds management in addition to assisting with the construction of the direct hedge fund portfolio), plus an opportunity to engage in co-investment opportunities and sector focused funds free of charge or at reduced fees. Both of these opportunities may uncover investment opportunities that can be implemented in asset classes other than absolute return/hedge funds. Lastly, all of these services are possible to obtain at a less costly fee than we are currently paying PRISMA if KRS is willing and comfortable with moving forward with our long range plan of reducing the number of fund of fund providers and up sizing PRISMA.

<u>Conclusion</u>

The decision to engage PRISMA in phase one has no cost and does not commit KRS to anything permanent. Staff will make another recommendation to the KRS Investment Committee in February 2016 to either not continue the strategic partnership or to continue and formalize the strategic partnership. At this time, staff feels strongly this arrangement is the best path forward for building out a quality absolute return portfolio.

EXHIBIT 56

Hedge Fund Solutions Proposal

Requested by: ***Kentucky Retirement System ("KYRET")***

April 2015

KKR PRISMA

CONFIDENTIAL AND PROPRIETARY:
For Investment Professionals Only

Important Information

Important Information

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The interests in the Fund (the "Interests") have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC") or by the securities regulatory authority of any state or of any other jurisdiction. The Interests have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), the securities laws of any other state or the securities laws of any other jurisdiction, nor is such registration contemplated. The Fund will not be registered as an investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). Consequently, the Fund's limited partners are not afforded the protections of the 1940 Act.

This presentation shall not constitute an offer to sell or the solicitation of any offer to buy Interests, which may only be made at the time a qualified offeree receives a Confidential Private Placement Memorandum describing the offering and related subscription agreement. These securities shall not be offered or sold in any jurisdiction in which such offer, solicitation or sale would be unlawful until the requirements of the laws of such jurisdiction have been satisfied.

The information in this presentation is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. This presentation should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy.

KKR Prisma serves as the Fund's investment adviser. KKR Prisma became an affiliate of KKR in October 2012, when KKR acquired 100% of the direct and indirect interests of Prisma Capital Partners LP. KKR Prisma operates as a part of KKR's public markets business, which includes the asset management activities of KKR Credit Advisors (US) LLC ("KCA"). KKR Prisma does not currently intend to invest assets invested in a customized solution in any investment fund sponsored or managed by KKR, including KCA and its subsidiaries, other than funds managed by KKR Prisma.

Employees of KKR Asset Management LLC, KKR Prisma and KKR Capital Markets LLC located in the United States are dual employees of those entities and Kohlberg Kravis Roberts & Co. L.P.

The performance presented herein with respect to the Fund reflects the actual net performance of the Fund. Stated Fund performance is net of 0.70% management fee and 5% performance fee over a hurdle rate of the 13 Week US T-Bill and applicable expenses at the Fund level. Performance is based on returns provided by the underlying managers, which KKR Prisma believes to be reliable, but makes no representations or warranties as to their accuracy or completeness. Monthly performance is unaudited. Year-end performance for 2012 and 2013 is audited. Individual returns for each investor will vary because of, among other things, the timing of such individual's investment. Allocations to underlying managers may change at any time in KKR Prisma's discretion.

Target Returns: Target returns are hypothetical in nature and are shown for illustrative, informational purposes only. This material is not intended to forecast or predict future events, but rather to indicate the returns that Prisma has observed in the market generally. It does not reflect the actual or expected returns of the Fund and does not guarantee future results. The target returns are not meant to predict the returns of the Fund, and are subject to the following assumptions: Prisma considers a number of factors, including, for example, observed and historical market returns relevant to the applicable asset class, anticipated correlations across asset classes, expected risk and liquidity premiums, projected cash flows, projected future valuations of target assets and businesses, relevant other market dynamics (including interest rate and currency markets), anticipated contingencies, and regulatory issues. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Changes in the assumptions may have a material impact on the projected returns presented. Target returns are shown before fees, transactions costs and taxes and do not account for the effects of inflation. Management fees, transaction costs, and potential expenses are not considered and would reduce returns. Actual results experienced by clients may vary significantly from the target returns shown. **Target Returns May Not Materialize.**

Past Performance Does Not Guarantee Future Results.

Important Information (continued)

Private funds are speculative investments and are not suitable for all investors, nor do they represent a complete investment program. Private funds are available only to qualified investors who are comfortable with the substantial risks associated with investing in private funds. An investment in a private fund includes the risks inherent in an investment in securities. There can be no assurance that an investment strategy will be successful.

Investors in a private fund may have no right to or a limited right to redeem or transfer their interests in a private fund. No Interests will be listed on an exchange and it is not expected that there will be a secondary market for any Interests.

The information in this presentation may contain projections or other forward-looking statements regarding future events, targets or expectations regarding the Fund or the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here.

The information in this Presentation, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

With respect to KKR, references to "assets under management" or "AUM" represent the assets as to which KKR is entitled to receive a fee or carried interest. KKR's calculation of AUM may differ from the calculations of other asset managers and, as a result, KKR's measurements of its AUM may not be comparable to similar measures presented by other asset managers. KKR's definition of AUM is not based on the definitions of AUM that may be set forth in agreements governing the investment funds, vehicles or accounts that it manages and is not calculated pursuant to any regulatory definitions.

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KKR has adopted internal information-sharing policies and procedures which address both (i) the handling of confidential information; and (ii) the internal information barrier that exists between the public and private sides of KKR. Both KKR Prisma and KKR's fixed income, mezzanine, special situations and public equity professionals are on the public side of KKR, while KKR's private equity professionals and other affiliated business activities are on the private side of KKR. KKR has compliance functions to administer KKR's internal information-sharing policies and procedures and monitor potential conflicts of interest. Although the Fund may leverage KKR's private side executives, KKR's internal information-sharing policies and procedures referenced above, as well as certain legal and contractual constraints, could significantly limit the Fund's ability to do so. Accordingly, as a result of such restrictions, the investment activities of KKR's other businesses may differ from, or be inconsistent with, the interests of and activities which are undertaken for the account of the Fund, and there can be no assurance that the Fund will be able to fully leverage the resources and industry expertise of KKR's other businesses. Additionally, there may be circumstances in which one or more individuals associated with KKR will be precluded from providing services to the Fund because of certain confidential information available to those individuals or to other parts of KKR or because of internal policies and procedures.

General discussions contained within this presentation regarding the market or market conditions represent the view of either the source cited or KKR Prisma. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns. The information contained herein is as of April 10, 2015, unless otherwise indicated, is subject to change, and neither KKR Prisma nor KKR assumes any obligation to update the information herein.

KKR Prisma considers numerous factors in evaluating and selecting portfolio managers, and KKR Prisma may use some or all of the processes described herein when conducting due diligence on a potential fund or portfolio manager. KKR Prisma recognizes that a fund and/or portfolio manager may not meet all of its selection criteria, and KKR Prisma may, in its sole discretion, balance these factors or waive any of its selection criteria or due diligence processes as it deems necessary or appropriate.

Important Information (continued)

Potential loss of investment – No guarantee or representation is made that the investment program used by KKR Prisma will be successful. The Fund represents a speculative investment and involves a high degree of risk. An investment in the Fund should be discretionary capital set aside strictly for speculative purposes. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment in the Fund. An investment in the Fund is not suitable for all investors. An investor could lose or a substantial portion of his/her/its investment. Only qualified eligible investors may invest in the Fund. Because of the nature of the trading activities, the results of the Fund's operations may be volatile from month to month and from period to period. Accordingly, investors should understand that past performance is not indicative of future results. Private funds typically represent that their returns have a low correlation to the major market indices. Investors should be aware that private equity funds may incur losses both when major indices are rising and falling.

Use of leverage – The Fund may utilize leverage and may also invest in forward contracts, options, swaps and over-the-counter derivative instruments, among others. Like other leveraged investments, trading in these securities may result in losses in excess of the amount invested.

Regulatory risk – The Fund is not registered under the 1940 Act. As a result, investors will not receive the protections of the 1940 Act afforded to investors in registered investment companies (i.e. "mutual funds"). The Fund's offering documents are not reviewed or approved by federal or state regulators and its privately placed interests are not federally or state registered. In addition, the Fund may engage in trading on non-U.S. exchanges and markets. These markets and exchanges may exercise less regulatory oversight and supervision over transactions and participants in transactions.

Valuations – The net asset value of the Fund may be determined by its administrator in consultation with KKR Prisma, or based on information from the manager(s) of the underlying Funds. Certain portfolio assets may be illiquid and without a readily ascertainable market value and accuracy of valuations of other managers may be difficult to verify. Since the value assigned to portfolio securities affects a manager's or advisor's compensation, the manager's or advisor's involvement in the valuation process creates a potential conflict of interest.

The value assigned to such securities may differ substantially from the value a Fund is able to realize. Instances of mispriced portfolios, due to fraud or negligence, have occurred in the industry.

Fees and expenses – The Fund may be subject to substantial charges for management, advisory and brokerage fees. It may be necessary for those pools that are subject to these charges to make substantial trading profits to avoid depletion or exhaustion of their assets. Please refer to the Fund's Confidential Placement Memorandum for a more complete description of risks and a comprehensive description of each expense to be charged the Fund.

Reliance on key persons – The Fund's manager or advisor has total trading authority over the Fund and may be subject to various conflicts of interest. The death, disability or departure of the manager or advisor may have a material effect on the Fund.

Concentration – The Fund may use a single advisor or employ a single strategy, which could mean a lack of diversification and higher risk. A Fund of Funds relies on the expertise of its underlying managers.

Counterparty and bankruptcy risk – Although KKR Prisma will attempt to limit its transactions to counterparties which are established, well-capitalized and creditworthy, the Fund will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes, which could subject the Fund to substantial losses.

Limited liquidity – Your ability to redeem Interests will be limited and subject to certain restrictions and conditions under the applicable Limited Partner Agreement. No secondary public market for the sale of the Interests exists, nor is one likely to develop. In addition, your Interests will not be freely transferable.

Tax risks – Investors in private equity funds such as the Fund are subject to pass-through tax treatment of their investment. Since profits generally will be reinvested in the Fund rather than distributed to investors, investors may incur tax liabilities during a year in which they have not received a distribution of any cash from the fund. In addition, it is likely that the general partner will not be able to prepare its tax returns in time for investors to file their returns without requesting an extension of time to file.

Volatile markets – Market prices are difficult to predict and are influenced by many factors, including: changes in interest rates, weather conditions, government intervention and changes in national and international political and economic events. Please refer to the Fund's Confidential Private Placement Memorandum for a more comprehensive description of volatility factors.

The above summary is not a complete list of the risks, tax considerations and other important disclosures involved in investing in the Fund and is subject to the more complete disclosures in the Fund Documents, which must be reviewed carefully prior to making an investment.

KKR Prisma Overview

Highly Experienced Global Alternative Investment Provider	• KKR Prisma, an affiliate of leading global investment firm, KKR, is focused on providing multi-manager hedge fund solutions for alternative investors • KKR Prisma has a ~70 person dedicated team and benefits from KKR's network of over 600 executives, including over 300 investment professionals and ~30 senior advisors(1), globally • KKR has a global presence that includes offices in 15 countries across 5 continents
KKR Prisma's Stable Asset and Client Base	• KKR Prisma has approximately $10.2 billion in assets under management; over 90% managed on behalf of institutional clients(2) • Investments from current and new clients have helped broaden and diversify KKR Prisma's stable asset base • No gating or suspension of redemptions since KKR Prisma's inception
KKR Prisma's Strong Absolute and Relative Performance	• The KKR Prisma Low Volatility Composite has consistently outperformed the HFRI Hedge Fund of Funds Index by 331 bps annualized and US T-Bills by 533 bps annualized since inception of the composite in June 2004(3)

Note: Unless otherwise indicated data is as of December 2014. Please see Important Information pages at the beginning of this presentation and Endnotes at the end of this presentation regarding, among other things, the use of indices, and the risks associated with investing in hedge funds.

(1) Represents a network of senior executives that work with KKR and KKR portfolio companies.
(2) KKR Prisma AUM data is as of January 1, 2015 and includes fee-paying assets only.
(3) Performance is through March 31, 2015 and utilizes March estimates.

Our Understanding of Your Current Hedge Fund Program

Investment Type	Investment Size	Detail
Absolute Return Program	$1.5 BN	3 Fund of Funds Providers
Direct Hedge Fund Program	$140MM	Suite of Investments Managed with Albourne Support
Total	**$1.6BN**	**Large, Complex Hedge Fund Program**

Our Current Relationship

- **Fund name:** Daniel Boone Fund LLC
- **Strategy description:** Customized, multi-manager fund of hedge funds portfolio with a low volatility and low beta target managed by KKR Prisma
- **Initial investment date:** September 1, 2011
- **Investment amount at inception:** $415MM
- **Investment amount today:** $493MM (as of 4/1/2015)

Potential KYRET Challenges in Managing a Large Hedge Fund Program

Cost Efficiency	• KYRET may not be leveraging the scale of its complete program to most effectively achieve fee savings
Lack of Integrated Risk Management	• The current structure may not allow for comprehensive portfolio risk management and necessitates a sophisticated system
Governance Oversight	• A program of fund-of-funds in addition to direct hedge fund investments requires significant oversight and may be time consuming for a lean staff

Note: Please see important information regarding the risks associated with investing in hedge funds

KKR PRISMA

Summary of KKR Prisma's Plan to Help

1. *Consolidate KYRET's relationship with one strategic partner*

2. *Grow KYRET's direct hedge fund program*

3. *Improve cost efficiency and an over 40% fee reduction*

We believe we have a substantial and experienced team with a global reach and the resources necessary to build and manage a best-in-class hedge fund program

Note: The current and proposed portfolio fee savings assumes a total allocation to hedge funds and FoFs of $1.65 billion. *KKR Prisma assumes the other FoF providers pay 0.70% management fee currently and in all stages. For illustrative purposes only.

KKR PRISMA

A Tailored Strategic Proposal

We hope to build a strategic partnership that allows us to help strengthen your hedge fund program and develop cross-asset class solutions

Creative Investing Opportunities	✓ KKR has a history of innovation across the alternatives spectrum, and KKR Prisma has over 10 years of experience building customized hedge fund solutions ✓ We have the resources necessary to offer differentiated investment opportunities and create better solutions for our clients
Knowledge Sharing	✓ KYRET will have access to our team of professionals across the KKR Global Institute, portfolio management, risk management, operational due diligence, and client service ✓ As an advisory client, KYRET will also have access to KKR Prisma's manager research, due diligence reports, and risk systems
Full-Service Solutions	✓ We believe that few firms have the depth of resources and investment platform to offer a truly integrated, holistic approach to investing ✓ Not only can we provide a comprehensive hedge fund program, but you will receive access to KKR's leading investment teams across public, private, and capital markets[1]
Cost Efficiency	✓ By charging no fees for advisory services and incorporating low-fee, high-alpha strategies, KKR Prisma's proposal can lower both hedge fund and advisory expenses ✓ By utilizing KKR Prisma as KYRET's sole hedge fund provider, KYRET can receive competitive fee discounts through economies of scale and increased efficiency

(1) Access to and discussions with KKR's investment teams will be facilitated by KKR Prisma. Note: For illustrative purposes only.

KKR PRISMA

Ways KKR Prisma Can Work with KYRET

KKR Prisma can offer a variety of services with flexible levels of involvement from KYRET:

	KYRET Direct	+	KKR Prisma Custom Portfolio	=	Total KYRET Hedge Fund Portfolio
Fiduciary Responsibility	KYRET Responsibility		✓		Shared
Investment Decision-Making	KYRET Responsibility		✓		Shared
Strategy Allocation	✓		✓		✓
Manager Research / Due Diligence	✓		✓		✓
Risk Management / Aggregation	✓		✓		✓
Customized Portfolio Reporting	✓		✓		✓
Ongoing Monitoring	✓		✓		✓
Hedge Fund Manager Interaction	✓		✓		✓

Note: The proposed options discussed herein are for illustrative purposes only and subject to change at KKR Prisma's discretion.

KKR PRISMA

Proposed Investment Partnership Details

Investments

Service	KKR Prisma Team	Specialized Service Level
Review of KYRET Originated HF Managers	▪ Portfolio Management, Risk, Operations	▪ Review of KYRET-originated HF managers upon request: Stages: (i) preliminary review of prior manager research and internal KKR Prisma manager inquiry; (ii) an initial review if a manager has merit; (iii) full due diligence if manager passes preliminary review; and (iv) recommendation
Engagement with Underlying HF Managers	▪ Portfolio Management, Risk, Operations	▪ Pre-manager investment discussions ▪ In-depth discussions regarding KKR Prisma's manager due diligence and monitoring ▪ Interaction with underlying HF managers: – Calls with short-listed and incumbent HF managers: As agreed between parties – On-site visits accompanied by KKR Prisma PM: As agreed between parties – HF Manager visits to KYRET Office: Co-ordinated via KKR Prisma
Investment Recommendation	▪ Portfolio Management	▪ Provide recommendations to KYRET Portfolio Manager and Investment Committee on changes to Advisory Portfolio
Portfolio Review Calls/ Meetings with KYRET	▪ Portfolio Management	▪ Monthly Portfolio Review Call: Est. 1 hour ▪ Quarterly Portfolio Review Call: Est. 3 hours; macro strategy, portfolio and sector review, portfolio changes, manager views up-date ▪ Annual Portfolio Review Meeting: Est 1 day; format, location, agenda to be agreed
Detailed Sector Reviews with KYRET	▪ Portfolio Management	▪ Periodic review of each sector with relevant KKR Prisma PM: Included as a standing agenda item in each Quarterly Portfolio Review Call (1–2 sectors p. meeting) and Annual Portfolio Review Meeting
Macro Strategy Call	▪ Portfolio Management	▪ Participation in KKR Prisma's quarterly economic and strategy allocation conference calls
Transition Management	▪ Portfolio Management, Risk, Operations	▪ Transition of incumbent KYRET (Hedge Fund) Portfolio to new structure

Note: For illustrative purposes only. The above service levels are subject to additional discussion with KYRET. Please see Important Information pages at the beginning of this presentation and Endnotes at the end of this presentation.

KKR PRISMA

Proposed Relationship Management Service Levels

Relationship Management

Service	Specialized Service Level
Relationship Management	▪ Continued direct access to Girish Reddy, KKR Prisma CEO and Chairman of the Investment Committee, Michael Rudzik, Portfolio Manager, as well as Guy Saintfiet, Head of KKR Prisma's Advisory Services ▪ Frequent interaction with KKR Prisma's PM, ODD, RDD, and Client Servicing teams
Consolidated Portfolio Reporting	▪ Monthly and quarterly analytics reports for KYRET portfolio management team on each underlying hedge fund manager and the blended portfolios (according to agreed templates) ▪ Quarterly comprehensive qualitative and quantitative report to the KYRET Investment Committee (according to agreed templates) ▪ Monthly underlying manager risk analytics package (according to agreed templates) ▪ Monthly consolidated fund level risk analytics package (according to agreed templates)
Manager Reporting	▪ Initial and ongoing hedge fund manager due diligence and analytics reports (on request)
KKR Prisma Site Visits	▪ Extended KKR Prisma office site visits (i.e. focus on macro strategy, individual HF sectors, operational and risk due diligence, process enhancements)
Administration	▪ KKR Prisma to manage/ co-ordinate all investment documentation and fund flows
Service Review	▪ Annual review of KKR Prisma performance against agreed service levels
Web-Based Tools	▪ On-line access to web-based risk analytics package

Note: For illustrative purposes only. The above service levels are subject to additional discussion with KYRET. Please see Important Information pages at the beginning of this presentation and Endnotes at the end of this presentation.

KKR PRISMA

KYRET Would Have Dedicated Resources From Across KKR's Businesses

TEAM	KKR EXECUTIVES SUPPORTING KYRET'S HEDGE FUND PROGRAM
Macro Insight	 Gavyn Davies  Henry McVey  David Petraeus
Direct Senior Relationship	 Girish Reddy
Portfolio & Risk Management	 Michael Rudzik  Donna Heitzman  Guy Saintfiet  Shankar Nagarajan
Client Management	 Helenmarie Rodgers

- Access to KKR's macroeconomic thought leaders, including Gavyn Davies, Henry McVey, and General David Petraeus, and benefits of their ongoing research
- A dedicated team of senior hedge fund investment professionals led by Girish Reddy, Chairman of the Investment Committee, Michael Rudzik, Portfolio Manager, Guy Saintfiet, Head of Advisory Services, and Shankar Nagarajan, Head of Risk Management
- Servicing and relationship oversight by Helenmarie Rodgers, Managing Director, Client Partner Group
- Access to risk systems and proprietary diligence on the KKR hedge fund platform
- Participation in portfolio management, risk, and operational on-site manager due diligence meetings
- Access to KKR's Global infrastructure that supports the efforts of the KKR's hedge fund platform from both investment and operational perspectives

Note: Please see Important Information at the beginning of this presentation for additional disclosure regarding KKR's internal information barrier policies and procedures, which may limit the involvement of certain personnel in some investment decisions. For illustrative purposes only. Unless otherwise indicated, data is as of April 9, 2015.

A Three Phase Approach to Execution

1 Trial Period

- For no additional cost, increase leverage of KKR Prisma resources:
  - Access to our Kentucky-based PMs with significant onsite availability
  - Expand direct hedge fund relationships by leveraging KKR Prisma due diligence
  - Implement comprehensive risk management
  - Expand bandwidth of your current team by connecting with the KKR Global Institute and relevant KKR investment teams
  - Explore creative solutions to solve plan challenges

2 Program Transition

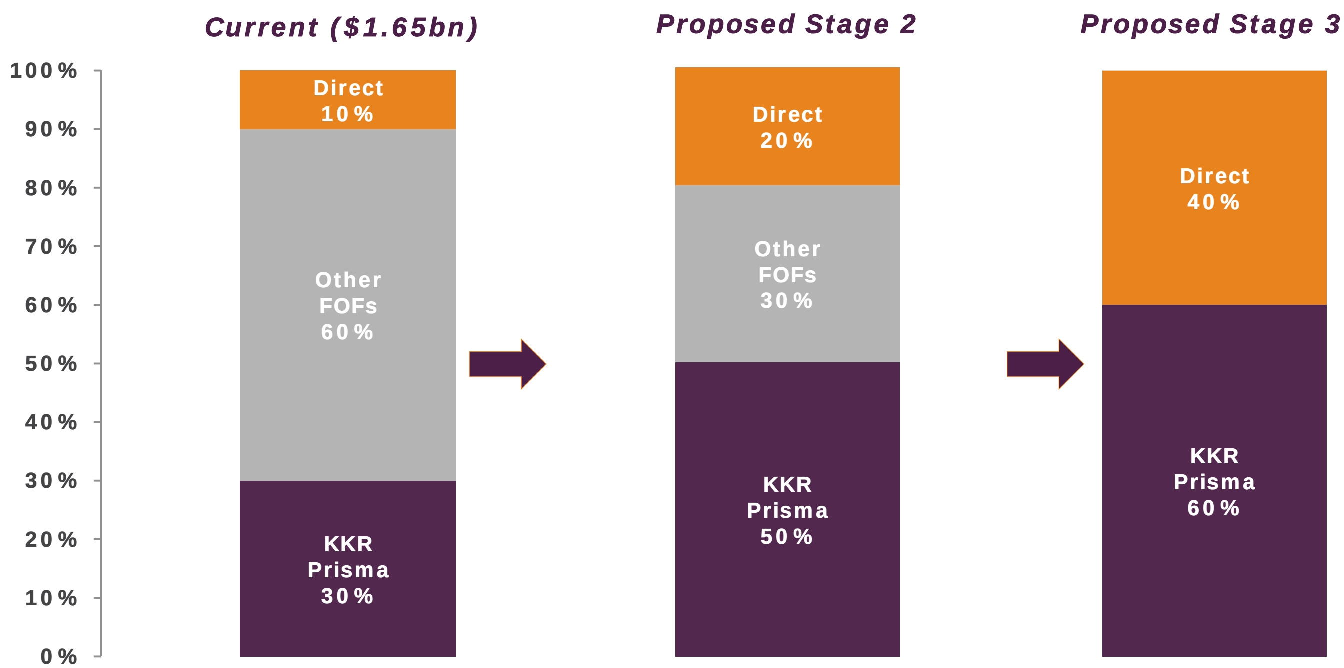
- Further expand our strategic partnership to:
  - Reduce program complexity and cost
  - Enhance risk aggregation across the KYRET plan
  - Maintain diversification in underlying hedge fund managers
  - Continue to leverage KKR's global infrastructure

3 Ongoing Management

- Going forward we hope to help KYRET achieve:
  - Annual cost savings of roughly $6.1MM as a result of the partnership
  - Strong absolute and relative performance, in line with the results of the Daniel Boone Fund
  - Creative investment solutions that meet the plan's needs as markets evolve
  - Ongoing, centralized risk management
  - Orderly management of the operational and administrative aspects of the refined portfolio

Note: Please see important information regarding the risks associated with investing in hedge funds

Sample Partnership Proposal Implementation for KYRET



	Current ($1.65bn)	Proposed Stage 2	Proposed Stage 3
KKR Prisma Mgmt Fee	0.70%	0.50%	0.45%
KKR Prisma Incentive Fee	5% over 13-week US T-Bills	5% over 13-week US T-Bills	5% over 13-week US T-Bills
KKR Prisma Mgmt Fee in Dollars	$3.5 million	$4.1 million	$4.4 million
Total FOF Mgt Fees in Dollars*	$10.6 million	$7.6 million	$4.4 million
Total Cumulative FoF Mgmt Fee Savings	-	***$3.0 million***	***$6.1 million***

Note: The current and proposed stages assumes a total allocation to hedge funds and FoFs of $1.65 billion. *KKR Prisma assumes the other FoF providers pay 0.70% management fee currently and in Stage 1-3. Note: For illustrative purposes only.

Partnering with KKR

KYRET can Benefit from KKR's Global Hedge Fund Platform and Resources

KKR's hedge fund platform has expanded and allows KYRET to access a spectrum of hedge fund solutions and differentiated approaches to meet their specific investment needs

Note: For illustrative purposes only. Not all products or solutions shown above may be available to ERISA clients. Please see important information at the beginning of this presentation. KKR Prisma Core portfolios are multi-manager portfolios managed by KKR Prisma and may include both discretionary and advisory portfolios. (1) Affiliates of KKR Prisma have an ownership interest and/or a revenue share in the third-party managers and as a result may participate in fees earned by such managers from assets allocated to their respective solutions from Client accounts of KKR Prisma. (2) These Solutions are managed by third-party managers in which the KKR balance sheet has made a stake investment. (3) This Solution will be managed by a manager affiliated with KKR Prisma which has been seeded by the KKR balance sheet. (4) This Solution is managed by KKR Credit Advisors and KKR Credit Advisers (UK) LLP, affiliates of KKR Prisma.

KKR PRISMA

The KKR Prisma Team

Hedge Fund Leadership

Girish Reddy, CFA	Todd Builione	Eric Wolfe, CFA	Francis Conroy, CPA	Shankar Nagarajan, PhD	Paul Roberts
Co-Head of KKR Hedge Funds / Investment Committee Member	Co-Head of KKR Hedge Funds	Investment Committee Member	Investment Committee Member	Investment Committee Member	Global Head of KKR Hedge Funds Distribution

Portfolio Management
Eric Wolfe, CFA (23)
Donna Heitzman, CFA, CPA (34)
Michael Rudzik (27)
Jackie Rosner, CFA, CAIA (22)
Guy Saintfiet (20)
Daniel Lawee, CFA (19)
Matthew Edge, CAIA (17)
Peter Zakowich (15)
Annie Yangeksakul (13)
Vishal Soni (8)
Jonathan Rin, CFA (10)
Rahul Mehta (6)
Sameer Buch, CFA (6)
Ori Hollander (3)
Griffin Meyer (3)
Woo-Hyung Cho (1)
Eric Han (1)
Jim Jiang (1)

Risk
Shankar Nagarajan, PhD (27)
Narender Nanchary, CFA, FRM (9)
Maxim Kovalchuk, CFA (7)
Viviann Chan (4)
Michael Diodato, FRM (4)

Technology
Dan Moore (24)
Kartik Patel, CFA (19)
Scott Holzman (22)
Yury Kurchin (20)
Marcel Kei (12)
Harry Seto (10)
Michael Du (6)

Operations
Francis Conroy, CPA (34)
Mark DeGaetano (33)
John Brennan (32)
Queenie Chang, CPA, CFA (20)
Wilson Tran (10)
RJ Tambellini (5)
Kenneth Eagle, CPA (15)
Sean Fang (12)
Kevin Kornobis, CPA (9)
Brandon Diez, CPA (7)
Natalie Lembesis, CPA (7)
Brandon Beckstead (5)
Andrew Hess, CPA (5)
Stephen Arrow (4)
Alice Begovich (3)

(Support from members of KKR Credit operations team)

Stakes, Seeding, New Products
Webster Chua (10)

(Support from members of KKR Balance Sheet & KKR Prisma teams)

Client Management
Paul Roberts (29)
HM Rodgers (28)
John Stimpson (21)
Elizabeth Saracco (14)
John Diercksen (11)
Taski Ahmed, CFA (7)
Emily Mason (7)
Turia Lahlou (3)

Legal & Compliance
Vincent Cuticello (28)
Russell McAleavey (6)
Anna Spector (10)

Administration
Priscilla Gordon (19)
~12 Business Support

Gavyn Davies	Thomas Healey, CFA	Emanuel Derman, PhD
Senior Advisor / KKR Prisma Co-Founder	Senior Advisor / KKR Prisma Co-Founder	Senior Advisor / Co-Head of Risk

~190 investment professionals in private equity, infrastructure & real estate
~120 investment professionals in credit, mezzanine & equity strategies
~50 operational experts & ~30 senior advisors(1)

Client & Partner Group (CPG)
Client service & relationship management

KKR Technology
Business & Administrative Support

Private Markets	Public Markets	Industry Expertise	Client & Partner Group	Infrastructure

GLOBAL KKR NETWORK

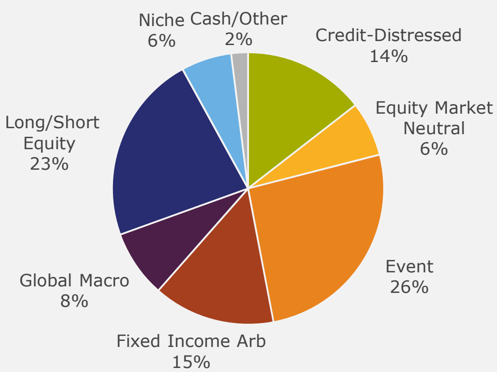
(1) Represents a network of senior executives that work with KKR and KKR portfolio companies

Note: Numbers in parentheses represent the number of years of professional experience as of 3/1/2015. Gavyn Davies, Thomas Healey, and Emanuel Derman are Senior Advisors to KKR Prisma. Please see Important Information at the beginning of the presentation for additional disclosures regarding KKR's internal information barrier policies and procedures, which may limit the involvement of certain personnel in some investment discussions.

KKR PRISMA

KKR's Value Added Services For KYRET

Strategy Allocation & Portfolio Management



- Combining macroeconomic views with technical/structural input to formulate strategic positioning
- Use of proprietary analytical tools to forecast strategy inputs using:
  - o Top-down economic forecasts
  - o Bottom-up portfolio manager views

Risk Management, Analysis & Aggregation

- Aggregation of data across providers and direct investments
- Analysis of total portfolio exposures and risk factors
- Interpretation of risk tools such as stress testing and scenario analysis

Customized Reporting & Commentary

- Customized reporting to meet KYRET's specific requirements
- Access to Client Portal with repository of KKR Hedge Fund Solutions' proprietary research and commentary

Note: Please see Important Information at the beginning of this presentation for additional disclosure regarding KKR's internal information barrier policies and procedures, which may limit the involvement of certain personnel in some investment decisions. For illustrative purposes only. Unless otherwise indicated, data is as of November 19, 2014.

Risk Aggregation Services

Overview

- KKR Prisma's proprietary risk tools allow us to provide risk aggregation on KYRET's direct *and* fund of hedge funds portfolios, free of charge
- Four-levels of risk evaluation:
  - o Position-level
  - o Exposure
  - o Returns
  - o Backward- and Forward-looking

Key Features

✓ **Desktop Access**

- o KYRET will have desktop access to our proprietary online risk dashboard "STARR"

✓ **Customized Reporting**

- o KKR Prisma will work with KYRET to provide customized risk analysis

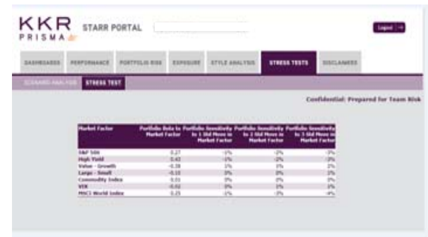
✓ **Risk Leadership**

- o Access to KKR Prisma's risk leaders who have significant experience analyzing hedge fund risks

✓ **Sophisticated Tech Infrastructure**

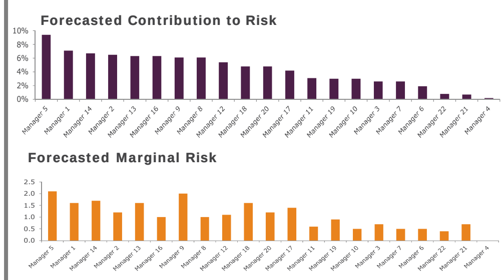
- o KKR Prisma has the resources necessary to provide KYRET with access to our sophisticated risk systems

Stress Test

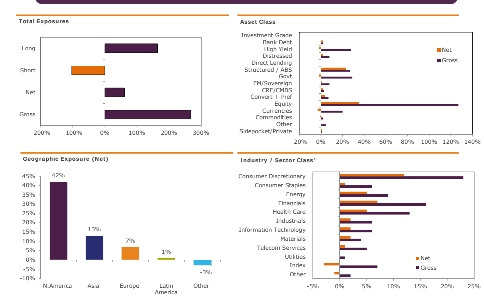


Scenario Analysis

Contribution to Risk



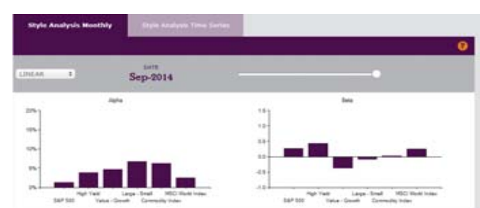
Exposures



Correlation

	Manager 1	Manager 2	Manager 3	Manager 4	Manager 5	Manager 6	Manager 7	Manager 8	Manager 9	Manager 10	Manager 11	Manager 12	Manager 13	Manager 14	Manager 16	Manager 17	Manager 18	Manager 19	Manager 20	Manager 22
Manager 1	1.00																			
Manager 2	0.16	1.00																		
Manager 3	0.62	0.43	1.00																	
Manager 4	-0.12	0.05	-0.03	1.00																
Manager 5	0.15	0.27	0.21	-0.03	1.00															
Manager 6	0.21	0.36	0.41	-0.15	0.24	1.00														
Manager 7	0.02	-0.12	-0.07	0.05	0.36	-0.16	1.00													
Manager 8	-0.19	0.30	0.25	0.00	0.18	0.09	0.02	1.00												
Manager 9	-0.10	0.55	0.47	0.00	0.44	0.32	0.27	0.40	1.00											
Manager 10	0.56	0.40	0.39	0.14	0.24	0.17	-0.02	0.05	0.28	1.00										
Manager 11	0.57	0.60	0.48	0.03	0.42	0.20	0.04	-0.06	0.42	0.68	1.00									
Manager 12	0.31	0.52	0.29	0.35	0.38	0.12	-0.01	0.44	0.41	0.58	0.48	1.00								
Manager 13	-0.02	0.22	0.31	-0.15	0.25	0.00	0.42	0.41	0.49	0.33	0.32	0.24	1.00							
Manager 14	-0.12	0.25	0.21	0.06	0.35	-0.05	0.43	0.17	0.53	0.11	0.24	0.13	0.53	1.00						
Manager 16	-0.11	0.32	0.18	-0.17	0.29	0.46	0.06	0.36	0.52	0.09	0.19	0.25	0.46	0.21	1.00					
Manager 17	-0.07	0.40	0.05	-0.03	0.03	0.10	0.18	0.25	0.67	0.09	0.24	0.18	0.48	0.54	0.53	1.00				
Manager 18	-0.51	0.59	0.32	0.22	0.23	0.22	0.19	0.44	0.71	0.20	0.24	0.34	0.51	0.48	0.44	0.61	1.00			
Manager 19	-0.36	0.37	0.04	-0.11	0.22	0.26	0.00	0.00	0.39	0.14	0.25	0.14	0.27	0.22	0.54	0.48	0.45	1.00		
Manager 20	-0.39	0.30	0.19	-0.14	0.28	0.12	0.13	0.40	0.57	-0.04	-0.01	0.14	0.50	0.49	0.47	0.55	0.66	0.42	1.00	
Manager 22	-0.45	0.16	-0.14	-0.36	0.06	-0.30	0.18	0.21	0.11	0.16	0.19	0.01	0.21	0.42	-0.09	0.09	0.13	0.10	0.11	1.00

Style Analysis



Note: For illustrative purposes only.

 Document contains confidential proprietary or trade secret information.

KKR PRISMA

Benefits of a KYRET and KKR Prisma Strategic Relationship

Resource Leveraging	▪ We believe our deep resources and diverse investment platform can offer KYRET a holistic experience investing in hedge funds ▪ We hope to assist in the evaluation of KYRET's current portfolio as well as provide cross-asset solutions
Cost Savings	▪ By implementing this three stage proposal, KYRET may experience significant fee savings ▪ We believe KYRET's hedge fund program fee savings will amount to ~$6.1mm
Streamlined Governance	▪ KKR Prisma proposes to streamline KYRET's hedge fund program thereby reducing complexity ▪ Additionally, KKR Prisma will provide an integrated risk solution that captures all of KYRET's direct hedge fund investments
Significant Onsite Resources	▪ By partnering with KKR Prisma, KYRET will be able to leverage our firm's additional resources for oversight of the hedge fund program ▪ A Lexington, KY-based portfolio manager team, who have been with KKR Prisma since inception, is available for onsite consultation

Note: The current and proposed stages assumes a total allocation to hedge funds and FoFs of $1.65 billion. *KKR Prisma assumes the other FoF providers pay 0.70% management fee currently and in Stage 1-3. Note: For illustrative purposes only.

Appendix

KKR Prisma Low Volatility Composite: Performance Summary

Composite Performance (Net) Since Inception

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2015	-0.11%	2.32%	0.73%										**2.95%**
2014	-0.40%	1.97%	-0.68%	-0.84%	1.14%	0.86%	-0.59%	0.58%	0.19%	-1.04%	1.24%	0.37%	**2.78%**
2013	2.12%	0.58%	1.06%	1.30%	0.73%	-1.23%	0.56%	-0.29%	1.26%	1.66%	1.11%	1.27%	**10.57%**
2012	1.55%	1.80%	0.62%	0.04%	-1.23%	-0.56%	1.07%	1.04%	1.10%	0.07%	0.94%	1.70%	**8.40%**
2011	0.73%	1.02%	0.34%	1.44%	-0.43%	-1.22%	0.14%	-2.30%	-2.48%	0.60%	-0.25%	-0.32%	**-2.78%**
2010	0.63%	0.30%	1.73%	1.17%	-2.23%	-0.76%	0.90%	0.66%	2.07%	1.76%	0.18%	1.66%	**8.29%**
2009	1.92%	0.56%	-0.01%	0.21%	3.73%	1.06%	2.06%	1.89%	2.28%	0.92%	0.81%	1.35%	**18.06%**
2008	-1.79%	1.41%	-0.78%	0.68%	2.28%	0.82%	-2.31%	-1.82%	-7.74%	-3.87%	-3.01%	-1.44%	**-16.58%**
2007	1.14%	1.14%	1.90%	1.79%	2.31%	1.04%	1.90%	-2.08%	1.43%	4.65%	0.47%	1.16%	**18.07%**
2006	2.19%	0.37%	1.02%	1.71%	-1.02%	0.49%	0.36%	0.68%	0.98%	1.32%	1.96%	2.21%	**12.93%**
2005	0.26%	1.72%	0.24%	-0.48%	0.55%	1.49%	2.04%	0.79%	1.74%	-0.90%	1.44%	2.00%	**11.39%**
2004						0.07%	0.23%	0.36%	0.87%	0.47%	1.42%	1.30%	**4.81%**

Performance Statistics (Net) Since Inception

	KKR Prisma Low Volatility Composite	HFRI FoF Composite	S&P 500 TR
Annualized Return	6.8%	3.5%	8.0%
Cumulative Return	104.9%	45.7%	130.9%
Risk Free Rate (ML 3M T-Bill)	1.5%	1.5%	1.5%
Standard Deviation	5.2%	5.4%	14.4%
Sharpe Ratio	1.03	0.37	0.45

Note: Data as of March 31, 2015 and utilizes March estimates. The KKR Prisma Low Volatility Composite performance shown above reflects the actual performance realized by KKR Prisma advisory clients net of fees actually charged to each account and any underlying manager fees and expenses; but excluding custody and any other expenses paid directly to third parties by the client. Past performance is not necessarily indicative of future results. Please see Endnotes 1, 2, 4, and 5 and the Important Information slides at the beginning of this presentation regarding, among other things, the use of hypothetical performance, composites and indices, as well as the risks associated with investing in hedge funds.

Endnotes

(1) **Limitations of Related Performance.** The performance of the KKR Prisma Low Volatility Composite is not the performance of a customized solution and is not an indication of how a customized solution would have performed in the past or will perform in the future. A customized solution's performance in the future will be different from the performance shown due to factors including, but not limited to, differences in cash flows, fees, expenses, performance calculation methods, and portfolio sizes and composition. The performance presented reflects the performance of accounts managed by KKR Prisma utilizing a strategy substantially similar to that which may be utilized for a customized solution. **Past performance is no guarantee of future results.**

(2) Please see Important Information page at the beginning of this presentation and Endnotes at the end of this presentation for important information regarding, among other things, the use of composites and indices, calculation of AUM, and further information on KKR's inside information barrier policies and procedures which may limit the involvement of KKR personnel in certain investment processes and circumstances.

(3) Certain terms of a customized solution are highlighted above. This summary is qualified in its entirety by the more detailed information contained in the Limited Partnership Agreement, Confidential Private Placement Memorandum and Subscription Agreement pertaining to a customized solution, all of which should be reviewed carefully and contain additional terms to those included in this summary.

(4) The KKR Prisma Low Volatility Strategies Composite (the "Composite") contains all fee paying accounts that KKR Prisma believes reflect its low volatility strategy, excluding accounts of clients for which KKR Prisma manages multiple strategies under a joint fee arrangement, for the period beginning in June 2004, regardless of size. The strategy generally seeks long-term capital appreciation over a several year period with lower volatility than, and low correlation to, broad equity and fixed income indices. The accounts that comprise the Composite typically invest in multi-manager, multi-strategy, diversified portfolios of hedge funds. Between 18.5% and 100% of the Composite, in the time period June 2004 through July 2011, was comprised of a nondiscretionary account that must approve Prisma's recommendations before they are implemented. Allocations vary among underlying managers and strategies at any time, and investment vehicles have been and will be added or eliminated from time to time. Net Composite performance reflects the actual performance realized by KKR Prisma advisory clients net of fees actually charged to each account and any underlying manager fees and expenses; but excluding custody and any other expenses paid directly to third parties by the client.

Composite performance was restated on October 1, 2014. Prior to this date, KKR Prisma had reported Composite performance reflecting the deduction of a pro-forma 1% management fee and 5% incentive fees over a hurdle of the 13-Week T-Bill. During this period, the Composite also included accounts of clients for which KKR Prisma manages multiple strategies under a joint fee arrangement. The restated methodology for calculating Composite performance resulted in an increase of approximately 0.50% from June 2004 to September 2014 net performance, and lower increases for shorter performance periods.

In calculating this performance, KKR Prisma relies on the actual unaudited performance returns provided by the underlying managers, which KKR Prisma believes to be reliable, but KKR Prisma makes no representations or warranties as to their accuracy or completeness. Allocations vary among underlying managers and strategies at any time, and investment vehicles have been and will be added or eliminated from time to time. Current month's performance is estimated.

Past performance is not an indication or guarantee of future performance. This information is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person under any circumstances. This information is not intended to constitute legal, tax, or accounting advice or investment recommendations. Please see "Important Information" for important risk disclosures and information regarding the ML T-Bill Index.

(5) The indices referenced herein are broad-based securities market indices and used for illustrative purposes only. They have been selected as they are well known and are easily recognizable. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with customized solutions. Investments cannot be made directly into an index. The performance of the indices represents unmanaged, passive buy-and-hold strategies, investment characteristics and risk/return profiles that differ materially from customized solutions, and an investment in a customized solution is not comparable to an investment in such indices or in the securities that comprise the indices. Past performance is no guarantee of future results. See following Endnotes page for additional information. Investments of a customized solution may be illiquid, making, at times, fair market valuation impossible or impracticable. As a result, valuation of a customized solution may be volatile, reducing the utility of comparison to any index whose underlying securities are priced according to market value, such as the indices. Investors should be aware that a customized solution may incur losses both when major indices are rising and when they are falling.

Endnotes

Indices

The risk/return profile of the indices is materially different from that of a KKR Prisma account, and an investment in a KKR Prisma account is not comparable to an investment in the securities that comprise the indices. Investments of the KKR Prisma account may be illiquid, making at times, fair market valuation impossible or impracticable. As a result, valuation of the KKR Prisma account may be volatile, reducing the utility of comparison to any index whose underlying securities are priced according to market value, such as the indices. Investors should be aware that KKR Prisma accounts may incur losses both when major indices are rising and when they are falling.

The **S&P 500 TR Index ("S&P 500")** is comprised of a representative sample of 500 large-cap companies. The index is an unmanaged, float-weighted index with each stock's weight in the index in proportion to its float, as determined by Standard & Poors. The S&P 500 is one of the most widely used benchmarks of U.S. equity performance. For more information on the S&P 500, please visit www.us.spindices.com/indices/equity/sp-500. Unless otherwise indicated, all S&P 500 performance data is as of March 31, 2015 and was retrieved on April 9, 2015.

The **Barclays Capital U.S. Aggregate Index ("Barclays Aggregate Bond Index")** provides a measure of the U.S. investment grade bond market, which includes investment grade U.S. government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1 year remaining to maturity. In addition, the securities must be denominated in US dollars and must be fixed rate, nonconvertible, and taxable. For more information on the Barclays Aggregate Bond Index, please visit www.ecommerce.barcap.com/indices/index.dxml. Unless otherwise indicated, all Barclays Aggregate Bond Index performance data is as of March 31, 2015 and was retrieved on April 9, 2015.

The **Merrill Lynch 3-Month Treasury Bill Index ("ML 3-Month T-Bills")** is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. While the index will often hold the Treasury Bill issued at the most recent 3-month auction, it is also possible for a seasoned 6-month Bill to be selected. For more information on the ML B-Month T-Bills, please visit www.mlindex.ml.com/gispublic/default.asp. Unless otherwise indicated, all ML 3-Month T-Bills performance data is as of March 31, 2015 and was retrieved on April 9, 2015.

The **Dow Jones Credit Suisse AllHedge Indexes ("CS/Dow Jones Investable Index")** are designed to provide transparent, representative and objective benchmarks of the ten style-based investment strategies of the hedge fund universe. They are constructed by aggregating the ten strategy indexes, and they include funds worldwide. The indexes are rebalanced annually, with a semiannual "partial rebalancing" occurring between each rebalancing. For more information on the CS/Dow Jones Investable Index, please visit http://www.hedgeindex.com/hedgeindex/en/indexmethodology.aspx?cy=USD&indexname=SECT. Unless otherwise indicated, all CS/Dow Jones Investable Index performance data is as of March 31, 2015 and was retrieved on April 9, 2015.

The **Dow Jones Credit Suisse Blue Chip Hedge Fund Index** is an asset-weighted hedge fund index derived from the Dow Jones Credit Suisse Hedge Fund Index. The index is comprised of the 60 largest funds across the ten style-based sectors in the broad index and is open for investment. It is rebalanced semi-annually and reflects performance net of all hedge fund component performance fees. The Dow Jones Credit Suisse Blue Chip Hedge Fund Index is a rules-based index fully reflects the performance of a diversified market barometer for the hedge fund industry. For more information on the CS/Dow Jones Investable Index, please visit www.hedgeindex.com/hedgeindex/en/faq.aspx?cy=USD&indexname=INVX. Unless otherwise indicated, all CS/Dow Jones Investable Index performance data is from June 2004 though June 2014, at which point publication of monthly performance values of the CS/Dow Jones Blue Chip Hedge Fund Indexes was discontinued.

The **HFRI FoF Composite Index** is a equal-weighted index includes over 800 constituent funds included in the HFR database. Funds within the index must have at least $50 million under management or have been actively trading for at least twelve (12) months. For more information on the HFRI FoF Composite Index, please visit www.hedgefundresearch.com/mon_register/index.php?fuse=login_bd&1382601327. Unless otherwise indicated, all HFRI FoF Composite Index performance data is as of March 31, 2015 and was retrieved on April 9, 2015.

The **MSCI World USD Gross Index ("MSCI World")** is a market capitalization weighted index composed of companies representative of the market structure of 23 developed market countries in North America, Europe, and the Asia/Pacific Region. The index covers approximately 85% of the free float-adjusted market capitalization in each country. For more information on the MSCI World, please visit www.msci.com/products/indices/tools/index.html#WORLD. Unless otherwise indicated, all MSCI World performance data is as of March 31, 2015 and was retrieved on April 9, 2015.

The **S&P GSCI Total Return Index ("S&P GSCI TR")** is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is currently diversified across 24 commodities. For more information on the S&P GSCI TR, please visit www.us.spindices.com/performance-overview/commodities/sp-gsci. Unless otherwise indicated, all S&P GSCI TR performance data is as of March 31, 2015 and was retrieved on April 9, 2015.

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EXHIBIT 57

RVK

May 5, 2015

Asset/Liability Results

Kentucky Retirement Systems

Asset/Liability Studies

Introduction

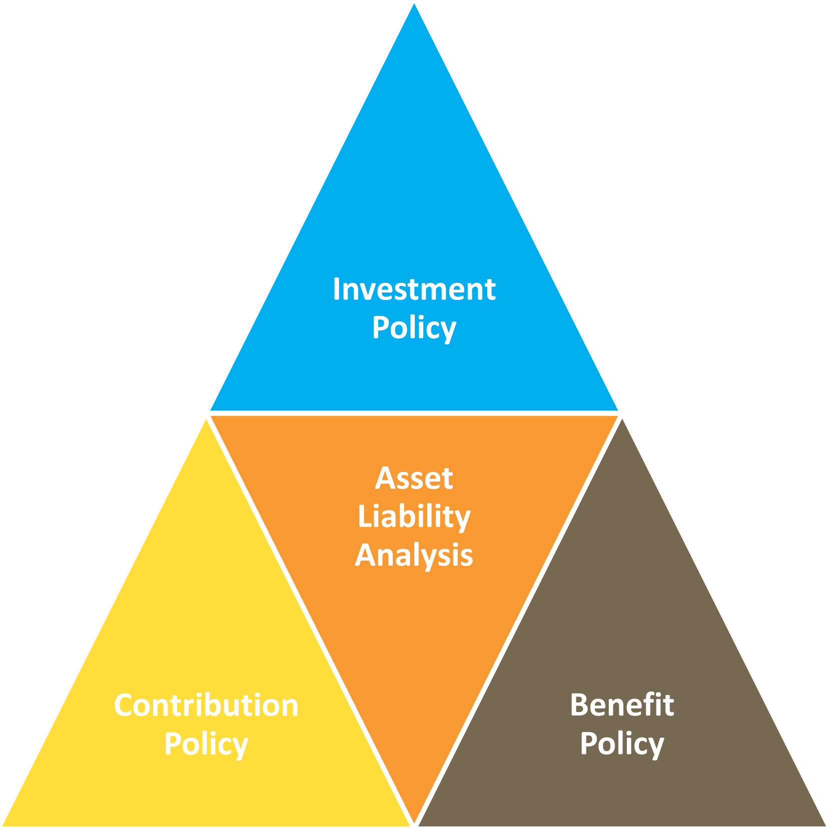
- This presentation outlines the key findings from the following Asset/Liability studies:
  - KERS Non-Hazardous Pension Plan
  - KERS Hazardous Pension Plan
  - CERS Non-Hazardous Pension Plan
  - CERS Hazardous Pension Plan
  - State Police Pension Plan

- This presentation is only a partial summary of the full Asset/Liability Studies submitted to KRS.
  - The complete versions of these studies contain important background information and caveats important to a complete understanding of the issues addressed.

Asset/Liability Studies

What are they?

- Asset/Liability Studies are the only standard analysis that fully link all three aspects of a Plan's key financial drivers – Investment Policy, Contribution Policy, and Benefit Policy



RVK

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Asset/Liability Studies

What are they?

- Asset/Liability Studies are…
  - A tool to examine how well differing asset allocations address the objectives served by the funds – the funds' "liabilities"
  - A "guidepost" for the target asset allocation of the funds
  - Gold standard for assessing the health of a pension plans

Asset/Liability Studies

What are they?

- Asset/Liability Studies are <u>not</u>…
  - An actuarial study
    - Purview of the Plan's actuary
  - A prescription for plan benefits
    - Purview of the elected representatives
  - An assessment of the affordability of contribution levels
    - Purview of the elected officials and their constituents
  - An implementation plan for specific asset classes
  - The sole determinant of the final asset allocation adopted by a fund

Asset/Liability Studies

What are the objectives?

- Objectives of Asset/Liability Studies
  - To present projected valuation results of the Plans with respect to the funded status of the Plans, including minimum required contributions, but particularly in the context of current and alternative expected long-term fund returns
  - To present projected benefit payments of the Plans, but particularly in the context of current expected and alternative long-term fund returns
  - To estimate liquidity demands on the Plans' assets in the context of current expected and alternative long-term fund returns
  - To investigate asset allocation mixes to determine those which best serve to protect or increase funding levels, while providing adequate liquidity for benefit payments and minimizing associated risks

Asset/Liability Studies

What do they consist of?

- Deterministic Forecast
  - Provides an analysis of Plan assets, liabilities, funded status, and benefit payments based on a fixed set of future assumptions

- Stochastic Forecast
  - Analyzes Plan assets, liabilities, funded status, and benefit payments under many capital market environments based on expected asset returns, inflation, and their expected volatility
  - Answers questions about the best/worst case outcomes along with the probability of such outcomes

RVK

Asset/Liability Studies in Practice…

- Begin with a forecast of the financial liabilities (i.e., benefit obligations)
- Include a baseline estimation of the financial contributions to the Plan over time
- Compare alternative investment strategies (i.e., total fund asset allocations to the Plan's financial needs)
- Draw conclusions regarding how well various investment strategies satisfy the Plans' financial needs

RVK

These Asset/Liability Studies…

- Use data from the June 30, 2014 Actuarial Valuations.
- Use the Actuarial Cost Method described in the June 30, 2014 Actuarial Valuations, and the actuarial assumptions from the KRS Experience Study July 1, 2008 to June 30, 2013
- Compare six specific investment strategies for discussion (outlined later)
- Assume the Plans' current benefit policy does not change throughout the entire projection period
- Does not assume any actuarial adjustments that may take place in future years.
- **Assumes the current contribution policy**

Asset/Liability Studies

Deterministic Analysis

- Uses the same assumptions as the Plans' actuary to project the future status of the Plans assuming <u>no uncertainty</u>
- Deterministic's virtues are that it is simple and that the findings reflect what will happen if the future turns out to be precisely as forecasted—no better, but also no worse
- It is useful for gauging the general direction of change and associated consequences
- It also allows for sensitivity analysis such as assuming lower returns or higher contributions

RVK

Asset/Liability Studies
Stochastic Analysis

- Introduces uncertainty to the projections…
  - Future rates of return and inflation based on RVK's most recent capital market assumptions
- Analyzes most likely outcomes based on Monte Carlo simulation as well as the likelihood and severity of worst case and best case outcomes
- Focuses on funding ratios, payout ratios, and contributions
- Analyzes probability of full funding and insolvency in 20 years
- Stochastic analysis is more complex but also more realistic and offers insights into the range of potential outcomes

Monte Carlo simulation uses a random sampling of asset class returns, based on the probability distribution implied by the empirical returns, to create several thousand estimates of portfolio performance.

Asset/Liability Studies

Stochastic Analysis

- A wide range of investment portfolios is tested because at the heart of the Plan's situation is a simple question that is difficult to answer: whether the Plans are better off following a strategy that:

  (A) Falls in the general category of higher prospective return with greater risk (i.e. potential for more widely varying outcomes – good or bad), or

  (B) Falls in the general category of lower prospective return with concomitantly lower risk (i.e. a tighter band of likely outcomes).

RVK

Asset/Liability Studies

Stochastic Analysis

- Essential to answering this question is to ask precisely how the Plans' broader constituencies define what "better off" means. The metrics we use for each to determine whether the Plans are "better off" under one approach versus another are:

1. The effect on funding ratio (and thus on contribution rates which decline with higher funding ratios).
2. The effect on Plan liquidity (i.e. the Plans' ability to pay annual benefits without major disruption of their strategic asset allocations, the driver of their investment strategies).
3. The effect on the trend line and stability of annual contributions.
4. The risk of large, sudden, and highly disruptive short-term declines in the Plans' assets over the course of time and the associated effects on contributions and potentially investment decisions.

RVK

Asset/Liability Studies

Stochastic Analysis – Portfolios Tested

Asset Class	Current Target	Conservative Portfolio	Potential Portfolio 1	Potential Portfolio 2	Potential Portfolio 3	Aggressive Portfolio
Global Equity	43%	0%	30%	53%	67%	75%
Int. Duration Fixed Income	10%	100%	20%	6%	2%	0%
Custom KRS Fixed Income	10%	0%	8%	6%	2%	0%
Core Real Estate	5%	0%	10%	5%	5%	0%
Diversified Hedge Funds	10%	0%	10%	10%	5%	0%
Private Equity	10%	0%	10%	10%	15%	25%
Diversified Inflation Strategies	10%	0%	10%	8%	2%	0%
Cash Equivalents	2%	0%	2%	2%	2%	0%
Total Equity	**53%**	**0%**	**40%**	**63%**	**82%**	**100%**
Expected Return	**6.93%**	**3.50%**	**6.49%**	**7.23%**	**7.81%**	**8.47%**
Expected Risk	**12.83%**	**6.00%**	**10.67%**	**14.06%**	**16.48%**	**19.27%**
RVK Liquidity Metric	**69**	**85**	**66**	**70**	**71**	**69**

CERS Non-Hazardous Pension Plan

CERS Non-Hazardous Pension Plan

Deterministic Summary Results

	Current (June 30, 2014)	Projected Year 20 (Deterministic)
Actuarial Accrued Liability	$9.8 billion	$15.1 billion
Market value of Assets	$6.5 billion	$11.8 billion
Deficit	$3.7 billion	$3.3 billion
Market Value Funded Ratio	67%	78%
Payout Ratio	10%	11%
Annual Contribution	$403 million	$737 million

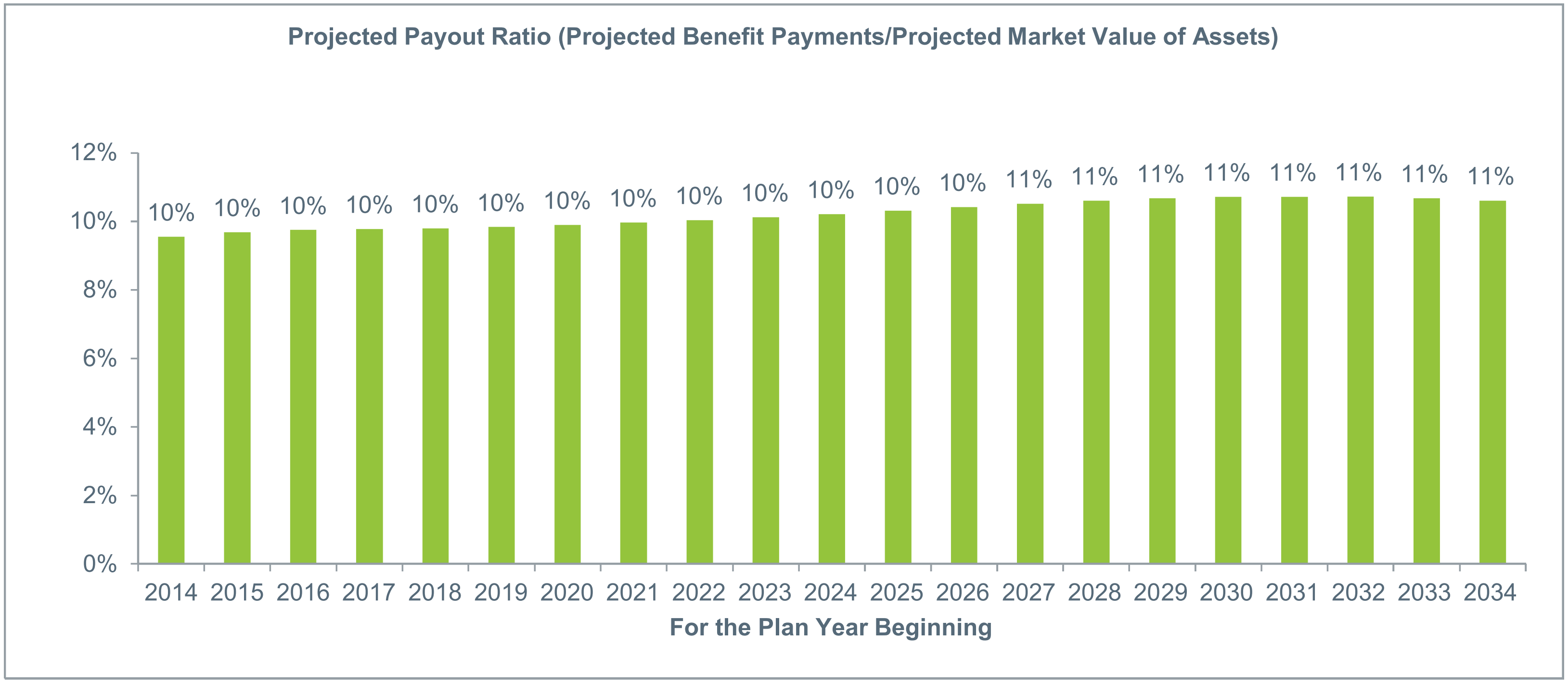
RVK

CR0810-0000085114

CERS Non-Hazardous Pension Plan

Deterministic Summary Results

- The payout ratio is healthy and not materially increasing

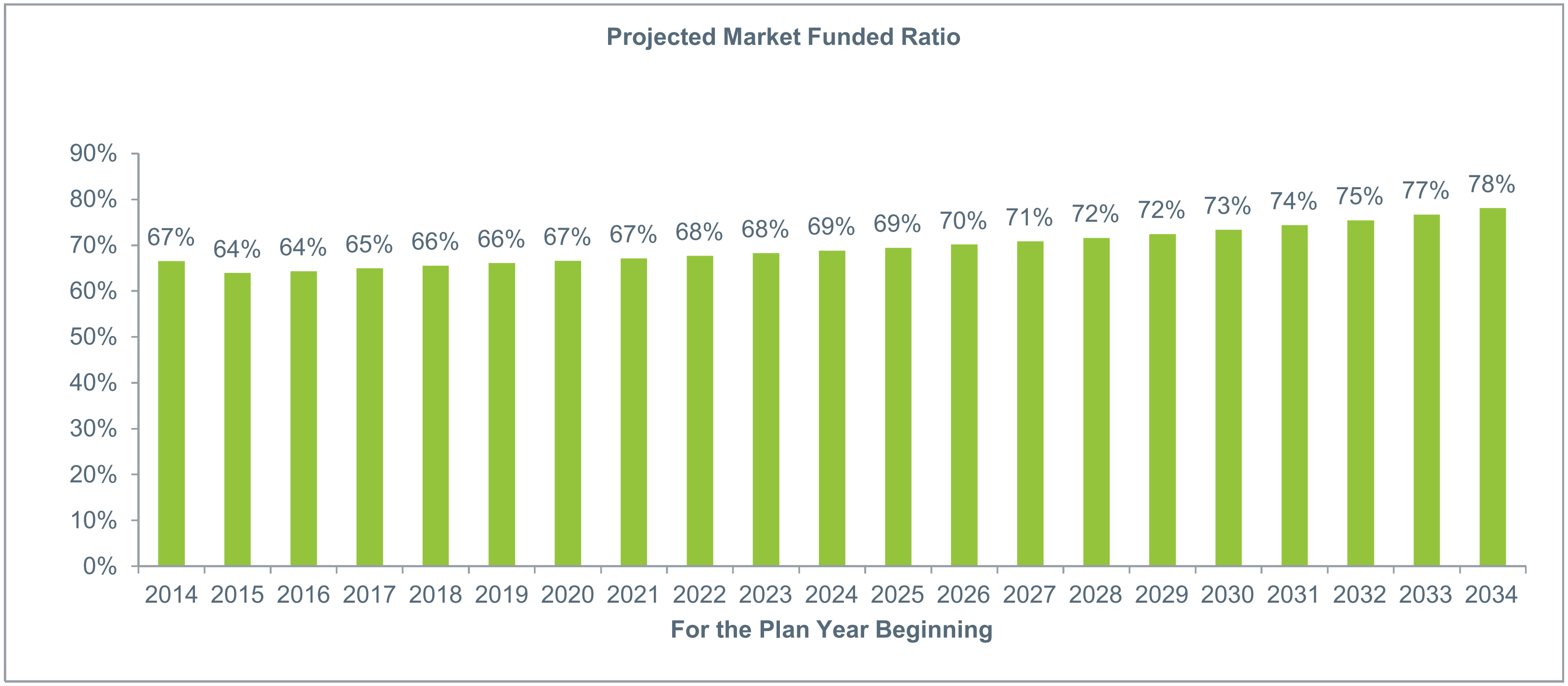


RVK

CR0810-0000085114

CERS Non-Hazardous Pension Plan
Deterministic Summary Results

- The funded ratio will likely improve over time



RVK

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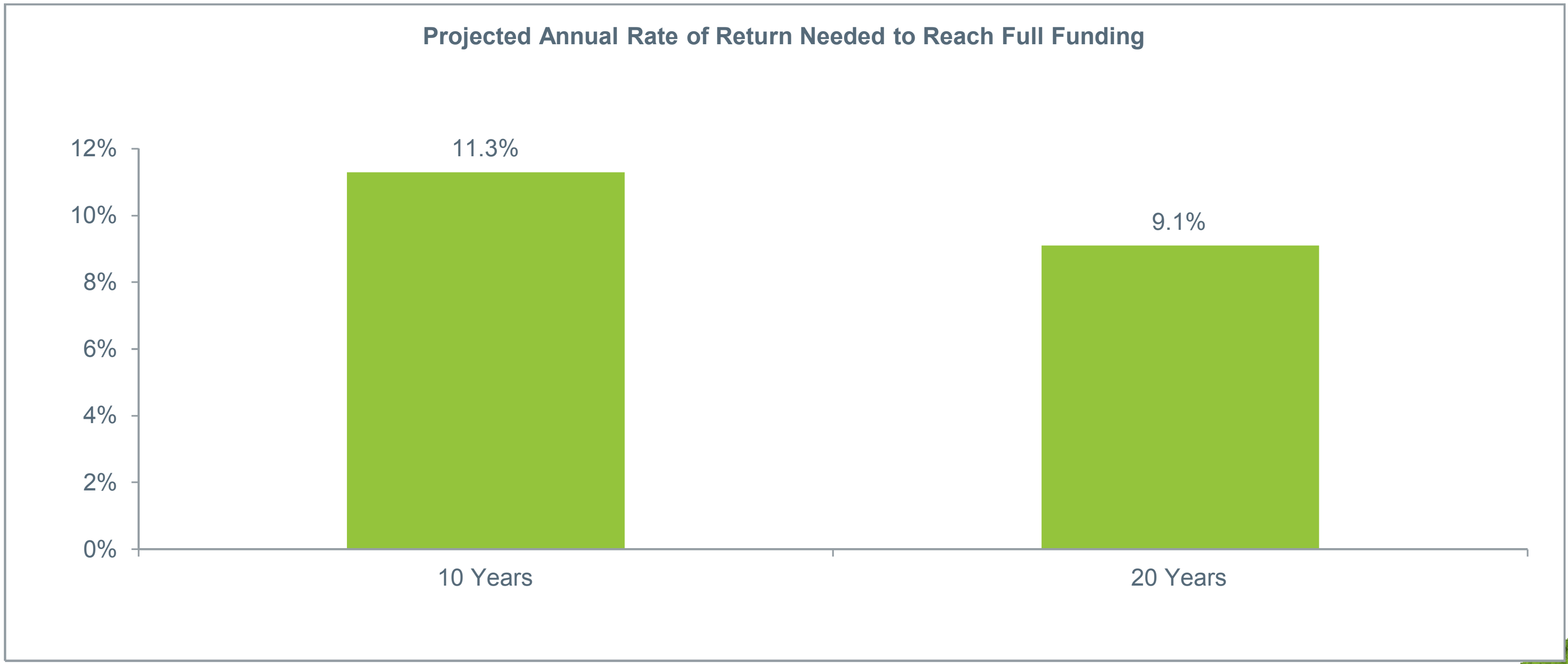
CERS Non-Hazardous Pension Plan

Deterministic Summary Results

- Investing out the current situation is not a reasonable expectation



CERS Non-Hazardous Pension Plan

Deterministic Summary Results

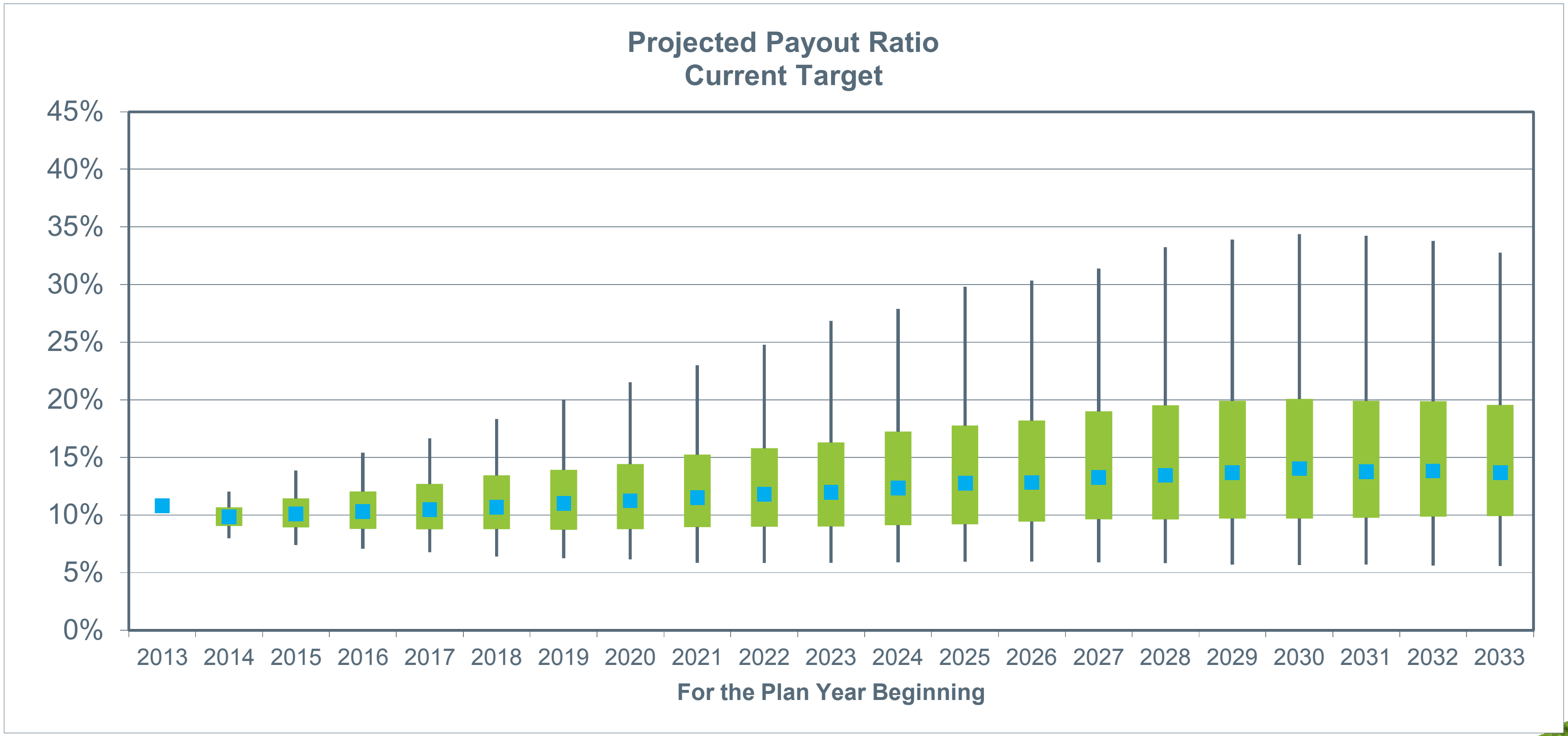
- If returns fall short of the assumed rate of return, improvements will be limited and contributions will be higher

	Value in 2034			
	Actuarially Assumed Rate of Return	Reduced Return (100 bps)	Impact of Reduced Return	
Projected Payout Ratio	11%	12%	2%	▲
Projected Employer Contributions (millions)	$520	$695	$175	▲
Projected Benefit Payments/Projected Total Contributions	169%	137%	-33%	▼
Projected Actuarial Accrued Liabilities (billions)	$15.1	$15.0	($0.1)	▼
Projected Market Value of Assets (billions)	$11.8	$10.0	($1.8)	▼
Projected Deficit (billions)	$3.3	$5.0	$1.7	▲
Projected Market Funded Ratio	78%	67%	-11%	▼
	20 Year Cumulative Total			
Projected Cumulative Employer Contributions (billions)	$8.2	$9.4	$1.2	▲

CERS Non-Hazardous Pension Plan

Stochastic Summary Results

- Peak payout ratios remain unrestrictive



CERS Non-Hazardous Pension Plan

Stochastic Summary Results

- There is some probability of full funding in 20 years
- There is a significant chance of being better off in 20 year than today
- There is some probability of falling below 40%
- Potential Portfolios 2 and 3 appear superior to the Current Target

20 Years	Probability of Full Funding in 2034	Probability of < 67% (Current) Funding in 2034	Probability of < 40% (Current) Funding in 2034	Maximum 1 Year Investment Loss	Maximum 1 Year Employer Contribution
Current Target	16%	58%	20%	-38%	36%
Conservative Portfolio	0%	97%	42%	-22%	38%
Potential Portfolio 1	10%	64%	21%	-32%	36%
Potential Portfolio 2	19%	56%	20%	-41%	36%
Potential Portfolio 3	26%	51%	20%	-46%	36%
Aggressive Portfolio	32%	48%	21%	-51%	36%

RVK

CERS Non-Hazardous Pension Plan

Stochastic Summary Results

- Improvement is possible but not guaranteed
- The ultra-conservative portfolio is likely to end the projection period far worse off than today and with the highest contributions and payout ratios
- A diversified return seeking portfolio maximizes outcomes

20 Years	Market Funded Ratio in Year 20			Cumulative Employer Contributions in Year 20 (Billions)			Payout Ratios		
							Year 20	2014-2034	
	50th	5th	95th	50th	5th	95th	Median	Peak	Trough
Current Target	61%	27%	144%	$10	$14	$3	14%	34%	6%
Conservative Portfolio	42%	26%	63%	$12	$14	$10	20%	35%	9%
Potential Portfolio 1	57%	28%	118%	$10	$14	$4	14%	32%	7%
Potential Portfolio 2	62%	26%	163%	$10	$14	$3	13%	35%	5%
Potential Portfolio 3	66%	25%	205%	$9	$14	$2	13%	38%	4%
Aggressive Portfolio	70%	24%	281%	$9	$15	$2	12%	41%	3%

RVK

CERS Non-Hazardous Pension Plan

Conclusions

- Continued diversification of Plan assets is desirable and should be the focus
  - Avoiding large market declines while generating near the assumed rate of return maximizes outcomes
- Liquidity does not appear to be a concern during the projection period

RVK

CERS Hazardous Pension Plan

CERS Hazardous Pension Plan

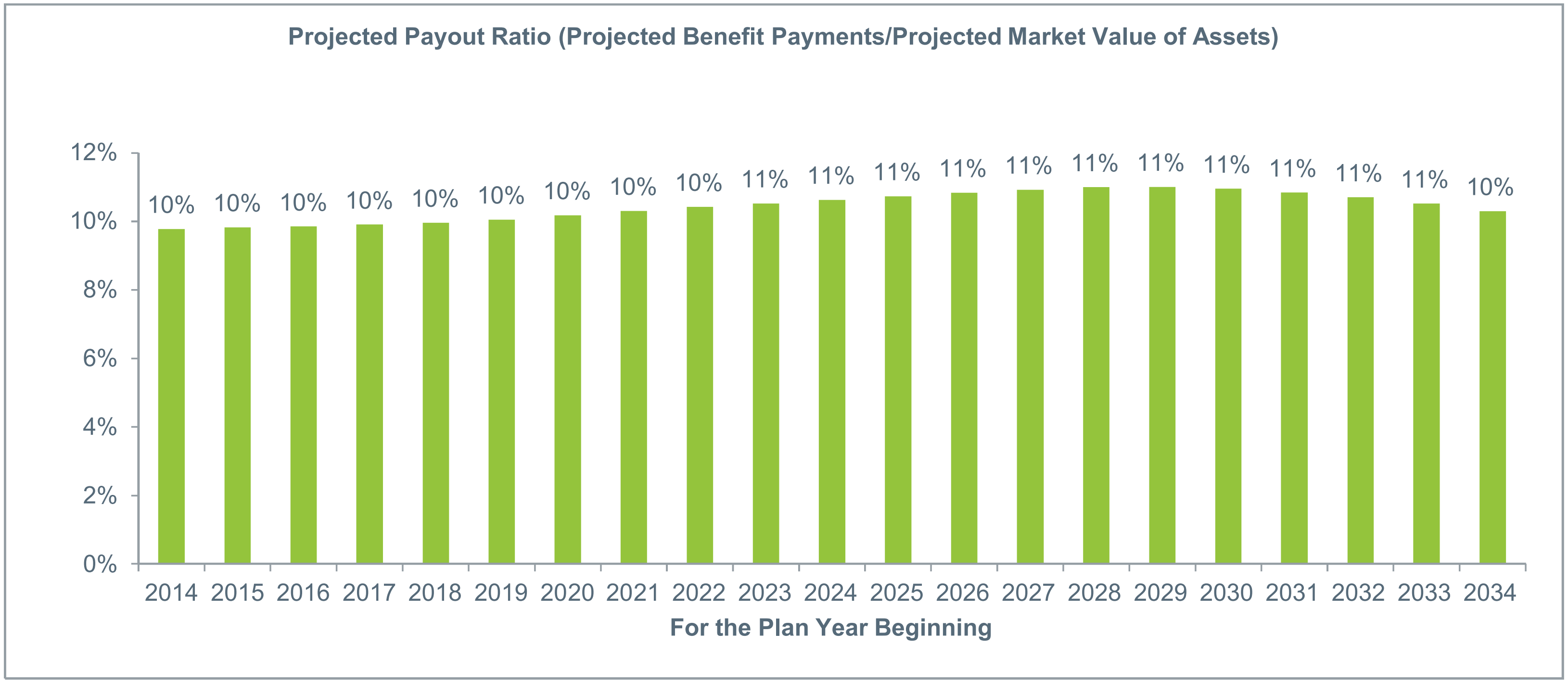
Deterministic Summary Results

	Current (June 30, 2014)	Projected Year 20 (Deterministic)
Actuarial Accrued Liability	$3.3 billion	$5.1 billion
Market value of Assets	$2.1 billion	$3.9 billion
Deficit	$1.2 billion	$1.2 billion
Market Value Funded Ratio	60%	77%
Payout Ratio	10%	10%
Annual Contribution	$137 million	$261 million

RVK

CERS Hazardous Pension Plan
Deterministic Summary Results

- The payout ratio is healthy and not materially increasing



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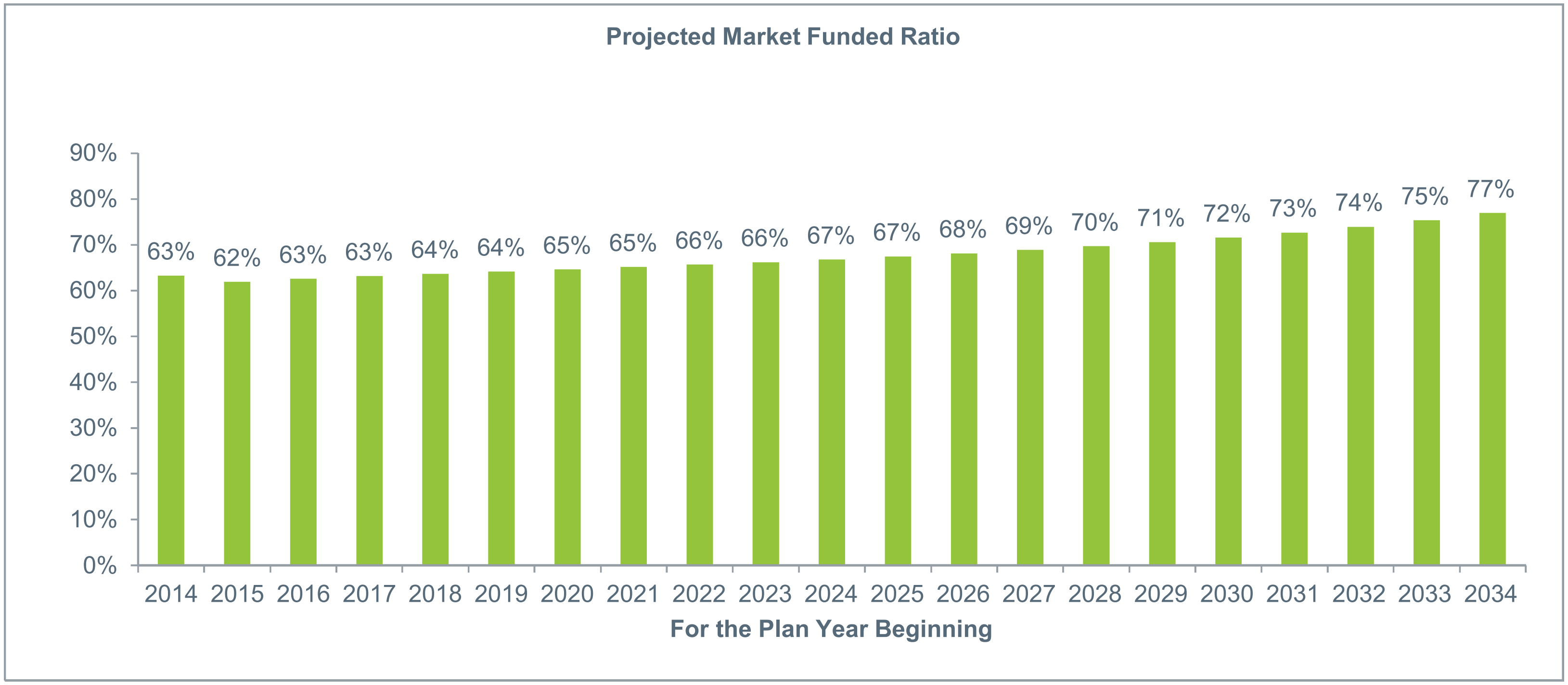
CERS Hazardous Pension Plan

Deterministic Summary Results

- The funded ratio will likely improve over time



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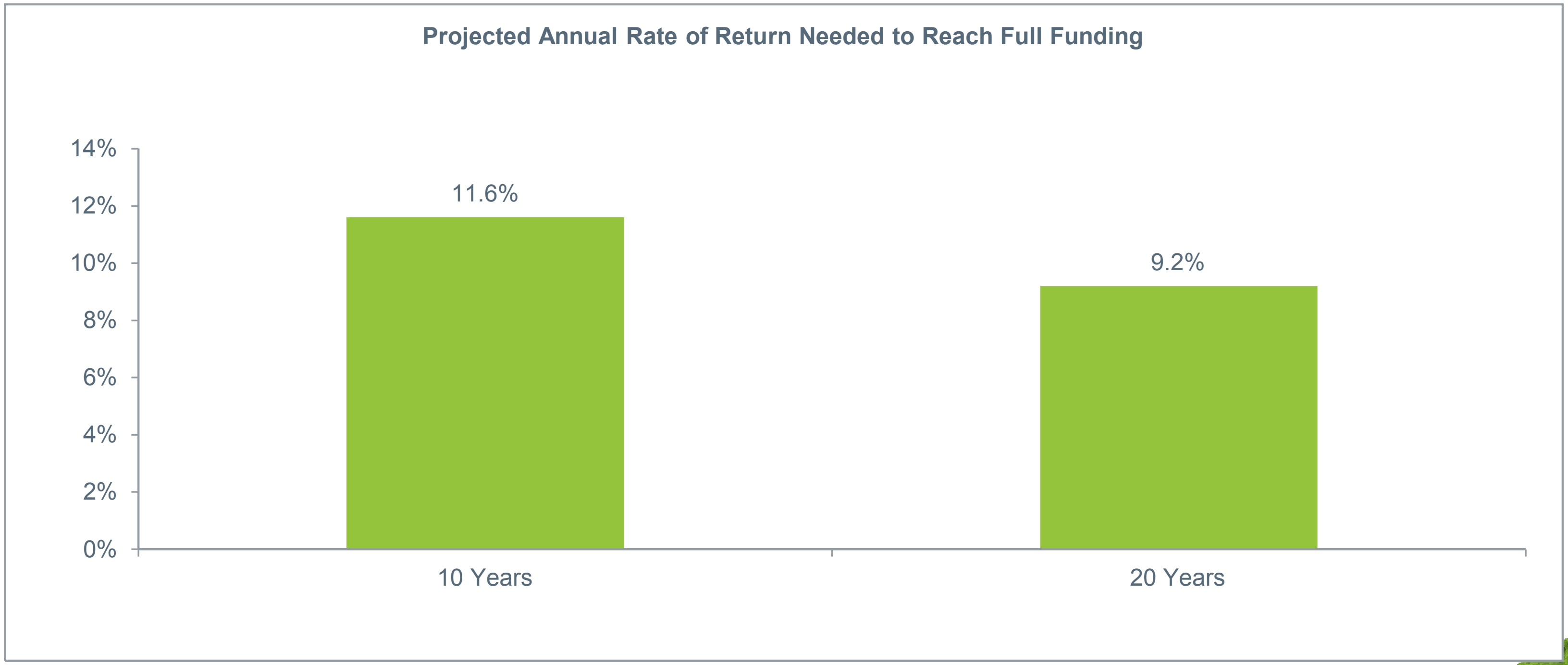
CERS Hazardous Pension Plan
Deterministic Summary Results

- Investing out the current situation is not a reasonable expectation



CERS Hazardous Pension Plan

Deterministic Summary Results

- If returns fall short of the assumed rate of return, improvements will be limited and contributions will be higher

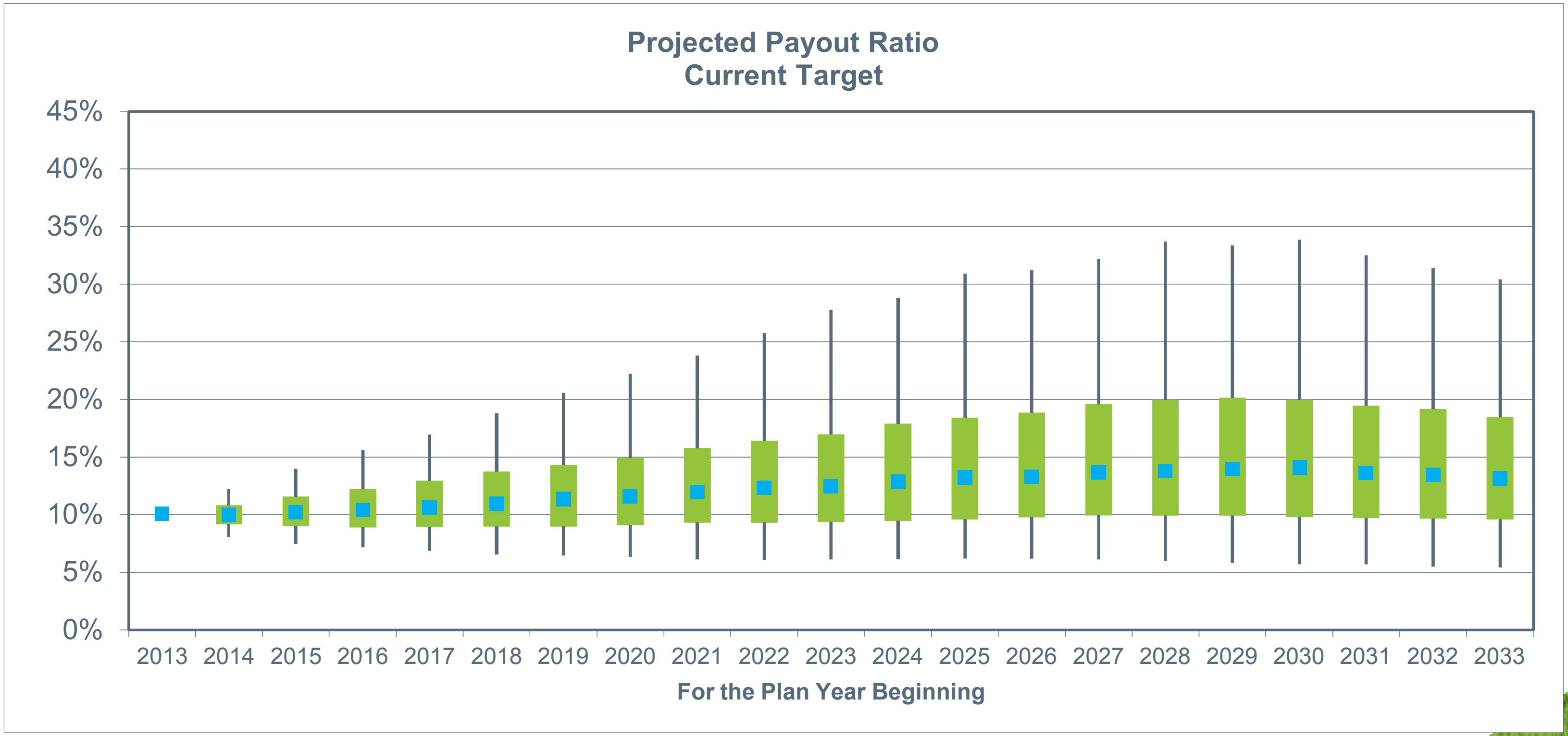
	Value in 2034			
	Actuarially Assumed Rate of Return	Reduced Return (100 bps)	Impact of Reduced Return	
Projected Payout Ratio	10%	12%	2%	▲
Projected Employer Contributions (millions)	$184	$240	$56	▲
Projected Benefit Payments/Projected Total Contributions	154%	126%	-27%	▼
Projected Actuarial Accrued Liabilities (billions)	$5.1	$5.1	($0.0)	▼
Projected Market Value of Assets (billions)	$3.9	$3.3	($0.6)	▼
Projected Deficit (billions)	$1.2	$1.7	$0.5	▲
Projected Market Funded Ratio	77%	66%	-11%	▼
	20 Year Cumulative Total			
Projected Cumulative Employer Contributions (billions)	$2.7	$3.1	$0.4	▲

RVK

CERS Hazardous Pension Plan

Stochastic Summary Results

- Peak payout ratios remain unrestrictive



CERS Hazardous Pension Plan

Stochastic Summary Results

- There is some probability of full funding in 20 years
- There is a significant chance of being better off in 20 year than today
- There is some probability of falling below 40%
- Potential Portfolios 2 and 3 appear superior to the Current Target

20 Years	Probability of Full Funding in 2034	Probability of < 63% (Current) Funding in 2034	Probability of < 40% (Current) Funding in 2034	Maximum 1 Year Investment Loss	Maximum 1 Year Employer Contribution
Current Target	15%	54%	20%	-38%	55%
Conservative Portfolio	0%	95%	40%	-22%	58%
Potential Portfolio 1	10%	59%	20%	-32%	55%
Potential Portfolio 2	19%	51%	19%	-41%	55%
Potential Portfolio 3	25%	48%	20%	-46%	55%
Aggressive Portfolio	31%	44%	21%	-51%	56%

RVK

CERS Hazardous Pension Plan

Stochastic Summary Results

- Improvement is possible but not guaranteed
- The ultra-conservative portfolio is likely to end the projection period far worse off than today and with the highest contributions and payout ratios
- A diversified return seeking portfolio maximizes outcomes

20 Years	Market Funded Ratio in Year 20			Cumulative Employer Contributions in Year 20 (Millions)			Payout Ratios		
	50th	5th	95th	50th	5th	95th	Year 20 Median	2014-2034 Peak	2014-2034 Trough
Current Target	60%	28%	142%	$3,278	$4,624	$1,055	13%	34%	5%
Conservative Portfolio	43%	27%	63%	$4,046	$4,578	$3,268	19%	34%	9%
Potential Portfolio 1	58%	29%	118%	$3,386	$4,523	$1,433	14%	32%	7%
Potential Portfolio 2	62%	27%	161%	$3,210	$4,676	$904	13%	35%	5%
Potential Portfolio 3	66%	26%	199%	$3,090	$4,781	$742	12%	38%	4%
Aggressive Portfolio	69%	25%	271%	$2,935	$4,870	$599	11%	42%	3%

CERS Hazardous Pension Plan

Conclusions

- Continued diversification of Plan assets is desirable and should be the focus
  - Avoiding large market declines while generating near the assumed rate of return maximizes outcomes
- Liquidity does not appear to be a concern during the projection period

KERS Hazardous Pension Plan

KERS Hazardous Pension Plan

Deterministic Summary Results

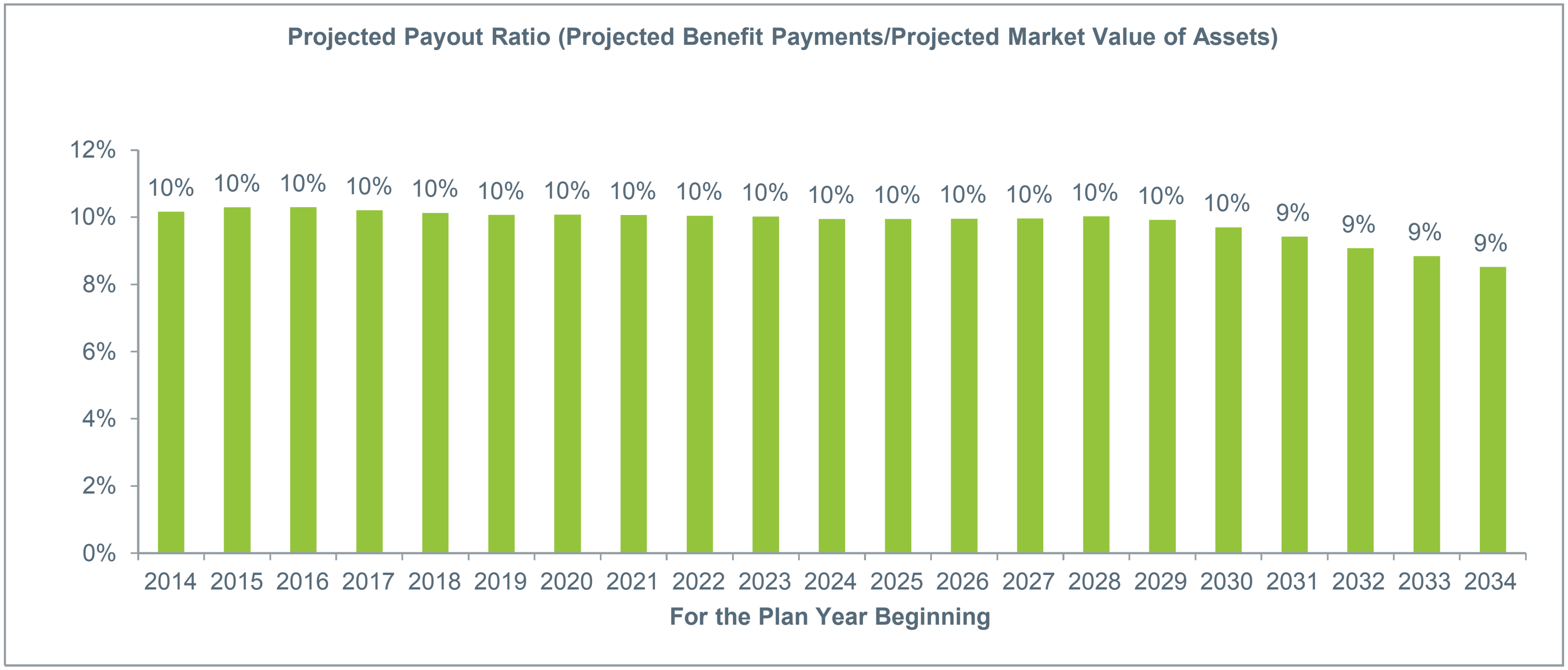
	Current (June 30, 2014)	Projected Year 20 (Deterministic)
Actuarial Accrued Liability	$817 million	$1,418 million
Market value of Assets	$560 million	$1,152 million
Deficit	$257 million	$265 million
Market Value Funded Ratio	68%	81%
Payout Ratio	10%	9%
Annual Contribution	$31 million	$70 million

RVK

KERS Hazardous Pension Plan

Deterministic Summary Results

- The payout ratio is healthy and slowly declining



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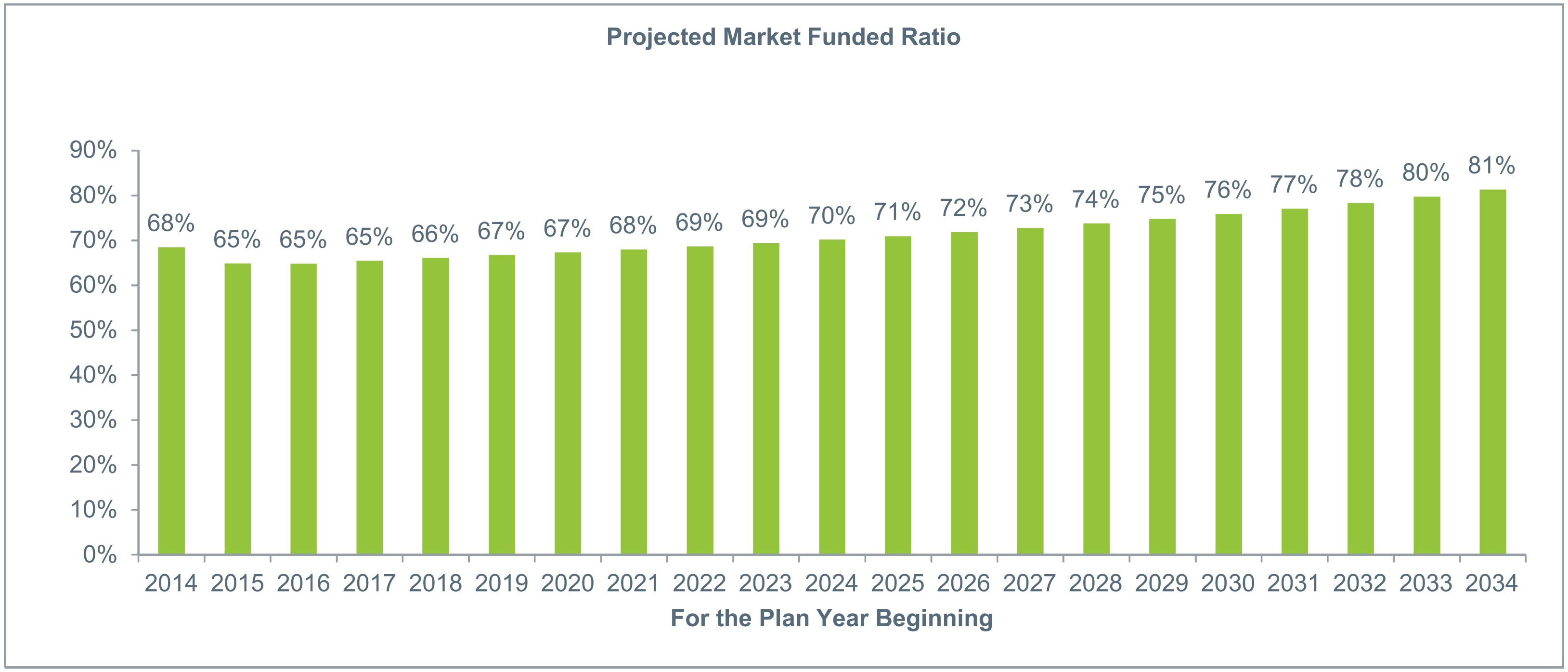
KERS Hazardous Pension Plan

Deterministic Summary Results

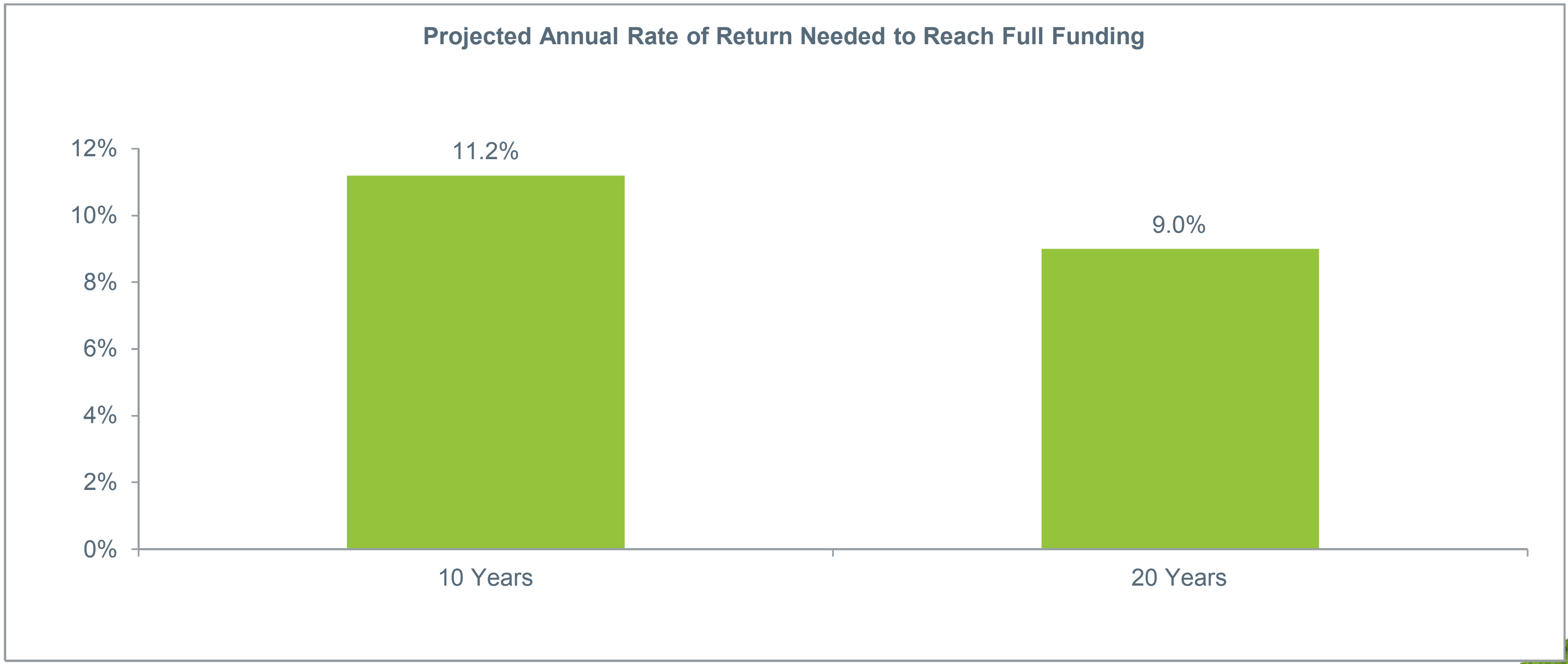
- The funded ratio will likely improve over time



KERS Hazardous Pension Plan

Deterministic Summary Results

- Investing out the current situation is not a reasonable expectation



RVK

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KERS Hazardous Pension Plan

Deterministic Summary Results

- If returns fall short of the assumed rate of return, improvements will be limited and contributions will be higher

	Value in 2034			
	Actuarially Assumed Rate of Return	Reduced Return (100 bps)	Impact of Reduced Return	
Projected Payout Ratio	9%	10%	1%	▲
Projected Employer Contributions (millions)	$47	$62	$15	▲
Projected Benefit Payments/Projected Total Contributions	140%	115%	-25%	▼
Projected Actuarial Accrued Liabilities (millions)	$1,418	$1,412	($6)	▼
Projected Market Value of Assets (millions)	$1,152	$996	($156)	▼
Projected Deficit (millions)	$265	$416	$150	▲
Projected Market Funded Ratio	81%	71%	-11%	▼

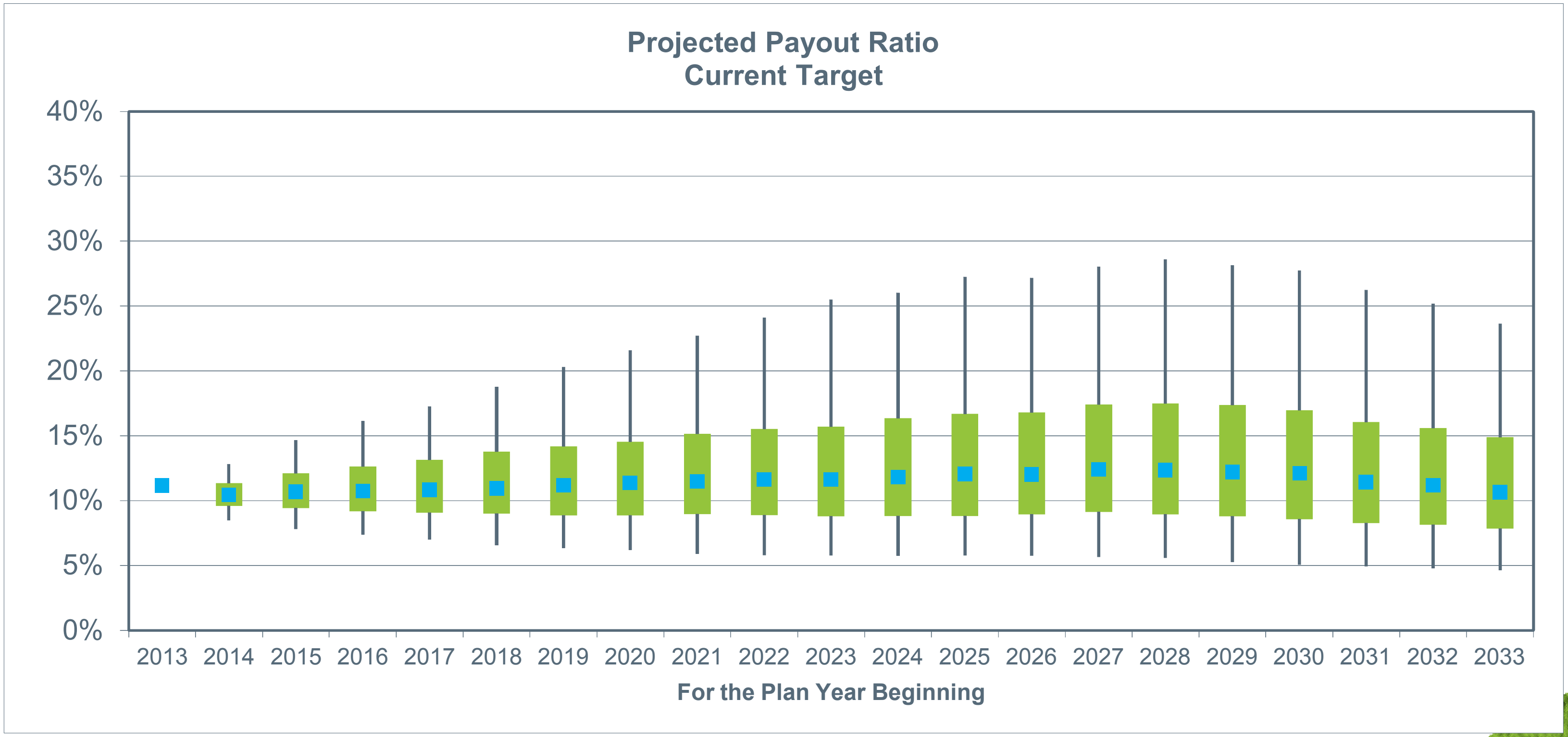
	20 Year Cumulative Total			
Projected Cumulative Employer Contributions (millions)	$722	$825	$104	▲

RVK

KERS Hazardous Pension Plan

Stochastic Summary Results

- Peak payout ratios remain unrestrictive



KERS Hazardous Pension Plan

Stochastic Summary Results

- There is some probability of full funding in 20 years
- There is a significant chance of being better off in 20 year than today
- There is some probability of falling below 40%
- Potential Portfolios 2 and 3 appear superior to the Current Target

20 Years	Probability of Full Funding in 2034	Probability of < 68% (Current) Funding in 2034	Probability of < 40% (Current) Funding in 2034	Maximum 1 Year Investment Loss	Maximum 1 Year Employer Contribution
Current Target	17%	54%	14%	-38%	47%
Conservative Portfolio	0%	95%	24%	-22%	50%
Potential Portfolio 1	11%	59%	13%	-32%	47%
Potential Portfolio 2	21%	51%	14%	-41%	47%
Potential Portfolio 3	27%	48%	15%	-46%	47%
Aggressive Portfolio	33%	45%	16%	-51%	48%

KERS Hazardous Pension Plan

Stochastic Summary Results

- Improvement is possible but not guaranteed
- The ultra-conservative portfolio is likely to end the projection period far worse off than today and with the highest contributions and payout ratios
- A diversified return seeking portfolio maximizes outcomes

20 Years	Market Funded Ratio in Year 20			Cumulative Employer Contributions in Year 20 (Millions)			Payout Ratios		
	50th	5th	95th	50th	5th	95th	Year 20 Median	2014-2034 Peak	2014-2034 Trough
Current Target	65%	32%	144%	$868	$1,221	$290	11%	29%	5%
Conservative Portfolio	47%	31%	67%	$1,072	$1,219	$877	15%	28%	10%
Potential Portfolio 1	62%	33%	118%	$895	$1,196	$392	11%	27%	6%
Potential Portfolio 2	67%	31%	162%	$848	$1,236	$247	10%	30%	4%
Potential Portfolio 3	70%	30%	200%	$817	$1,258	$205	10%	32%	3%
Aggressive Portfolio	74%	28%	267%	$772	$1,286	$165	9%	35%	3%

RVK

KERS Hazardous Pension Plan

Conclusions

- Continued diversification of Plan assets is desirable and should be the focus
  - Avoiding large market declines while generating near the assumed rate of return maximizes outcomes
- Liquidity does not appear to be a concern during the projection period

State Police Pension Plan

State Police Pension Plan

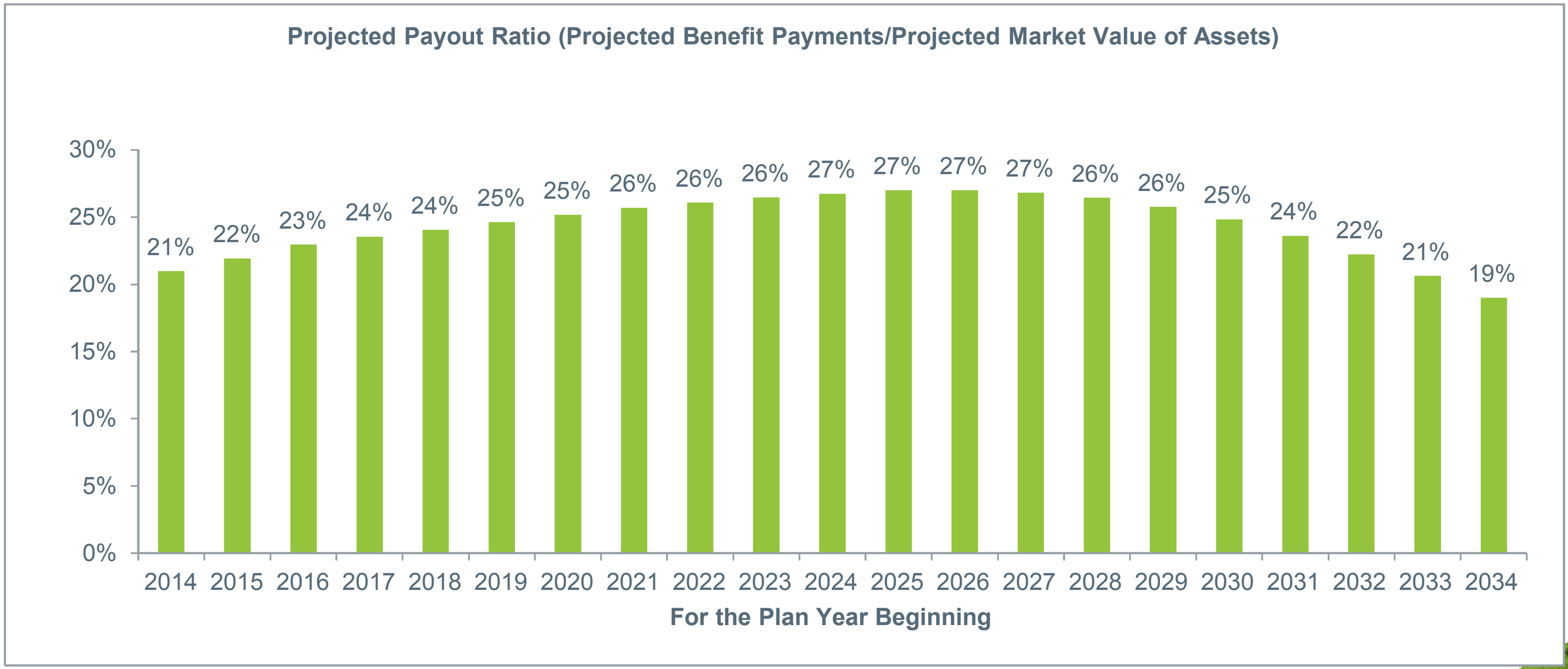
Deterministic Summary Results

	Current (June 30, 2014)	Projected Year 20 (Deterministic)
Actuarial Accrued Liability	$681 million	$754 million
Market value of Assets	$261 million	$336 million
Deficit	$420 million	$418 million
Market Value Funded Ratio	38%	45%
Payout Ratio	21%	19%
Annual Contribution	$28 million	$66 million

State Police Pension Plan

Deterministic Summary Results

- The payout ratio is approaching levels that may inhibit investment options



RVK

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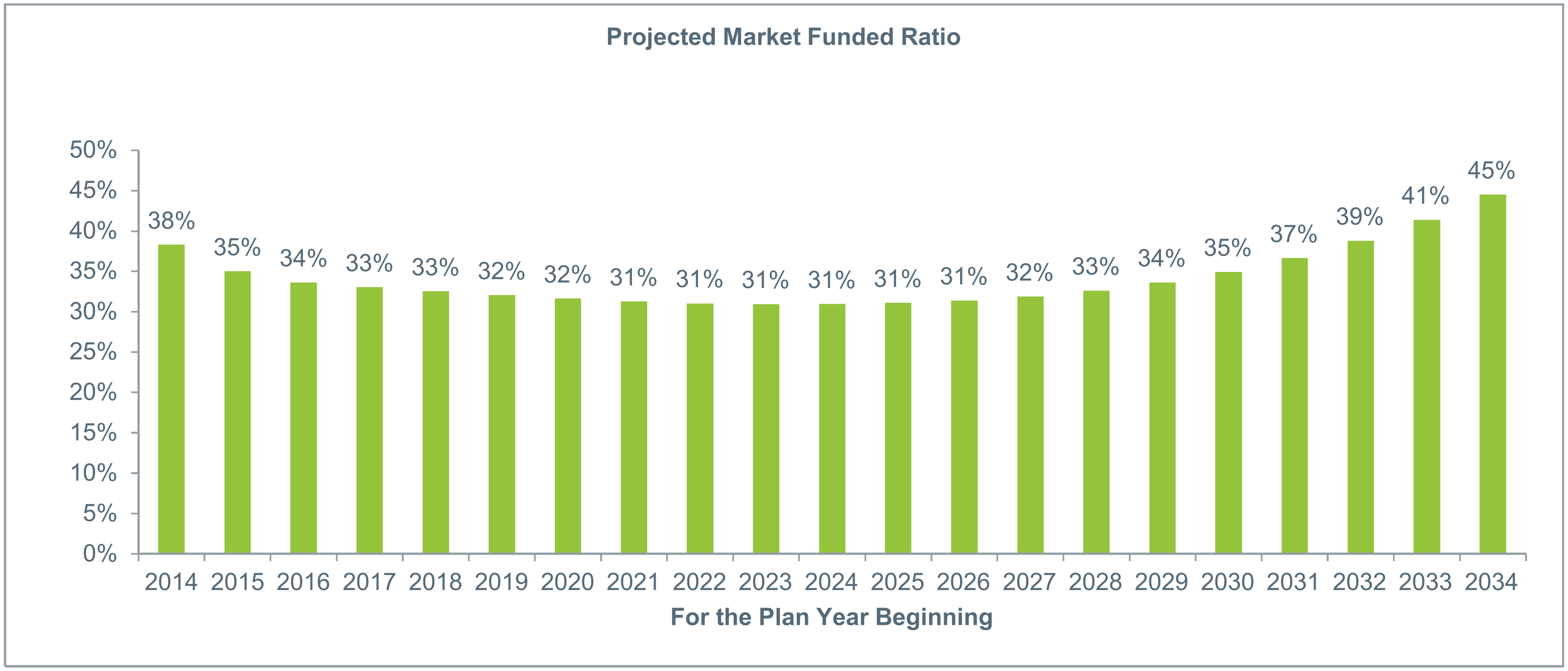
State Police Pension Plan

Deterministic Summary Results

- The funded ratio will likely improve over time



RVK

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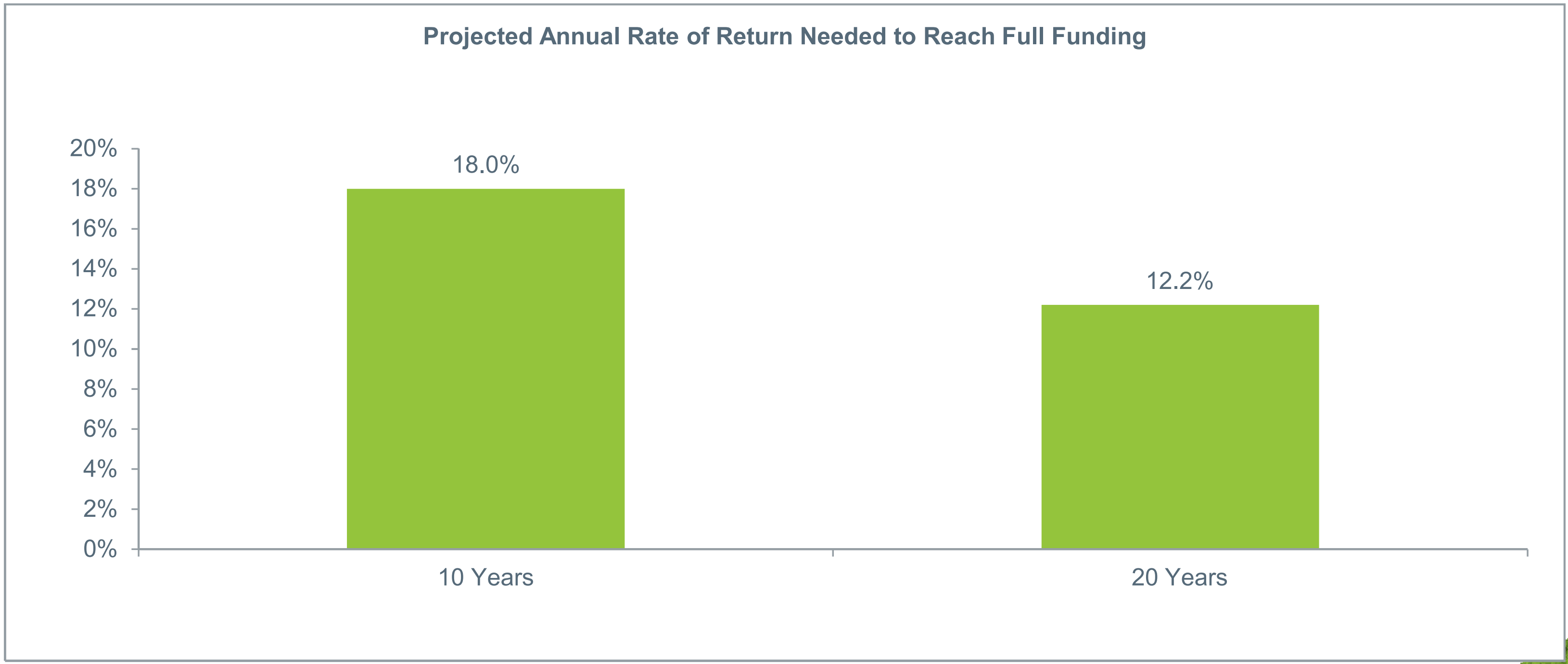
State Police Pension Plan

Deterministic Summary Results

- Investing out the current situation is not a reasonable expectation



State Police Pension Plan

Deterministic Summary Results

- If returns fall short of the assumed rate of return, improvements will be limited and contributions will be higher

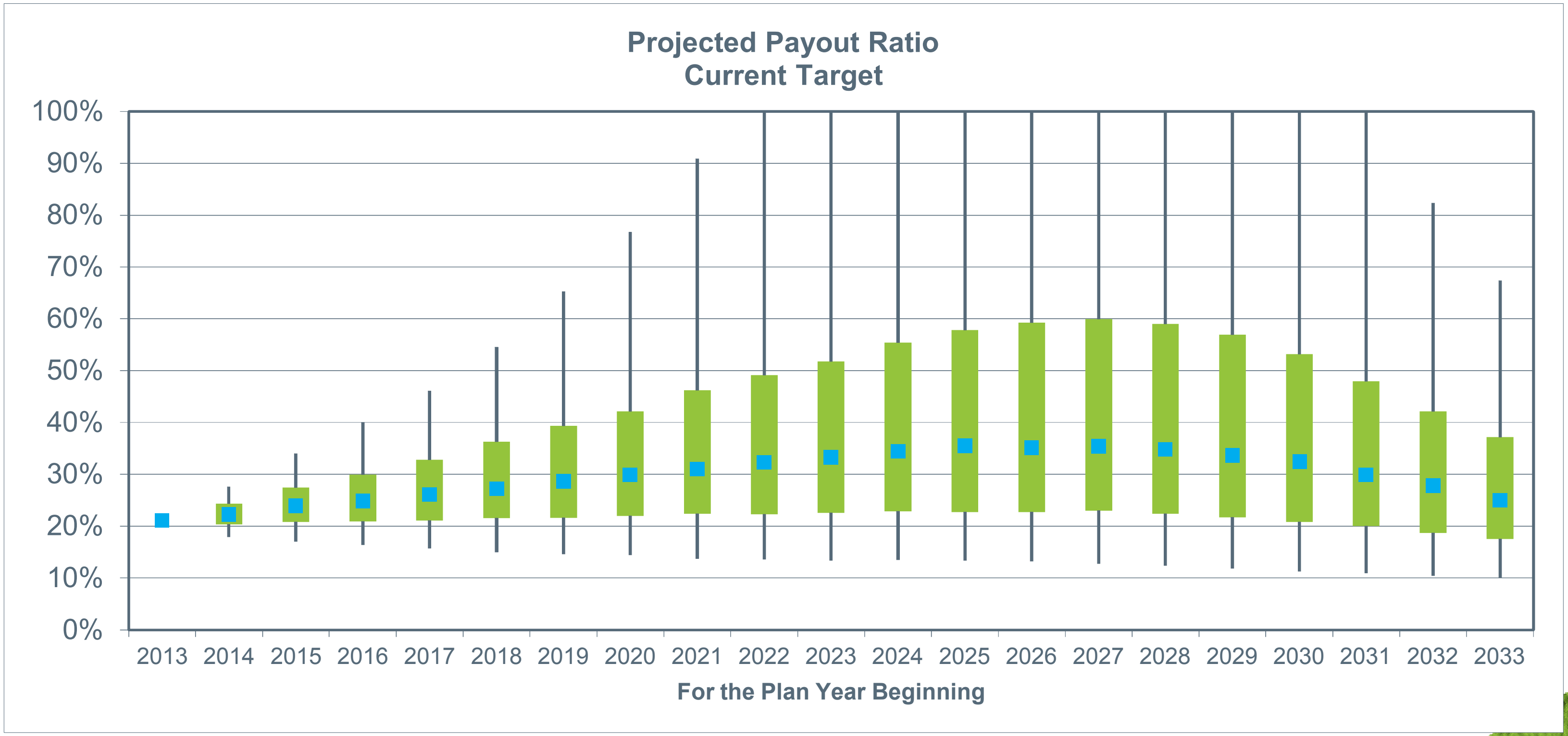
	Value in 2034		
	Actuarially Assumed Rate of Return	Reduced Return (100 bps)	Impact of Reduced Return
Projected Payout Ratio	19%	22%	3% ▲
Projected Employer Contributions (millions)	$58	$63	$5 ▲
Projected Benefit Payments/Projected Total Contributions	96%	90%	-7% ▼
Projected Actuarial Accrued Liabilities (millions)	$754	$752	($2) ▼
Projected Market Value of Assets (millions)	$336	$285	($51) ▼
Projected Deficit (millions)	$418	$468	$49 ▲
Projected Market Funded Ratio	45%	38%	-7% ▼
	20 Year Cumulative Total		
Projected Cumulative Employer Contributions (millions)	$864	$902	$38 ▲

RVK

State Police Pension Plan

Stochastic Summary Results

- Peak payout approach restrictive levels



RVK

State Police Pension Plan

Stochastic Summary Results

- There is very little probability of full funding in 20 years under any investment approach
- There is a significant chance of being worse off in 20 year than today

20 Years	Probability of Full Funding in 2034	Probability of < 38% (Current) Funding in 2034	Probability of < 20% (Current) Funding in 2034	Maximum 1 Year Investment Loss	Maximum 1 Year Employer Contribution
Current Target	2%	58%	18%	-38%	108%
Conservative Portfolio	0%	94%	32%	-22%	112%
Potential Portfolio 1	1%	63%	18%	-32%	108%
Potential Portfolio 2	3%	56%	18%	-41%	108%
Potential Portfolio 3	7%	52%	18%	-46%	108%
Aggressive Portfolio	11%	49%	18%	-51%	107%

RVK

State Police Pension Plan

Stochastic Summary Results

- Improvement is possible but not guaranteed
- The ultra-conservative portfolio is likely to end the projection period far worse off than today and with the highest contributions and payout ratios
- A diversified return seeking portfolio maximizes outcomes

20 Years	Market Funded Ratio in Year 20			Cumulative Employer Contributions in Year 20 (Millions)			Payout Ratios		
							Year 20	2014-2034	
	50th	5th	95th	50th	5th	95th	Median	Peak	Trough
Current Target	34%	13%	82%	$918	$1,052	$642	25%	100%	10%
Conservative Portfolio	24%	12%	40%	$990	$1,054	$915	36%	100%	20%
Potential Portfolio 1	32%	13%	69%	$928	$1,043	$717	26%	100%	12%
Potential Portfolio 2	35%	13%	90%	$910	$1,058	$590	24%	100%	9%
Potential Portfolio 3	37%	13%	110%	$897	$1,069	$489	23%	100%	8%
Aggressive Portfolio	39%	12%	138%	$883	$1,080	$387	22%	100%	6%

RVK

State Police Pension Plan

Conclusions

- The Plan faces severe challenges
- Investing to significantly improved financial health is not possible
- To the extent possible, continued diversification of Plan assets is desirable and should be the focus
- The Plan will face liquidity constraints in the near future making investments in illiquid assets classes difficult to maintain
  - A heavy reliance on illiquid investments risks turning even normal asset value declines into disruptive events
  - Active liquidity management and planning must be a priority

RVK

KERS Non-Hazardous Pension Plan

KERS Non-Hazardous Pension Plan

Deterministic Summary Results

	Current (June 30, 2014)	Projected Year 20 (Deterministic)
Actuarial Accrued Liability	$11.6 billion	$13.1 billion
Market value of Assets	$2.6 billion	$4.2 billion
Deficit	$9.0 billion	$8.9 billion
Market Value Funded Ratio	22%	32%
Payout Ratio	36%	27% (max 54% in 2023)
Annual Contribution	$565 million	$1,358 million

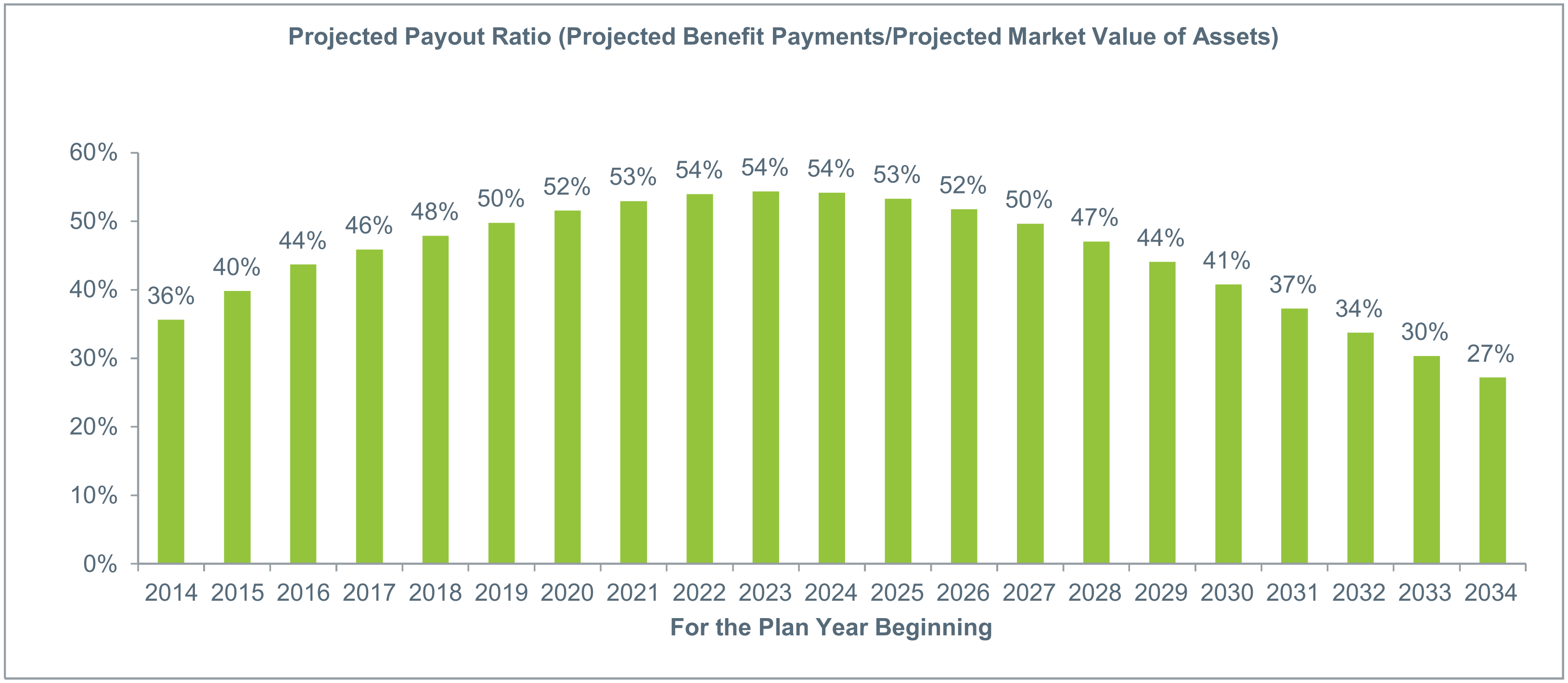
2008 House Bill 1 which set future State contributions as a percentage of the Annual Required Contribution has been modified and no long applied to future projected contributions.

RVK

KERS Non-Hazardous Pension Plan

Deterministic Summary Results

- The payout ratio is quickly approaching restrictive levels



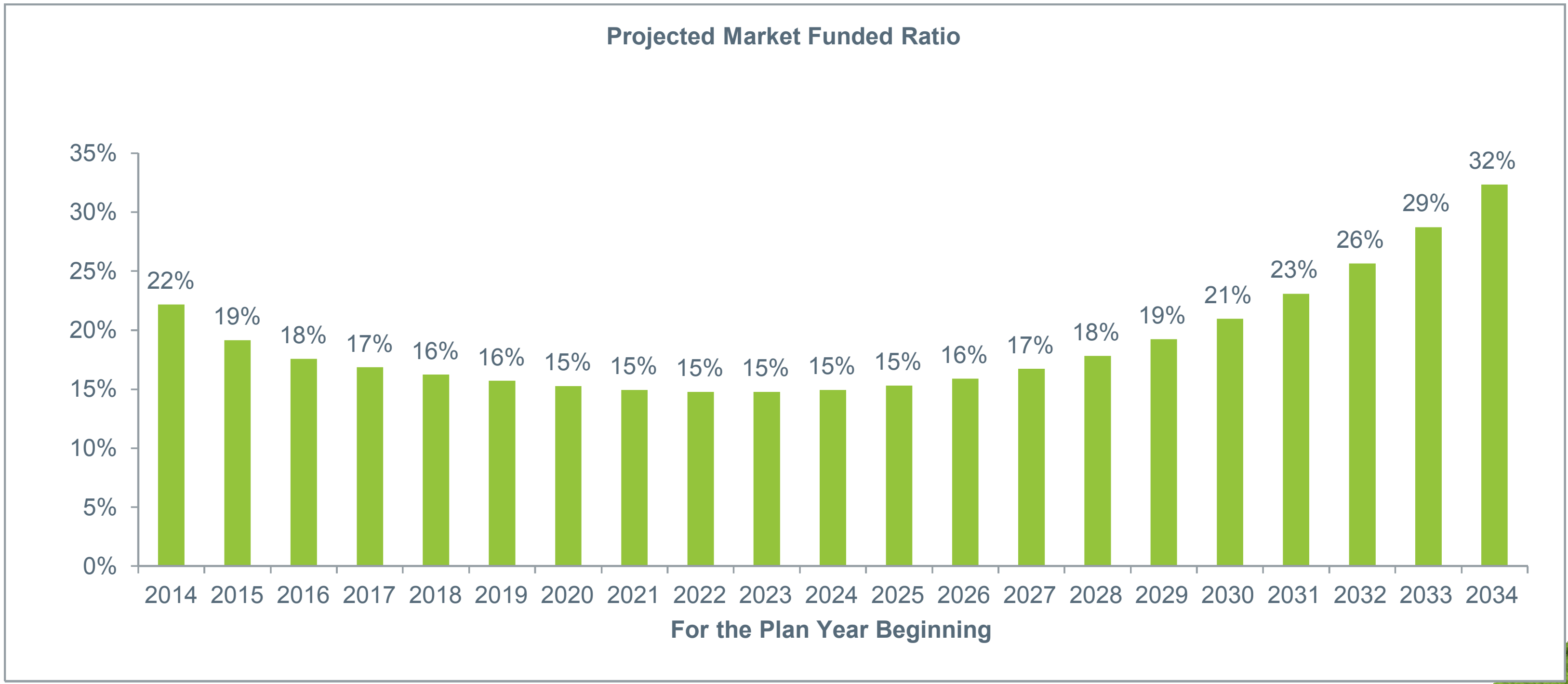
RVK

CR0810-0000085114

KERS Non-Hazardous Pension Plan

Deterministic Summary Results

- The funded ratio will likely improve very slowly beginning in about 10 years

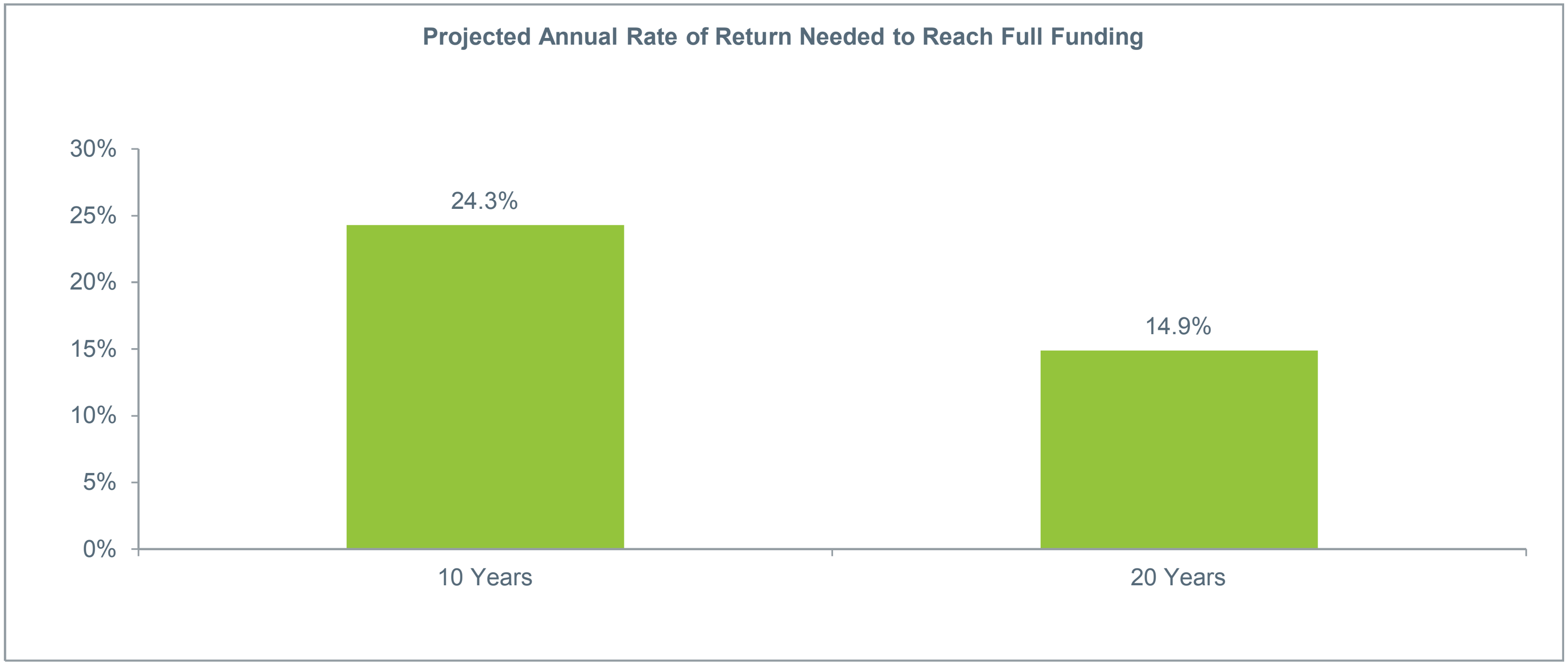


RVK

CR0810-0000085114

KERS Non-Hazardous Pension Plan
Deterministic Summary Results

- Investing out the current situation is not possible



CR0810-0000085114

KERS Non-Hazardous Pension Plan

Deterministic Summary Results

- If returns fall short of the assumed rate of return, improvements will be limited and contributions will be higher

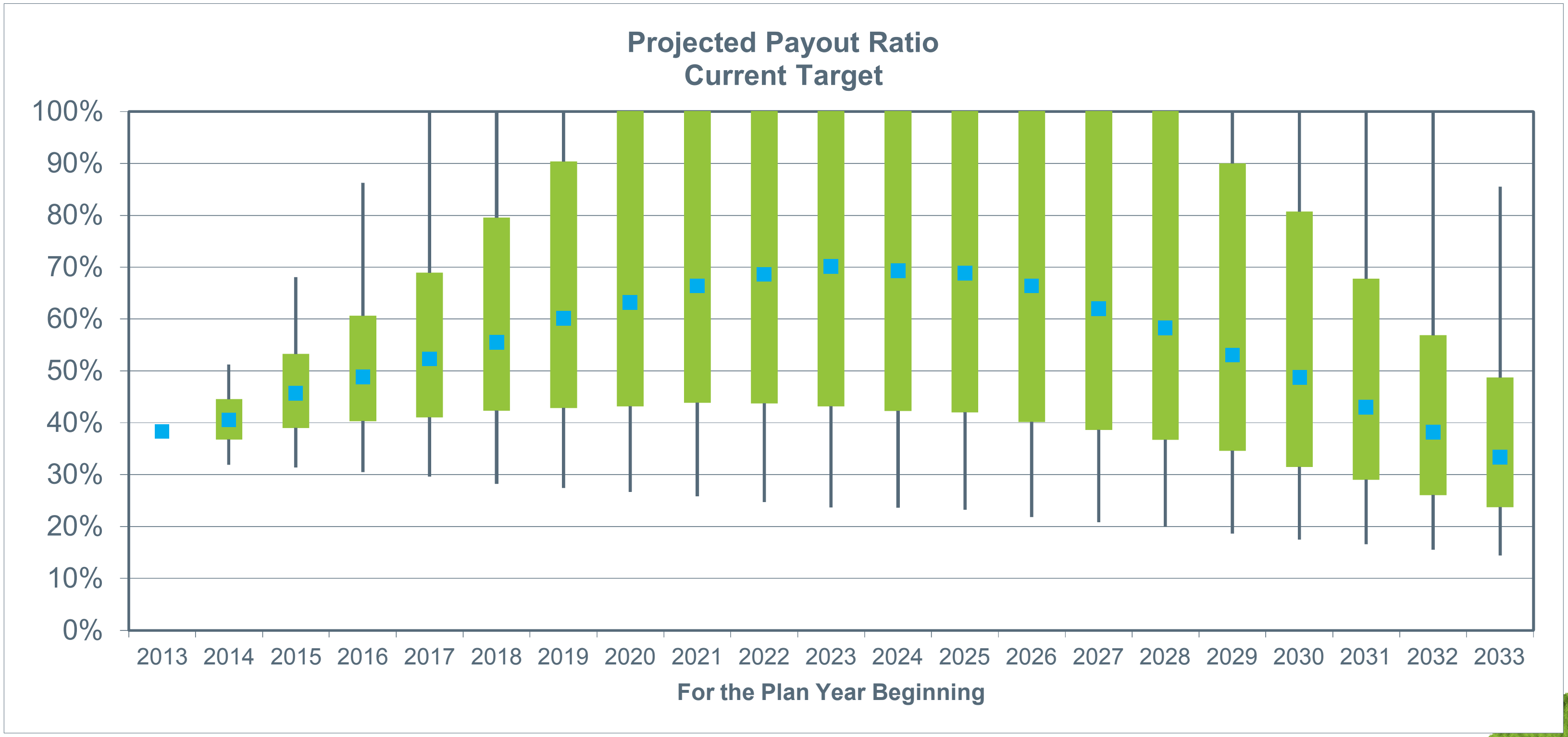
	Value in 2034			
	Actuarially Assumed Rate of Return	Reduced Return (100 bps)	Impact of Reduced Return	
Projected Payout Ratio	27%	31%	4%	▲
Projected Employer Contributions (millions)	$1,192	$1,241	$49	▲
Projected Benefit Payments/Projected Total Contributions	85%	82%	-3%	▼
Projected Actuarial Accrued Liabilities (billions)	$13.1	$13.1	($0.0)	▼
Projected Market Value of Assets (billions)	$4.2	$3.7	($0.5)	▼
Projected Deficit (billions)	$8.9	$9.4	$0.5	▲
Projected Market Funded Ratio	32%	28%	-4%	▼

	20 Year Cumulative Total			
Projected Cumulative Employer Contributions (billions)	$17.6	$17.9	$0.4	▲

KERS Non-Hazardous Pension Plan

Stochastic Summary Results

- Peak median payout ratios are above 50%



RVK

CR0810-0000085114

KERS Non-Hazardous Pension Plan

Stochastic Summary Results

- There is very little probability of full funding in 20 years under any investment approach
- There is a significant chance of being worse off in 20 year than today
- There is at least a modest probability of depleting assets during the projection period

20 Years	Probability of Full Funding in 2034	Probability of < 22% (Current) Funding in 2034	Probability of Asset Depletion by 2034	Maximum 1 Year Investment Loss	Maximum 1 Year Employer Contribution
Current Target	0%	36%	5%	-38%	56%
Conservative Portfolio	0%	62%	5%	-22%	58%
Potential Portfolio 1	0%	38%	5%	-32%	57%
Potential Portfolio 2	1%	35%	6%	-41%	56%
Potential Portfolio 3	2%	34%	7%	-46%	56%
Aggressive Portfolio	3%	33%	8%	-51%	56%

RVK

KERS Non-Hazardous Pension Plan

Stochastic Summary Results

- Improvement is minimal regardless of investment strategy
- The ultra-conservative portfolio is likely to end the projection period worse off than today and with the highest contributions and payout ratios
- A diversified return seeking portfolio maximizes outcomes

20 Years	Market Funded Ratio in Year 20			Cumulative Employer Contributions in Year 20			Payout Ratios		
	50th	5th	95th	50th	5th	95th	Year 20 Median	2014-2034 Peak	2014-2034 Trough
Current Target	26%	11%	57%	$18	$19	$16	33%	100%	14%
Conservative Portfolio	20%	10%	33%	$19	$20	$18	44%	100%	25%
Potential Portfolio 1	25%	11%	51%	$18	$19	$16	35%	100%	16%
Potential Portfolio 2	27%	11%	62%	$18	$20	$15	33%	100%	14%
Potential Portfolio 3	28%	11%	72%	$18	$20	$14	31%	100%	12%
Aggressive Portfolio	30%	10%	88%	$18	$20	$13	30%	100%	10%

KERS Non-Hazardous Pension Plan

Conclusions

- The Plan faces severe challenges with a shortfall of $9 billion
- Investing to significantly improved financial health is not possible
- There is between a 5% and 8% chance of fully depleting the assets during the next 20 years
- To the extent possible, continued diversification of Plan assets is desirable and should be the focus
- The Plan will face liquidity constraints in the near future making investments in illiquid assets classes difficult to maintain
  - A heavy reliance on illiquid investments risks turning even normal asset value declines into disruptive events
  - Active liquidity management and planning must be a priority


PORTLAND
CHICAGO
NEW YORK

EXHIBIT 58

DATE: February 2, 2016

TO: Members of the Investment Committee

FROM: David Peden, Chief Investment Officer

Subject: Strategic Partnership for Absolute Return

Recommendation

KRS staff recommends approving making permanent the strategic partnership with KKR Prisma to help staff continue to build out and monitor its direct hedge fund portfolio.

Independent from the above recommendation, staff recommends winding down its fund of hedge fund managed by Blackstone (BAAM).

Benefit of the strategic partnership?

The main benefit of the strategic partnership is that it brings additional expertise and human resources to KRS that effectively amount to extension of KRS staff. Prisma provides an individual onsite at KRS almost two weeks out of the month and this provides continuity between KRS and Prisma. KRS has full access to KKR research, services, and thought leaders.

The hedge fund recommendations that are put in front of the KRS Investment Committee have gone through Albourne's full due diligence process, Prisma's full due diligence process, and KRS staff has reviewed and agreed with the recommendation. Meaning each investment has gone through two investment due diligence processes, two operational/accounting due diligence processes, and two risk due diligence processes in addition to any work KRS staff performs.

Results of the Trial Phase

In May 2015 the KRS Investment Committee approved the trial phase of the strategic partnership with KKR Prisma. Starting in August 2015 and going through the February 2, 2016 meeting, Prisma, Albourne, and KRS staff recommended to the KRS Investment Committee seven hedge fund managers. This doubled the number of direct hedge fund relationships in a very brief period of time. This pace of capital deployment demonstrates the power of this relationship. In addition, Prisma went back to the hedge fund managers already on the KRS platform and made sure Prisma was fully up-to-speed on those managers and performed onsite due diligence.

As KRS continues to work to improve its accounting of fees associated with our alternative investments, Prisma worked closely with the KRS investment accounting team and assisted with tracking down past fee data and will continue to be a resource on our accounting efforts. In addition to this, Prisma assists with tracking down all the monthly performance estimates from all the direct relationships so that KRS has a timely estimate of prior month's performance, which was something staff was not doing previously.

Albourne has always provided KRS staff with risk reports for its direct hedge fund relationships. Working with Prisma has allowed the data for the direct hedge funds to be combined with the hedge funds in the Prisma managed fund of funds to get an aggregate risk report for the entire asset class. This will be extremely valuable moving forward both for investment decision making and communicating with constituents.

KKR Prisma also performed an analysis of the KRS private equity program that provided valuable information.

Lastly, KRS staff already has the necessary legal documents in place that will allow the relationship to move forward with no additional negotiating, including a commitment of full fiduciary duty by KKR Prisma.

Winding Down the BAAM portfolio

Along the same lines as the recommendation in November to wind down the PAAMCO managed fund of funds, staff and consultant RVK is recommending winding down the BAAM managed fund of funds. When we first invested in the three fund of funds in the fall of 2011, it was projected that we would need to utilize fund of funds for roughly five years until staff and the investment committee had obtain the necessary knowledge and until the direct hedge fund portfolio had the capacity to take on the additional capital. True to that plan KRS is on target for that five year mark of having only one fund of funds paired with its direct hedge fund program. This will reduce the operational complexity of having multiple fund of fund providers, ease portfolio rebalancing in the absolute return asset class, and reduce fees as recommended by CEM Benchmarking.

The capital that comes back from BAAM will be appropriately rebalanced into the KRS direct hedge fund managers and the Prisma managed fund of hedge fund.

Conclusion

The decision to engage PRISMA in a strategic partnership reduces expenses, reduces operational complexity, supplements staff with additional resources, and makes additional data and services available that will be permanently part of the investment process going forward. Staff feels strongly this arrangement is the best path forward for building and monitoring a quality absolute return portfolio.

EXHIBIT 59

To: Schelling, Chris[cschelling@tmrs.com]
From: Peden, David (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=DAVID.PEDEN]
Sent: Tue 2/2/2016 5:07:04 PM (UTC-05:00)
Subject: RE: Coatue performance USM

Not sell, but unwind the whole thing. Doing it in two tranches. It doesn't have anything to do with them or their performance. I made the mistake of doing a CEM study and the double layer of fees was a big issue publicly. And since I don't have someone on staff the three fund of funds we operational difficult to rebalance and keep track of the money that needed to come back (that sounds lame, but it really was a mess). And I've just decided to go all in on the strategic partnership with Prisma so we're going to wind down the BAAM portfolio also . Senator ended up registering as a lobbyist so I'm going to be able to move them over to the direct and I'm going to keep BSOF as a direct. That just got approved today so I haven't told BAAM yet we're terminating them. It sucks because BAAM as killed it, but it's the best course in the long run for KRS.

From: Schelling, Chris [mailto:cschelling@tmrs.com]
Sent: Tuesday, February 02, 2016 4:32 PM
To: Peden, David (KRS)
Subject: RE: Coatue performance USM

So, you guys are trying to sell PAAMCO Newport Colonels as a whole.

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Monday, February 01, 2016 12:12 PM
To: Schelling, Chris
Subject: Coatue performance USM

I funded Coatue on July 1st with some hesitation. But they are killing it. 8.43 for the six months last year and 2.91 in January.

Everybody else is somewhere between OK and bad. Luxor has thrown up all over itself. What a mess they have been.

David Peden, CFA
Kentucky Retirement Systems | Chief Investment Officer
☎ 502.696.8485 | **Fax** 502.696.8805 | ✉david.peden@kyret.ky.gov

mail if you have received this communication by mistake and delete all copies of the original message and attachments from your system. --

EXHIBIT 60

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
Cc: Michael Rudzik[Michael.Rudzik@kkr.com]
From: Girish Reddy[Girish.Reddy@kkr.com]
Sent: Tue 7/26/2016 2:51:38 PM (UTC-04:00)
Subject: follow up.

Dear David
This is a follow up to our conversation.
The fee savings of the proposed fee model are quite substantive and exceeds the reduction we had indicated to your board.

1) At 55 basis points and 5 percent incentive fee, our estimate is that you would save over 53 percent in fees, based on the same performance assumptions we showed you earlier. This is higher than the fee saving we indicated to the board of over 40 percent.
2) In addition, the APEX tactical fund pays a significantly lower fees to the underlying managers. The expected fee to underlying manager is about 1 percent fee and 10 percent. This compares to core managers of 1.5 and 17. This benefit is passed on to KRS. IF KRS invested directly into Tactical fund, PRISMA would be the beneficiary of that fee reduction. Our interests are aligned to negotiate lower fees with the underlying managers. This by the way is our highest alpha product that is being given to KRS at our core fees.
3) Management fees on the TOTAL HF portfolio for which KKR PRISMA acts a fiduciary will be 27.5 basis points. This is quite competitive with any FOF provider and in addition we will provide total access to Michael Rudzik .

As I said we truly appreciate your confidence in KKR Prisma and Michael Rudzik as your portfolio manager on the account and access to him. We look forward to a long and fruitful partnership.

Girish Reddy

KKR
PRISMA
KKR Prisma | 9 West 57th Street | New York, New York 10019
Office: 212-590-0801 |girish.reddy@kkr.com | www.kkr.com

EXHIBIT 61

KKR & CO. INC.

FORM 10-K
(Annual Report)

Filed 02/24/17 for the Period Ending 12/31/16

Address	9 WEST 57TH STREET, SUITE 4200
	NEW YORK, NY, 10019
Telephone	212-750-8300
CIK	0001404912
Symbol	KKR
SIC Code	6282 - Investment Advice
Industry	Investment Management & Fund Operators
Sector	Financials
Fiscal Year	12/31

Fees and Other

For the years ended December 31, 2016 and 2015 , fees and other consisted of the following:

	Year Ended		
	December 31, 2016	December 31, 2015	Change
Management Fees	$ 619,243	$ 201,006	$ 418,237
Transaction Fees	350,091	354,895	(4,804)
Monitoring Fees	146,967	336,159	(189,192)
Fee Credits	(128,707)	(17,351)	(111,356)
Carried Interest	803,185	—	803,185
Incentive Fees	8,709	16,415	(7,706)
Oil and Gas Revenue	65,754	112,328	(46,574)
Consulting Fees	42,851	40,316	2,535
Total Fees and Other	**$ 1,908,093**	**$ 1,043,768**	**$ 864,325**

On January 1, 2016, KKR adopted ASU 2015-02, which resulted in the de-consolidation of most of KKR's investment funds that had been consolidated prior to such date. When an investment fund is consolidated, management fees, fee credits and carried interest earned from consolidated funds are eliminated in consolidation and as such are not recorded in Fees and Other. The economic impact of these management fees, fee credits and carried interests that are eliminated is reflected as an adjustment to noncontrolling interests and has no impact to Net Income Attributable to KKR & Co. L.P. As a result of the de-consolidation of most of our investment funds, the management fees, fee credits and carried interests associated with funds that had previously been consolidated are included in Fees and Other beginning on January 1, 2016 as such amounts are no longer eliminated. For a discussion of other factors that affected fees and other, see "--Segment Analysis."

The increases in carried interest, management fees and fee credits are primarily due to activity from funds that are no longer consolidated as described above. For a more detailed discussion of the factors that affected our carried interest, management fees and fee credits during the period, see "—Segment Analysis."

The carried interest gains earned during the year ended December 31, 2016 were due primarily to an overall increase in the value of our private equity portfolio. For a more detailed discussion of the factors that affected our Private Markets carried interest during the period, see "—Segment Analysis -- Private Markets -- Segment Revenues -- Performance Income."

These increases were partially offset by a decrease in monitoring fees in our Private Markets business as discussed in greater detail in "--Segment Analysis -- Private Markets -- Segment Revenues -- Management, Monitoring and Transaction Fees, Net."

The decrease in oil and gas revenue was due primarily to lower production volumes and a lower price of oil in the year ended December 31, 2016 compared to the year ended December 31, 2015.

Compensation and Benefits Expenses

The decrease was primarily due to lower carry pool allocations reflecting a lower level of appreciation in the value of our private equity portfolio during the year ended December 31, 2016 compared to the year ended December 31, 2015.

General Administrative and Other Expenses

The decrease was primarily due to (i) a reduction in the fair value of the contingent consideration liability related to the acquisition of Prisma from $46.6 million to zero since it was determined that it was no longer probable that the sellers (certain of whom are employees of KKR) of Prisma would be entitled to any future additional payment under the arrangement, (ii) a decrease in the expenses of our consolidated oil and gas producing entities due to (a) a $54.0 million impairment charge incurred during the year ended December 31, 2015 compared to a $6.2 million charge incurred during the year ended December 31, 2016 and (b) a decrease in depreciation, depletion and amortization of our consolidated oil and gas producing entities caused by a lower cost basis due to previously recorded impairments and lower production volumes compared to the

EXHIBIT 62

To: Roggenkamp, Karen (KRS)[Karen.Roggenkamp@kyret.ky.gov]; Thomas, Brian (KRS)[brian.thomas@kyret.ky.gov]; Thielen, Bill (KRS)[bill.thielen@kyret.ky.gov]; Peden, David (KRS)[david.peden@kyret.ky.gov]
From: Brown, Richard (KRS)[/O=KYGOVTMAIL/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=BROWN, RICHARD (KRS)1E0]
Sent: Mon 8/29/2016 9:08:30 AM (UTC-04:00)
Subject: Fwd: Please call me

ALL: see below and please advise

Sent from my iPhone using ZixOne

Begin forwarded message:

> **From:** "Cheves, John" <jcheves@herald-leader.com>
> **Date:** Aug 29, 2016 9:06 AM
> **To:** "Brown, Richard (KRS)" <Richard.Brown@kyret.ky.gov>
> **Subject: Please call me ...**
>
> ... at 859-231-3266.
> I've left messages for CIO David Peden and and trustee Bill Cook this morning for a story that I likely will post online this afternoon regarding Prisma Capital, one of KRS' biggest holdings - and one of its worst losses last year.
>
> The KRS board recently voted to up its stake in Prisma Capital, from 3% of the portfolio to 5%.
>
> David Peden used to work for Prisma Capital, before KRS. Bill Cook helped start Prisma Capital and retired from it just last year.
>
> I've got some questions about why KRS is diving so deeply into the fund, and also about possible conflicts of interest.
>
> Thanks.
>
> John Cheves

EXHIBIT 63

From: Michael.Erman@thomsonreuters.com [mailto:Michael.Erman@thomsonreuters.com]
Sent: Wednesday, September 07, 2016 3:54 PM
To: KRS Openrecords <krsopenrecords@kyret.ky.gov>
Cc: guiqing.koh@thomsonreuters.com
Subject: Open Records Request

Dear Jennifer A. Jones:

This is a request under the Kentucky Open Records Act § 61.872 et seq. On behalf of Reuters News and myself, jointly, I am requesting an opportunity to inspect or obtain copies of the following public records :

- Daily agendas for GOVERNOR APPOINTEE OF BOARD OF DIRECTORS FOR KENTUCKY RETIREMENT SYSTEMS/WILLIAM S. COOK for the period of JUN 18 2016 TO SEPT 6 2016
- Daily agendas for CHIEF INVESTMENT OFFICER FOR KENTUCKY RETIREMENT SYSTEMS/DAVID PEDEN for the period of JAN 1 2016 TO SEPT 6 2016
- Daily agendas for INVESTMENT MANAGER FOR ALTERNATIVE INVESTMENTS FOR KENTUCKY RETIREMENT SYSTEMS/BRENT ALDRIDGE for the period of JAN 1 2016 TO SEPT 6 2016

Format: we prefer to receive records in the following formats, listed in order of preference:

(1) an electronic data format such as a spreadsheet, delimited data set, database file, or similar;

(2) other non-proprietary electronic format;

If there are any fees for searching or copying these records, please inform me if the cost will exceed $50. But first please consider my requests for fee reduction and fee waiver. The disclosure of the requested information is in the public interest and will contribute significantly to the public's understanding of who the retirement system staff meets with and how that informs investment decisions.

This request is being made in connection with Reuters News' newsgathering functions and not for any other commercial purpose. Reuters News intends to produce one or more original investigative reports based on analysis of the requested information.

The Kentucky Open Records Act requires a response time within three business days. If access to the records I am requesting will take longer than that time period, please contact me with information about when I might expect copies or the ability to inspect the requested records.

If you deny any or all of this request, please cite each specific exemption you feel justifies the refusal to release the information and notify me of the appeal procedures available to me under the law.
Thank you for considering my request.
Sincerely,

Michael Erman
Gui Qing

Michael Erman
Correspondent
Thomson Reuters
3 Times Square, New York, NY 10036 United States

(t) 646-223-6021 | (m) 646-271-6171 | (f) 646-223-6001

michael.erman@reuters.com
Reuters Messaging: michael.erman.reuters.com@reuters.net

EXHIBIT 64

To: bill cook[billcook113054@yahoo.com]
From: Peden, David (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=DAVID.PEDEN]
Sent: Tue 9/13/2016 8:07:04 AM (UTC-04:00)
Subject: RE: KRS Alternative Investments USM

OK, that's workable. I got worried there for a second because that was going to be difficult to truly recuse from all alternative discussions. I think once we get going you'll see that it will be manageable to avoid participating in any discussion involving anything you might own.

From: bill cook [mailto:billcook113054@yahoo.com]
Sent: Monday, September 12, 2016 5:55 PM
To: Peden, David (KRS) <david.peden@kyret.ky.gov>
Subject: Re: KRS Alternative Investments USM

David,
I agree the line may be fuzzy. If KKR is not specifically affected then I think is OK. So deciding to allocate to PE is OK but if KKR is in the RFP mix at some point where I could influence the selection then recuse. If a discussion is to cut back on alternatives already held then I will recuse. If a discussion on to add/ subtract from hedge funds then recuse. Hope it helps.

William S. Cook
1400 Willow Ave.
Louisville, KY 40204-2522

From: "Peden, David (KRS)" <david.peden@kyret.ky.gov>
To: "billcook113054@yahoo.com" <billcook113054@yahoo.com>
Sent: Monday, September 12, 2016 3:51 PM
Subject: KRS Alternative Investments USM

So its sounds like whenever we talk about allocating to hedge funds as an asset class you will not be involved in that decision and as an extension of that any specific funds (hiring or firing) you will not be part of that discussion. It also sounds like you will not be a part of any discussions regarding private equity or specific private equity funds (hiring or firing). Where it may be less clear is the other assert classes. Bill as you know where traditional asset classes stop and alternatives start is not a bright line anymore. Below are the broad categories that someone could describe as alternative and then some specific mandates within traditional asset classes where we have potential alternatives depending someone's definition. Let me know which ones you will not be participating in so that I can plan around agendas with Dave Harris.

Private Equity
- Buyout
- Venture
- Distressed debt
- Mezzanine

Absolute Return
- Direct Hedge Funds
- fund of funds
- tactical trading vehicles like Prisma APEX or Blackstone Strategic Opportunity Fund (BSOF)

Real Estate
- Core
- Value add
- Opportunistic
- Direct real estate – Do not currently own any direct real estate other than the buildings we occupy.

Real Return

- PIMCO All Asset – mutual fund
- Nuveen Real Asset Fund – separate account
- TIPS – internally managed
- MLP – separate account
- Magnetar's Energy Long/short fund – Open End LP
- Magnetar's Energy Direct lending fund – closed end LP
- Agriculture Lender – closed end Limited Partnership
- Mining Finance – closed end Limited Partnership
- Drug Royalties – closed end LP
- Timber - closed end LP

Fixed Income Credit

- Marathon fund of one for KRS in LP format, Multi-Sector Credit
- Cerberus fund of one for KRS in LP format , Directing Lending
- Waterfall Asset Management separate account with ABS, RMBS, CMBS, CRE Loans, CLOs.

Public Equity

Several hedge fund managers now offer long only portfolios with fee structures such as 0.50% and 20% over a public market benchmark. Is that a conversation you would recuse yourself from?

What about approving a new asset allocation? Can you not participate in that discussion if it contains a 10% allocation to private equity?

What about Risk Parity? We don't current do that, but what if we switch to that. Is that considered an alternative investment.

Just give this some thought because this might not be possible. I know we are switching to a simpler and cheaper portfolio, but it's still going to be hard to avoid some of these topics.

David Peden, CFA
Kentucky Retirement Systems | Chief Investment Officer
☎ 502.696.8485 | **Fax** 502.696.8806 | ✉david.peden@kyret.ky.gov

EXHIBIT 65

To: Neil Ramsey[nramsey@rqsi.com]
Cc: Bill Cook[billcook113054@yahoo.com]; David Harris (dharris@mcfadvisors.com)[dharris@mcfadvisors.com]
From: Peden, David (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=DAVID.PEDEN]
Sent: Sun 10/23/2016 4:40:41 PM (UTC-04:00)
Subject: RE: Preparation material. USM
Hedge Fund.pdf
Hedge Fund Redemption Schedule.xlsx

Neil.

Attached is a specific redemption schedule for the Direct Hedge fund portfolio based on the managers that are either already in a redemption process and the ones you identified that are likely candidates for redemption in the next round of redemptions.

Not including what you decide about the managers in the Daniel Boone portfolio, we can get the Hedge fund allocation down to 8% by April 2017 showing meaningful progress in the unwind. Knowing the list of long/short equity and event managers in the Daniel Boone portfolio, I'm guessing that we can get to less than 7% in hedge funds by April 2017 with those redemptions.

This will leave global macro, CTAs, and fixed income arb to either restructure or redeem from at a later point and since they tend to be liquid that will not impact the timing of the unwind.

You asked about Distressed. We already had a redemption request in for Knighthead, which is pure distressed. As you know, there are times in the distressed cycle when there is nothing to do and we have been in one of those cycles. So we decided to redeem Knighthead and add Anchorage who is capable of doing long/short credit and other credit strategies until there are opportunities in distressed. If we keep Davidson Kempner, and I am supportive of doing so, they also will move capital to distressed credit when it returns. So I recommend continuing with the Knight Head redemption, though they are a good manager. We also can access distressed through the private equity allocation. We also have Anchorage in Daniel Boone in addition to Silver Point. We may want to discuss not having Anchorage in both places as this process shakes out.

Michael Rudzik's thoughts on Equity Market Neutral are going to matter more, but here are my thoughts. Blackrock GAO's short term trading strategy is valuable in the trading environment we were and may still be in. Scopia is a fundamental based manager that runs true Market Neutral and had never had a down year until 2015 (even positive in 2008). But this trailing 12 months has been rough on equity market neutral managers causing them to get hurt on both the long and short side during the same month and causing some big negative monthly returns. Tourbillon is 2/3rd's fundamental 1/3 quantitative equity market neutral. He's generally net long or short so not pure market neutral. He is doing some interesting stuff with artificial intelligence, bots, and big data. Short version on this is he creates bots that data mine internet and social media and uses it for risk management and position sizing. One of the best I've seen at mixing quantitative and fundamental analysis. Recent negative performance caused by the same as Scopia.

Response to your first group of questions.
There are no concerns around the low beta managers changing their strategy or view on the world and starting to correlate with equities or credit. I think we can have a number of conversations with global macro and CTAs around managed accounts with both direct KRS relationships and managers inside of Daniel Boone. All of our managers, both direct and inside Daniel Boone, report to Risk Metrics and we have all the Risk Data we need to understand risk exposures and how the portfolio should act in different events.

Niche/Tactical
These are trades that we could easily redefine as private equity or opportunistic and still have exposure to. Prisma through their Apex Tactical strategy has some very interesting trades that they access via co-investment arrangements with underlying managers at very attractive fee levels. You should spend some time with them on this.

After you talk with Michael Rudzik/Prisma on the managers inside Daniel Boone, you and I can either discuss or just tell me what you decide and I'll work with Prisma to put together a redemption schedule and presentation for the Investment Committee.

David Peden, CFA
Kentucky Retirement Systems | Chief Investment Officer
☎ 502.696.8485 | **Fax** 502.696.8806 | ✉david.peden@kyret.ky.gov

destroy all copies of the original message.

From: Neil Ramsey [mailto:nramsey@rqsi.com]
Sent: Wednesday, October 19, 2016 11:14 AM
To: Peden, David (KRS) <david.peden@kyret.ky.gov>
Cc: Bill Cook <billcook113054@yahoo.com>; David Harris (dharris@mcfadvisors.com) <dharris@mcfadvisors.com>
Subject: RE: Preparation material. USM

David,
On first pass going through the Daniel Boone and the Direct investments, I think I would be ready to recommend we exit several managers due to their potential equity beta and questionable alpha production.

Of the managers that remain, I think we should spend some face to face time discussing the potential for our portfolio. The basic questions we should discern are:

1. Do we believe they can continue to produce positive risk adjusted returns with little correlation to our equity risk?
    a. Capacity / size issues?
    b. Where are their returns in relation to a normal cycle of gains and losses?
2. Will they be flexible in considering converting to a managed account and reduced fees?
3. Are there any complexities to tracking their performance and understanding the risks they take?

My initial reaction by bucket is as follows: (Comments on the Daniel Boone portfolio)
Credit Distressed: We should discuss.

1. Do we have good managers?
2. Are there interesting opportunities in this space?

Equity Market Neutral: The group has shown very little Equity market risk but have shown almost no alpha. This does not look dangerous or a terrible allocation. Discuss:

1. Is this an efficient allocation for the fees we pay and the risk / reward we can achieve?
2. Can we discern differentiable edge?

Event : I would close them all.

Fixed Income Arb: Same discussion as Credit Distressed.

Global macro: We pay high fees for what may not be best in class. Lets discuss

Long / Short Equity: I would close them all.

CTA: BlueTrend is solid but expensive high vol strategy where returns can be achieved much more efficiently and less costly

Niche / Tactical: Generally look pretty interesting except Oceanwood which has very high beta to Equities. I will reach out to Rudzik to gain a little more insight into these managers.

Short Bias: I think this is unnecessary diversification and we pay fees for optionality to the manager. Close.

Comments on Direct investment portfolio.

I think we should close all but the following where you and I sit down and discuss what we do with:

The ones to discuss:
Anchorage
Knighthead
Blackrock GAO
Finisterre
H2O
QMS
Davidson Kempner
HBK

I would have no hesitation in closing all the ones not listed. We can decide a plan of action after we discuss these 8 managers.

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Monday, October 17, 2016 8:51 AM
To: Neil Ramsey
Cc: Bill Cook
Subject: RE: Preparation material. USM

Neil. Another thought is that I'm going to be in NYC this week. We could schedule a call with Prisma for Wednesday afternoon or sometime on Thursday and go through the portfolio with me in their office. Another helpful tool might be for us to print out two page summaries on each manager from the Albourne database and send to you. Let me know if you want those and I'll have Anthony save those and email to you and Bill. And of course Risk Metrics has a tremendous amount of data, but we will need to request that from Prisma.

Below are the contact details for Albourne and Prisma. Michael can arrange a call with Eric Wolfe and Girish Reddy at Prisma if you want to speak with them. Michael said Girish and Eric are both coming to the November 2 IC meeting. Andrew is traveling this week in Asia and will be difficult to connect with until next week.

Michael Rudzik
Michael.rudzik@kkr.com
859-221-3585

Albourne
Andrew McCulloch, CAIA

Albourne America LLC
105 Rowayton Avenue | Norwalk | CT 06853 | USA
Tel.+1 203 299-4400 | **DD:** +1 203 299-5240 | **Fax:** +1 203 852-8082
email: a.mcculloch@albourne.com

David Peden, CFA
Kentucky Retirement Systems | Chief Investment Officer
☎ 502.696.8485 | **Fax** 502.696.8806 | ✉david.peden@kyret.ky.gov

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From: Neil Ramsey [mailto:nramsey@rqsi.com]
Sent: Sunday, October 16, 2016 2:45 PM
To: Peden, David (KRS) <david.peden@kyret.ky.gov>
Cc: David Harris <dharris@mcfadvisors.com>; John R. Farris <jfarris@landfundpartners.com>; David L. Eager <daveeager@gmail.com>; Bill Cook <billcook113054@yahoo.com>; mark_lattis@hotmail.com
Subject: Re: Preparation material. USM

Please get me the numbers for Rudzik, Wolfe and McCulloch. Neil
On Oct 16, 2016, at 2:13 PM, Peden, David (KRS) <david.peden@kyret.ky.gov> wrote:

> Most of this you should already have access to. I believe I sent a spreadsheet on September 28 that contains the liquidity schedule for all funds and a number of other pieces of information like fees and performance. I will resend on Monday. The first half of your list will be in that spreadsheet. You also have access to every fund write up on the Diligence Books app on your iPad where we originally presented to the IC. That contains the strategy description and the principals along with some of the analytics. You can use a timeline I sent via email and that was also in the Oct 14 IC material to match the funds with the IC where we presented the manager. We require every HF manager to report to Risk Metrics and Prisma has access to that output. Risk Metrics is holdings based analytics, but I do not know if the correlations are daily or monthly...I can find out. Prisma is also preparing the annual asset class reviews by manager that will contain a lot of the data you want and that will be in the November 2 material. No one on KRS staff has a close relationship with any of these HF managers. As I stated in an email that I previously sent, if you want to know anything beyond the strategy description and performance/analytics to date you are going to need to have a conversation with someone at Prisma. Eric Wolfe and Michael Rudzik will be here November 2 to present the annual review so you could schedule a meeting with them before that or after that. Alternatively, we could speak to Andrew McCulloch from Albourne who also knows the funds.
>
> I am out of the office Wednesday through Friday this week and October 27 through 31 following that so let's target October 24-26 for a meeting and I would encourage you to loop in Prisma on the phone for this discussion.
>
>
>
> Kentucky Retirement Systems (KRS) has implemented the KRS Secure Email Portal that protects confidential information exchanged between KRS and external entities. The portal uses strong encryption to safeguard the confidentiality of email communications and greatly reduces the risk of costly disclosures that could put our members and employees at risk of identity theft and other fraudulent activity.

You must use the Portal (https://web1.zixmail.net/s/login?b=kyret) when emailing us confidential information. New users to the portal will need to create an account first. If you require assistance, please refer to the KRS Secure Email Portal User Manual or contact the KRS Employer Hotline at (888) 696-8810.

On Oct 15, 2016, at 8:20 AM, Neil Ramsey <nramsey@rqsi.com> wrote:

David.
In preparation for our meeting to discuss putting our recommendations together for the hedge fund portfolio, can you pull together the following?

Manager name
Amount invested.
Date of initial investment
Fee structure.
Lockup liquidity description
Performance:
ITD and YTD
Monthly performance table
Correlation to SP500 since we invested. Use dailies if possible.
Strategy description
Principals bios
Any transparency into the portfolio you have.
Description of the quality of your or the staffs relationship with manager.

You don't have to put this all in a clean package, but I would like it easily accessible at our meeting. Also, anyone on your staff that has personal knowledge of the investments should be there with us.

Whenever you feel like this information is available for our sit down, i am ready to come over.
Thanks. Neil.

Absolute Return Liquidity Info			
Fund↓	Lockup	Liquidity Terms	Liquidity Notes
Anchorage Capital Partners, L.P.	1 year next year (3.00%)	AN with 90 days' notice	Fund level gate if redemptions hit 20% of NAV of fund. Will pay out remaining withdrawal within 6 months, if gate is still in place then next payment is 12 months.
Coatue Qualified Partners, L.P.	3 years	3AN with 90 days' notice	Upon 180 days' notice, can withdraw up to 10% of account annually on the day immediately prior to the anniversary date of subscription. At end of lock-up period, can withdraw all of part of interests, subject to Withdrawal Limit ($25M for accounts less than $100M and 25% of accounts above $100M), or roll over Interests for another 36 month term
Davidson Kempner Institutional Partners, L.P.	None	Q with 65 days' notice	
DSAM+ Fund LP	6 months (5.00%) Next 6 months (3.00%)	Bi-M with 80 days' notice	Additional Logic Needed - Bi-Monthly with redemption days the first Business Day of January, March, May, July, September and November
Finisterre Global Opportunity Partners, LP	1 year (3.00%)	M with 60 days' notice	
Glenview Institutional Partners, L.P.	1 year (3.00%)	Q with 45 days' notice	
Glenview Institutional Partners, L.P. "2/0"	1 year (3.00%)	Q with 45 days' notice	
Global Alpha Opportunities Fund LLC	None	M with 5 days' notice	Redemption Dates: 15th of each calendar month, 7 calendar days before each of the 15th of each month and the last business day, and the last business day of each calendar month. If redemption date is not a buisness day, shares will be redeemed on the business day prior to such date. Notice must be received 5 business days in advance by 4 PM NY time.
HBK Multi-Strategy Fund L.P.	None	Q with 90 days' notice	1/4 investor level gate - able to skip up to 2 quarters without resetting the gate but after the 3rd missed quarter, will reset
JANA Partners Qualified, L.P.	None	Q with 60 days' notice	
Knighthead Domestic Fund, L.P.	1 year	Q with 90 days' notice	Multiple period payout - 1/8 per quarter. 5% penalty for excess redemptions.
LibreMax Partners, L.P.	1 year (5.00%)	Q with 90 days' notice	Multiple period payout - 1/4 per quarter. If less than 10% at a master fund level on redemption date, manager can waive investor limit. Side Letter – Prisma treated as aggregate. Group may redeem up to 20% of total amount that has been invested for more than one year without payment of redemption fee.
LiquidAlts H2O Force 10 Fund	None	D with 3 days' notice	2 Business Day Notice Required for initial subscriptions (prior to 6 PM EST) 1 Business Day Notice Required for subsequent subscriptions (prior to 6 PM EST) 2 Business Day Notice Required for redemptions (prior to 6 PM EST) - Note public holidays in both London and New York City are observed by the fund.
Luxor Capital Partners, LP	2 years	2AN with 90 days' notice	Rolling 2 year lock
Myriad Opportunities US Fund Limited - Class C	18 months (10.00%)	QAN with 60 days' notice	Multiple period payout - 1/6 per quarter; quarterly based on investment date (not calendar). Investor gate can be avoided via 5% penalty. Redemption notice must be received by 5 PM Dublin Time. Aggregation allowed.
Pine River Fund L.P.	None	Q with 45 days' notice	1/4 investor level gate. Prisma investments are aggregated per side letter.
QMS Diversified Global Macro U.S. Fund LP	None	M with 30 days' notice	
Scopia PX LLC	1 year	Q with 60 days' notice	Quarterly withdrawals with 60 days' notice AND/OR Monthly withdrawals with 125 days' notice
Senator Global Opportunity Fund LP	None	Q with 61 days' notice	KRS - Longer Duration Class = Quarterly Redemptions with 60 days notice falling on the last day of the month. May only withdraw up to 12.5% of its aggregate Capital Account balance.
Tourbillon Global Equities, LLC	None	M with 65 days' notice	• Investor has the ability to redeem 1/3 of their account per year as of any month-end with 65 days' notice • If the Investor decides to redeem less than 1/3 of the account for a month-end, they may request a one-time "top-up" per year at a later month-end as long as the full amount requested for the year remains below 1/3 of the account • If the Investor wishes to redeem in full, they must state so in the original request and they will receive one-third of the account the first year, 50% of remaining balance the second year, and 95% the third year (subject to 5% holdback)

	Remaining Balance		Oct 16	Jan 17	Apr 17	Jul 17	Oct 17	Jan 18	Apr 18	Jul 18	Oct 18	Jan 19	Apr 19
Pension	1,101,311,479.00												
Insurance	436,360,261.00												
Total	1,537,671,740.00		20,049,083.38	135,895,868.38	138,893,258.29	39,277,072.93	13,274,917.08	13,274,917.08	39,713,812.56	32,407,648.40	15,893,616.71	10,893,616.71	17,410,506.48
Funds in Redemption Process	312,688,353.00	20%											
PAAMCO	14,734,026.00				14,734,026.00								
BAAM*	224,652,611.00			123,645,494.00	47,704,978.00								
Jana	18,677,845.00		18,677,845.00										
Libremax	15,611,316.00			4,878,536.00	4,878,536.00	4,878,536.00							
Pine River	19,962,152.00		4,990,538.00	4,990,538.00	4,990,538.00	4,990,538.00							
Knight Head	19,050,403.00		2,381,300.38	2,381,300.38	2,381,300.38	2,381,300.38	2,381,300.38	2,381,300.38	2,381,300.38	2,381,300.38			
Next Funds Scheduled for Redemption	219,574,412.00	14%											
Coatue	22,247,362.00					3,114,630.68				19,132,731.32			
DSAM	20,033,218.00					20,033,218.00							
Glenview	18,490,435.00				18,490,435.00								
Glenview 2	5,000,000.00										5,000,000.00		
Luxor	14,028,389.00								14,028,389.00				
Myriad	42,088,601.00						7,014,766.83	7,014,766.83	7,014,766.83	7,014,766.83	7,014,766.83	7,014,766.83	
Scopia	29,609,320.00				29,609,320.00								
Senator	31,030,799.00				3,878,849.88	3,878,849.88	3,878,849.88	3,878,849.88	3,878,849.88	3,878,849.88	3,878,849.88	3,878,849.88	
Tourbillon	37,046,288.00				12,225,275.04				12,410,506.48				17,410,506.48

* We are going to have to inherit the following positions and dollar amounts on 03/31/17 and will continue the redemption process from BAAM.

Blackstone Senfina	Equity	23,589,282.00
SRS	Equity	18,926,138.00
Pershing Square	Activist	6,359,000.00
Tricadia Financial Services	Credit	4,484,242.00

To: 'Dan Lawee'[DLawee@paamcoprisma.com]
Cc: Bill Cook[billcook113054@yahoo.com]; Robben, Rich (KRS)[Rich.Robben@kyret.ky.gov]
From: Kiehl, Andy (KRS)[andy.kiehl@kyret.ky.gov]
Sent: Wed 9/13/2017 8:09:08 AM (UTC-04:00)
Subject: KRS - CRT conversation usm

Good morning, Dan.
Thanks for your time yesterday, and the introduction to Richard Robb.
We had a great conversation with him yesterday, and would like to continue gathering info.

To that end, do you have a contact at Orchard that I could reach out to?
I see Mike Ford is Investor Relations, but no direct contact info is available on their site.

Thanks again for your help.
Andy

Andy Kiehl
Director of Investments
Real Return / Real Estate

KRS

Phone: 502-696-8470
Email: andy.kiehl@kyret.ky.gov
Kentucky Retirement Systems
1260 Louisville Rd. Frankfort, KY 40601-6124

From: Dan Lawee [mailto:DLawee@paamcoprisma.com]
Sent: Tuesday, September 12, 2017 9:22 AM
To: Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov>
Cc: Bill Cook <billcook113054@yahoo.com>; Kiehl, Andy (KRS) <andy.kiehl@kyret.ky.gov>
Subject: RE: Thank You! usm

No problem at all. I'm sending you an email introduction to Richard Robb.

Best,

Dan

From: Robben, Rich (KRS) [mailto:Rich.Robben@kyret.ky.gov]
Sent: Tuesday, September 12, 2017 9:21 AM
To: Dan Lawee
Cc: Bill Cook; Kiehl, Andy (KRS)
Subject: Thank You! usm

Dan,

Thank you for your time today. We really appreciate the opportunity to "pick the brain" of someone who is as experienced and knowledgeable in the reg cap space as yourself. It was very insightful.

Thanks,

James R. Robben, CFA
Interim CIO / Director of Fixed Income
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601
502-696-8642

To: Kiehl, Andy (KRS)[andy.kiehl@kyret.ky.gov]
Cc: Bill Cook[billcook113054@yahoo.com]; Robben, Rich (KRS)[Rich.Robben@kyret.ky.gov]
From: Dan Lawee[DLawee@paamcoprisma.com]
Sent: Wed 9/13/2017 8:24:20 AM (UTC-04:00)
Subject: RE: KRS - CRT conversation usm

Hi Andy,

Glad it was useful. Marty Harmon is the last person I spoke to at Orchard. I've included his contact information below. Please let me know if you have any other questions.

Regards,

Dan

Marty Harmon
Senior Vice President
Orchard Global Asset Management
Direct: +1- 914- 217- 0646
fax: +1- 202- 536- 1624
eml: marty.harmon@orchardgroup.com

From: Kiehl, Andy (KRS) [mailto:andy.kiehl@kyret.ky.gov]
Sent: Wednesday, September 13, 2017 8:09 AM
To: Dan Lawee
Cc: Bill Cook; Robben, Rich (KRS)
Subject: KRS - CRT conversation usm

Good morning, Dan.
Thanks for your time yesterday, and the introduction to Richard Robb.
We had a great conversation with him yesterday, and would like to continue gathering info.

To that end, do you have a contact at Orchard that I could reach out to?
I see Mike Ford is Investor Relations, but no direct contact info is available on their site.

Thanks again for your help.
Andy

Andy Kiehl
Director of Investments
Real Return / Real Estate

Phone: 502-696-8470
Email: andy.kiehl@kyret.ky.gov
Kentucky Retirement Systems
1260 Louisville Rd. Frankfort, KY 40601-6124

From: Dan Lawee [mailto:DLawee@paamcoprisma.com]
Sent: Tuesday, September 12, 2017 9:22 AM
To: Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov>
Cc: Bill Cook <billcook113054@yahoo.com>; Kiehl, Andy (KRS) <andy.kiehl@kyret.ky.gov>
Subject: RE: Thank You! usm

No problem at all. I'm sending you an email introduction to Richard Robb.

Best,

Dan

From: Robben, Rich (KRS) [mailto:Rich.Robben@kyret.ky.gov]
Sent: Tuesday, September 12, 2017 9:21 AM
To: Dan Lawee
Cc: Bill Cook; Kiehl, Andy (KRS)
Subject: Thank You! usm

Dan,

Thank you for your time today. We really appreciate the opportunity to "pick the brain" of someone who is as experienced and knowledgeable in the reg cap space as yourself. It was very insightful.

Thanks,

James R. Robben, CFA
Interim CIO / Director of Fixed Income
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601
502-696-8642

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Please refer to http://prisma.paamcoprisma.com/email-disclaimer
for important disclosures regarding this electronic communication.

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EXHIBIT 66

To: Peden, David (KRS)[david.peden@kyret.ky.gov]
Cc: DHarris@mcfadvisors.com[DHarris@mcfadvisors.com]; Eager, David (KRS)[David.Eager@kyret.ky.gov]
From: Neil Ramsey[nramsey@rqsi.com]
Sent: Tue 10/18/2016 3:40:20 PM (UTC-04:00)
Subject: RE: my kyret email is not working but got a copy of your email to Eager and Harris USM

The committee asked you and I to review it as not all members will have the time or the background to know what they are looking at. You are welcome to send anything you and I discuss to the other members, but they specifically asked you and me to distill this down for them. Neil

---

From: Peden, David (KRS) [mailto:david.peden@kyret.ky.gov]
Sent: Tuesday, October 18, 2016 3:06 PM
To: Neil Ramsey
Cc: DHarris@mcfadvisors.com; Eager, David (KRS)
Subject: RE: my kyret email is not working but got a copy of your email to Eager and Harris USM

Perfect. Glad we cleared that up. I walked away from the meeting Friday thinking a final exit plan was expected on November 2. Glad the committee is going to look at each of these managers individually. I'll start putting this information together in a more organized report for the committee to review. I'll also get you write-ups on each of the managers inside of Daniel Boone.

From: Neil Ramsey [mailto:nramsey@rqsi.com]
Sent: Tuesday, October 18, 2016 2:39 PM
To: Peden, David (KRS) <david.peden@kyret.ky.gov>
Cc: DHarris@mcfadvisors.com; Eager, David (KRS) <David.Eager@kyret.ky.gov>
Subject: my kyret email is not working but got a copy of your email to Eager and Harris

David,
I'm glad to hear about the "tri-David" summit. I don't know how this is different than what we discussed at the Investment meeting or on the phone yesterday. I think the committee expected us to come back to them on November 2nd with a recommendation on how we move forward. As we discussed yesterday, the first step is to frame the issue. We discussed that you would get me ALL the managers that fall into 3 buckets:

1. All the managers in the Daniel Boone portfolio
2. All the direct investments that are labeled in the Absolute Return bucket
3. All other direct investments advised by either Prisma or Albourne.

I do not want to pick out the managers that "have the most sensitivity". I want all of them advised by Prism and Albourne. We can then help the committee understand:

1. How complimentary their return streams are to Public and Private Equity allocations which is the primary risk to diversify or protect.
2. How likely the return stream is to have sustainable alpha and maintain the diversifying risk profile to our core.
3. What fees do we pay or should we pay for this return stream.

I don't know if we should keep any of these managers. I think the entire committee is willing to abandon the entire allocation the way it has been structured if we can't present a coherent explanation of the value.

You say "more time is needed to make a prudent decision". The committee will decide this, not you or me. You and I were tasked with gathering the information and presenting data, comments and recommendations so they can make prudent decisions.

I am looking forward to receiving the manager files we discussed yesterday. Thanks. Neil

EXHIBIT 67

KRS Hedge Fund Portfolio

Initial Summary Recommendation

November 2, 2016

Discussion Framework

- Hedge Funds as a stand-alone self-diversifying allocation makes little sense for KRS
  - High fees
  - Unattractive **NET** returns
- All strategies that are not diversifying and /or don't have enough compensating return for the fee structure should be liquidated asap.
- The remaining potentially complementary strategies should be kept for additional in depth study to assure they meet KRS objectives

Overview of Portfolio

- Two separate portfolios
  - Direct Investments
  - Daniel Boone Fund
- Each portfolio broken into general risk buckets
  - Equity Long Short
  - Event
  - Credit – Distressed
  - Fixed Income Arb
  - Equity Market Neutral
  - Global Macro / Managed Futures
  - Multi – Strategy / Niche

Discussion of General Risk Buckets

- Equity Long Short
  - Generally long Equity beta and highly dependent on manager skill. Highly correlated to KRS equity and Private Equity portfolio.
- Event
  - Similar to Equity Long Short but typically more concentrated and Manager looking for specific event to create a catalyst to achieve value
- Credit – Distressed
  - Fixed Income capital structure value orientation
- Fixed Income Arb
  - Typically neutral one type of credit long against another short
- Equity Market Neutral
  - Neutral equity market but often use leverage to realize small relative value edge
- Global Macro / Managed Futures
  - Portfolio approach to Economic cycles and looking to extract value from different Econometric states with differential exposure to stocks, bonds, commodities and currencies
- Multi – Strategy / Niche
  - Eclectic non market based opportunistic diversified strategies

KENTUCKY · RETIREMENT KRS SYSTEMS

General Guidance for Risk Appetite for Each Strategy

- Equity Long Short - LOW
  - High fee option for unproven ability to produce differentiated returns.
- Event - LOW
  - Same as Equity Long Short
- Credit – Distressed - LOW
  - Attractive strategy and likely a long term fit but opportunity set quite limited today
- Fixed Income Arb - MEDIUM
  - Attractive strategy and likely a long term fit but opportunity set quite limited today
- Equity Market Neutral - MEDIUM
  - Neutral equity market but often use leverage to realize small relative value edge. Demonstrating an edge is very difficult in this space.
- Global Macro / Managed Futures - HIGH
  - Properly applied approach can yield very complementary return streams to core portfolio.
- Multi – Strategy / Niche - HIGH
  - Flexible investment mandate allows talented managers to find opportunities through a cycle.

Specific Manager Discussion – Potential Keep -1

- Long short Equity
  - Tide Point
  - Coatue
- Event
  - Myriad
  - Governors Lane
- Credit Distressed
  - Silver Point
- Fixed Income Arb
  - Credit Suisse SPF
  - Prudential GRV

Specific Manager Discussion – Potential Keep -2

- Equity Market Neutral
  - BlackRock GAO
  - Blue Matrix
- Global Macro / Managed Futures
  - QMS?
  - H2O
  - Karya
- Multi-Strat / Niche
  - Prisma Niche Tactical
  - Davidson – Kempner
  - HBK

Recommended for Continued Review / Restructure

- Tide Point
- Coatue
- Myriad
- Governors Lane
- Silver Point
- Credit Suisse SPF
- Prudential GRV
- BlackRock GAO
- Blue Matrix
- QMS?
- H2O
- Karya
- Davidson – Kempner
- HBK
- Prisma Niche Tactical

Manager Summaries

Manager Name	Long Strategy Description	Short Strategy Description	2015 Return	2016 YTD[1]	Fees[2]	Initial Lock-Up	Liquidity	Key Strength
Tide Point	Long/Short Equity manager focused on cyclical equities including materials, industrials, transportation, housing, energy and consumer sectors. The Fund seeks to identify change at the macro, sector and company-level across its sector focus. Once a compelling idea/theme is identified, fundamental analysis is performed to identify investments based on structural, strategic and rate of growth changes.	Long/Short Equity: Fundamentals-plus-trading/Variable-Bias; US/Global Developed	-2.7%	11.6%	1.5% & 20%	1-Year	Quarterly, 45 days' notice	Employs a trading-oriented style that is different from traditional fundamental Long/Short Equity managers
Coatue	Global equity long / short manager with a primary focus on the Technology, Media, and Telecoms ("TMT") sector, with the ability to invest opportunistically in the Consumer and Healthcare sectors. The Fund employs a fundamental research process with an emphasis on data collection from non-traditional sources to identify trends and gain an edge.	Long/Short Equity: Technology/Consumer; Global	11.1%	2.7%	1.5% & 17%	3-Years	3 years, 90 days' notice	Strong and lengthy track record dating back to 1999. characterized by positive alpha and low beta against the TMT sector
Myriad	Asian focused event driven multi-strategy fund that invests across a diverse set of strategies including equity long/short, event driven, convertible arbitrage, credit, equity derivatives, macro and select late stage private equity. The portfolio is complemented with overlay hedges using rates, currency, credit and equity derivatives.	Event: Asia Event; Japan	7.8%	1.8%	1.5% & 20%	1-Year	Quarterly Anniversary, 60 days' notice	Broad expertise in fundamental equities, convertibles, derivatives and credit may provide it with the ability to effectively allocate capital dynamically across strategies to capture investment opportunities and manage volatility across market cycles
Governors Lane	Employs an event driven investing strategy which takes risk across the capital structure, focusing primarily on opportunities in both equities and credit in which an event or catalyst could affect a security's valuation, including those situations with significant legal complexity and uncertainty. The Fund invests predominantly in North America, in both hard and soft catalyst positions, with position level hedging.	Event: Multi-strategy; North America	-4.0%	8.5%	1.5% & 20%	1-Year	Quarterly, 67 days' notice	Moderate capital base allows the Fund to be nimble and invest in small and mid cap situations
Silver Point	Credit-Distressed	Credit-Distressed	No information sharing in place					

CR0810-0001703945

Manager Summaries -2

Manager Name	Long Strategy Description	Short Strategy Description	2015 Return	2016 YTD(1)	Fees(2)	Initial Lock-Up	Liquidity	Key Strength	Key Potential Risk
Prudential GRV	Invests in liquid sectors of developed country fixed income markets and select emerging markets, with the goal of maximizing returns on a risk-adjusted basis. The Strategy runs a diversified portfolio of leveraged long/short trades through government, sovereign and agency securities and derivatives.	Fixed Income Arb: Relative Value; Global	9.9%	8.3%	0.75% & 12%	None	Monthly, 7 days' notice	RV approach with low correlation to broader equity and credit markets	Leverage and associated left tail risk from broader market events
Blackrock GAO	Employs a quantitative equity market neutral strategy with a mid-horizon, one day to one month holding period. The strategy is comprised of a collection of alpha signals which has a mean reverting bias and some momentum/trend signals. A differentiating factor for the Fund is that it trades equity baskets, cross-asset futures and volatility in addition to single stocks.	Equity Market Neutral: Quantitative Mean Reversion; Global	18.9%	-4.6%	0.50% & 20%	None	Weekly + 5 days' notice	Diversified mix of alpha sources	Models beta, volatility, and other factors daily but returns are realized on a monthly basis; as such, risk metrics may be higher or lower than targets
Blue Matrix	Executes a quantitative global equity market neutral strategy that seeks to identify systematic sources of alpha by exploiting anomalies in asset pricing. The Fund's strategy uses statistical and scientific techniques to isolate signals or alpha factors that have predictive power for future stock price behavior. The Fund employs three broad categories of signals: traditional signals, alternative signals, and proprietary signals.	Equity Market Neutral: Quantitative; Global	8.0%	-6.5%	1% & 20%	None	Monthly, 30 days' notice	Diversification across geography, including less common regions such as Australia, LATAM, and Asia ex-Japan	Leverage could make the Fund susceptible to drawdowns on both long and short books during periods of market deleveraging
QMS	A systematic and diversified global macro hedge fund strategy that uses a combination of fundamental economic investment models and technical trading models. QMS seeks high risk-adjusted returns that are uncorrelated to asset classes, targeting an annualized standard deviation of 15% based on daily returns.	Managed Futures: Systematic Macro; Global	4.9%	0.4%	1% & 20%	None	Monthly + 30 days' notice	Liquid and scalable strategy blend supported by a rigorous investment process	Returns may be volatile given higher-volatility mandate; however, extreme drawdowns should be contained by risk management process

CR0810-0001703945

Manager Summaries - 3

Manager Name	Long Strategy Description	Short Strategy Description	2015 Return	2016 YTD[1]	Fees[2]	Initial Lock-Up	Liquidity	Key Strength	Key Potential Risk
Karya	A discretionary global macro fund that trades fixed income, currencies, credit, and to a lesser extent, equity indices, across the US, Europe, and Asia. The Fund combines a macro top-down approach with bottom-up selection of securities and trades with a clear focus on liquid instruments that include treasuries, swaps, agency debentures, agency mortgage-backed securities, asset-backed securities, commercial mortgage-backed securities, inflation bonds, and derivative instruments.	Global Macro: Traditional Discretionary; Global	2.3%	10.0%	1% & 15%	None	Monthly, 30 days' notice	Differentiated investment approach based on risk factors that exist in various macro scenarios. Securities are parsed across different risk premia and optimal exposure based on these risk factors	Higher volatility than peers and subsequent drawdown risk
Davidson Kempner	Employs a multi-strategy, event focused, fundamental investment strategy, with core allocations to distressed credit and merger arbitrage, and smaller allocations to convertible arbitrage and long/short equity. The Fund has a conservative investment approach driven by bottom- up selection of top risk adjusted opportunities.	Multi-Strategy: Global	1.4%	5.4%	1.5% & 20%	None	Quarterly + 65 days' notice	Well established, high quality firm with a deep and stable team that has experience investing across several market cycles	Conservative organization that needs to have a high degree of conviction before putting on a position which may result in underutilizing the risk budget
HBK	Runs a global investment strategy focused on relative value and arbitrage opportunities across seven primary sub-strategies: corporate credit, developed market fixed income, emerging markets, equity event driven, quant strategies, structured credit, and volatility. The Fund seeks to preserve capital through attractive risk-adjusted returns, relatively low volatility, and relatively low correlation to most major market indices.	Multi-Strategy: Global	-2.7%	5.9%	1.5% & 20%	None	Quarterly, 90 days' notice	Long track record with low correlation and beta to markets, and strong alpha to the S&P 500	Risk profile may at times be too conservative due to a highly diversified portfolio with relatively low exposures, resulting in low volatility
KKR Apex Tactical	Carefully constructed global portfolio of targeted or niche investments that seeks to provide high alpha returns with limited correlation to other financial assets. Investments are selected to provide investors with potentially alpha-rich opportunities arising from market dislocations, regulatory shifts, capital imbalances and/or policy changes in which we believe an attractive risk reward exists	Niche/Tactical: Global	5.9%	1.1%		None	Quarterly, 90 days' notice (Up to 50% max. in a 2-year liquidating trust)	Potential exposure to an array of uncorrelated trading strategies, diversified by geography and asset class	Investment success and sourcing of opportunities will be affected by general economic and market conditions

Note: (1)YTD as of 9.30.2016; (2)represents KKR Prisma's negotiated fees. For illustrative purposes only. Past performance does not guarantee future results.

Recommended Closure List – Direct

	Reason For Recommending Closure		
	Excess Beta	Opportunity Relative to Fee	AUM Concern
• Anchorage		X	X
• Knighthead		X	
• Scopia	X		
• Tourbillon	X		
• Luxor	X	X	X
• Senator	X		
• Finisterre		X	
• DSAM Plus		X	
• Glenview	X		
• JANA	X	X	
• Pine River	X	X	

Recommended Closure List – Daniel Boone

	Reason For Recommending Closure		
	Excess Beta	Opportunity Relative to Fee	AUM Concern
• Keel	X		
• Pelham	X		
• SUSA	X		
• Tremblant	X		
• Ward Ferry	X		
• Corvex	X		
• Effisimo	X		
• Roystone	X		
• Value Act	X		
• Axonic		X	
• Ursus		X	
• Gotham Neutral		X	
• Summit View		X	
• DE Shaw		X	X
• Blue Trend		X	X
• Anchorage		X	

Summary Recommendations

- The Investment committee should adopt a strict objective function for any Alternative Strategy allocation and it should be value added and diversifying
  - Strategy is likely to produce positive expected returns with little correlation to our Public and Private Equity portfolio.
    - Thoughtful consideration of size and capacity issues related to future performance
    - Environmental consideration for strategy potential
  - Can KRS have a managed account or acceptable liquidity structure?
  - Are the fees commensurate with the risk and return expectations of the strategy?
  - Are there complexities or market risks to the strategy that would embarrass or create legal liability for the KRS or board?
- KRS should close all managers listed as Closure as soon as practicable
  - Staff should redo the liquidation schedule for all closures
  - Explore if we can improve upon terms of the sub-docs

Summary Recommendations - 2

- KRS should continue to work with Prisma for input into their Diversifying Strategies
- We should cancel any contract we have with Albourne and get rid of duplicative cost
- The Daniel Boone Fund should include only the Prisma Niche strategies and we should consider adding to this allocation.
  – Remaining Daniel Boone allocations should be made directly

Discussion of Prisma Niche Allocation

This portfolio of strategies is effectively a portfolio of interesting opportunistic structural trades with a limited life cycle. Characteristics:

- Market dislocation or highly skilled manager opportunity
- Fee efficient
- High potential value add
- Non equity dependent returns

Overview of Prisma Relationship

- KRS has been invested with Prisma for 6 years
  - 400 bps over libor
  - 110 bps over HF benchmark
  - Last two years has been poor
- Working relationship with Prisma has been very good and they are willing to work closely with our team to meet our objectives

Prisma Niche Allocations - 1

- ARCM – Principal, Alp Ersil is very tied into Asian distressed credit in Shipping. This is a $350MM fund that is up 12% on the year. Fees are relatively high. 1.8% and 20%. Keep
- Argentierre – Long gamma via Vol spread skews. He is playing for a very large down cycle. +4% 2015, -4% 2016. 1.6% and 20%. Relatively high fees for disaster protection. Close?
- Cumulus – European power / energy trader. 2% and 20% fees. 2015 8%, 2016 -4%. Too low returns and complex risk for the fee we pay. Close
- Dragon Veil – Vietnamese discounted closed end funds relisting in London. Very interesting medium opportunity structural opportunity
- Incline Tactical – Prisma asked Incline to create a value opportunity in the Energy space for a dedicated portfolio. Efficient fees and interesting opportunity
- Ironsides – discounted closed end fund opportunity. Good value
- Karya P fund – dedicated Prisma mandate. TIPS relative value and Mortgage Arbitrage
- Magnetar PRA – Indexed Merger Arb dedicated fund to take advantage of widening arb spreads. Fee efficient (85bps) and well diversified. +5% ytd with very low volatility

Prisma Niche Allocations - 2

- Northwest Market Neutral – Hong Kong based Equity Arbitrage. Trading Chinese H Shares vs Chinese A shares. Fees 1.2% and 12%. 2016 ytd +6%
- Northwest P Fund – Japan based Convertible arb trade. Japanese convertibles are trading very cheap to model. Fund created to take advantage of this.
- Ocean Wood – Value based peripheral Europe (Spain, Portugal, etc) equity trade. It was a bad idea and are liquidating.
- PAX Fund – China based futures arb and Credit arb. Well connected in China and flexible. Can morph strategy and take advantage of hard to access market.
- Pine River – Similar to Northwest P in Japanese Convert space. More option like upside and a little less Arbitrage.
- Selwood – European based. Take advantage of high price of credit protection. Short protection / long individual names. Started 5 months ago. +5%

EXHIBIT 68

Kentucky Plans to Pull At Least $800 Million From Hedge Funds

States retirement system currently has a total of $1.5 billion in hedge funds, representing 10% of its total assets

By
Heather Gillers
Nov. 2, 2016 3:12 p.m. ET
0 COMMENTS

Kentucky plans to pull more than half of its investments in hedge funds in the coming three years, a significant retreat for a state that had embraced Wall Street money managers following the last financial crisis.

The deeply indebted Kentucky Retirement Systems, or KRS, expects to withdraw at least $800 million out of $1.5 billion committed to hedge funds, Interim Executive Director David Eager said Wednesday after a meeting of the committee that oversees investments for the state's pension and insurance funds.

Hedge-fund investments represent 10% of total assets at KRS. One of the organization's five pension funds is the worst-funded state pension plan in the country. The investment committee Wednesday drew up a plan to pull $600 million from hedge funds by July and the remaining $200 million by July 2019. The proposal must still be approved by the full board, which meets Dec. 1.

Mr. Eager said the investment committee hasn't decided yet where those funds will be reinvested.

The Bluegrass State is in line to become the latest investor to back away from hedge funds dues to uneven results and concerns about high fees. Pension funds in California, Rhode Island, New Jersey and New York have all pulled money from the $2.9 trillion industry, which has under performed broader financial markets since 2009.

Kentucky Retirement Systems's hedge-fund investments have trailed stocks and bonds on a five-year basis, according to fund documents. Pension dollars invested in hedge funds produced a five-year return of 3.93% compared with 5.14% for equities and 4.74% for fixed income. State insurance money invested in hedge funds returned 3.91%, compared with 5.18% for equities and 4.41% for fixed income. KRS includes five pension plans and five insurance plans.

Pulling assets from hedge funds would roll back a strategy adopted in the mid 2000s. At that time, the Kentucky Retirement Systems stocked up on nontraditional assets such as private equity and real estate and pulled back on stocks in an effort to improve funding levels as the state skimped on pension contributions. KRS began adding hedge funds in fiscal 2010 an d had committed 10% of its assets by fiscal 2012.

But now Kentucky's public employee plan, one of KRS' five pension plans, has only $2.3 billion of the $12.4 billion it owes state workers, according to financial statements for the year ended June 30, 2015. The funding level has left board members anxious to keep investments fairly liquid and avoid high fees, Eager said.

"We're in a new normal low-return environment," Eager said. "Two percent off the top is a big hit."

The investment committee that is pursuing a hedge fund retreat is made up of officials new to the KRS board. All five voting members of the investment committee were appointed by Gov. Matt Bevin, who made shoring up the fund a key platform of his gubernatorial campaign last year.

Related

- Rhode Island Cuts Hedge-Fund Holdings in Half (Sept. 28, 2016)
- New Jersey Backs Away From Hedge Funds (Aug. 3, 2016)
- New York City Public Pension Pulls Hedge Fund Investments (April 14, 2016)
- Calpers to Exit Hedge Funds (Sept. 15, 2014)

Write to Heather Gillers at heather.gillers@wsj.com

EXHIBIT 69

To: John Farris[jfarris@landfundpartners.com]; Dave Harris[dharris@mcfadvisors.com]; Peden, David (KRS)[david.peden@kyret.ky.gov]; Neil Ramsey[nramsey@rqsi.com]; Bill Cook[billcook113054@yahoo.com]; Mark Lattis[Mark_lattis@htomail.com]; Tommy Elliott[Tommy.Elliott@oldnational.com]
From: Dave Eager[daveeager@gmail.com]
Sent: Fri 11/4/2016 11:28:44 PM (UTC-04:00)
Subject: Fwd: follow-up hedge funds

All,
Here is the P&I Online article with a correction made to the headline....still not the best but an improvement.

Dave
---------- Forwarded message ----------
From: **Meaghan Kilroy** <mkilroy@pionline.com>
Date: Fri, Nov 4, 2016 at 5:17 PM
Subject: follow-up hedge funds
To: "daveeager@gmail.com" <daveeager@gmail.com>

Hi Dave,

My editors reworked yesterday's headline. Story below. Manager names not included. We will tackle that next week. Looking at my list from this afternoon, I only count 26 funds, not 27. Will confirm with you Tuesday. I am out Monday.

Thanks,

Meaghan

Kentucky Retirement looks to halve hedge fund portfolio by 2019

By Meaghan Kilroy | November 3, 2016 4:17 pm | Updated 4:55 pm

The investment committee of Kentucky Retirement Systems, Frankfort, approved redeeming $800 million of its total $1.5 billion hedge fund investments by July 2019.

Of that total, $600 million will be redeemed by July 2017 and the remaining $200 million by July 2019, said David L. Eager, interim executive director. Mr. Eager declined to identify which existing hedge fund strategies will be eliminated, but he said 27 will be eliminated by July 2019.

Strategies that are not eliminated by July 2017 will get a more thorough look to see whether they should be retained.

Those that are deemed "high added-value" strategies and good diversifiers could be retained, ideally in an alternative format like a separate account to improve liquidity and transparency, and potentially lower fees, Mr. Eager said. Fifteen strategies, including one managed by KKR Prisma, are expected to receive further review.

The investment committee discussed in October moving completely away from hedge funds. Mr. Eager said the committee eventually decided to see whether some of the strategies are still viable. The KRS investment staff had been in the process of shifting to direct hedge fund investments from hedge funds of funds. KKR Prisma is the only remaining hedge funds-of-funds manager.

The pension fund made its first hedge fund investment in fiscal year 2009, but the hedge fund program started in "earnest" in 2011, Mr. Eager said. The direct portfolio currently includes hedge fund strategies managed by firms such as Davidson Kempner Capital Management, Glenview Capital Management, JANA Partners, Magnetar Capital, Pine River Capital Management and Scopia Capital Management.

The full board will be asked to ratify the investment committee's hedge fund decisions Dec. 1.

KRS administers a roughly $11 billion portfolio of pension fund assets and a $4 billion portfolio of health insurance assets. Both portfolios are invested in hedge funds.

http://www.pionline.com/article/20161103/ONLINE/161109931/kentucky-retirement-looks-to-halve-hedge-fund-portfolio-by-2019

Meaghan Kilroy

Online Reporter

Pensions&Investments

312-649-5289

mkilroy@pionline.com

--
David L. Eager
502-693-0186 (cell)

EXHIBIT 70

<u>CONTRACT</u>

The CONTRACT, made and entered into the 17th day of November, 2011, by and between Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, hereinafter referred to as "Systems", and Ice Miller, One American Square, Box 82001, Indianapolis, Indiana 46282-0002, hereinafter referred to as the "Contractor".

WHEREAS, the Systems by its Board of Trustees at a meeting held on the 17th day of November, 2011, has by order pursuant to authority granted in KRS 61.645 selected the Contractor to provide legal services in connection with the administration of the Kentucky Employees Retirement System, County Employees Retirement System, State Police Retirement System and Kentucky Retirement Systems Insurance Fund; and

WHEREAS, the Contractor is a reputable, qualified, and established law firm, and has agreed to provide legal services to the Systems; and

WHEREAS, the Systems is responsible for administering the three retirement systems and the insurance fund described above, and the Systems desires to avail itself of the services of the contractor to safeguard, defend and advance the interests of the Systems' members and the funds administered by the Systems' Board of Trustees;

NOW THEREFORE, it is hereby and herewith mutually agreed as follows:

1. **<u>Scope of Services.</u>** The Contractor will provide the following services to Systems:

(a) Provide legal consultation to the Systems when questions arise on the interpretation of the Internal Revenue Code or other tax related matters;

(b) Provide advice and legal guidance related to retirement pension plan compliance and plan design issues;

(c) Provide training and education sessions upon request by the Systems, and upon such terms as the parties may mutually agree, for continuing education on fiduciary issues, benefit issues, and such other matters as may be of interest to the Systems;

(d) Determine compliance with state and local laws;

(e) Determine compliance with federal laws;

(f) Identify potential inconsistencies in provisions of federal, state and local laws, and if necessary, assist in resolving such inconsistencies to enable the Systems to pursue its business-related objectives;

(g) Assist in determining, in consultation with the Systems' staff, potential problems in business processes or business operations and identify corrections to such potentially problematic processes and operations;

(h) Represent the Systems in matters of litigation when the Systems determines it to be in its best interest for the Contractor to represent the Systems. Contractor upon request of the Systems may coordinate litigation strategies with employees of local contracted firms or other legal staff who may also represent the Systems in legal matters;

(i) Represent the Systems as required in the review and approval of legal documents associated with the acquisition or sale of real estate held for investment purposes by the Systems;

(j) Provide legal consultation to the Systems when questions arise regarding securities that may be held by the Systems or when the Systems may be considering the acquisition of securities that require contractual agreements or legal reviews;

(k) Provide advice and legal guidance related to retirement pension plan compliance and plan design issues;

(l) Provide advice and legal guidance related to health benefit plan compliance and plan design issues;

(m) Provide the services indicated in Systems' Request for Proposal for Legal Services, and the Contractor's Response to the Systems' Request for Proposals for Legal Services, which are attached as Exhibits 1 and 2 and are hereby incorporated by this reference; and

(n) Provide other legal services as requested by the Systems.

2. **Fees.** For the services rendered by the Contractor hereunder, Systems shall pay fees in accordance with the following schedule:

Key Person Group I

Mary Beth Braitman	$400.00/hour
Terry A.M. Mumford	$400.00/hour
Christopher S. Sears	$400.00/hour
Matthew L. Fornshell	$400.00/hour
Michael S. Jordan	$400.00/hour
John Thornburgh	$400.00/hour
Eric Dawes	$400.00/hour

Key Person Group II

Katrina M. Clingerman	$325.00/hour
Lisa Erb Harrison	$325.00/hour
Sarah K. Funke	$325.00/hour
Richard W. Holz	$325.00/hour

Group III – All Others

Partners	$300.00/hour
Senior Counsel	$275.00/hour
Of Counsel	$275.00/hour
Associates/Contractors	$215.00/hour
Paralegals	$175.00/hour

The Contractor will be reimbursed all necessary and reasonable travel expenses to meet with Systems' Staff, the Board of Trustees and/or a committee of the Board of Trustees, and for court appearances in accordance with Kentucky Retirement Systems Travel Policy and Procedures attached as Exhibit 3. Travel time is specifically excluded from being a chargeable service.

3. **Training/Seminars.** In the event the Contractor conducts seminars, training sessions or similar events which are generally made available to the Contractor's clients, Systems shall be invited to attend upon the same terms and conditions as such other clients. If the Contractor offers to pay the cost of such events and/or the travel or lodging expenses incurred by its clients in such events, the Contractor shall pay for such expenses by Systems on the same basis as the Contractor pays for its other clients.

4. **Duration of Contract.** The period in which subject services are to be performed is January 1, 2012 through June 30, 2017. However, termination or cancellation may be effected at any time by Systems upon thirty (30) days written notice of its intent to terminate prior to such termination served on the Contractor by personal delivery or registered or certified mail. At the expiration of its term, this contract may, at the option of the parties hereto, be renewed by negotiation for further periods not to exceed 24 months for each such renewal.

5. **Termination or Cancellation.** Termination or cancellation of this Contract may be effected at any time by either party upon thirty (30) days advance written notice of its intent to terminate. The notice of intent to terminate shall be served on other party by registered or certified mail. Upon such termination, Systems will only pay such fees that had been incurred until the date of termination as specified in the notice of termination.

6. **Conflict of Interest**. The Contractor shall comply with the Kentucky Retirement Systems Conflict of Interest and Confidentiality Policy which is attached hereto as Exhibit 4 and referenced in Paragraph 13 below. Contractor hereby certifies that Contractor is legally entitled to enter into the subject contract with the Commonwealth of Kentucky and certifies that Contractor is not and will not be violating any conflict of interest statute (KRS 121.056 or any other applicable statute) or principle by the performance of this contract. The Contractor shall not engage directly or indirectly in any financial or other transaction with a trustee or employee of Systems which would violate standards of the Executive Branch Ethics provisions, as set forth in KRS Chapter 11A.

7. **Purchasing by the Commonwealth of Kentucky.** Contractor hereby certifies that it will not attempt in any manner to influence any specifications to be restrictive in any way or respect

nor will he attempt in any way to influence any purchasing of services, commodities or equipment by the Commonwealth of Kentucky.

8. **Relationship of the Parties.** Contractor warrants that all work performed by Contractor under this Contract is and shall be performed as an independent contractor. Contractor shall be responsible for compliance with all laws, rules and regulations by its respective employees, including, but not limited to, employment of labor, hours of labor, health and safety, working conditions, worker's compensation insurance, and payment of wages. This Contract shall not be construed so as to create a partnership or joint venture between Contractor and Systems.

9. **Amendments and Renewal.** Written modifications, amendments or additions to this contract shall be effective only when signed by both parties.

10. **Notices of Material Changes.** Contractor shall notify the Board of Trustees in writing within five (5) business days of any material changes in senior officers, significant legal actions instituted against Contractor, or any investigations, examinations, or other proceedings commenced by any governmental agency including but not limited to investigations by any bar association. Notices required in this Section shall be served on Systems by registered or certified mail.

11. **Assignment.** This contract may not be assigned by Contractor without the written consent of Systems. Further, the obligations of Contractor under this contract shall be considered personal obligations of Contractor, performable solely by Contractor and Contractor may not delegate its duties hereunder to any entity other than an employee of Contractor without the express written consent of Systems. The Systems, upon its determination of need for certain distinctive services related to any legal matter or business operations matter, and by providing written authorization to Contractor, may authorize Contractor to obtain services from non-legal professionals to satisfy the Systems' need for such distinctive services.

12. **Controlling Law; Jurisdiction and Venue; Waiver.** All questions as to the execution, validity, interpretation, construction, and performance of this agreement shall be construed in accordance with the laws of the Commonwealth of Kentucky, without regard to conflict of laws principles thereof. Contractor hereby consents to the jurisdiction of the courts of the Commonwealth of Kentucky and further consents that venue shall lie in the Franklin Circuit Court located in Franklin County, Kentucky. To the extent that in any jurisdiction Contractor may now or hereafter be entitled to claim for itself or its assets immunity from suit, execution, attachment (before or after judgment) or other legal process, Contractor, to the extent it may effectively do so, irrevocably agrees not to claim, and it hereby waives, same.

13. **Access to Confidential Data.** The Contractor shall comply with the Kentucky Retirement Systems Conflict of Interest and Confidentiality Policy which is attached hereto as Exhibit 4 and referenced in Paragraph 6 above. The Contractor's employees, agents and subcontractors may have access to confidential data maintained by the Systems to the extent necessary to carry out its responsibilities under the Contract. The Contractor shall presume that all information received pursuant to this Contract is confidential and subject to the provisions of KRS

61.661 unless otherwise designated by the Systems. The Contractor shall provide to the Systems a written description of its policies and procedures to safeguard confidential information. The Contractor shall provide Systems updates or changes to these policies in a timely manner. Policies of confidentiality shall address, as appropriate, information conveyed in verbal, written, and electronic formats. The Contractor shall provide physical and logical protection for all Systems written and electronic data. Electronic data shall be encrypted during transport and at rest utilizing Systems policy standards. The Contractor is responsible for ensuring that they have reviewed all policies and policy updates. The Contractor shall remain the responsible authority in charge of all data collected, used, or disseminated by the Contractor in connection with the performance of the Contract. The Contractor shall provide adequate supervision and training to its agents, employees and subcontractors to ensure compliance with the terms of this Contract. The private or confidential data shall remain the property of the Systems at all times.

a. **No Dissemination of Confidential Data.** No confidential data collected, maintained, or used in the course of performance of the Contract shall be disseminated except as authorized by law and with the written consent of the Systems either during the period of the Contract or thereafter. Any data supplied to or created by the Contractor shall be considered the property of the Systems. The Contractor must return any and all data collected, maintained, created or used in the course of the performance of the Contract in whatever form it is maintained promptly at the request of the Systems.

b. **Subpoena.** In the event that a subpoena or other legal process is served upon the Contractor for records containing confidential information, the Contractor shall promptly notify the Systems and cooperate with the Systems in any lawful effort to protect the confidential information.

c. **Reporting of Unauthorized Disclosure.** The Contractor shall immediately report to the Systems any unauthorized disclosure of confidential information. Systems will manage the disclosure in accordance with our established policies. The Contractor, at the sole discretion of Systems, shall provide no cost credit monitoring services for Systems' members that are deemed to be part of a potential disclosure. The Contractor shall bear the cost of notification to Systems' members that are involved in a potential disclosure event, including individual letters and/or public notice.

d. **Survives Termination.** The Contractor's obligation under this Section regarding the security, confidentiality, and ownership of data as set forth in this section shall survive termination of this Contract.

14. **Authorized Signature.** The undersigned, William A. Thielen is the Interim Executive Director of Systems and as such has been duly authorized by the Board of Trustees of Systems to sign this contract in behalf thereof, therefore, binding Systems to the provisions of this contract.

15. **Authorized Signature.** The undersigned, Mary Beth Braitman, is a Partner of Contractor, and as such is duly authorized to sign this contract in behalf thereof, therefore, binding Contractor to the provisions of this contract.

16. **Principal Contact.** Mary Beth Braitman, Partner, shall be the principal contact for the Contractor for the implementation of the services set forth in this contract.

17. **Principal Contact.** Jennifer A. Jones, Interim General Counsel, shall be the principal contact for Systems for the implementation of the services set forth in this contract.

KENTUCKY RETIREMENT SYSTEMS	ICE MILLER
BY: William A. Thielen	BY: Mary Beth Braitman
William A. Thielen Interim Executive Director Kentucky Retirement Systems 1260 Louisville Road Frankfort, Kentucky 40601 On behalf of Systems	Mary Beth Braitman Partner Ice Miller One American Square, Box 82001 Indianapolis, Indiana 46282-0002 On behalf of Contractor

Approved as to Form and Legality:
KENTUCKY RETIREMENT SYSTEMS

BY: ______________________
Jennifer A. Jones
Interim General Counsel

KENTUCKY RETIREMENT SYSTEMS

REQUEST FOR PROPOSALS

LEGAL SERVICE PROVIDERS

JANUARY 1, 2012-JUNE 30, 2013

I. PURPOSE AND BACKGROUND

A. PURPOSE

Kentucky Retirement Systems ("Systems"), a quasi-independent state agency, is currently accepting proposals from qualified firms and attorneys to provide professional legal services as outside legal counsel, fiduciary counsel, healthcare counsel, and tax counsel ("Providers"). Use of outside counsel for these particular services is due to the unique nature of the Systems' fiduciary responsibilities and the relative complexity of the tax code provisions that govern public pension funds. With regard to health care law, the Systems has a particular need for legal consulting in the area of legal compliance for its Medicare-eligible health plans. The Systems sponsors these health plans for its retirees who are over 65 years of age and who are eligible for Medicare benefits. Selected Providers will perform all required services in accordance with federal and state law and the specific terms of a personal service contract executed between the Systems and the particular Provider ("Contract"). The final selection of all Providers will be the responsibility of the Systems' Board of Trustees ("Board"). Negotiation, execution, performance, and amendment of the Contracts, as well as oversight and review of all services provided pursuant to the Contracts, will be the responsibility of the Systems' General Counsel. The precise services being sought from each Provider are detailed more specifically in Sections II, III, IV, and V (Scope of Services) of this RFP.

B. BACKGROUND

Kentucky Retirement Systems is a qualified "governmental" defined benefits plan, established pursuant to §401(a) of the Internal Revenue Code, that is responsible for the investment of funds and the administration of pension and health insurance benefits for its members. The Systems administers three (3) separate retirement plans for various state and local government employees. These plans include: KERS for hazardous and non-hazardous employees of the Commonwealth, CERS for hazardous and non-hazardous employees of approximately 1,000 city and county government agencies, and SPRS for all uniformed Kentucky State Troopers. As of June 30, 2011, KRS served a combined total of 318,981 active, inactive, and retired members in the three combined systems, and administered approximately $15 billion in assets.

Management of the Systems is vested in a Board that consists of nine (9) trustees. Three (3) trustees are appointed by the Governor of the Commonwealth of Kentucky, two (2) trustees are elected by the membership of the Kentucky Employees Retirement System, two (2) trustees are elected by the membership of the County Employees Retirement System, and one (1) trustee is elected by the membership of the State Police Retirement System. The Secretary of the Personnel Cabinet is an ex-officio trustee. Board meetings are open to the public and comply with the Kentucky Open Meetings statutes found at KRS 61.800-850 *et.seq.* The Board stands in a fiduciary relationship to all members of the Systems. Administrative management of the Systems is vested in an Executive Director who is appointed by the Board. The Systems employs approximately 250 staff members at its location in Frankfort, Kentucky.

The Systems has a health insurance trust (established pursuant to IRC §115) and 401(h) accounts to assist in funding its retiree health care obligations. KRS 61.701 establishes the "Kentucky Retirement Systems Insurance Fund" as a separate fund to provide fringe benefits to recipients of the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. KRS 61.702 provides that all amounts necessary to provide for insurance benefits shall be paid to the insurance fund. The Board administers the fund in the same manner as the retirement funds.

This RFP is posted on the Systems website at http://kyret.ky.gov. All notifications, releases, and amendments will be posted to the website. Kentucky Retirement Systems will make no attempt whatsoever to contact bidders with updated information. It is the sole responsibility of each individual bidder to periodically check the website for updated information.

This RFP is not subject to the provisions of KRS Chapter 45A (the Kentucky Model Procurement Code), but rather is issued in accordance with the specific statutory authority granted by KRS 61.645(2)(d). Proposals will be accepted and considered from any attorney or law firm that meets the minimum qualifications and is willing and able to provide all the services outlined in the relevant Scope of Services section or sections of this RFP. All qualified firms and attorneys are encouraged to respond to any or all of the System's specified Provider needs, below.

II. SCOPE OF SERVICES: GENERAL LEGAL REPRESENTATION

Legal services will be provided on a strictly as-needed basis, and there will be no guarantee of any minimum amount of work. Services will include, but not necessarily be limited to, the following:

- Represent the Systems in federal or state litigation or in administrative hearings whenever the Systems determines that it would be in its best interest for the Provider to represent it. Upon the Systems' request, the Provider may coordinate litigation strategies with employees of local contracted firms or other legal staff who may also represent the Systems in legal matters;
- Represent the Systems' in other general legal matters;
- Provide oral and written opinions on a wide variety of legal matters;
- Provide legal advice on proposed state and federal legislation;
- Attend Board of Trustees and/or Committee meetings if requested to do so;
- Provide training as needed; and
- Provide other legal services as requested by the Systems.

III. SCOPE OF SERVICES: HEALTHCARE COUNSEL

Legal services will be provided on a strictly as-needed basis, and there will be no guarantee of any minimum amount of work. Services will include, but not necessarily be limited to, the following:

- Provide advice and legal guidance related to health benefit plan compliance and plan design issues;
- Provide oral and written legal opinions on healthcare matters;
- Provide legal advice on HIPPA compliance;
- Provide legal advice on Medicare and Medicaid compliance issues;
- Assist the Systems with a comprehensive compliance review of its Medicare-eligible health plans;
- Advise on COBRA issues;
- Advise on HRA, HSA, and FSA plans;
- Drafting and/or reviewing the Systems' policies and procedures
- Update the Systems on any state healthcare legislation and assist with compliance;
- Ensure compliance with all federal healthcare reform initiatives;
- Attend Board of Trustees and/or Committee meetings if requested to do so; and
- Provide other legal services as requested by the Systems.

IV. SCOPE OF SERVICES: FIDUCIARY COUNSEL

Legal services will be provided on a strictly as-needed basis, and there will be no guarantee of any minimum amount of work. Providers are advised that the scope of services will be considered to include, in addition to the services specified below, any services understood by competent counsel to be reasonably necessary to satisfy the duties of fiduciary counsel to a defined benefits public pension plan. Services will include, but not necessarily be limited to, the following:

Provision of legal advice on fiduciary law issues, including:

- Compliance with fiduciary responsibilities
- Compliance with state and federal statutory requirements
- Ethics and conflicts of interest issues
- Administrative processes
- Legal authority and processes
- Benefits and plan design issues
- Investment policies and procedures
- Risk management
- Liability and insurance coverage
- Audits and investigations
- Annual report publication
- Training on fiduciary issues
- Provide other legal services as requested by the Systems.

V. SCOPE OF SERVICES: TAX COUNSEL

Legal services will be provided on a strictly as-needed basis, and there will be no guarantee of any minimum amount of work. Providers are advised that the scope of services will be considered to include, in addition to the services specified below, any services understood by competent counsel to be reasonably necessary to satisfy the duties of tax counsel to a defined benefits public pension plan. Services will include, but not necessarily be limited to, the following:

Provision of legal advice on public pension plan administration issues including:

- Tax qualification issues
- Taxation of distributions
- Compliance with all relevant IRS regulations
- Compliance with all IRS reporting requirements
- Drafting, reviewing, and interpreting state legislation with potential tax consequences
- Providing oral and written legal opinions on tax matters
- Advising the Systems of changes to relevant laws and regulations in a timely manner
- Drafting and/or reviewing the Systems policies and procedures
- Drafting, reviewing, and interpreting federal legislative and regulatory materials
- Preparing requests for private letter rulings
- Represent the Systems in any actions before federal administrative agencies pertaining to taxation issues
- Represent the Systems in any litigation that may arise in state and federal courts pertaining to taxation issues
- Responding to information requests from the IRS and any other federal or state agencies
- Attend Board of Trustees and/or Committee meetings if requested to do so
- Attend meetings and hearings, including legislative hearings, if requested to present information or respond to questions concerning qualification issues, pension plan design, or any other federal taxation issues
- Provide other legal services as requested by the Systems.

VI. PROPOSAL SUBMISSION DIRECTIONS AND PROCEDURAL INFORMATION

A. INSTRUCTIONS FOR SUBMITTING A PROPOSAL

1) Providers responding to this RFP must completely respond to all the information requests and questions contained in Part VII of this RFP. All proposals must be complete in every respect and must address all of the questions raised in the RFP. Sufficient supporting documentation should be included whenever possible. Incomplete submissions will be deemed non-responsive and will not be considered in the selection process. Late submissions will not be accepted, and will be returned unopened to the Provider.
2) Proposals shall be accompanied by a cover letter providing factual and verifiable information that the Provider meets all of the minimum qualifications set forth in Part VII of this RFP and is willing and able to provide all the services requested. The

cover letter must: clearly reference the specific Provider need (or needs) that is being responded to (legal counsel, healthcare counsel, fiduciary counsel, or tax counsel), indicate that the signer is authorized to contractually bind the Provider, and include the title or position of the signer.

3) The cover letter, the proposal itself, and any clarifications to the proposal, must be signed by an officer, designated agent, or principal who has legal authority to bind the Provider in contract.
4) When preparing proposals, please use Word format for all text and Excel format for any spreadsheets.
5) Proposals should mirror the order of questions as they are asked in Part VI of this RFP. In response to each question, please restate the main request/question (denoted by number) in bold font followed by your answers stated in regular font. Responses should be thorough and pertinent to the particular question.
6) Any supporting material or documentation must be clearly referenced to the appropriate question. Advertisements or strictly promotional materials should not be used and may disqualify the Provider from further consideration.
7) Any proprietary or confidential information must be prominently marked as such. Information that is not clearly designated as proprietary in nature will be subject to disclosure under the Kentucky Open Records Act; KRS Chapter 61, *et seq.*
8) All questions relating to this RFP shall be directed to Hon. Jennifer A. Jones, Interim General Counsel. Questions will only be accepted during the formal Inquiry Period specified in Part VIII of this RFP. Written questions can be sent to the mailing address specified below or e-mail questions to: jennifer.jones@kyret.ky.gov . Written responses to questions will be posted on the Systems' website.
9) Communicating, either directly or indirectly, on the topic of this RFP, with any other of the Systems employees or Board members during the RFP process will result in immediate disqualification from the selection process. See Section C, below.
10) Proposals shall be submitted to the Systems by the close of business, **4:30 p.m. EST, on September 6, 2011**. Faxed copies are **not** considered a qualifying response, and will not be reviewed. All responding Providers shall submit ten (10) hard copies of the proposal, along with an electronic copy saved in .pdf format on a CD, to the following address:

ATTN: Hon. Jennifer A. Jones
Interim General Counsel
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601

11) All proposals should be placed in a sealed envelope and clearly marked "RFP – LEGAL SERVICE PROVIDER."

B. REJECTION OF PROPOSALS

1) Kentucky Retirement Systems reserves the right to reject any or all proposals received in response to this solicitation, due to noncompliance with the RFP, or for any other reason. Any and all expenses incurred by responding to this RFP are the sole responsibility of the Provider. The Systems will not pay for any information requested herein, nor will it reimburse any costs incurred by the submitting Provider.
2) After the evaluation of all qualified proposals and final Board approval, all Providers who submitted qualified proposals will be notified of the successful bid. Providers whose proposals did not meet the mandatory requirements will be notified of that fact.
3) The Systems specifically reserves the right to not hire or to defer the hiring of any Provider under this RFP if such action is deemed to be in the agency's best interest.

C. NO CONTACT POLICY

Respondents shall not contact any member of the Kentucky Retirement Systems' staff concerning the procurement process until after the process is completed, unless the content of the communication is first submitted in writing addressed to the designated contact for this RFP, Hon. Jennifer A. Jones. In order to facilitate current business operations, a limited exception to this rule applies to any Provider currently representing the Systems. However, any contact made by such Providers must be strictly limited to current business matters arising under a previously existing Contract only, and shall **not** relate to this RFP.

D. RIGHT TO WITHDRAW PROPOSAL

Providers will be allowed to withdraw their proposals at any time prior to the final deadline for the receipt of proposals. The Provider must submit a written request to withdraw that is signed by the designated contact. Withdrawal requests should be sent to the attention of the Systems' Interim General Counsel.

E. DISCLOSURE OF PROPOSAL CONTENT

All proposals submitted become the property of the Systems and shall not be subject to public inspection until after the negotiation process is concluded either by the award of a Contract or at the direction of the Board. Upon completion of the selection process, all proposals are subject to KRS Chapter 61, §870-884 *et seq.* (the Kentucky Open Records Act), with the limited exception of any information that has been specifically designated as proprietary in nature. It is the sole responsibility of the Provider to clearly identify qualifying sections as such. Therefore, please identify on each individual page of your response any text that constitutes proprietary information or trade secrets.

F. OBLIGATIONS UNDER THE PROPOSAL

The contents of the proposal (and any clarifications submitted thereto) from the successful Provider shall become part of the contractual obligation and will be incorporated by reference into the resulting Contract. The Systems reserves the right to request clarifications to the proposal after its receipt.

G. CONTINUED DISCLOSURE

Ongoing and timely disclosure of any existing or potential conflicts of interest that would impact the Provider's independence, perceived independence, or its ability to fully perform the tasks outlined in this RFP, will be a continuing requirement for the life of the Contract.

H. DISPOSITION OF PROPOSALS

All proposals become the property of the Systems and will not be returned to the Provider. However, any proposals that are received after the stated deadline will be returned to the Provider unopened.

I. GOVERNING LAW

All of the terms and conditions of this RFP, and any resulting Contract, shall be construed in accordance with the laws of the Commonwealth of Kentucky.

J. SIGNATURE OF PROVIDER'S AGENT

The submission letter, the proposal, and any modifications to the proposal, must all be signed by someone with contracting authority for the Provider.

K. SYSTEMS CONTRACT SIGNATORY

William A. Thielen, Interim Executive Director, Kentucky Retirement Systems, is the designated signatory for the Systems.

L. AWARD OF CONTRACT

The Systems has a responsibility to all of its members, and to the Commonwealth of Kentucky, to select Providers that offer high quality work at the best possible value. The Systems, therefore, reserves the right to award these Contracts, not necessarily to the Provider who offers the lowest cost proposal, but to the Provider who provides the best match of skills at the best value for the particular RFP. The Provider(s) recommended for Board approval will be determined in accordance with the evaluation criteria defined in Part VIII below.

M. LEGAL SERVICES, FIDUCIARY, AND TAX COUNSEL REQUESTS FOR PROPOSALS

Any Provider that is responding to more than one of these RFPs should submit separate responses to each individual RFP. General or blanket responses will not be considered. The Provider should clearly state in its cover letter to which particular RFP it is responding.

VII. INFORMATION REQUIRED BY KRS

Providers must submit a signed proposal to the Systems that includes the following information:

1) Name, title, and complete contact information of the individual who will serve as the Provider's primary contact for the Systems;
2) A brief history of the firm. Please disclose whether there have been any significant business developments in the past three years, such as mergers, restructuring, or changes in ownership. Provide a firm resume if one is readily available;
3) A brief description of the firm's relevant practice, particularly as it pertains to institutional investors, including public pension plans;
4) Resumes for all principals and resumes of any attorneys who will provide services to the Systems. Resumes should detail educational qualifications, admitted jurisdictions, work experience, licenses and/or certifications, special awards or recognitions, membership in any professional organizations, and any previous work experience in specific areas of expertise;
5) A list of any relevant training, seminars, CLEs, special recognition, or publications attributable to the Provider;
6) A detailed explanation for any proposed use of subcontractors. Any proposed subcontractors must be identified by name. Please note that the Provider remains wholly responsible for the entire performance of any resulting Contract, regardless of whether subcontractors are used or not.
7) Names and addresses of at least three (3) representative clients (either public or private entities) for which the Provider has previously served as counsel;
8) Proof of insurance and coverage amounts for all legal malpractice and professional liability policies the Provider carries;
9) A statement of whether the Provider has settled any past claims related to the provision of similar services;
10) A statement of whether the Provider has any current claims pending against it related to the provision of similar services;
11) Full disclosure of any prior commitments of Provider which could potentially interfere with its ability to perform the services required by this RFP;
12) Full disclosure of any prior or current work, clients, or litigation which could result in a conflict of interest for the Provider, should it be engaged to perform legal services for the Systems. Please note that such disclosure will be a continuing requirement of the Contract;
13) Full disclosure of any business affiliations or professional associations that could potentially pose a conflict of interest for the Provider, should it be engaged to perform legal services for the Systems. Please note that such disclosure will be a continuing requirement for the life of the Contract;
14) A list and description of any professional relationship(s) the Provider (or any of its current partners, principals, agents, employees, or staff) has with: any member of the Kentucky Retirement Systems Board of Trustees, any employee of the Kentucky Retirement Systems, or the Commonwealth of Kentucky;
15) Respond to the following question: Has the Provider (or any of its current partners, principals, agents, employees, or staff) been censured, fined, or reprimanded, either publicly or privately, by any licensing or regulatory body within the last ten (10) years?;
16) A detailed fee schedule with hourly rates for all individuals who will perform the services detailed within the relevant Scope of Services section or sections.

VIII. EVALUATION OF PROPOSALS

A. LEGAL, COMPLIANCE & GOVERNANCE COMMITTEE

The Legal, Compliance & Governance Committee ("Committee") will evaluate and score proposals, select finalists, conduct interviews of finalists (if necessary), and make recommendations to the Board of Trustees. If interviews are necessary, the finalists will be interviewed at the Systems' offices in Frankfort, Kentucky. Travel to Kentucky for interviews will be at the sole expense of the Proposer. The Board of Trustees will ultimately make the final selection decision. The Board may take into account any and all factors it deems necessary and proper to determine the best value to the Systems, its members, and the Commonwealth of Kentucky.

B. EVALUATION CRITERIA

All qualifying proposals shall be evaluated by the Committee through a consensus scoring process. The Committee will assign a numerical evaluation to each proposal considered based upon the following list of factors. The following weights will be assigned to these factors:

1) The Provider's Qualifications	25%
2) The Provider's Relevant Experience	25%
3) The Provider's Available Resources	25%
4) The Provider's Cost Proposal	25%
	100%

If interviews are conducted, responses will be ranked, and those rankings will be noted on each Provider's submission. The Committee expressly reserves the right to use, review, or consult any outside information available to it to supplement its evaluation of any proposal.

C. RIGHT TO WAIVE MINOR IRREGULARITIES

The Committee reserves the right to waive minor irregularities in proposals. This right is at the sole discretion of the Committee.

D. APPROVAL PROCESS

Based upon the outcome of the numerical rankings, oral interviews may be conducted with the Providers with the highest ranking proposals. The Systems' reserves the right to determine whether or not interviews will be conducted. Determination of the need to conduct interviews and how many Providers will be interviewed is at the sole discretion of the Committee. Following these interviews, the Committee's recommendations will be submitted to the full Kentucky Retirement Systems Board of Trustees for consideration and final approval.

Committee members and RFP respondents shall have no contact regarding this RFP, either verbal or written, prior to the Interview phase of the process, except for the limited purpose of a formal Inquiry Period, as provided for below.

E. FINAL CONTRACT

The final Contract shall be a combination of the specifications, terms, and conditions of the RFP, any written clarifications or amendments made to the RFP, the offer contained in the successful proposal, and any additional contractual terms and conditions agreed to, mutually and in writing, by both parties.

F. TERM OF CONTRACT

The initial Contract for each Provider shall be for an eighteen (18) month period commencing on January 1, 2012 and ending on June 30, 2013. Thereafter, the contract shall be eligible for four (4) annual renewals, subject to mutual agreement of the parties. Any resulting Contract may be terminated at the Systems' discretion, either with or without cause, upon thirty (30) days written notice to the Provider. The Provider or Providers selected from this RFP process will not be prohibited from submitting a proposal for any subsequent Contract.

G. SCHEDULE OF EVENTS

1) **RFP ISSUED**: July 21, 2011

2) **INQUIRY PERIOD**: **Inquiries and requests for clarification or interpretation of this RFP from potential bidders will only be accepted if submitted in writing, (by mail, e-mail, or fax) BEFORE 4:30 p.m. EST on August 19, 2011**. Please mail, e-mail, or fax all inquiries to:

   Kentucky Retirement Systems
   ATTN: Hon. Jennifer A. Jones, Interim General Counsel
   1260 Louisville Road
   Frankfort, KY 40601
   E-mail: jennifer.jones@kyret.ky.gov
   Fax: (502) 696-8801

3) **RESPONSE TO INQUIRIES**: Responses to questions will be posted on the Systems' website by August 24, 2011.

4) **PROPOSALS DUE**: Proposals must be received by 4:30 p.m. EST on September 6, 2011.

5) **FINALIST INTERVIEWS**: If interviews are required, Committee members will conduct them at the Systems' offices during the week of October 10-14, 2011.

6) **SELECTION ANNOUNCEMENT (TENTATIVE)**: The Systems will notify all Providers that submitted a qualified proposal of its final selection after the regularly scheduled Board of Trustees Quarterly Meeting held on November 17, 2011.

EXHIBIT 71

KENTUCKY RETIREMENT SYSTEMS

REQUEST FOR PROPOSALS

LEGAL SERVICE PROVIDER FOR

TAX AND FIDUCIARY

2016

I. PURPOSE AND BACKGROUND

A. PURPOSE

Kentucky Retirement Systems ("KRS"), a quasi-independent state agency, is currently accepting proposals from qualified firms and attorneys to provide professional legal services as outside legal counsel for tax and fiduciary law. ("Provider").

B. BACKGROUND

KRS is a qualified "governmental" defined benefits plan, established pursuant to §401(a) of the Internal Revenue Code, that is responsible for the investment of funds and the administration of pension and health insurance benefits for its members. KRS administers three (3) separate retirement plans for various state and local government employees and an insurance trust. These plans include: Kentucky Employees Retirement System (KERS) for hazardous and non-hazardous employees of the Commonwealth, County Employees Retirement System (CERS) for hazardous and non-hazardous employees of approximately 1,400 city and county agencies, and State Police Retirement System (SPRS) for all uniformed Kentucky State Troopers. As of June 30, 2016, KRS served a combined total of 364,710 active, inactive, and retired members in the three combined systems. KRS administers approximately $15 billion in assets.

Management of KRS is vested in a Board that consists of seventeen (17) directors. Ten (10) directors are appointed by the Governor of the Commonwealth of Kentucky, two (2) directors are elected by the membership of the Kentucky Employees Retirement System, three (3) directors are elected by the membership of the County Employees Retirement System, and one (1) director is elected by the membership of the State Police Retirement System. The Secretary of the Personnel Cabinet is an ex-officio director. Board meetings are open to the public and comply with the Kentucky Open Meetings statutes found at KRS 61.800-850 *et.seq.* The Board stands in a fiduciary relationship to all members of KRS. Administrative management of KRS is vested in an Executive Director who is appointed by the Board. KRS employs approximately 256 staff members at its location in Frankfort, Kentucky.

KRS administers a health insurance trust (established pursuant to IRC §115) and 401(h) accounts to assist in funding its retiree health care obligations. KRS 61.701 establishes the "Kentucky Retirement Systems Insurance Fund" as a separate fund to provide fringe benefits to recipients of the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. KRS 61.702 provides that all amounts necessary to provide for insurance benefits shall be paid to the insurance fund. The Board administers the fund in the same manner as the retirement funds.

This RFP is posted on KRS website at http://kyret.ky.gov. All notifications, releases, and amendments will be posted to the website. Kentucky Retirement Systems will make no attempt whatsoever to contact bidders with updated information. It is the sole responsibility of each individual bidder to periodically check the website for updated information.

This RFP is not subject to the provisions of KRS Chapter 45A (the Kentucky Model Procurement Code), but rather is issued in accordance with the specific statutory authority granted by KRS 61.645(2)(d). Proposals will be accepted and considered from any attorney or law firm that meets the minimum qualifications and is willing and able to provide all the services outlined in the relevant Scope of Services section or sections of this RFP. All qualified firms and attorneys are encouraged to respond.

II. SCOPE OF SERVICES: TAX AND FIDUCIARY COUNSEL

Legal services will be provided on a strictly as-needed basis and there will be no guarantee of any minimum amount of work. Providers are advised that the scope of services will be considered to include, in addition to the services specified below, any services understood by competent counsel to be reasonably necessary to satisfy the duties of tax and fiduciary counsel to a defined benefits public pension plan. Services will include, but not necessarily be limited to, the following:

Provision of legal advice on fiduciary law issues, including:

- Compliance with fiduciary responsibilities
- Compliance with state and federal statutory requirements
- Ethics and conflicts of interest issues
- Administrative processes
- Legal authority and processes
- Benefits and plan design issues
- Investment policies and procedures
- Risk management
- Liability and insurance coverage
- Audits and investigations
- Annual report publication
- Training on fiduciary issues

Provision of legal advice on public pension plan administration issues including:

- Tax qualification issues
- Taxation of distributions
- Compliance with all relevant IRS regulations
- Compliance with all IRS reporting requirements
- Drafting, reviewing, and interpreting state legislation with potential tax consequences
- Providing oral and written legal opinions on tax matters
- Advising the Systems of changes to relevant laws and regulations in a timely manner
- Drafting and/or reviewing the Systems policies and procedures
- Drafting, reviewing, and interpreting federal legislative and regulatory materials
- Preparing requests for private letter rulings
- Representing the Systems in any actions before federal administrative agencies pertaining to taxation issues
- Representing the Systems in any litigation that may arise in state and federal courts pertaining to taxation issues

- Responding to information requests from the IRS and any other federal or state agencies
- Attending Board of Directors and/or Committee meetings if requested to do so
- Attending meetings and hearings, including legislative hearings, if requested to present information or respond to questions concerning qualification issues, pension plan design, or any other federal taxation issues

Provide other legal services as requested by the Systems.

III. PROPOSAL SUBMISSION DIRECTIONS AND PROCEDURAL INFORMATION

A. INSTRUCTIONS FOR SUBMITTING A PROPOSAL

1) Providers responding to this RFP must completely respond to all the information requests and questions contained in Part IV of this RFP. All proposals must be complete in every respect and must address all of the questions raised in the RFP. Sufficient supporting documentation should be included whenever possible. Incomplete submissions will be deemed non-responsive and will not be considered in the selection process. Late submissions will not be accepted, and will be returned unopened to the Provider.
2) Proposals shall be accompanied by a cover letter providing factual and verifiable information that the Provider meets all of the minimum qualifications set forth in Part IV of this RFP and is willing and able to provide all the services requested. The cover letter must indicate that the signer is authorized to contractually bind the Provider, and include the title or position of the signer.
3) The cover letter, the proposal itself, and any clarifications to the proposal, must be signed by an officer, designated agent, or principal who has legal authority to bind the Provider in contract.
4) When preparing proposals, please use Microsoft Word format for all text and Microsoft Excel format for any spreadsheets.
5) Proposals should mirror the order of questions as they are asked in Part IV of this RFP. In response to each question, please restate the main request/question (denoted by number) in bold font followed by your answers stated in regular font. Responses should be thorough and pertinent to the particular question.
6) Any supporting material or documentation must be clearly referenced to the appropriate question. Advertisements or strictly promotional materials should not be used and may disqualify the Provider from further consideration.
7) Any proprietary or confidential information must be prominently marked as such. Information that is not clearly designated as proprietary in nature will be subject to disclosure under the Kentucky Open Records Act; KRS Chapter 61, *et seq*.
8) All questions relating to this RFP shall be directed to Angela Stevens, Administrative Specialist III. Questions will only be accepted during the formal Inquiry Period specified in Part V of this RFP. Written questions can be sent to the mailing address specified below or e-mail questions to: angela.stevens@kyret.ky.gov. Written responses to questions will be posted on KRS' website.

9) Communicating, either directly or indirectly, on the topic of this RFP, with any other of KRS' employees or Board members during the RFP process will result in immediate disqualification from the selection process. See Section C, below.
10) Proposals shall be submitted to KRS by the close of business, **4:30 p.m. EST, on November 7, 2016**. Faxed copies are **not** considered a qualifying response, and will not be reviewed. All responding Providers shall submit ten (10) hard copies of the proposal, along with an electronic copy saved in .pdf format on a CD, to the following address:

ATTN: Angela Stevens
Administrative Specialist III
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601

11) All proposals should be placed in a sealed envelope and clearly marked "RFP – LEGAL SERVICE PROVIDER FOR TAX AND FIDUCIARY COUNSEL."

B. REJECTION OF PROPOSALS

1) Kentucky Retirement Systems reserves the right to reject any or all proposals received in response to this solicitation, due to noncompliance with the RFP, or for any other reason. Any and all expenses incurred by responding to this RFP are the sole responsibility of the Provider. KRS will not pay for any information requested herein, nor will it reimburse any costs incurred by the submitting Provider.
2) After the evaluation of all qualified proposals and final Board approval, all Providers who submitted qualified proposals will be notified of the successful bid. Providers whose proposals did not meet the mandatory requirements will be notified of that fact.
3) KRS specifically reserves the right to not hire or to defer the hiring of any Provider under this RFP if such action is deemed to be in the agency's best interest.

C. NO CONTACT POLICY

Respondents shall not contact any member of the Kentucky Retirement Systems' staff concerning the procurement process until after the process is completed, unless the content of the communication is first submitted in writing addressed to the designated contact for this RFP, Angela Stevens. In order to facilitate current business operations, a limited exception to this rule applies to any Provider currently representing KRS. However, any contact made by such Providers must be strictly limited to current business matters arising under a previously existing Contract only, and shall **not** relate to this RFP.

D. RIGHT TO WITHDRAW PROPOSAL

Providers will be allowed to withdraw their proposals at any time prior to the final deadline for the receipt of proposals. The Provider must submit a written request to withdraw that is signed by the designated contact. Withdrawal requests should be sent to the attention of Angela Stevens.

E. DISCLOSURE OF PROPOSAL CONTENT

All proposals submitted become the property of KRS and shall not be subject to public inspection until after the negotiation process is concluded either by the award of a Contract or at the direction of the Board. Upon completion of the selection process, all proposals are subject to KRS Chapter 61, §870-884 *et seq.* (the Kentucky Open Records Act), with the limited exception of any information that has been specifically designated as proprietary in nature. It is the sole responsibility of the Provider to clearly identify qualifying sections as such. Therefore, please identify on each individual page of your response any text that constitutes proprietary information or trade secrets.

F. OBLIGATIONS UNDER THE PROPOSAL

The contents of the proposal (and any clarifications submitted thereto) from the successful Provider shall become part of the contractual obligation and will be incorporated by reference into the resulting Contract. KRS reserves the right to request clarifications to the proposal after its receipt.

G. CONTINUED DISCLOSURE

Ongoing and timely disclosure of any existing or potential conflicts of interest that would impact the Provider's independence, perceived independence, or its ability to fully perform the tasks outlined in this RFP, will be a continuing requirement for the life of the Contract.

H. DISPOSITION OF PROPOSALS

All proposals become the property of KRS and will not be returned to the Provider. However, any proposals that are received after the stated deadline will be returned to the Provider unopened.

I. GOVERNING LAW

All of the terms and conditions of this RFP, and any resulting Contract, shall be construed in accordance with the laws of the Commonwealth of Kentucky.

J. SIGNATURE OF PROVIDER'S AGENT

The submission letter, the proposal, and any modifications to the proposal, must all be signed by someone with contracting authority for the Provider.

K. SYSTEMS CONTRACT SIGNATORY

David L. Eager, Interim Executive Director, Kentucky Retirement Systems, is the designated signatory for KRS.

L. AWARD OF CONTRACT

KRS has a responsibility to all of its members, and to the Commonwealth of Kentucky, to select Providers that offer high quality work at the best possible value. KRS, therefore, reserves the right to award these Contracts, not necessarily to the Provider who offers the lowest cost proposal, but to the Provider who provides the best match of skills at the best value for the particular RFP. The Provider(s) recommended for Board approval will be determined in accordance with the evaluation criteria defined in Part V below.

IV. INFORMATION REQUIRED BY KRS

Providers must submit a signed proposal to KRS that includes the following information:

1) Name, title, and complete contact information of the individual who will serve as the Provider's primary contact for KRS;
2) A brief history of the firm. Please disclose whether there have been any significant business developments in the past three years, such as mergers, restructuring, or changes in ownership. Provide a firm resume if one is readily available;
3) A brief description of the firm's relevant practice, particularly as it pertains to institutional investors, including public pension plans;
4) Resumes for all principals and resumes of any attorneys who will provide services to KRS. Resumes should detail educational qualifications, admitted jurisdictions, work experience, licenses and/or certifications, special awards or recognitions, membership in any professional organizations, and any previous work experience in specific areas of expertise;
5) A list of any relevant training, seminars, CLEs, special recognition, or publications attributable to the Provider;
6) A detailed explanation for any proposed use of subcontractors. Any proposed subcontractors must be identified by name. Please note that the Provider remains wholly responsible for the entire performance of any resulting Contract, regardless of whether subcontractors are used or not.
7) Names and addresses of at least three (3) representative clients (either public or private entities) for which the Provider currently or has previously served as similar counsel;
8) Proof of insurance and coverage amounts for all legal malpractice and professional liability policies the Provider carries;
9) A statement of whether the Provider has settled any past claims related to the provision of similar services;
10) A statement of whether the Provider has any current claims pending against it related to the provision of similar services;
11) Full disclosure of: (i) any prior commitments of Provider which could potentially interfere with its ability to perform the services required by this RFP; (ii) any prior or current work, clients, or litigation which could result in a conflict of interest for the Provider, should it be engaged to perform legal services for KRS; (iii) any business affiliations or professional associations that could potentially pose a conflict of interest for the Provider, should it be engaged to perform legal services for KRS; and (iv) a list and description of any professional relationship(s) the Provider (or any of its current partners, principals, agents, employees, or staff) has with: any member of the Kentucky Retirement Systems Board of Directors, any employee of the Kentucky Retirement Systems, or the Commonwealth of

Kentucky. Please note that such disclosures will be a continuing requirement for the life of the Contract;

12) Respond to the following question: Has the Provider (or any of its current partners, principals, agents, employees, or staff) been censured, fined, or reprimanded, either publicly or privately, by any licensing or regulatory body within the last ten (10) years?;
13) A detailed fee schedule with hourly rates for all individuals who will perform the services detailed within the relevant Scope of Services section or sections.

V. EVALUATION OF PROPOSALS

A. The Board of Directors

The Board of Directors (Board), with the advice and assistance of KRS staff, will evaluate and score proposals, select finalists, and conduct interviews of finalists (if necessary). If interviews are necessary, the finalists will be interviewed at KRS' offices in Frankfort, Kentucky. Travel to Kentucky for interviews will be at the sole expense of the Provider. The Board will make the final selection decision. The Board may take into account any and all factors it deems necessary and proper to determine the best value to KRS, its members, and the Commonwealth of Kentucky.

B. EVALUATION CRITERIA

All qualifying proposals shall be evaluated by the Board through a consensus scoring process. The Board will assign a numerical evaluation to each proposal considered based upon the following list of factors. The following weights will be assigned to these factors:

1) The Provider's Qualifications	25%
2) The Provider's Relevant Experience	25%
3) The Provider's Available Resources	25%
4) The Provider's Cost Proposal	25%
	100%

If interviews are conducted, responses will be ranked, and those rankings will be noted on each Provider's submission. The Committee expressly reserves the right to use, review, or consult any outside information available to it to supplement its evaluation of any proposal.

C. RIGHT TO WAIVE MINOR IRREGULARITIES

The Board reserves the right to waive minor irregularities in proposals. This right is at the sole discretion of the Board.

D. APPROVAL PROCESS

Based upon the outcome of the numerical rankings, oral interviews may be conducted with the Providers with the highest ranking proposals. KRS' reserves the right to determine whether or not interviews will be conducted. Determination of the need to conduct interviews and how many Providers will be interviewed is at the sole discretion of the Board.

Board members, KRS staff and RFP respondents shall have no contact regarding this RFP, either verbal or written, prior to the Interview phase of the process, except for the limited purpose of a formal Inquiry Period, as provided for below.

E. FINAL CONTRACT

The final Contract shall be a combination of the specifications, terms, and conditions of the RFP, any written clarifications or amendments made to the RFP, the offer contained in the successful proposal, and any additional contractual terms and conditions agreed to, mutually and in writing, by both parties.

F. TERM OF CONTRACT

The initial Contract for each Provider shall be for a twenty-four (24) month period commencing on July 1, 2017 and ending on June 30, 2019. Thereafter, the contract shall be eligible for three (3) annual renewals, subject to mutual agreement of the parties. Any resulting Contract may be terminated at KRS' discretion, either with or without cause, upon thirty (30) days written notice to the Provider. The Provider or Providers selected from this RFP process will not be prohibited from submitting a proposal for any subsequent Contract.

G. SCHEDULE OF EVENTS

1) **RFP ISSUED**: October 4, 2016

2) **INQUIRY PERIOD**: **Inquiries and requests for clarification or interpretation of this RFP from potential bidders will only be accepted if submitted in writing, (by mail, e-mail, or fax) BEFORE 4:30 p.m. EST on October 26, 2016.** Please mail, e-mail, or fax all inquiries to:

   Kentucky Retirement Systems
   ATTN: Angela Stevens
   1260 Louisville Road
   Frankfort, KY 40601
   E-mail: angela.stevens@kyret.ky.gov
   Fax: (502) 696- 8615

3) **RESPONSE TO INQUIRIES**: Responses to questions will be posted on KRS' website by October 31, 2016.

4) **PROPOSALS DUE**: Proposals must be received by 4:30 p.m. EST on November 7, 2016.

5) **FINALIST INTERVIEWS**: If interviews are required, KRS staff will conduct them at KRS' offices during the week of November 14-18, 2016.

6) **PRESENTATION TO BOARD:** KRS staff will present its review of the Respondents to the Board of Directors of Kentucky Retirement Systems at the December 1, 2016 quarterly meeting. Thereafter, the Board of Directors of Kentucky Retirement Systems will vote on its final selection(s) of Provider(s) to satisfy the RFP.

7) **SELECTION ANNOUNCEMENT (TENTATIVE)**: KRS will notify all Providers that submitted a qualified proposal of its final selection(s) after the regularly scheduled Board of Directors Quarterly Meeting held on December 1, 2016.

EXHIBIT 72

To: 'Bill Smith'[billsmith@vci.net]
From: "Jones, Jennifer \(KRS\)"["Jones, Jennifer \(KRS\)"]
Sent: Thur 11/19/2015 1:40:48 PM (UTC-05:00)
Subject: RE: open records request
Attachment
Master Fiduciary Liability Policy.pdf

Attached is the fiduciary liability insurance policy you requested. This response answers your request. If you have any questions, please feel free to contact me.

?????

Jennifer A. Jones

Jennifer A. Jones

Assistant General Counsel

Kentucky Retirement Systems

1260 Louisville Road

Frankfort, Kentucky 40601

502-696-8645

Fax: 502-696-8615

From: Bill Smith [mailto:billsmith@vci.net]
Sent: Tuesday, November 17, 2015 3:53 PM
To: Jones, Jennifer (KRS)
Subject: open records request
Importance: High

Ms. Jones:

Please send a copy of the current fiduciary liability insurance for the KRS Board of Trustees.

Thank you!

Sincerely,

Bill Smith

270-836-9211

This email has been checked for viruses by Avast antivirus software.
www.avast.com

EXHIBIT 73

To: Thompson, Buryl (Finance State Risk)[buryl.thompson@ky.gov]; Eager, David (KRS)[David.Eager@kyret.ky.gov]
From: Roggenkamp, Karen (KRS)[/O=KYGOVTMAIL/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=ROGGENKAMP, KAREN (KRS)8C1]
Sent: Mon 2/13/2017 3:12:22 PM (UTC-05:00)
Subject: RE: Fiduciary Liability Insurance - USM

Thanks for the update. Below are the links the 2016 financial reports on our website.

https://kyret.ky.gov/Investments%20Annual%20Reports/2016%20SAFR%20(Summary%20Annual%20Financial%20Report).pdf

https://kyret.ky.gov/Investments%20Annual%20Reports/2016%20CAFR%20(Comprehensive%20Annual%20Financial%20Report).pdf

Karen D. Roggenkamp
Executive Director, Office Of Operations
Kentucky Retirement Systems
Tel: (502) 696-8455

From: Thompson, Buryl (Finance State Risk) [mailto:buryl.thompson@ky.gov]
Sent: Monday, February 13, 2017 2:49 PM
To: Roggenkamp, Karen (KRS) <Karen.Roggenkamp@kyret.ky.gov>; Eager, David (KRS) <David.Eager@kyret.ky.gov>
Subject: Fiduciary Liability Insurance

I enjoyed meeting with you today and hope I was able to shed some light on this difficult issue. However, I feel like I stumbled a bit with what specifically fiduciary liability insurance provides. Let me try again:

Fiduciary Liability Insurance covers damages that the insured (KRS) becomes legally obligated to pay because of a breach of fiduciary duty with respect to covered employee benefit plans. This coverage encompasses the types of discretionary acts such as faulty selection of a benefit plan manager or improper investments of plan assets. Persons & organizations covered under the current policy includes the employer sponsoring the employee benefit plan and the plans themselves. Additionally, the policy covers all past, present and future partners, directors, officers or employees of the sponsoring organization or plan in their capacities as fiduciaries, administrators or trustees of a covered plan.

The policy is on a claims made form which means it will provide insurance coverage for claims made during the policy period regardless of the date of the alleged loss but in the specific case of the policy in place currently, the coverage will go back only to 5/25/2016.

I hope this clarifies the insurance coverage better that what I tried to articulate.

Buryl

Buryl L. Thompson, CPCU, AIM, AU

Assistant Director
State Risk & Insurance Services Division
Finance & Administration Cabinet
209 St. Clair Street, 5th Floor
Frankfort, KY 40601
(502) 564-6055 Office
(502) 782-5438 Direct Line
(502) 564-2693 FAX
Visit our website to access forms: http://finance.ky.gov/offices/controller/Pages/dsris.aspx

EXHIBIT 74

Cavanaugh Macdonald
CONSULTING, LLC

The experience and dedication you deserve

Kentucky Retirement Systems

Experience Study

For the Five-Year Period

Ending June 30, 2013

www.CavMacConsulting.com

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Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

April 30, 2014

Board of Trustees
Kentucky Retirement Systems
1260 Louisville Road
Frankfurt, K 40601

Dear Members of the Board

We are pleased to submit the results of a study of the economic and demographic experience for the Kentucky Employees Retirement System, the County Employees Retirement System and the State Police Retirement System. The purpose of this investigation is to assess the reasonability of the actuarial assumptions for each system. This investigation covers the five-year period from July 1, 2008 to June 30, 2013. As a result of the investigation, it is recommended that revised assumptions be adopted by the Board for future use.

The experience studies for each system include all active members, retired members and beneficiaries of deceased members. The mortality experience was studied separately for males and females. Incidences of withdrawal, disability, retirement and compensation increases were investigated without regard to gender.

This report shows comparisons between the actual and expected cases of separation from active service, actual and expected number of deaths, and actual and expected salary increases. Tables and graphs are used to show the actual decrement rates, the expected decrement rates and, where applicable, the proposed decrement rates.

The newly proposed rates of separation and mortality for all five systems are shown in Appendix D of this report. In the actuary s udgment, the recommended rates are suitable for use until further experience indicates that modifications are needed.

Actuarial Assumptions are used to measure and budget future costs. Changing assumptions will not change the actual cost of future benefits.

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144
Phone (678) 388-1700 Fax (678) 388-1730
www.CavMacConsulting.com
Offices in Englewood, CO Kennesaw, GA Bellevue, NE Hilton Head Island, SC

The experience study was performed by, and under the supervision of, independent actuaries who are members of the American Academy of Actuaries with experience in performing valuations for public retirement systems. The undersigned meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Thomas J. Cavanaugh FSA, FCA, MAAA, EA
Chief Executive Officer

Todd B. Green ASA, FCA, MAAA
Principal and Consulting Actuary

Alisa Bennett, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

TJC:tbg

S:\Kentucky Retirement Systems\Experience Studies\2013\Experience Study 2008-2013\KRS Experience Study Report 2008-2013 Draft.docx

SUMMARY OF RESULTS

The following summarizes the findings and recommendations with regard to the assumptions utilized by the Kentucky Employees Retirment System (KERS), the County Employees Retirement System (CERS) and the State Police Retirement System (SPRS). Explanations for the recommendations are found in the sections that follow.

Recommended Economic Assumption Changes

The table below lists the three economic assumptions used in the actuarial valuation and their current and proposed rates. We recommend lowering the assumed rate of price inflation, the assumed rate of return on assets and the assumed rate of wage inflation for all five Systems.

Assumption	Current	Proposed
Price Inflation	3.50%	3.25%
Wage Inflation	4.50%	4.00%
Investment Return		
KERS Non-Hazardous	7.75%	7.50%
KERS Hazardous	7.75%	7.50%
CERS Non-Hazardous	7.75%	7.50%
CERS Hazardous	7.75%	7.50%
SPRS	7.75%	7.50%

Recommended Demographic Assumption Changes

The table below lists the demographic assumptions that we recommend be changed based on the experience during the last five years.

Assumption Changes
KERS Non-Hazardous
Increase rates of withdrawal
Update rates of pre-retirement mortality
Decrease rates of disability retirements
Adjust rates of retirement
Update post-retirement mortality
Update Other Post-Employment Benefit assumptions
KERS Hazardous
Increase rates of withdrawal
Update rates of pre-retirement mortality
Decrease rates of disability retirements
Adjust rates of retirement
Update post-retirement mortality
Update Other Post-Employment Benefit assumptions
CERS Non-Hazardous
Increase rates of withdrawal
Update rates of pre-retirement mortality
Decrease rates of disability retirements
Adjust rates of retirement
Update post-retirement mortality
Update Other Post-Employment Benefit assumptions
CERS Hazardous
Increase rates of withdrawal
Update rates of pre-retirement mortality
Adjust rates of retirement
Update post-retirement mortality
Update Other Post-Employment Benefit assumptions
SPRS
Increase rates of withdrawal
Update rates of pre-retirement mortality
Adjust rates of retirement
Update post-retirement mortality
Update Other Post-Employment Benefit assumptions

Recommended Method Changes

In keeping with the real wage growth change, we recommend that the payroll growth assumption for amortization as a level percent of pay be reduced from 4.50% to 4.00%.

Financial Impact

The following tables highlight the impact of the recommended changes on the unfunded accrued liabilities (UAL), funded statuses and employer contribution rates for the five systems for both the pension and the insurance funds.

	Pension		Insurance	
System	Before Change	After Change	Before Change	After Change
KERS Non-Hazardous				
UAL	$8,750,479,307	$9,152,135,582	$1,631,169,807	$1,801,450,791
Funded Status	23.15%	22.36%	23.37%	21.64%
Employer Rate	30.84%	32.54%	7.93%	8.27%
KERS Hazardous				
UAL	$278,323,786	$318,776,485	$14,743,272	$(6,845,174)
Funded Status	64.50%	61.33%	96.18%	101.88%
Employer Rate	16.37%	19.27%	9.97%	7.63%
CERS Non-Hazardous				
UAL	$3,741,781,631	$4,459,335,404	$815,649,903	$946,198,707
Funded Status	60.10%	55.83%	66.62%	63.25%
Employer Rate	12.75%	15.34%	5.35%	5.11%
CERS Hazardous				
UAL	$1,322,514,183	$1,432,756,145	$544,558,426	$519,882,134
Funded Status	57.67%	55.70%	62.11%	63.20%
Employer Rate	20.73%	19.63%	14.97%	12.40%
SPRS				
UAL	$409,780,326	$444,015,689	$86,005,683	$95,606,709
Funded Status	37.11%	35.26%	61.32%	58.78%
Employer Rate	53.90%	59.91%	21.86%	23.29%

ECONOMIC ASSUMPTIONS

There are three economic assumptions used in performing the actuarial valuation for the KERS, CERS and SPRS. The assumptions are:

- Price Inflation
- Investment Return
- Wage Inflation

The Actuarial Standards Board has issued Actuarial Standard of Practice (ASOP) No. 27, *"Selection of Economic Assumptions for Measuring Pension Obligations"*, which provides guidance to actuaries in selecting economic assumptions for measuring obligations under defined benefit plans. As noted in ASOP No. 27, because no one knows what the future holds, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes based on a mixture of past experience and future expectations. These estimates therefore are best stated as a range utilizing the actuary's professional judgment. In setting the range and the single point within that range to use, the actuary should consider a number of factors, including the purpose and nature of the measurement, and appropriate recent and long-term historical economic data. However, the standard explicitly advises the actuary not to give undue weight to recent experience.

Each economic assumption should individually satisfy this standard. Furthermore, with respect to any particular valuation, each economic assumption should be consistent with every other economic assumption over the measurement period.

In our opinion, the economic assumptions recommended in this report have been developed in accordance with ASOP No. 27. The following table shows our recommendations followed by explanations of each assumption.

Item	Current	Proposed
Price Inflation	3.50%	3.25%
Real Rate of Return	4.25	4.25%
Investment Return	7.75%	7.50%
Price Inflation	3.50%	3.25%
Real Wage Growth	1.00	0.75
Wage Inflation	4.50%	4.00%

PRICE INFLATION

Background: As seen in the table on the previous page, assumed price inflation is used as a component for both the investment return assumption and the wage inflation assumption. The latter two assumptions will be discussed in detail in the following sections.

It is important that the price inflation assumption be consistently applied throughout the economic assumptions utilized in an actuarial valuation. This is called for in ASOP No. 27 and is also required to meet the parameters for determining pension liabilities and expense under Governmental Accounting Standards Board (GASB).

The current price inflation assumption is 3.50% per year.

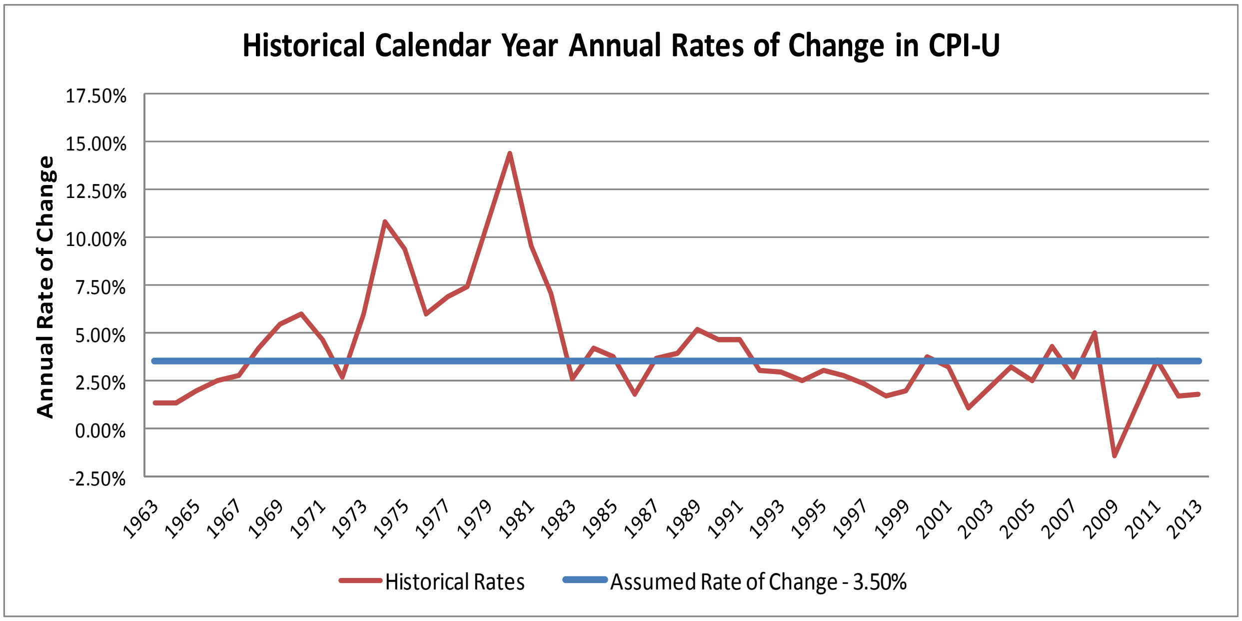
Past Experience: The Consumer Price Index, US City Average, All Urban Consumers, CPI (U), has been used as the basis for reviewing historical levels of price inflation. The level of that index in June of each of the last 50 years is provided in Appendix A.

In analyzing this data, average rates of inflation have been determined by measuring the compound growth rate of the CPI (U) over various time periods. The results are as follows

Period	Average Annual Rate of Inflation
2003 2013	2.43%
1993 2013	2.43%
1983 2013	2.88%
1973 2013	4.25%
1963 2013	4.15%
1953 2013	3.67%
1926 - 2013	2.99%

Over shorter historic periods, the average annual rate of increase in the CPI-U has been below 3.00%. The years of high inflation occurring from 1973 to 1982 has a significant impact on the averages over periods which include these rates. We should add that since 1926, the average annual rate of inflation was 2.99%.

The graph below shows the annual increases in the CPI (U) over a 50-year period.



Additional information to consider when determining the reasonable range is obtained from measuring the spread on inflation protected treasury bills (TIPS) and from the prevailing economic forecasts. The spread between the nominal yield on treasury securities and the inflation indexed nominal yield on TIPS of the same maturity is referred to as the "breakeven rate of inflation" and represents the bond market's expectation of inflation over the period to maturity. The table below provides the calculation of the breakeven rate of inflation as of December 31, 2013 over various periods.

Years to Maturity	Bond Nominal Yield	TIPS Nominal Yield	Breakeven Rate of Inflation
10	3.04%	0.80%	2.24%
20	3.72%	1.36%	2.36%
30	3.96%	1.64%	2.32%

The bond market's expectation for the rate of inflation is lower than historical average annual rates. Additionally, based upon information provided from the "Survey of Professional Forecasters" published by the Philadelphia Federal Reserve Bank, the median annual rate of inflation for the ten years beginning January 1, 2013 is 2.30%.

Recommendation: It is difficult to accurately predict inflation. Current economic forecasts and the bond market suggest lower inflation over the next ten to twenty years when compared to the historical averages, which is a shorter time period than appropriate for our purposes. In the 2013 OASDI Trustees Report, the Chief Actuary for Social Security bases the 75-year cost projections on an intermediate inflation assumption of 2.8% with a range of 1.8% - 3.8%. We concur in general with a range of 2.0% - 4.0%, and recommend reducing the assumed rate of inflation from 3.50% to 3.25% per year rate still recognizing the likely inflation pressures built into the economy at the current time.

Price Inflation Assumption	
Current	3.50%
Reasonable Range	2.00 - 4.00%
Recommended	3.25%

INVESTMENT RETURN

Background: The assumed investment return is one of the most significant assumptions in the annual actuarial valuation process as it is used to discount the expected benefit payments for all active, inactive and retired members of the System. Minor changes in this assumption can have a major impact on valuation results. The investment return assumption should reflect the asset allocation target for the funds set by the Board.

The current assumption is 7.75%, consisting of a price inflation assumption of 3.50% and a real rate of return assumption of 4.25%. The return is net of all investment expenses.

Past Experience: The actuarial value of assets of the System are developed using a widely accepted asset-smoothing methodology that fully recognizes investment gains and losses over a five-year period. The recent experience for the retirement funds over the last eight years is shown in the table below.

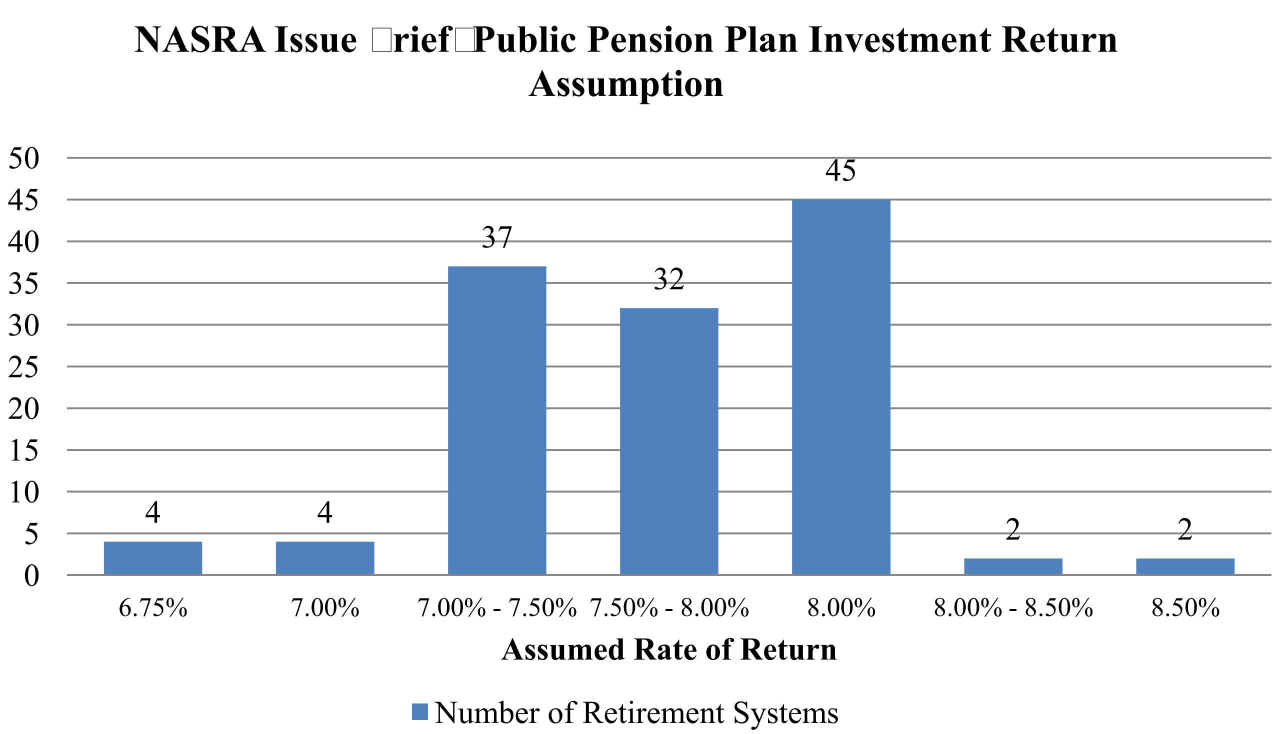
Year Ending 6/30	Insurance Funds		Pension Funds	
	Actuarial Value Rate of Return	Market Value Rate of Return	Actuarial Value Rate of Return	Market Value Rate of Return
2006	7.83%	11.91%	4.97%	9.70%
2007	10.33	17.79	9.01	15.29
2008	7.95	(7.82)	8.02	(4.09)
2009	0.36	(22.95)	1.74	(17.72)
2010	0.28	15.12	1.37	16.37
2011	3.46	22.64	3.60	19.13
2012	1.01	(3.40)	1.11	0.01
2013	4.50	10.04	4.29	11.10
Average	**[illegible]**	**[illegible]**	**[illegible]**	**[illegible]**

Because of the significant variability in past year-to-year results and the inter-play of inflation on those results in the short term, we prefer to base our investment return assumption on the capital market assumptions utilized by the Board in setting investment policy and the asset allocation established by the Board as a result of that policy. This approach is referred to as the building block method in ASOP No. 27.

Historical Analysis: The historical 50-year real rate of return of the S&P 500 has averaged 5.60%, and the 50-year real rate of return of intermediate-term government bonds as provided by *Ibbotson SBBI 2014 Classic Yearbook* has averaged 2.81%. By weighting these rates by common allocation of large retirement funds (30%/70% to 70%/30%) we construct the reasonable range for real rates of return to be from 3.98% to 5.11%. The following table shows various annualized rates of return based on different time periods and different allocations between equities and bonds.

Time Span In Years	Real Returns by Portfolio Allocation Equities vs. Bonds			
	30%/70%	35%/65%	65%/35%	70%/30%
10	3.41%	3.61%	4.53%	4.64%
20	4.59	4.82	5.97	6.12
30	5.89	6.11	7.21	7.36
40	4.67	4.86	5.85	5.98
50	**3.98**	4.14	4.99	**5.11**

Peer Analysis: Review of the *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions* update as of December 2013, 8.00% is the predominant assumption for public sector pension systems while the median is 7.72%.



Analysis: The current capital market assumptions and asset allocations are shown in Appendix B. Using statistical distribution properties based upon capital market assumptions utilized by the Board, provided by RVKuhns in setting the System's asset allocation targets, provides an expected range of real rates of return over various time horizons.

It is important to note that capital market assumptions can be quite volatile from year to year as they tend to forecast shorter time horizons than typically required by the public plan actuarial community when looking at the long-term time horizon of a public pension system. For example the expected real arithmetic return for KERS Non-Hazardous Pension Fund utilizing the 2010 asset allocation decreases from 5.43% to 4.93% and further to 4.57% based on the 2010, 2012, and 2014 capital market assumptions, respectively, provided by the Board's investment consultant. The following tables provide a summary of results of our analysis of the current capital market assumptions provided by RVKuhns.

KERS Non-Hazardous

Time Span In Years	Real Returns by Percentile				
	5th	25th	50th	75th	95th
1	-13.97%	-3.98%	3.65%	11.88%	24.88%
5	-4.64%	0.17%	3.65%	7.25%	12.66%
10	-2.28%	1.17%	3.65%	6.18%	9.94%
20	-0.58%	1.89%	3.65%	5.43%	8.06%
30	0.18%	2.21%	3.65%	5.10%	7.23%
50	0.95%	**2.53%**	3.65%	[illegible]	6.42%

KERS Hazardous, CERS Non Hazardous and CERS Hazardous

Time Span In Years	Real Returns by Percentile				
	5th	25th	50th	75th	95th
1	-14.43%	-4.11%	3.79%	12.34%	25.88%
5	-4.79%	0.18%	3.79%	7.53%	13.15%
10	-2.36%	1.22%	3.79%	6.42%	10.32%
20	-0.59%	1.97%	3.79%	5.64%	8.37%
30	0.20%	2.30%	3.79%	5.30%	7.51%
50	0.99%	[illegible]	3.79%	[illegible]	6.66%

SPRS

Time Span In Years	Real Returns by Percentile				
	5th	25th	50th	75th	95th
1	-14.44%	-4.12%	3.77%	12.32%	25.86%
5	-4.81%	0.16%	3.77%	7.51%	13.13%
10	-2.37%	1.21%	3.77%	6.40%	10.30%
20	-0.61%	1.95%	3.77%	5.62%	8.35%
30	0.18%	2.28%	3.77%	5.28%	6.99%
50	0.98%	[illegible]	3.77%	[illegible]	6.64%

The charts above and on the previous page show the percentile rankings for expected returns for the various funds. For example, in the KERS Non-Hazardous fund 20-year time span, 5% of the resulting real rates of return are expected to be below -0.58% and 95% expected to be above that. As the time span increases, the results begin to merge. Over a 50-year time span, the result indicate there is a 25% chance that real return will be below 2.53% and a 25% chance they will be above 4.77%. In other words there is a 50% chance the real returns will be between 2.53% and 4.77%. The results vary from fund to fund due to slightly different asset allocation targets.

Administrative and Investment Expenses ($ millions): Administrative expenses are directly reflected as a separate component in the calculation of the contribution rate. However, the investment return is assumed to be net of all investment-related expenses. The following table shows the ratio of expenses to Plan assets over the last eight years. The expense ratio is calculated as the total expense divided by the ending asset balance at fair market value.

	Market Value Assets	Investment Expense	Expense Ratio
2009	$11,938	$11.9	0.10%
2010	$12,969	$30.1	0.23%
2011	$14,776	$41.8	0.28%
2012	$13,878	$26.7	0.19%
2013	$14,675	$31.5	0.21%

Over the five-year period the expense ratio averaged approximately 0.20%. This assumption does not have a direct impact on the actuarial valuation results, but it does provide a measure of gross return on investments that will be needed to meet the actuarial assumption used for the valuation. For example, if the KERS non-hazardous pension fund investment return assumption is set at 7.00%, then the Fund would need to earn a gross return of 7.20% in order to meet the 7.00% for funding purposes. The capital market assumptions provided by RVKuhns are net of investment expenses—therefore a separate investment expense assumption is not necessary.

Recommendation: Using the building block approach of ASOP No. 27 and the projection results outlined above, we recommend a range for the investment return assumption of the 25th to 75th percentile real returns over the 50-year time span plus the recommended inflation assumption less the recommended expense ratio assumption. The tables on the following pages detail the ranges for the funds.

KERS Non-Hazardous

Item	25th Percentile	50th Percentile	75th Percentile
Real Rate of Return	2.53%	3.65%	4.77%
Inflation	3.25	3.25	3.25
Expenses*	0.00	0.00	0.00
Net Investment Return	5.78%	6.90%	8.02%

* *The capital market assumptions used to develop the reasonable range for the real rate of return are net of investment expenses. Therefore a separate assumption for investment expenses is not necessary.*

The current assumed rate of return of 7.75% is in line with its peer group of other public retirement systems, however, the 50th percentile net return based on the analysis utilizing the capital market assumptions provided by RVKuhns is 6.90% for the above referenced fund.

Historically, a portfolio of assets that consisted of 65% S&P 500 and 35% intermediate-term government bonds yielded a compound average real rate of return on of 4.99% over the last 50 years. When combined with the inflation assumption of 3.25% that would yield an assumed rate of return of 8.24% on a historical basis.

The capital market assumptions provided by RVKuhns are based on a shorter time horizon relative to the time horizon required by actuaries. The capital market assumptions reflect the current economic environment that has outperformed current expectations. Due to the cyclical nature of the economy it is expected that the financial markets cannot continue at the current pace, therefore expectations are muted in the short run which has heavily biased the capital market assumptions. The actuary does not put undo weight on recent experience when setting the long-term assumed rate of return. In addition, the capital market assumptions do not reflect excess return that is derived through active management and other asset deployment strategies.

Our recommendation taking into account historical analysis, peer group analysis and the capital market assumption analysis is 7.50%. For the KERS Non-Hazardous System this represents the 64th percentile which is well within the reasonable range developed above.

KERS Hazardous, CERS Non-Hazardous and CERS Hazardous

Item	25^{th} Percentile	50^{th} Percentile	75^{th} Percentile
Real Rate of Return	2.63%	3.79%	4.96%
Inflation	3.25	3.25	3.25
Expenses*	0.00	0.00	0.00
Net Investment Return	5.88%	7.04%	8.21%

* *The capital market assumptions used to develop the reasonable range for the real rate of return are net of investment expenses. Therefore a separate assumption for investment expenses is not necessary.*

The current assumed rate of return of 7.75% is in line with its peer group of other public retirement systems, however, the 50th percentile net return based on the analysis utilizing the capital market assumptions provided by RVKuhns is 7.04% for the above referenced fund.

Historically, a portfolio of assets that consisted of 65% S&P 500 and 35% intermediate-term government bonds yielded a compound average real rate of return on of 4.99% over the last 50 years. When combined with the inflation assumption of 3.25% that would yield an assumed rate of return of 8.24% on a historical basis.

The capital market assumptions provided by RVKuhns are based on a shorter time horizon relative to the time horizon required by actuaries. The capital market assumptions reflect the current economic environment that has outperformed current expectations. Due to the cyclical nature of the economy it is expected that the financial markets cannot continue at the current pace, therefore expectations are muted in the short run which has heavily biased the capital market assumptions. The actuary does not put undo weight on recent experience when setting the long-term assumed rate of return. In addition, the capital market assumptions do not reflect excess return that is derived through active management and other asset deployment strategies.

Our recommendation taking into account historical analysis, peer group analysis and the capital market assumption analysis is 7.50%. For the KERS Hazardous System and both CERS systems this represents the 61^{st} percentile which is well within the reasonable range developed above.

SPRS Pension

Item	25th Percentile	50th Percentile	75th Percentile
Real Rate of Return	2.62%	3.77%	4.94%
Inflation	3.25	3.25	3.25
Expenses*	0.00	0.00	0.00
Net Investment Return	5.87%	7.02%	8.19%

* *The capital market assumptions used to develop the reasonable range for the real rate of return are net of investment expenses. Therefore a separate assumption for investment expenses is not necessary.*

The current assumed rate of return of 7.75% is in line with its peer group of other public retirement systems, however, the 50th percentile net return based on the analysis utilizing the capital market assumptions provided by RVKuhns is 7.02% for the above referenced fund.

Historically, a portfolio of assets that consisted of 65% S&P 500 and 35% intermediate-term government bonds yielded a compound average real rate of return on of 4.99% over the last 50 years. When combined with the inflation assumption of 3.25% that would yield an assumed rate of return of 8.24% on a historical basis.

The capital market assumptions provided by RVKuhns are based on a shorter time horizon relative to the time horizon required by actuaries. The capital market assumptions reflect the current economic environment that has outperformed current expectations. Due to the cyclical nature of the economy it is expected that the financial markets cannot continue at the current pace, therefore expectations are muted in the short run which has heavily biased the capital market assumptions. The actuary does not put undo weight on recent experience when setting the long-term assumed rate of return. In addition, the capital market assumptions do not reflect excess return that is derived through active management and other asset deployment strategies.

Our recommendation taking into account historical analysis, peer group analysis and the capital market assumption analysis is 7.50%. For the SPRS System this represents the 61st percentile which is well within the reasonable range developed above.

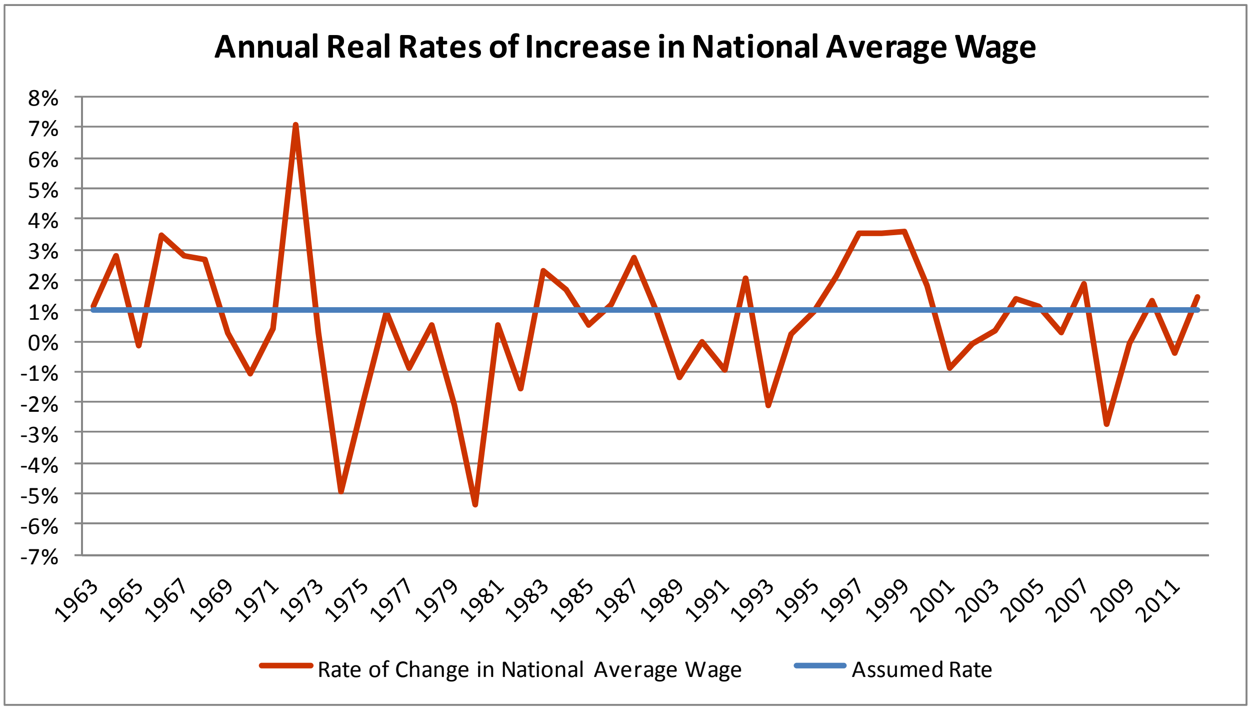
WAGE INFLATION

Background: The assumed future increases in salaries consist of an inflation component and a component for promotion and longevity, often called merit increases. Merit increases are generally age and/or service related, and will be studied in the demographic assumption section of the report. Wage inflation normally is above price inflation, which reflects the overall return on labor in the economy. The current wage inflation assumption is 4.50%, or 1.00% above price inflation.

Past Experience: The Social Security Administration publishes data on wage growth in the United States. Appendix C shows the last 50 calendar years' data. As we did in our analysis of inflation, in the table below, we show the wage inflation and a comparison with the price inflation over various time periods. Since wage data is only available through 2012 we use that year as the end point.

Period	Wage Inflation	Price Inflation	Real Wage Growth
2002-2012	2.92%	2.46%	0.44%
1992-2012	3.35	2.49	0.83
1982-2012	3.79	2.91	0.85
1972-2012	4.67	4.36	0.30
1962-2012	4.78	4.14	0.62

Thus, over the last 50 years, annual real wage growth has averaged 0.62%. The graph on the following page shows the annual increases in real wage growth over the entire 50-year period.



Recommendation: As we did with price inflation, we again look at the 2013 OASDI Trustees Report. The Chief Actuary for Social Security bases the 75-year cost projections on a national wage growth assumption 1.1% greater than the price inflation assumption of 2.8%. We concur in general with a range of .5% - 1.5%. To be more consistent with historical results, particularly in periods of relatively higher inflation, we recommend a change to 0.75% for the real wage growth assumption.

Wage Inflation Assumption		
Current	4.50%	
	Reasonable Range	
Real Wage Growth	0.50%	1.50%
Inflation	3.25	3.25
Total	3.75%	4.75%
Recommended	4.00%	

DEMOGRAP IC ASSUMPTIONS

There are several demographic assumptions used in the actuarial valuations performed for the Kentucky Retirement Systems. They are

- Rates of Mortality
- Rates of Service Retirement
- Rates of Disability Retirement
- Rates of Withdrawal
- Rates of Salary Increase for Merit and Promotions
- Other Post-Employment Benefit Assumptions

The Actuarial Standards Board has issued Actuarial Standard of Practice (ASOP) No. 35, *"Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations"*, which provides guidance to actuaries in selecting demographic assumptions for measuring obligations under defined benefit plans. In our opinion, the demographic assumptions recommended in this report have been developed in accordance with ASOP No. 35.

The purpose of a study of demographic experience is to compare what actually happened to the membership during the study period (July 1, 2008 through June 30, 2013) with what was expected to happen based on the assumptions used in the most recent actuarial valuations.

Detailed tabulations by age, service and/or gender are performed over the entire study period. These tabulations look at all active and retired members during the period as well as separately identifying those who experience a demographic event, also referred to as a decrement. In addition, the tabulation of all members together with the current assumptions permits the calculation of the number of expected decrements during the study period.

If the actual experience differs significantly from the overall expected results, or if the pattern of actual decrements, or rates of decrement, by age, gender, or service does not follow the expected pattern, new assumptions are recommended. Recommended changes usually do not follow the exact actual experience during the observation period. Judgment is required to extrapolate future experience from past trends and current member behavior. In addition non-recurring events, such as early retirement windows, need to be taken into account in determining the weight to give to recent experience.

The remainder of this section presents the results of the demographic study. We have prepared graphs and tables that show a comparison of the actual and expected decrements and the overall ratio of actual to expected results under the current assumptions. If a change is being proposed, the revised actual to expected ratios are shown as well.

RATES OF MORTALITY

Mortality tables are a fundamental assumption in actuarial valuations. Because benefits are typically paid over a retiree's lifetime, it is important to appropriately reflect what a typical lifetime looks like. In addition, deaths before retirement may also result in the payout of benefits to a spouse or survivor. For valuation purposes, we must consider mortality tables for retirees, beneficiaries of retirees, disabled retirees, and active members.

Retiree and Beneficiary Mortality

The post-retirement mortality rates used in the actuarial valuation project the percentage of retirees who are expected to die in a given future year. This assumption is a very important demographic assumption since it typically has the most significant impact on liability projections.

Based upon the long term trend of mortality improvement, actuaries seek to account for future improvements in longevity, either by directly projecting future improvements or by maintaining a sufficient margin in expected rates of mortality to allow for future improvement. We propose that the selected table reflect some degree of future improvement now, thereby providing a margin for improvement. The current table is the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members.

Retiree and Beneficiary Mortality Experience Under Current Assumptions

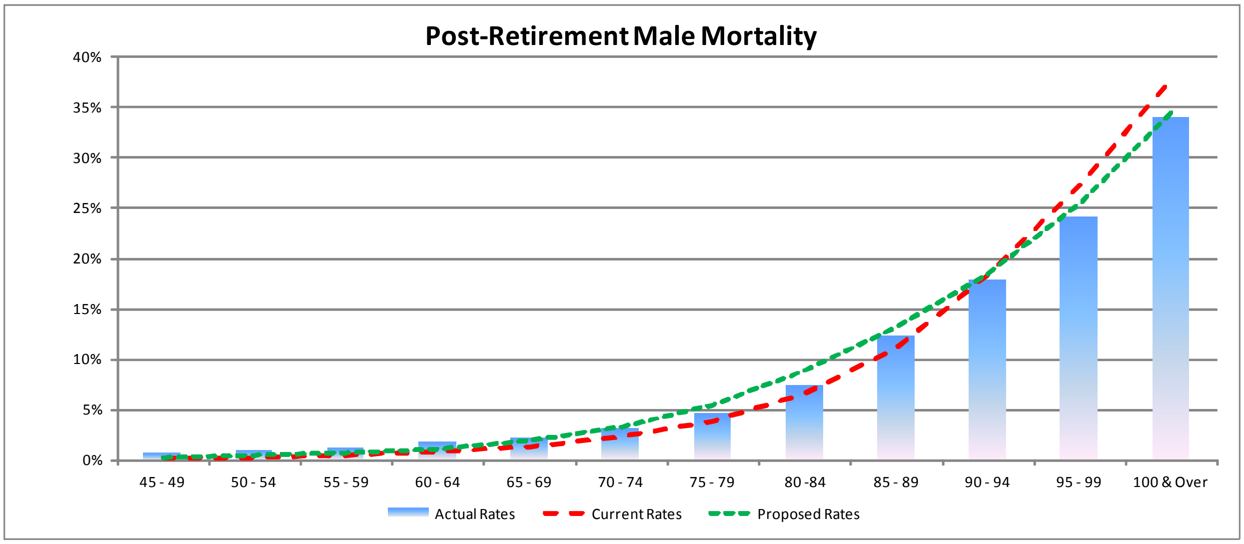
The analysis of the actual post-retirement mortality experience over the five-year study period yields actual/expected ratios of 103% and 106% respectively for males and females.

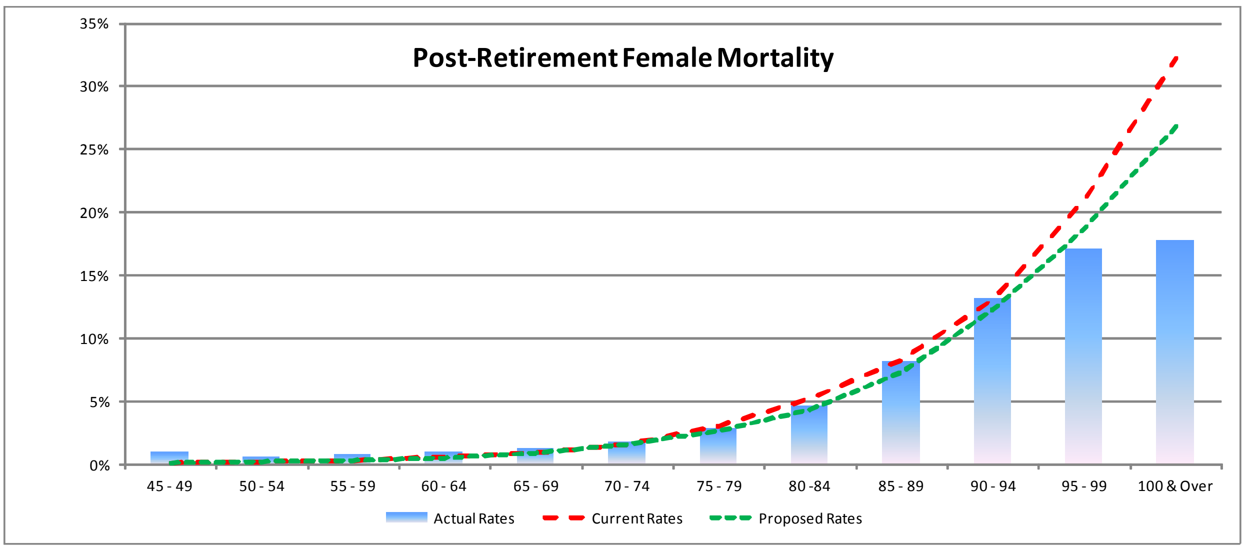
Age Group	Post-Retirement Mortality Experience					
	Males			Females		
	Actual	Expected	Ratio Actual/Expected	Actual	Expected	Ratio Actual/Expected
Under 40	47	0.57	82.46	49	0.40	122.50
40 - 44	21	12.84	1.64	33	0.90	36.67
45 - 49	43	16.40	2.62	45	5.85	7.69
50 - 54	127	63.03	2.01	82	28.06	2.92
55 - 59	306	182.24	1.68	216	91.88	2.35
60 - 64	626	383.34	1.63	426	241.74	1.76
65 - 69	643	595.48	1.08	558	426.65	1.31
70 - 74	740	794.32	0.93	646	590.57	1.09
75 - 79	771	904.10	0.85	733	804.72	0.91
80 -84	769	920.85	0.84	867	992.19	0.87
85 - 89	637	682.85	0.93	942	959.35	0.98
90 - 94	282	290.50	0.97	646	643.34	1.00
95 - 99	71	75.30	0.94	218	270.20	0.81
100 & Over	41	63.23	0.65	55	143.19	0.38
TOTAL	5,124	4,985.05	1.03	5,516	5,199.04	1.06

Retiree and Beneficiary Mortality Findings and Recommendations

Experience indicates that overall more members have died than expected during the study period at younger ages while fewer members have died than anticipated during the study period at older ages. We recommend updating the post-retirement mortality assumption to the RP-2000 projected to 2013 with the BB projection scale set back 1 year for females. The complete tables of recommended mortality rates are shown in Appendix D.

The charts below show (i) the actual rates of mortality for retirees and beneficiaries by age during the past five years, (ii) the current assume rates of mortality and (iii) the recommended assumed rates of mortality.





Retiree and Beneficiary Mortality Experience Under Proposed Assumptions

The actual/expected ratios based on the recommended assumption is 1.37% compared to 1.03% for males and 1.19% compared to 1.06% for females under the current assumption. The higher ratios under the recommend assumption anticipate a margin for mortality improvement in the future.

	Post-Retirement Mortality					
	Males			Females		
Age Group	Actual	Proposed	Ratio Actual/Expected	Actual	Proposed	Ratio Actual/Expected
Under 40	47	0.47	100.00	49	0	148.48
40 - 44	21	1.82	11.54	33	1	38.37
45 - 49	43	12.09	3.56	45	6	7.60
50 - 54	127	39.94	3.18	82	27	3.05
55 - 59	306	123.17	2.48	216	85	2.54
60 - 64	626	274.61	2.28	426	224	1.90
65 - 69	643	412.62	1.56	558	427	1.31
70 - 74	740	546.29	1.35	646	576	1.12
75 - 79	771	643.79	1.20	733	700	1.05
80 -84	769	686.74	1.12	867	825	1.05
85 - 89	637	577.04	1.10	942	845	1.11
90 - 94	282	289.60	0.97	646	604	1.07
95 - 99	71	80.23	0.88	218	239	0.91
100 & Over	41	45.59	0.90	55	83	0.66
TOTAL	5,124	3734.00	1.37	5,516	4,642.38	1.19

Disabled Retiree Mortality

Members who retire under the disability retirement provisions are generally expected to be less healthy than the overall population. Currently, the assumption for this group is the Group Annuity Mortality Table set forward 5 years. The study period yielded actual/expected ratios of 138% and 174% respectively for males and females. These ratios indicate more disabled individuals are dying at a rate that is greater rate than as currently assumed.

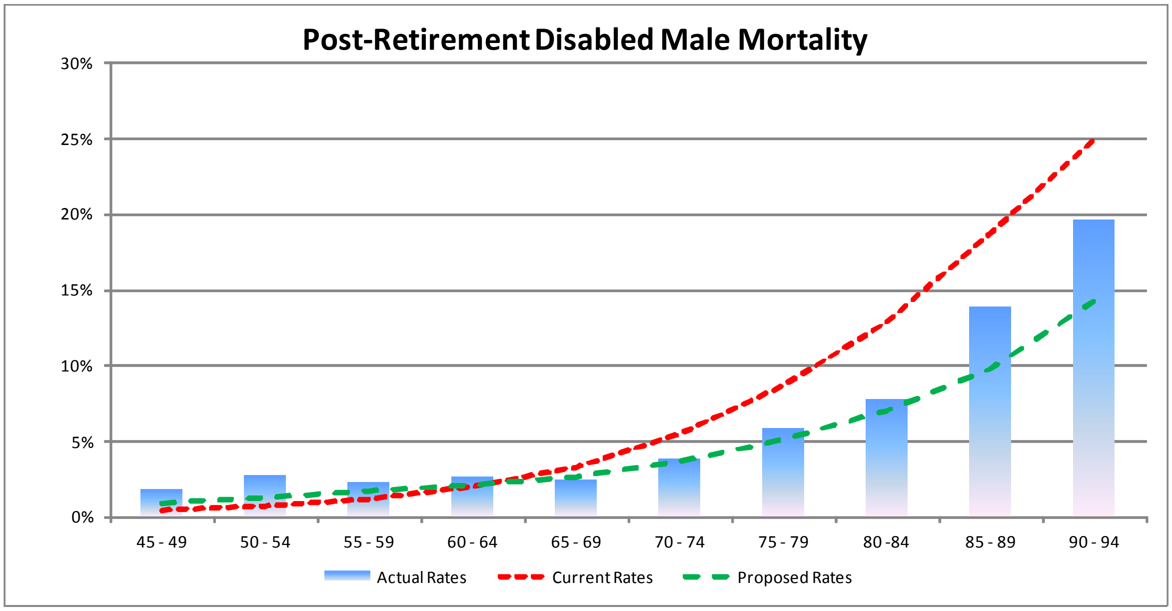
Disabled Retiree Mortality Experience Under Current Assumptions

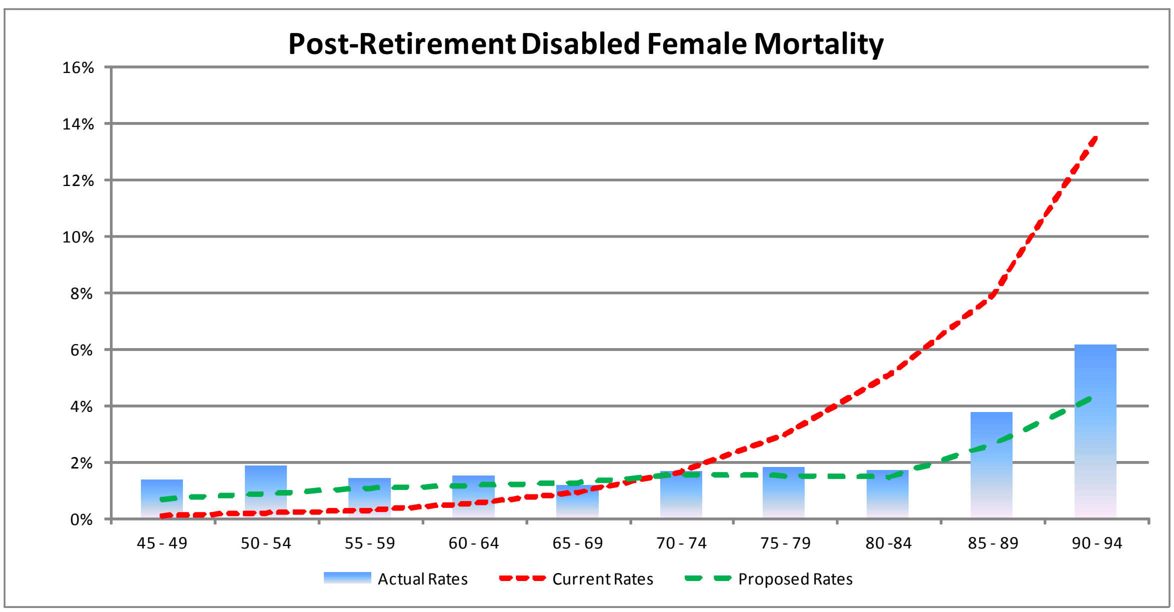
	Post-Retirement Disabled Mortality					
	Males			Females		
Age Group	Actual	Expected	Ratio Actual/Expected	Actual	Expected	Ratio Actual/Expected
Under 40	6	0	21.43	4	0	57.14
40 - 44	6	1	5.77	8	0	27.59
45 - 49	18	4	4.48	12	1	9.23
50 - 54	42	10	4.17	37	4	8.47
55 - 59	68	26	2.64	52	13	4.01
60 - 64	91	53	1.72	83	29	2.87
65 - 69	100	71	1.41	70	48	1.47
70 - 74	95	86	1.10	85	68	1.25
75 - 79	66	81	0.81	57	50	1.14
80 -84	45	43	1.04	21	22	0.96
85 - 89	12	22	0.55	14	13	1.04
90 - 94	9	7	1.24	9	10	0.90
95 - 99	2	1	1.37	2	3	0.68
100 & Over	1	0	2.13	0	0	0.00
TOTAL	561	407.01	1.38	454	261.34	1.74

Disabled Retiree Mortality Findings and Recommendations

Experience indicates that overall more members have died than expected during the study period. We recommend updating the post-retirement mortality assumption to the RP-2000 Combined Disabled Mortality projected to 2013 with the BB projection scale and the males set back 4 years to be consistent with the recommendation for healthy post retirement mortality assumption. The complete tables of recommended mortality rates are shown in Appendix D.

The charts below show (i) the actual rates of mortality for disabled retirees by age during the past five years, (ii) the current assume rates of disabled mortality and (iii) the recommended assumed rates of disabled mortality.





Disabled Retiree Mortality Experience Under Proposed Assumptions

The actual expected ratio based on the recommended assumption are 1.14% compared to 1.38% for males and 1.21% compared to 1.74% for females.

	TOTAL			TOTAL		
	Males			Females		
			Ratio			Ratio
Age Group	Actual	Proposed	Actual/Expected	Actual	Proposed	Actual/Expected
Under 40	6	4.28	1.40	4	1	7.02
40 - 44	6	8.68	0.69	8	2	4.85
45 - 49	18	19.67	0.92	12	6	2.02
50 - 54	42	36.97	1.14	37	18	2.06
55 - 59	68	71.33	0.95	52	40	1.29
60 - 64	91	93.59	0.97	83	66	1.26
65 - 69	100	83.27	1.20	70	78	0.90
70 - 74	95	73.88	1.29	85	81	1.04
75 - 79	66	56.42	1.17	57	49	1.17
80 -84	45	26.71	1.68	21	19	1.13
85 - 89	12	12.50	0.96	14	10	1.44
90 - 94	9	4.18	2.15	9	6	1.41
95 - 99	2	0.89	2.25	2	2	1.16
100 & Over	1	0.31	3.26	0	0	0.00
TOTAL	561	492.68	1.14	454	376.26	1.21

Active Member Mortality

For active members, the mortality assumption is less significant since it is only a small reason that employment ends and benefits begin. Further, there is no need for a margin for future improvements as there is for retirees. For active mortality the study period yielded actual expected ratios of 74% and 79% respectively for males and females respectively.

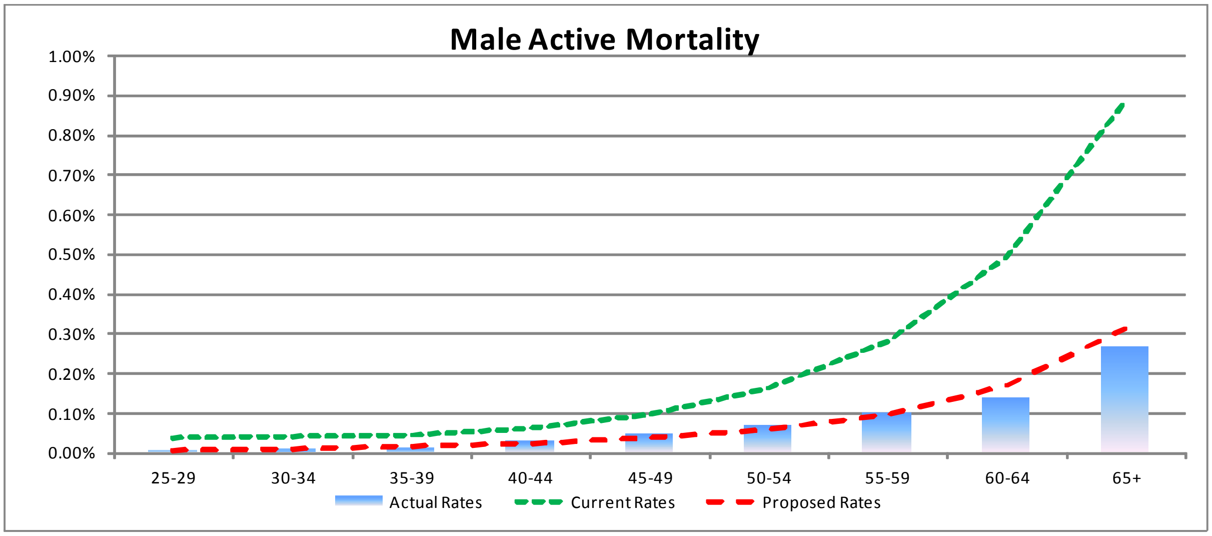
Active Member Mortality Experience Under Current Assumptions

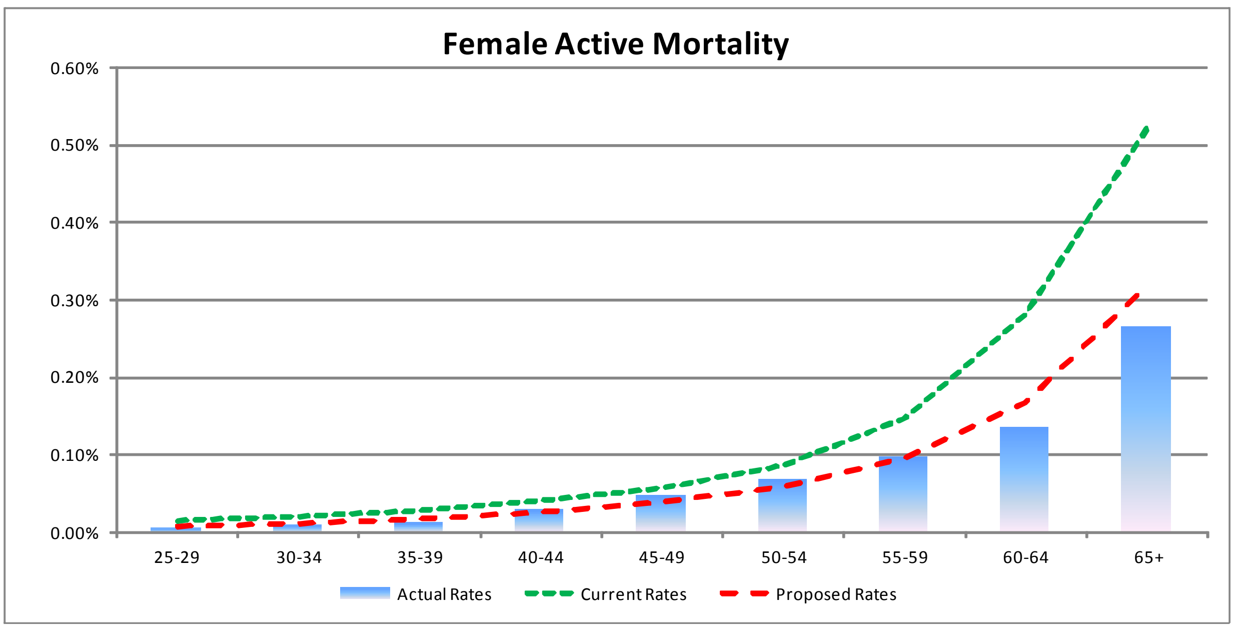
	Pre-Retirement Mortality					
	Males			Females		
Age Group	Actual	Expected	Ratio Actual/Expected	Actual	Expected	Ratio Actual/Expected
<20	0	0.46	0.00	0	0.21	0.00
20-24	6	4.78	1.26	0	2.32	0.00
25-29	8	9.56	0.84	1	4.78	0.21
30-34	10	12.90	0.78	3	6.97	0.43
35-39	19	20.59	0.92	6	11.58	0.52
40-44	19	24.66	0.77	16	15.58	1.03
45-49	41	37.61	1.09	31	24.10	1.29
50-54	41	58.04	0.71	44	37.99	1.16
55-59	74	88.60	0.84	51	56.35	0.91
60-64	52	102.47	0.51	42	65.10	0.65
65+	79	110.01	0.72	37	65.93	0.56
TOTAL	349	469.68	0.74	231	290.92	0.79

Active Member Mortality Findings and Recommendations

Experience indicates that overall fewer members have died than expected during the study period. We recommend updating the pre-retirement mortality assumption to 50% of the RP-2000 Combined Mortality Table projected to 2013 with the BB projection scale for males and 30% of the RP-2000 Combined Mortality Table projected to 2013 with the BB projection scale for females. The complete tables of recommended mortality rates are shown in Appendix D.

The charts below show (i) the actual rates of mortality for active members by age during the past five years, (ii) the current assume rates of active member mortality and (iii) the recommended assumed rates of active mortality.





Active Member Mortality Experience Under Proposed Assumptions

The actual expected ratio based on the recommended assumption are 94% compared to 74% for males and 97% compared to 79% for females respectively.

	Pre-Retirement Mortality					
	Males			Females		
Age Group	Actual	Proposed	Ratio Actual/Expected	Actual	Proposed	Ratio Actual/Expected
<20	0	0.28	0.00	0	0.01	0.00
20-24	6	2.95	2.03	0	0.47	0.00
25-29	8	4.83	1.66	1	1.68	0.60
30-34	10	8.39	1.19	3	3.65	0.82
35-39	19	19.84	0.96	6	7.65	0.78
40-44	19	22.92	0.83	16	14.24	1.12
45-49	41	32.60	1.26	31	25.21	1.23
50-54	41	46.03	0.89	44	38.07	1.16
55-59	74	70.31	1.05	51	49.98	1.02
60-64	52	81.87	0.64	42	51.86	0.81
65+	79	82.24	0.96	37	44.42	0.83
TOTAL	349	372.26	0.94	231	237.24	0.97

RATES OF SERVICE RETIREMENT

The service retirement rates used in the actuarial valuations project the percentage of employees who are expected to retire during a given year. This assumption does not include the retirement patterns of the individuals who terminated from active membership prior to their retirement. Retirements that occurred during the 2012/2013 plan year were not included in this analysis due to significant plan changes which were implemented under SB2 which may have caused members to retire when they otherwise would not have.

KERS Non-Hazardous Members

For members who began participation prior to September 1, 2008 KERS provides an unreduced retirement benefit upon obtaining age 65 and at least one month of service. KERS also provides a reduced benefit to members who retire upon obtaining age 55 and at least 60 months service or any age with 25 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.

For members who began participation on or after September 1, 2008 KERS provides an unreduced retirement benefit upon obtaining age 65 and at least 60 month of service or age 57 and "Rule of 87." KERS also provides a reduced benefit to members who retire upon obtaining age 60 and at least 10 years service or any age with 25 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 65 or does not meet the "Rule of 87" and is younger than age 57, whichever is smaller.

Due to lack of experience, the assumed rates of retirement are consistently applied for both the pre and post September 1, 2008 members. We recommend continuing to follow this approach until enough experience is developed for post September 1, 2008 members.

The analysis of the actual retirement experience over the five-year period yields an actual/expected ratio of 92%. An actual/expected ratio that is less than 100% indicates that less than the assumed amount of members have retired during the experience period.

KERS Non-Hazardous Service Retirement Experience Under Current Assumptions

The table below shows the retirement experience for KERS Non-Hazardous Members who retired during the experience period with less than 27 years of service. The fixed retirement age is 75. Therefore 100% of members are assumed to retire upon obtaining age 75.

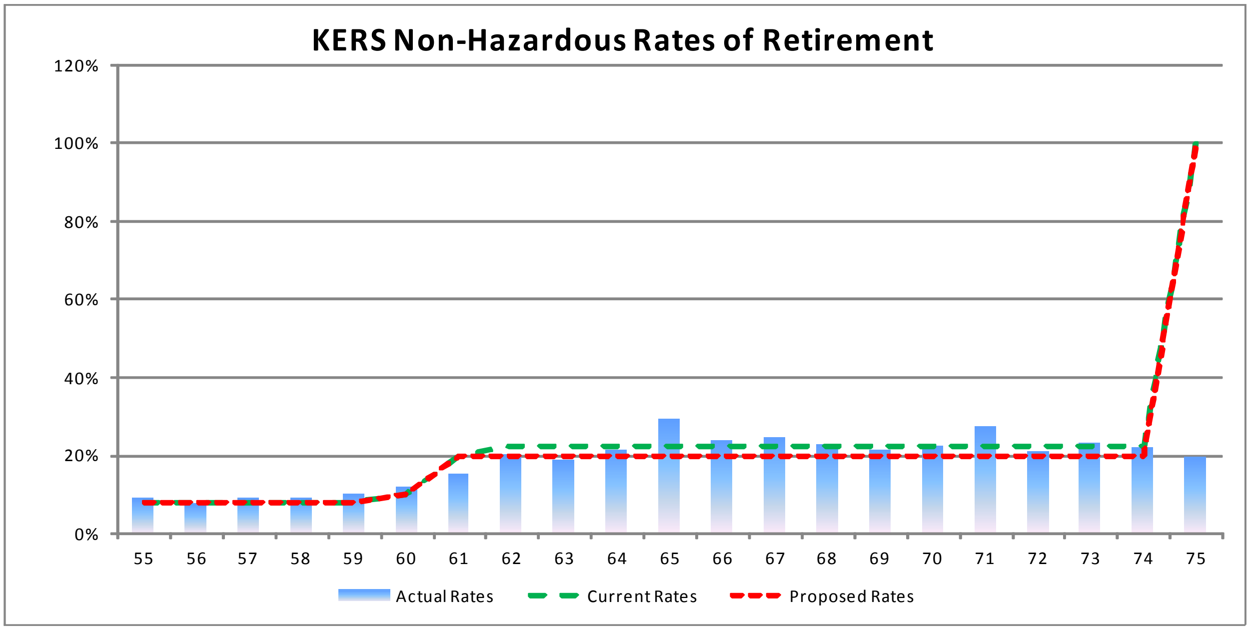
Age	Retirement Experience KERS Non-Hazardous Members		
	Males and Females		
	Actual	Expected	Ratio Actual/Expected
55	336	308.88	1.09
56	268	290.16	0.92
57	303	278.40	1.09
58	287	260.64	1.10
59	306	246.80	1.24
60	340	286.10	1.19
61	390	522.00	0.75
62	434	490.95	0.88
63	312	380.48	0.82
64	277	297.23	0.93
65	332	257.85	1.29
66	187	177.75	1.05
67	137	127.12	1.08
68	98	98.55	0.99
69	71	75.60	0.94
70	61	62.10	0.98
71	56	46.35	1.21
72	35	38.25	0.92
73	33	32.62	1.01
74	26	26.77	0.97
75	81	422.00	0.19
TOTAL	4,370	4,726.60	0.92

KERS Non-Hazardous Service Retirement Findings and Recommendations

We recommend an adjustment in the retirement rates based on recent experience. The complete tables of recommended rates are shown in Appendix D.

In addition, the assumed retirement rate is 25% for members who have 27 or more years of service. The actual number of members who retired with at least 27 years during the experience period was 1,815. The expected number of retirees was 1,241.75. We recommend increasing the assumed rate of retirement with 27 or more years of service to 35% to more closely match actual experience.

The chart below show (i) the actual rates of retirement for employees by age during the experience period, (ii) the current assume rates of retirement and (iii) the recommended assumed rates of retirement.



KERS Non-Hazardous Service Retirement Experience Under Proposed Assumptions

The actual/expected ratio under the proposed assumption is 97% compared to 92% under the current assumption.

Age	Retirement Experience KERS Non-Hazardous Members		
	Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
55	336	308.88	1.09
56	268	290.16	0.92
57	303	278.40	1.09
58	287	260.64	1.10
59	306	246.80	1.24
60	340	286.10	1.19
61	390	522.00	0.75
62	434	436.40	0.99
63	312	338.20	0.92
64	277	264.20	1.05
65	332	229.20	1.45
66	187	158.00	1.18
67	137	113.00	1.21
68	98	87.60	1.12
69	71	67.20	1.06
70	61	55.20	1.11
71	56	41.20	1.36
72	35	34.00	1.03
73	33	29.00	1.14
74	26	23.80	1.09
75	81	422.00	0.19
TOTAL	4,370	4,491.98	0.97

KERS Hazardous Members

For members who began participation prior to September 1, 2008 KERS provides an unreduced retirement benefit upon obtaining age 55 and at least one month of service. KERS also provides a reduced benefit to members who retire upon obtaining age 50 and at least 15 years of service or any age with 20 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 55 or has less than 20 years of service, whichever is smaller.

It is currently assumed these members will begin retiring upon the earlier of obtaining 20 years of service regardless of age or age 65.

For members who began participation on or after September 1, 2008 KERS provides an unreduced retirement benefit upon obtaining age 60 and at least 60 month of service. KERS also provides a reduced benefit to members who retire upon obtaining age 50 and at least 15 years service or any age with 25 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 60 or has less than 25 years of service, whichever is smaller.

It is currently assumed that these members will begin retiring upon the earlier of obtaining age 60 and five years of service or 25 years of service regardless of age.

Due to lack of experience, the assumed rates of retirement are consistently applied for both the pre and post September 1, 2008 members. We recommend continuing to follow this approach until enough experience is developed for post September 1, 2008 members.

KERS Hazardous Service Retirement Experience Under Current Assumptions

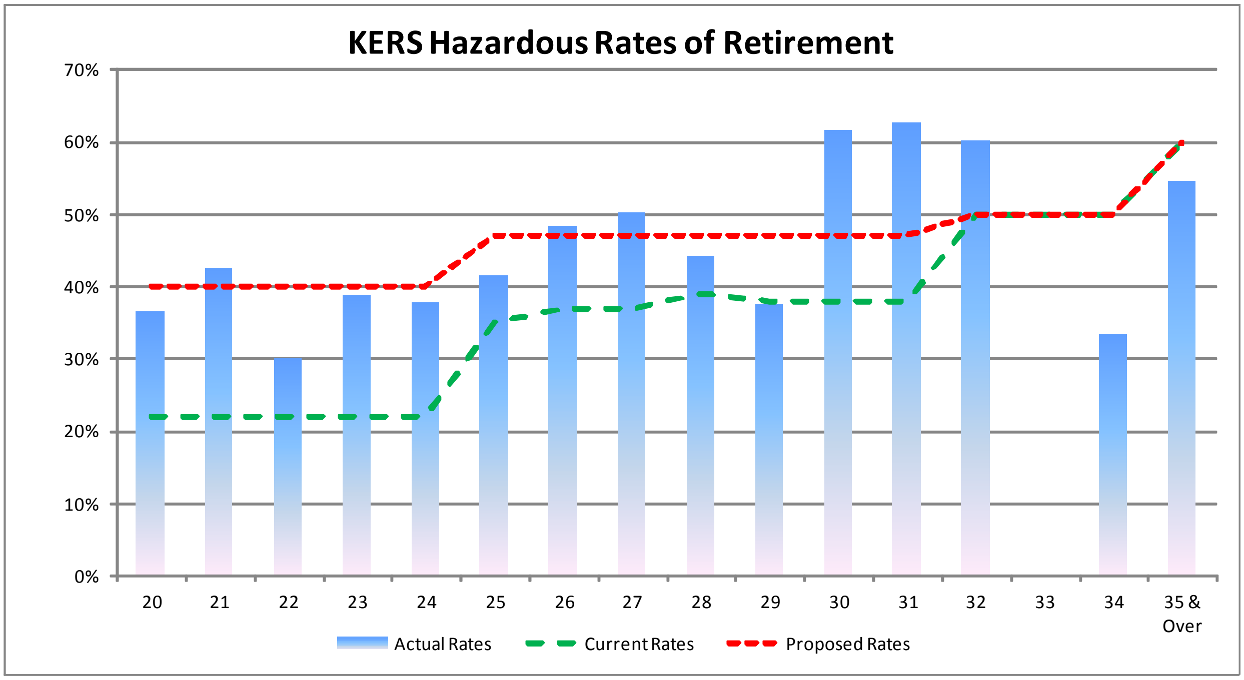
The table below shows the retirement experience for KERS Hazardous Members who retired during the experience that were less than age 65 and obtained at least 20 years of service. The fixed retirement age is 65 therefore 100% of members are assumed to retire upon obtaining age 65.

	Retirement Experience KERS Hazardous Members		
	Males and Females		
Service	Actual	Expected	Ratio Actual/Expected
20	102	61.60	1.66
21	82	42.46	1.93
22	41	30.14	1.36
23	45	25.52	1.76
24	32	18.70	1.71
25	29	24.50	1.18
26	26	19.98	1.30
27	16	11.84	1.35
28	11	9.75	1.13
29	6	6.08	0.99
30	8	4.94	1.62
31	5	3.04	1.64
32	3	2.50	1.20
33	0	1.50	0.00
34	1	1.50	0.67
35 & Over	6	6.60	0.91
TOTAL	413	270.65	1.53

KERS Hazardous Service Retirement Findings and Recommendations

The analysis of the actual retirement experience yields an actual/expected ratio of 153%. An actual/expected ratio greater than 100% indicates that more than the assumed amounts of members have retired during the experience period. We recommend increasing the assumed rates of retirement to more accurately reflect actual experience. The complete tables of recommended rates are show in Appendix D.

The chart below show (i) the actual rates of retirement for employees by service during the experience period, (ii) the current assume rates of retirement and (iii) the recommended assumed rates of retirement.



KERS Hazardous Service Retirement Experience Under Proposed Assumptions

The actual/expected ratio under the proposed assumption is 94% compared to 153% under the current assumption.

Service	Retirement Experience KERS Hazardous Members		
	Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
20	102	112.00	0.91
21	82	77.20	1.06
22	41	54.80	0.75
23	45	46.40	0.97
24	32	34.00	0.94
25	29	32.90	0.88
26	26	25.38	1.02
27	16	15.04	1.06
28	11	11.75	0.94
29	6	7.52	0.80
30	8	6.11	1.31
31	5	3.76	1.33
32	3	2.50	1.20
33	0	1.50	0.00
34	1	1.50	0.67
35 & Over	6	6.60	0.91
TOTAL	413	438.96	0.94

CERS Non-Hazardous Members

For members who began participation prior to September 1, 2008 CERS provides an unreduced retirement benefit upon obtaining age 65 and at least one month of service. CERS also provides and reduced benefit to members who retire upon obtaining age 55 and at least 60 months service or any age with 25 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.

For members who began participation on or after September 1, 2008 CERS provides an unreduced retirement benefit upon obtaining age 65 and at least 60 month of service or age 57 and "Rule of 87". CERS also provides and reduced benefit to members who retire upon obtaining age 60 and at least 10 years service or any age with 25 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 65 or does not meet the "Rule of 87" and is younger than age 57, whichever is smaller.

Due to lack of experience, the assumed rates of retirement are consistently applied for both the pre and post September 1, 2008 members. We recommend continuing to follow this approach until enough experience is developed for post September 1, 2008 members.

CERS Non-Hazardous Service Retirement Experience Under Current Assumptions

The table below shows the retirement experience for CERS Non-Hazardous Members who retired during the experience period with less than 27 years of service. The fixed retirement age is 75. Therefore 100% of members are assumed to retire upon obtaining age 75.

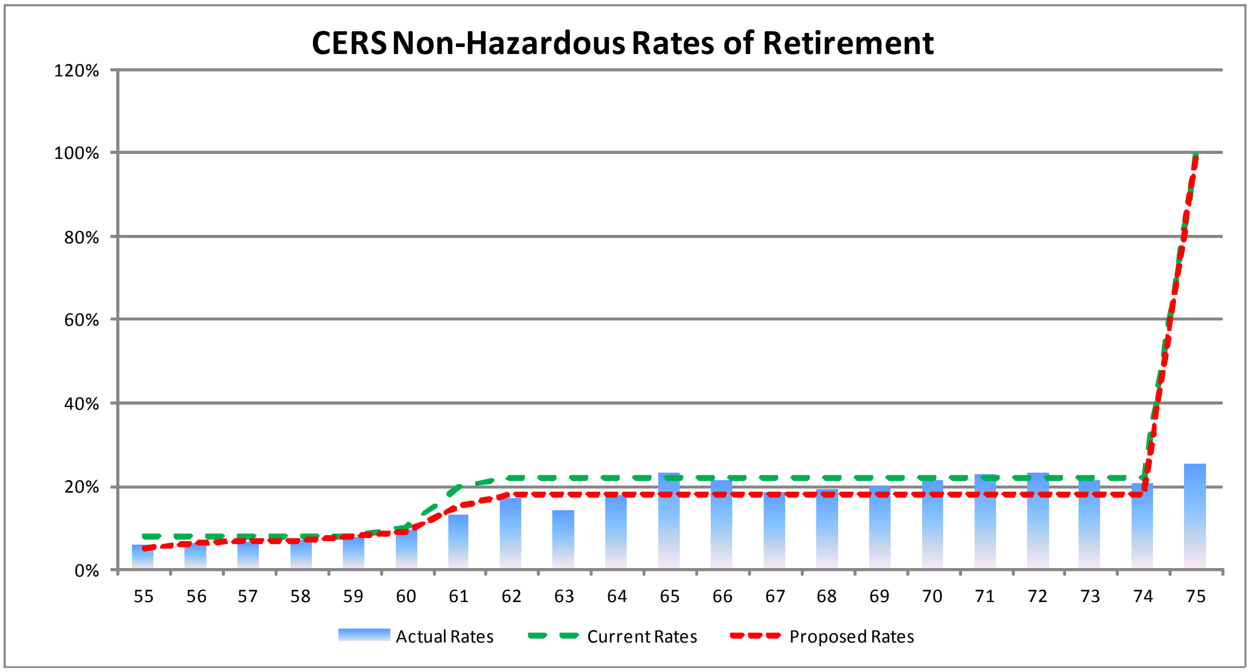
Age	Retirement Experience CERS Non-Hazardous Members Males and Females		
	Actual	Expected	Ratio Actual/Expected
55	541	755.92	0.72
56	530	719.68	0.74
57	529	679.68	0.78
58	522	637.76	0.82
59	563	603.68	0.93
60	657	700.90	0.94
61	821	1,275.60	0.64
62	920	1,195.04	0.77
63	606	957.44	0.63
64	636	792.88	0.80
65	827	789.80	1.05
66	593	614.02	0.97
67	416	503.36	0.83
68	369	431.86	0.85
69	313	352.88	0.89
70	285	297.00	0.96
71	243	237.16	1.02
72	199	190.52	1.04
73	148	155.32	0.95
74	119	128.26	0.93
75	464	1,852.00	0.25
TOTAL	9,371	11,544.66	0.81

CERS Non-Hazardous Service Retirement Findings and Recommendations

The analysis of the actual retirement experience yields an actual/expected ratio of 81%. An actual/expected ratio less than 100% indicates that fewer than the assumed amounts of members have retired during the experience period. As a result, we recommend adjusting the retirement rates to more accurately reflect experience.

In addition, we assume 30% for members who have 27 or more years of service will retire. The actual number of members who retired with at least 27 years during the experience period was 1,286. The expected number of retirees was 1,725. The current assumption for a retirement with 27 or more years of service is still sufficient therefore we recommend no change to the assumed rate of retirement with 27 or more years of service at this time. The complete tables of recommended rates are show in Appendix D.

The chart below show (i) the actual rates of retirement for employees by age during the experience period, (ii) the current assume rates of retirement and (iii) the recommended assumed rates of retirement.



CERS Non-Hazardous Service Retirement Experience Under Proposed Assumptions

The actual/expected ratio under the proposed assumption is 100% compared to 81% under the current assumption.

Age	Retirement Experience CERS Non-Hazardous Members		
	Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
55	541	472.45	1.15
56	530	539.76	0.98
57	529	594.72	0.89
58	522	558.04	0.94
59	563	603.68	0.93
60	657	630.81	1.04
61	821	956.70	0.86
62	920	977.76	0.94
63	606	783.36	0.77
64	636	648.72	0.98
65	827	646.20	1.28
66	593	502.38	1.18
67	416	411.84	1.01
68	369	353.34	1.04
69	313	288.72	1.08
70	285	243.00	1.17
71	243	194.04	1.25
72	199	155.88	1.28
73	148	127.08	1.16
74	119	104.94	1.13
75	464	1,856.00	0.25
TOTAL	9,371	9,405.52	1.00

CERS Hazardous Members

For members who began participation prior to September 1, 2008 KERS provides an unreduced retirement benefit upon obtaining age 55 and at least one month of service. KERS also provides a reduced benefit to members who retire upon obtaining age 50 and at least 15 years of service or any age with 20 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 55 or has less than 20 years of service, whichever is smaller.

It is currently assumed these members will begin retiring upon the earlier of obtaining 20 years of service regardless of age or age 62.

For members who began participation on or after September 1, 2008 KERS provides an unreduced retirement benefit upon obtaining age 60 and at least 60 month of service. KERS also provides a reduced benefit to members who retire upon obtaining age 50 and at least 15 years service or any age with 25 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 60 or has less than 25 years of service, whichever is smaller.

It is currently assumed that these members will begin retiring upon the earlier of obtaining age 60 and five years of service or 25 years of service regardless of age.

Due to lack of experience, the assumed rates of retirement are consistently applied for both the pre and post September 1, 2008 members. We recommend continuing to follow this approach until enough experience is developed for post September 1, 2008 members.

CERS Hazardous Service Retirement Experience Under Current Assumptions

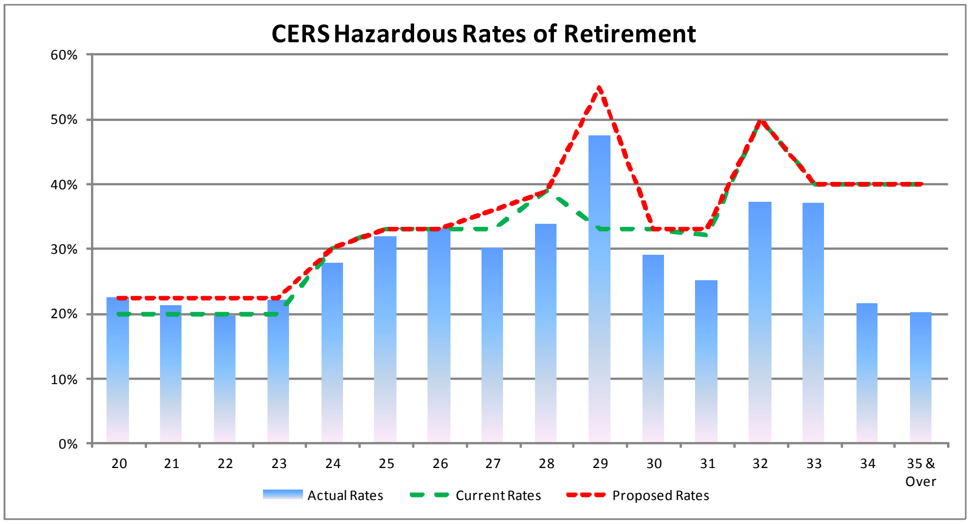
The table below shows the retirement experience for CERS Hazardous Members who retired during the experience period that were less than age 62 and obtained at least 20 years of service. The fixed retirement age is 62 therefore 100% of members are assumed to retire upon obtaining age 62.

Service	Retirement Experience CERS Hazardous Members Males and Females		
	Actual	Expected	Ratio Actual/Expected
20	179	160.40	1.12
21	143	136.00	1.05
22	113	116.00	0.97
23	111	100.60	1.10
24	120	130.20	0.92
25	96	99.99	0.96
26	68	67.98	1.00
27	41	45.21	0.91
28	32	37.05	0.86
29	28	19.47	1.44
30	11	12.54	0.88
31	8	10.23	0.78
32	10	13.50	0.74
33	7	7.60	0.92
34	3	5.60	0.54
35 & Over	3	6.00	0.50
TOTAL	973	968.37	1.00

CERS Hazardous Service Retirement Findings and Recommendations

The analysis yields an actual/expected ratio of 100% for the experience period. An actual/expected ratio of 100% indicates that overall, the assumption has matched experience. We recommend a slight adjustment to the assumed retirement rates. The complete tables of recommended rates are show in Appendix D.

The chart below show (i) the actual rates of retirement for employees by service during the experience period, (ii) the current assume rates of retirement and (iii) the recommended assumed rates of retirement.



CERS Hazardous Service Retirement Experience Under Proposed Assumptions

The actual/expected ratio under the proposed assumption is 93% compared to 100% under the current assumption.

Service	Retirement Experience CERS Hazardous Members Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
20	179	180.45	0.99
21	143	153.00	0.93
22	113	130.50	0.87
23	111	113.18	0.98
24	120	130.20	0.92
25	96	99.99	0.96
26	68	67.98	1.00
27	41	49.32	0.83
28	32	37.05	0.86
29	28	32.45	0.86
30	11	12.54	0.88
31	8	10.56	0.76
32	10	13.50	0.74
33	7	7.60	0.92
34	3	5.60	0.54
35 & Over	3	6.00	0.50
TOTAL	973	1,049.92	0.93

SPRS Members

For members who began participation prior to September 1, 2008 SPRS provides an unreduced retirement benefit upon obtaining age 55 and at least one month of service. SPRS also provides a reduced benefit to members who retire upon obtaining age 50 and at least 15 years of service or any age with 20 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 55 or has less than 20 years of service, whichever is smaller.

It is currently assumed these members will begin retiring upon the earlier of obtaining 20 years of service regardless of age or age 55.

For members who began participation on or after September 1, 2008 SPRS provides an unreduced retirement benefit upon obtaining age 60 and at least 60 month of service. SPRS also provides a reduced benefit to members who retire upon obtaining age 50 and at least 15 years service or any age with 25 years of service. The normal retirement benefit is reduced by 6.5% per year for the first five years and 4.5% per year for the next five years for each year the member is younger than age 60 or has less than 25 years of service, whichever is smaller.

It is currently assumed that these members will begin retiring upon the earlier of obtaining age 60 and five years of service or 25 years of service regardless of age.

Due to lack of experience, the assumed rates of retirement are consistently applied for both the pre and post September 1, 2008 members. We recommend continuing to follow this approach until enough experience is developed for post September 1, 2008 members.

SPRS Service Retirement Experience Under Current Assumptions

The table below shows the retirement experience for SPRS Members who retired during the experience period that were less than age 55 and obtained at least 20 years of service. The fixed retirement age is 55 therefore 100% of members are assumed to retire upon obtaining age 55.

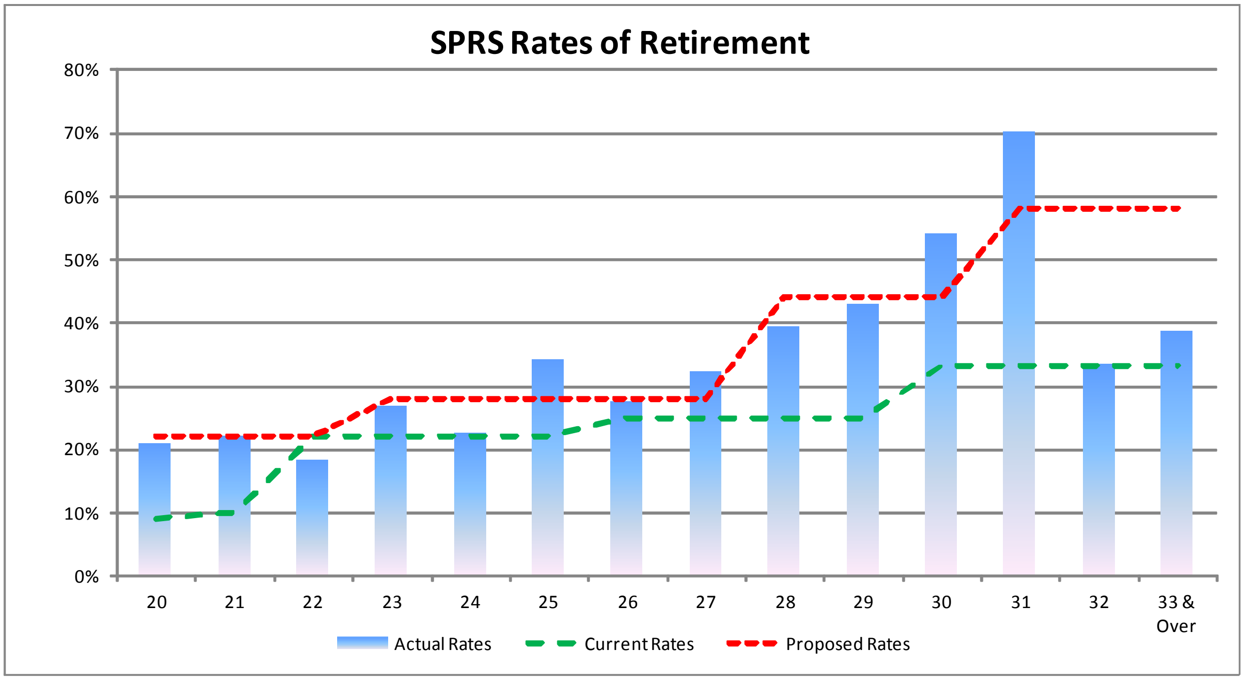
The analysis of actual retirement experience over the experience period yields and actual/expected ratio 158%. An actual/expected ratio greater than 100% indicates that more than the assumed number of retirees has retired during the experience period.

	Retirement Experience SPRS Members Males and Females		
Service	Actual	Expected	Ratio Actual/Expected
20	22	9.54	2.31
21	22	9.00	2.44
22	16	8.80	1.82
23	20	16.50	1.21
24	13	12.76	1.02
25	18	11.66	1.54
26	11	8.80	1.25
27	9	7.00	1.29
28	11	7.00	1.57
29	9	5.25	1.71
30	7	3.25	2.15
31	7	3.33	2.10
32	1	1.00	1.00
33 & Over	5	4.33	1.15
TOTAL	171	108.22	1.58

SPRS Service Retirement Findings and Recommendations

Overall, the assumption is underestimating retirements. As a result we recommend increasing retirement rates to more accurately match experience. The complete tables of recommended rates are show in Appendix D.

The chart below show (i) the actual rates of retirement for employees by service during the past five years, (ii) the current assume rates of retirement and (iii) the recommended assumed rates of retirement.



SPRS Service Retirement Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 96% compared to 158% based on the current assumption.

Service	Retirement Experience SPRS Members Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
20	22	23.32	0.94
21	22	22.00	1.00
22	16	19.36	0.83
23	20	21.00	0.95
24	13	16.24	0.80
25	18	14.84	1.21
26	11	11.20	0.98
27	9	7.84	1.15
28	11	12.32	0.89
29	9	9.24	0.97
30	7	5.72	1.22
31	7	5.80	1.21
32	1	1.74	0.57
33 & Over	5	7.54	0.66
TOTAL	171	178.16	0.96

RATES OF DISABILITY RETIREMENT

The rates of disability retirement used in the actuarial valuation project the percentage of employees who are expected to become disabled each year and begin to receive a disability retirement benefit. A non-hazardous and hazardous member must have at least 60 months of service to qualify for a disability retirement benefit.

KERS Non-Hazardous Members

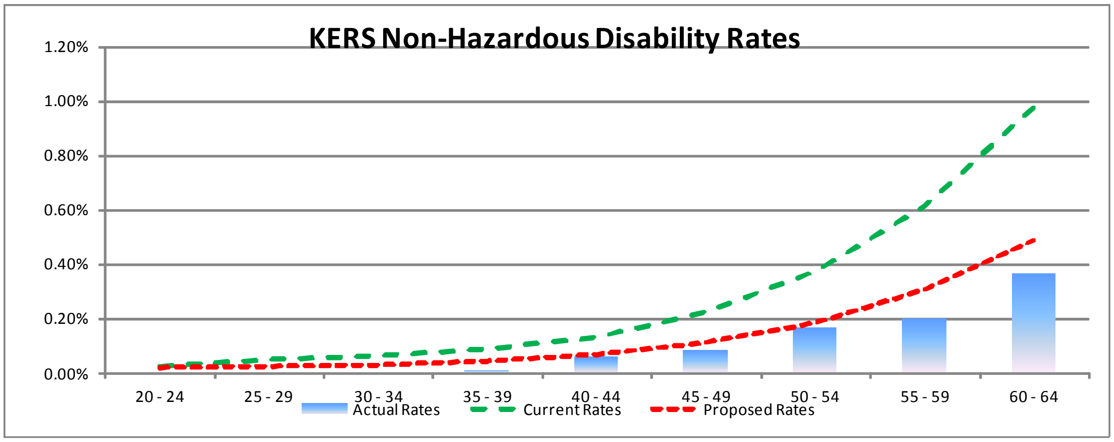
KERS Non-Hazardous Disability Retirement Experience Under Current Assumptions

Age Group	Disability Experience KERS Non-Hazardous Members		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	1.68	0.00
25 - 29	0	9.84	0.00
30 - 34	0	16.29	0.00
35 - 39	2	27.14	0.07
40 - 44	17	41.82	0.41
45 - 49	26	71.93	0.36
50 - 54	48	110.80	0.43
55 - 59	48	148.44	0.32
60 & Over	52	139.10	0.37
TOTAL	193	567.04	0.34

KERS Non-Hazardous Disability Retirement Findings and Recommendations

The analysis yields an actual/expected ratio of 34% over the experience period. A ratio of 34% indicates that the current assumption is overestimating the number of disability retirements. This finding is consistent with the last experience study in which we recommended reducing assumed rates of disability. As a result, we recommend reducing the incidences of disability retirements.

The chart below show (i) the actual rates of disability for employees by age during the past five years, (ii) the current assume rates of disability and (iii) the recommended assumed rates of disability.



KERS Non-Hazardous Disability Retirement Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 68% compared to 34% based on the current assumption.

	Disability Experience KERS Non-Hazardous Members		
	Total		
	Actual	Proposed	Ratio
Age Group			Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	1.33	0.00
25 - 29	0	4.92	0.00
30 - 34	0	8.14	0.00
35 - 39	2	13.56	0.15
40 - 44	17	20.91	0.81
45 - 49	26	35.96	0.72
50 - 54	48	55.41	0.87
55 - 59	48	74.22	0.65
60 & Over	52	69.55	0.75
TOTAL	193	283.98	0.68

KERS Hazardous Members

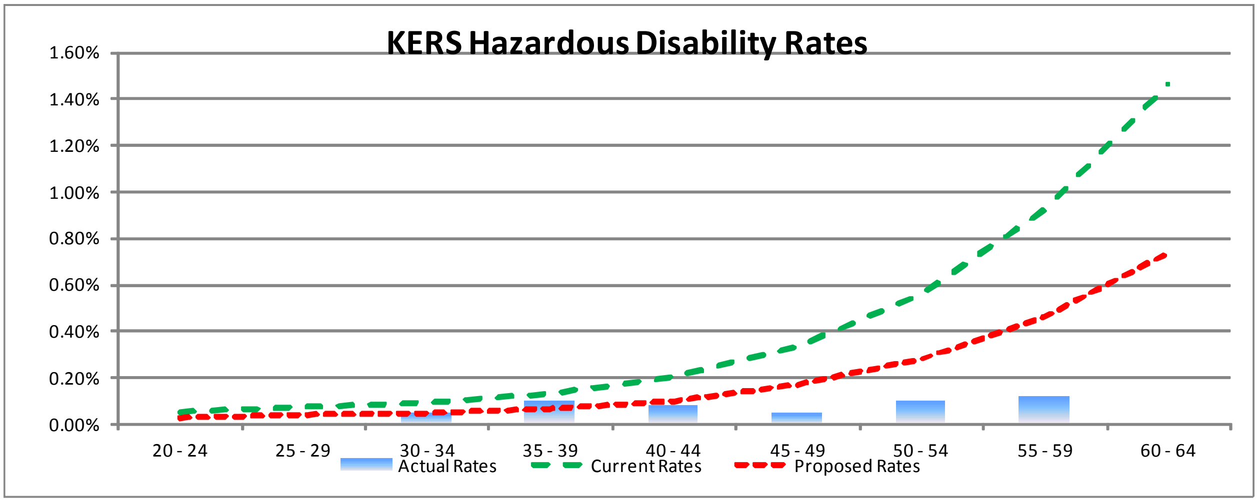
KERS Hazardous Disability Retirement Experience Under Current Assumptions

	Disability Experience KERS Hazardous Members		
	Males		
	Actual	Expected	Ratio
Age Group			Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.47	0.00
25 - 29	0	1.74	0.00
30 - 34	1	2.39	0.42
35 - 39	3	4.05	0.74
40 - 44	2	5.61	0.36
45 - 49	1	7.68	0.13
50 - 54	2	11.99	0.17
55 - 59	2	16.13	0.12
60 & Over	0	15.21	0.00
TOTAL	11	65	0.17

KERS Hazardous Disability Retirement Findings and Recommendations

The analysis yields an actual/expected ratio of 17% over the experience period. A ratio of 17% indicates that the current assumption is overestimating the number of disability retirements. This finding is consistent with the last experience study in which we recommended reducing assumed rates of disability. As a result, we recommend reducing the incidences of disability retirements.

The chart below show (i) the actual rates of disability for employees by age during the past five years, (ii) the current assume rates of disability and (iii) the recommended assumed rates of disability.



KERS Hazardous Disability Retirement Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 31% compared to 17% based on the current assumption.

Age Group	Disability Experience KERS Hazardous Members		
	Total		
	Actual	Proposed	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.23	0.00
25 - 29	0	0.87	0.00
30 - 34	0	1.20	0.00
35 - 39	1	2.03	0.49
40 - 44	3	2.81	1.07
45 - 49	2	3.84	0.52
50 - 54	4	5.99	0.67
55 - 59	0	8.07	0.00
60 & Over	0	7.60	0.00
TOTAL	10	32.64	0.31

CERS Non-Hazardous Members

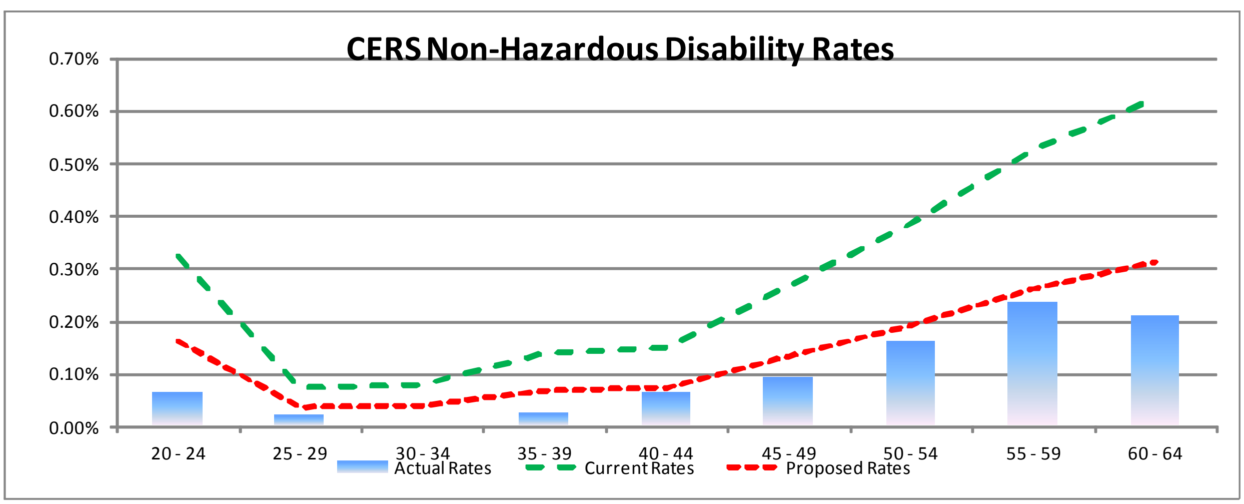
CERS Non-Hazardous Disability Retirement Experience Under Current Assumptions

Age Group	Disability Experience CERS Non-Hazardous Members – Total: Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	1	5.20	0.19
25 - 29	3	10.71	0.28
30 - 34	0	17.93	0.00
35 - 39	7	40.31	0.17
40 - 44	30	70.49	0.43
45 - 49	49	141.66	0.35
50 - 54	103	246.65	0.42
55 - 59	155	347.45	0.45
60 & Over	118	353.19	0.33
TOTAL	466	1,233.59	0.38

CERS Non-Hazardous Disability Retirement Findings and Recommendations

The analysis yields an actual/expected ratio of 38% over the experience period. A ratio of 38% indicates that the current assumption is overestimating the number of disability retirements. This finding is consistent with the last experience study in which we recommended reducing assumed rates of disability. As a result, we recommend reducing the incidences of disability retirements.

The chart below show (i) the actual rates of disability for employees by age during the past five years, (ii) the current assume rates of disability and (iii) the recommended assumed rates of disability.



CERS Non-Hazardous Disability Retirement Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 76% compared to 38% based on the current assumption.

Age Group	Disability Experience CERS Non-Hazardous Members		
	Total		
	Actual	Proposed	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	1	2.60	0.39
25 - 29	3	5.35	0.56
30 - 34	0	8.97	0.00
35 - 39	7	20.15	0.35
40 - 44	30	35.24	0.85
45 - 49	49	70.82	0.69
50 - 54	103	123.33	0.84
55 - 59	155	173.71	0.89
60 & Over	118	176.59	0.67
TOTAL	466	616.76	0.76

CERS Hazardous Members

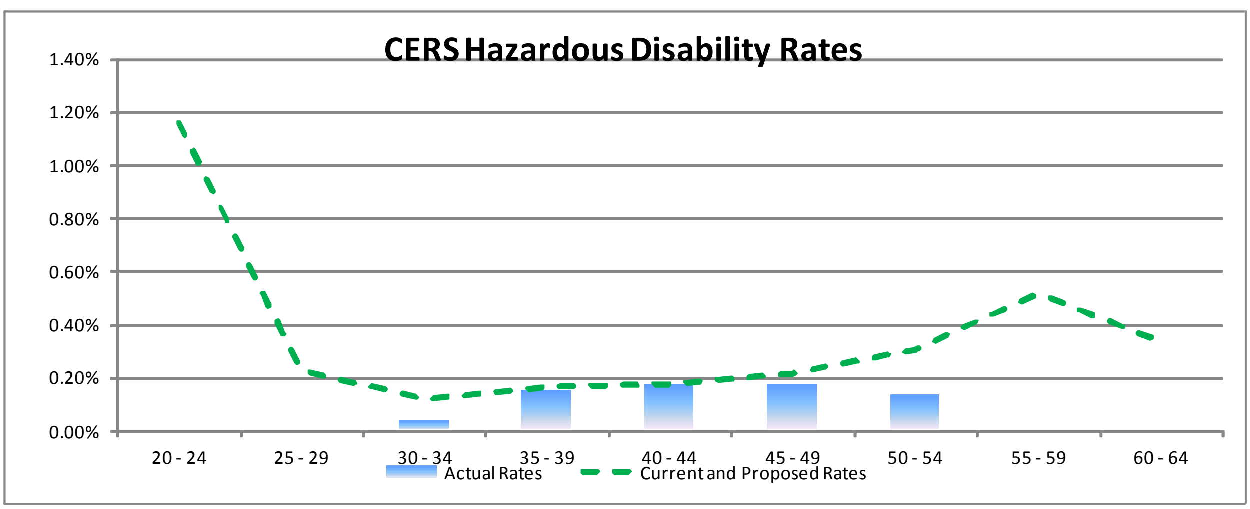
CERS Hazardous Disability Retirement Experience Under Current Assumptions

	Disability Experience CERS Hazardous Members		
	Total		
Age Group	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.94	0.00
25 - 29	0	4.02	0.00
30 - 34	2	6.74	0.30
35 - 39	11	11.88	0.93
40 - 44	16	16.12	0.99
45 - 49	14	17.34	0.81
50 - 54	7	16.04	0.44
55 - 59	0	14.86	0.00
60 & Over	0	5.39	0.00
TOTAL	50	93.33	0.54

CERS Hazardous Disability Retirement Findings and Recommendations

The analysis yields an actual/expected ratio of 54% over the experience period. A ratio of 54% indicates that the overall current assumption is overestimating the number of disability retirements. However, the current assumed rates of disability were a good indication of actual disabilities for ages 35-50, but a poor indication elsewhere. This may be attributed to lack of significant exposures and we recommend no change to the assumption at this time. We will continue to monitor in the future.

The chart below show (i) the actual rates of disability for employees by age during the past five years, (ii) the current assume rates of disability.



SPRS Members

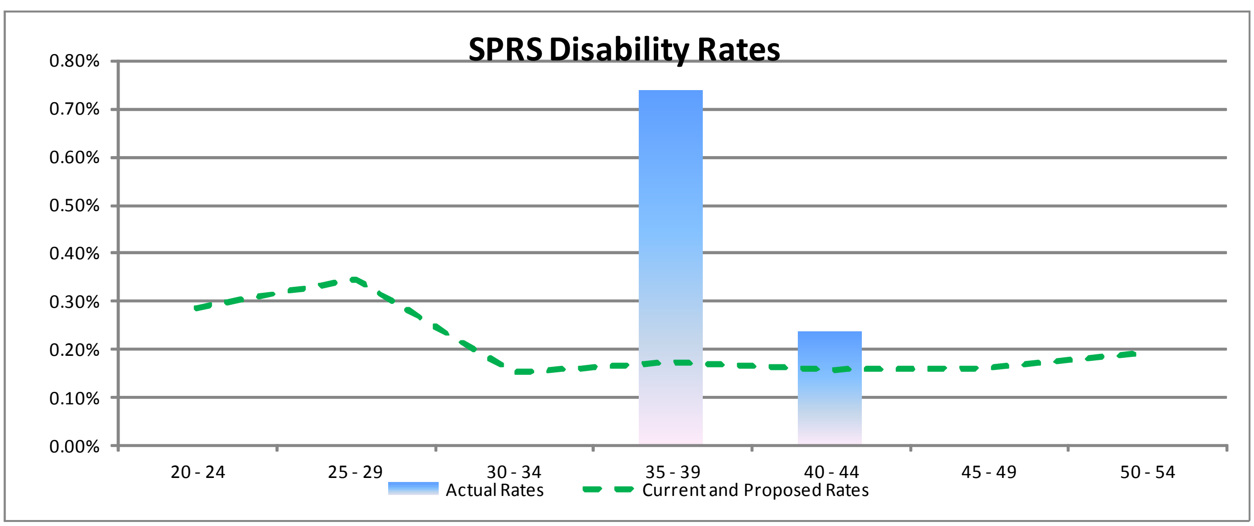
SPRS Disability Retirement Experience Under Current Assumptions

Age Group	Disability Experience SPRS Members Total Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.06	0.00
25 - 29	0	0.42	0.00
30 - 34	0	0.88	0.00
35 - 39	7	1.64	4.27
40 - 44	3	2.01	1.49
45 - 49	0	1.62	0.00
50 & Over	0	0.93	0.00
TOTAL	10	7.56	1.32

SPRS Disability Retirement Findings and Recommendations

The analysis yields an actual/expected ratio of 132% over the experience period. A ratio of 132% indicates that the current assumption is underestimating the number of disability retirements. Due to the relative small sample size of the data we are recommending no change in this assumption at this time.

The chart below show (i) the actual rates of disability for employees by age during the past five years, (ii) the current assume rates of disability.



RATES OF WITHDRAWAL

The rates of withdrawal are used to determine the expected number of separations from active service that will occur prior to attaining the eligibility requirement for a retirement benefit as a result of resignation or dismissal.

The current assumption utilizes a service based a approach for the first five years of service and then an age based approach for years of service beyond five years. Overall, termination is more correlated with service rather than age; therefore we are recommending changing from a select and ultimate age based approach to strictly a service based approach.

KERS Non-Hazardous Members

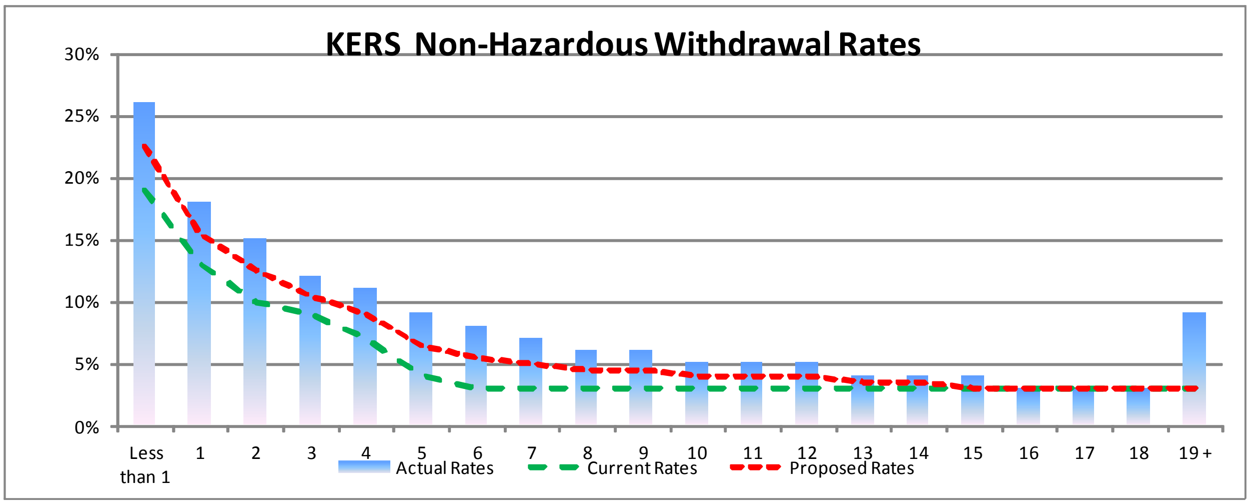
KERS Non-Hazardous Withdrawal Experience Under Current Assumptions

Year of Service	Withdrawal KERS Non-Hazardous Members Males and Females Withdrawal Experience Actual	Expected	Ratio Actual/Expected
Less Than 1	4,708	3,505.31	1.34
1	3,165	2,295.54	1.38
2	2,296	1,572.90	1.46
3	1,702	1,304.64	1.30
4	1,403	836.03	1.68
5	903	356.33	2.53
6	757	313.27	2.42
7	576	293.89	1.96
8	462	275.56	1.68
9	454	263.02	1.73
10	393	241.12	1.63
11	352	214.01	1.64
12	288	182.05	1.58
13	192	159.42	1.20
14	176	143.24	1.23
15	152	122.79	1.24
16	111	103.74	1.07
17	99	103.07	0.96
18	101	92.50	1.09
19 +	1,580	552.38	2.86
TOTAL	19,870	12,930.81	1.54

KERS Non-Hazardous Withdrawal Findings and Recommendations

The analysis of the actual withdrawals from active service yielded an actual/expected ratio of 154%. A ratio greater than 100% indicates that there were more withdrawals than anticipated by the current assumption. The table above shows that the expected number of terminations was 12,930.81 compared to 19,870 actual terminations. The data reflects a general increase in the rates of withdrawal. As a result, we recommend adjusting the withdrawal rates to more closely reflect actual experience. The complete tables of recommended withdrawal rates are shown in Appendix D.

The chart below show (i) the actual rates of withdrawal for employees by service during the past five years, (ii) the current assume rates of withdrawal and (iii) the recommended assumed rates of withdrawal.



KERS Non-Hazardous Withdrawal Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 128% compared to 154% based on the current assumption.

Year of Service	Withdrawal KERS Non-Hazardous Members Males and Females Withdrawal Experience		
	Actual	Proposed	Ratio Actual/Expected
Less Than 1	4,708	4,151.03	1.13
1	3,165	2,736.99	1.16
2	2,296	1,966.13	1.17
3	1,702	1,522.08	1.12
4	1,403	1,157.58	1.21
5	903	652.02	1.38
6	757	498.14	1.52
7	576	435.75	1.32
8	462	375.35	1.23
9	454	365.58	1.24
10	393	303.04	1.30
11	352	272.88	1.29
12	288	234.88	1.23
13	192	181.76	1.06
14	176	164.61	1.07
15	152	121.59	1.25
16	111	103.08	1.08
17	99	102.66	0.96
18	101	92.25	1.09
19 +	1,580	552.12	2.86
TOTAL	19,870	15,989.49	1.24

KERS Hazardous Members

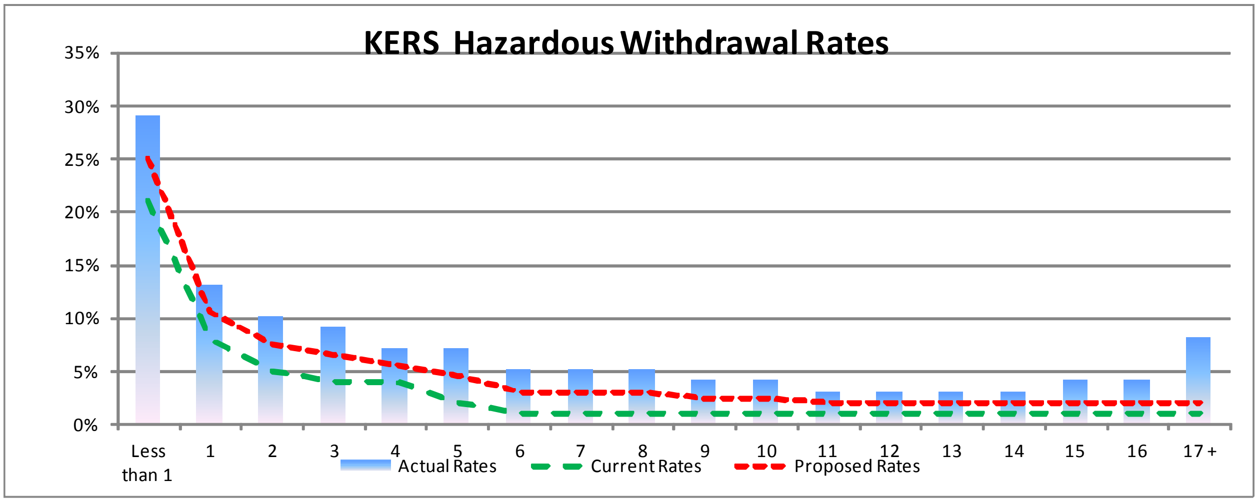
KERS Hazardous Withdrawal Experience Under Current Assumptions

Years of Service	Withdrawal KERS Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	762	557.44	1.37
1	340	199.99	1.70
2	246	128.37	1.92
3	243	114.75	2.12
4	168	92.12	1.82
5	156	36.53	4.27
6	120	31.73	3.78
7	107	28.25	3.79
8	107	24.87	4.30
9	81	22.78	3.56
10	87	21.85	3.98
11	61	19.72	3.09
12	53	16.47	3.22
13	56	15.49	3.62
14	47	14.21	3.31
15	46	11.83	3.89
16	44	10.73	4.10
17 +	259	34.32	7.55
TOTAL	2,983	1,381.45	2.16

KERS Hazardous Withdrawal Findings and Recommendations

The analysis of the actual withdrawals from active service yielded an actual/expected ratio of 216%. A ratio greater than 100% indicates that there were more withdrawals than anticipated by the current assumption. The table above shows that the expected number of terminations was 1,281.45 compared to 2,983 actual terminations. The data reflects a general increase in the rates of withdrawal. As a result, we recommend adjusting the withdrawal rates to more closely reflect actual experience. The complete tables of recommended withdrawal rates are shown in Appendix D.

The chart below show (i) the actual rates of withdrawal for employees by service during the past five years, (ii) the current assume rates of withdrawal and (iii) the recommended assumed rates of withdrawal.



KERS Hazardous Withdrawal Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 147% compared to 216% based on the current assumption.

Years of Service	Withdrawal KERS Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	762	655.75	1.16
1	340	270.27	1.26
2	246	186.30	1.32
3	243	168.35	1.44
4	168	139.43	1.20
5	156	106.16	1.47
6	120	66.39	1.81
7	107	64.02	1.67
8	107	62.28	1.72
9	81	52.68	1.54
10	87	51.10	1.70
11	61	39.08	1.56
12	53	36.06	1.47
13	56	32.60	1.72
14	47	29.72	1.58
15	46	25.92	1.77
16	44	23.52	1.87
17 +	259	64.46	4.02
TOTAL	2,983	2,074.08	1.44

CERS Non-Hazardous Members

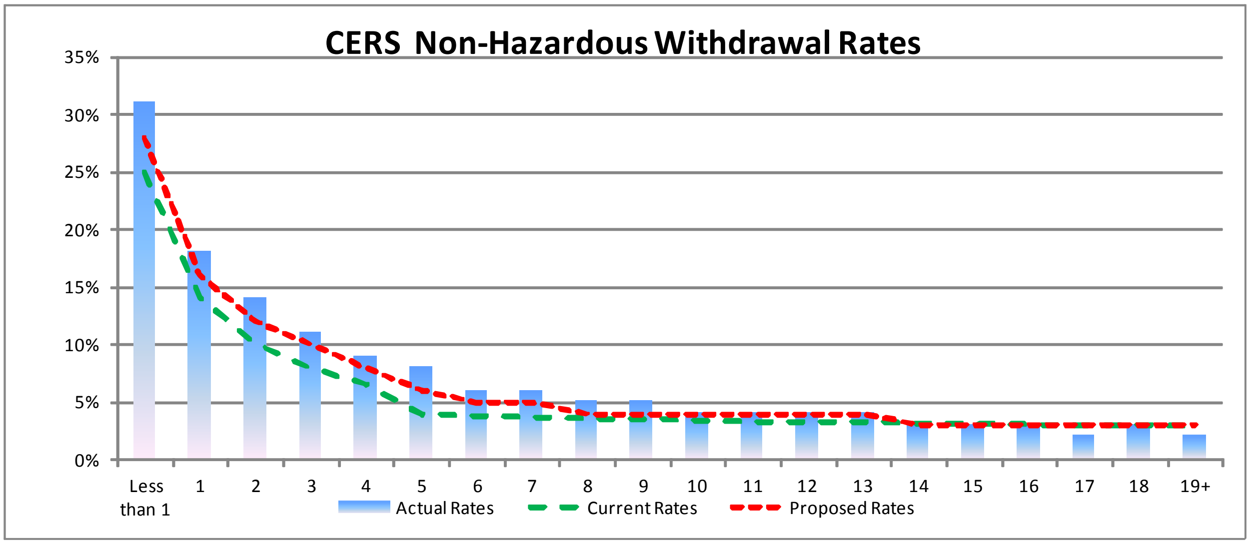
CERS Non-Hazardous Withdrawal Experience Under Current Assumptions

Year of Service	Withdrawal CERS Non-Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	11,586	9,431.50	1.23
1	6,126	4,663.82	1.31
2	3,803	2,804.70	1.36
3	2,849	2,038.88	1.40
4	2,172	1,503.64	1.44
5	1,313	664.36	1.98
6	1,004	592.56	1.69
7	888	548.92	1.62
8	730	526.91	1.39
9	655	498.67	1.31
10	584	457.04	1.28
11	500	407.72	1.23
12	382	355.50	1.07
13	327	299.75	1.09
14	216	256.83	0.84
15	182	214.88	0.85
16	162	181.49	0.89
17	121	152.38	0.79
18	112	128.38	0.87
19+	89	106.45	0.84
TOTAL	33,801	25,834.38	1.31

CERS Non-Hazardous Withdrawal Findings and Recommendations

The analysis of the actual withdrawals from active service yielded an actual/expected ratio of 131%. A ratio greater than 100% indicates that there were more withdrawals than anticipated by the current assumption. The table above shows that the expected number of terminations was 25,834.38 compared to 33,801 actual terminations. The data reflects a general increase in the rates of withdrawal. As a result, we recommend adjusting the withdrawal rates to more closely reflect actual experience. The complete tables of recommended withdrawal rates are shown in Appendix D.

The chart below show (i) the actual rates of withdrawal for employees by service during the past five years, (ii) the current assume rates of withdrawal and (iii) the recommended assumed rates of withdrawal.



CERS Non-Hazardous Withdrawal Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 112% compared to 131% based on the current assumption.

	Withdrawal CERS Non-Hazardous Members		
	Males and Females Withdrawal Experience		
Year of Service	Actual	Expected	Ratio Actual/Expected
Less Than 1	11,586	10,565.24	1.10
1	6,126	5,330.24	1.15
2	3,803	3,365.64	1.13
3	2,849	2,548.60	1.12
4	2,172	1,850.64	1.17
5	1,313	1,026.48	1.28
6	1,004	778.65	1.29
7	888	744.40	1.19
8	730	587.84	1.24
9	655	569.52	1.15
10	584	532.80	1.10
11	500	486.36	1.03
12	382	431.88	0.88
13	327	371.48	0.88
14	216	243.06	0.89
15	182	207.33	0.88
16	162	178.38	0.91
17	121	152.01	0.80
18	112	129.12	0.87
19+	89	108.03	0.82
TOTAL	33,801	30,207.70	1.12

CERS Hazardous Members

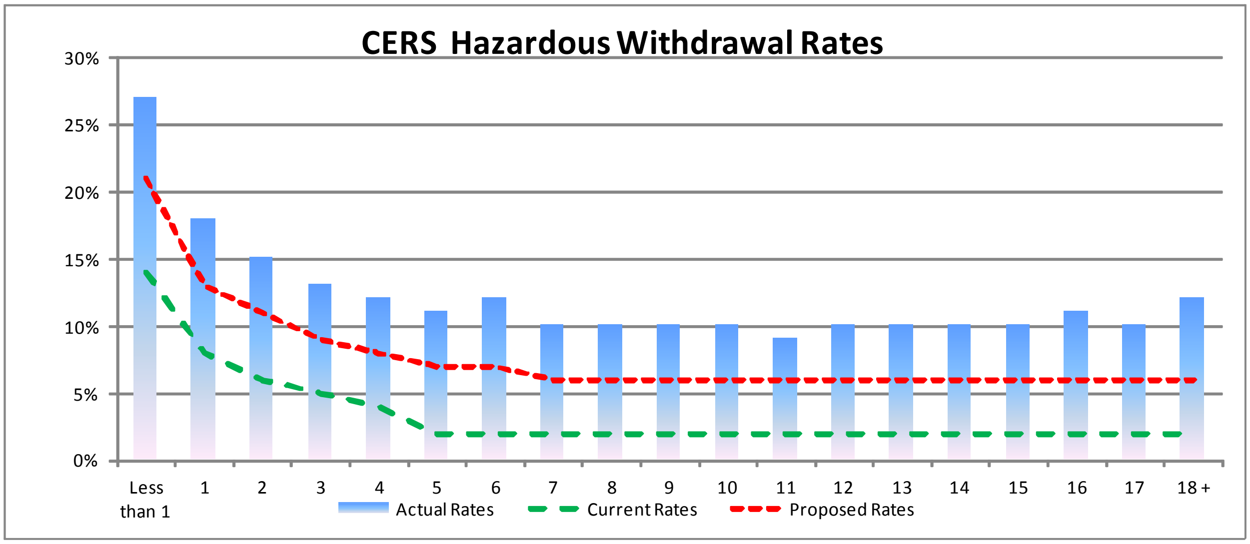
CERS Hazardous Withdrawal Experience Under Current Assumptions

Years of Service	Withdrawal CERS Hazardous Members – Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	697	367.22	1.90
1	469	193.05	2.43
2	367	149.04	2.46
3	337	116.55	2.89
4	294	101.40	2.90
5	268	55.08	4.87
6	259	50.94	5.08
7	207	49.16	4.21
8	206	48.10	4.28
9	201	48.80	4.12
10	206	47.57	4.33
11	185	45.57	4.06
12	185	41.93	4.41
13	164	37.65	4.36
14	156	33.77	4.62
15	126	28.92	4.36
16	125	25.50	4.90
17	112	22.87	4.90
18+	132	21.80	6.06
TOTAL	4,696	1,484.92	3.16

CERS Hazardous Withdrawal Findings and Recommendations

The analysis of the actual withdrawals from active service yielded an actual/expected ratio of 316%. A ratio greater than 100% indicates that there were more withdrawals than anticipated by the current assumption. The table above shows that the expected number of terminations was 1,484.92 compared to 4,696 actual terminations. The data reflects a general increase in the rates of withdrawal. As a result, we recommend adjusting the withdrawal rates to more closely reflect actual experience. The complete tables of recommended withdrawal rates are shown in Appendix D.

The chart below show (i) the actual rates of withdrawal for employees by service during the past five years, (ii) the current assume rates of withdrawal and (iii) the recommended assumed rates of withdrawal.



CERS Hazardous Withdrawal Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 153% compared to 316% based on the current assumption.

Years of Service	Withdrawal CERS Hazardous Members Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	697	550.83	1.27
1	469	334.62	1.40
2	367	273.24	1.34
3	337	233.10	1.45
4	294	202.80	1.45
5	268	165.13	1.62
6	259	154.91	1.67
7	207	128.04	1.62
8	206	124.56	1.65
9	201	126.42	1.59
10	206	122.64	1.68
11	185	117.24	1.58
12	185	108.18	1.71
13	164	97.80	1.68
14	156	89.16	1.75
15	126	77.76	1.62
16	125	70.56	1.77
17	112	65.58	1.71
18 +	132	64.02	2.06
TOTAL	4,696	3,106.59	1.51

SPRS Members

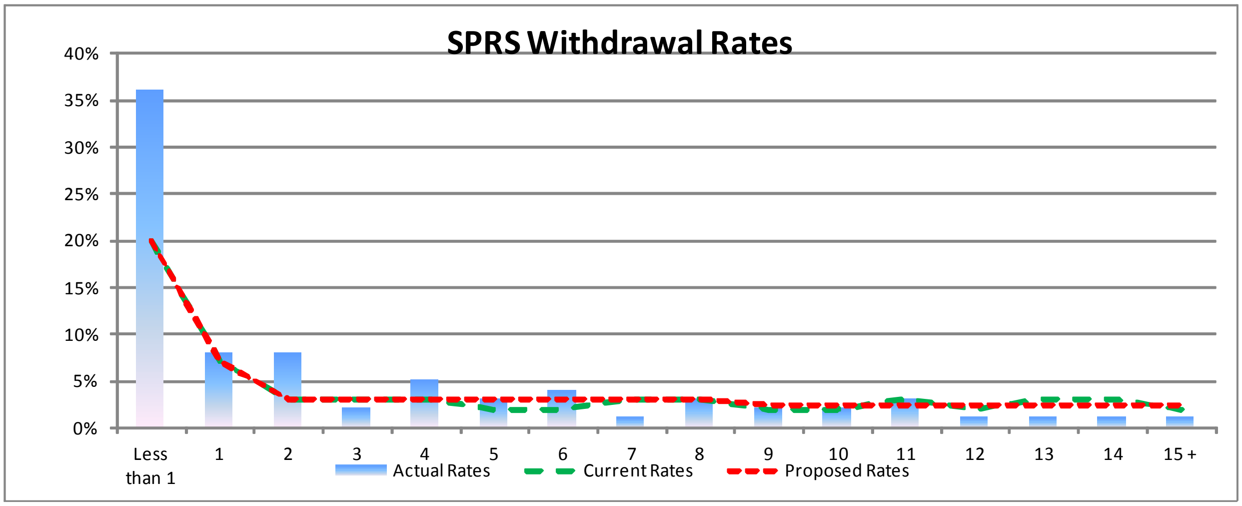
SPRS Withdrawal Experience Under Current Assumptions

Year of Service	Withdrawal SPRS Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	85	47.80	1.78
1	14	12.67	1.10
2	10	3.99	2.51
3	4	4.89	0.82
4	9	5.76	1.56
5	5	4.97	1.01
6	10	5.57	1.80
7	3	6.15	0.49
8	7	5.75	1.22
9	4	5.87	0.68
10	5	5.87	0.85
11	6	5.45	1.10
12	2	5.52	0.36
13	3	5.95	0.50
14	3	6.15	0.49
15 +	2	5.32	0.38
TOTAL	172	137.68	1.25

SPRS Withdrawal Findings and Recommendations

The analysis of the actual withdrawals from active service yielded an actual/expected ratio of 125%. A ratio greater than 100% indicates that there were more withdrawals than anticipated by the current assumption. The table above shows that the expected number of terminations was 137.68 compared to 172 actual terminations. The data reflects a general increase in the rates of withdrawal. The assumption is currently sufficient but, we recommend a slight adjustment to the withdrawal rates to smooth out the rate changes from one year of service to the next. The complete tables of recommended withdrawal rates are shown in Appendix D.

The chart below show (i) the actual rates of termination for employees by service during the past five years, (ii) the current assume rates of retirement and (iii) the recommended assumed rates of withdrawal.



SPRS Withdrawal Experience Under Proposed Assumptions

The actual/expected ratio based on the recommended assumption is 122% compared to 125% based on the current assumption.

Year of Service	Withdrawal SPRS Members Males and Females Withdrawal Experience Actual	Expected	Ratio Actual/Expected
Less Than 1	85	47.80	1.78
1	14	11.83	1.18
2	10	3.99	2.51
3	4	4.89	0.82
4	9	5.76	1.56
5	5	5.97	0.84
6	10	6.69	1.49
7	3	7.38	0.41
8	7	6.90	1.01
9	4	5.88	0.68
10	5	5.88	0.85
11	6	5.45	1.10
12	2	5.53	0.36
13	3	5.95	0.50
14	3	6.15	0.49
15	2	5.33	0.38
TOTAL	172	141.36	1.22

RATES OF SALARY INCREASE

Under the "building block" approach recommended in ASOP 27, this assumption is composed of three components – inflation, productivity (real wage increases), and merit/promotion. The inflation and productivity components are combined to produce the assumed rates of wage inflation. The rate represents the "across the board" average annual increase in salaries shown in the experience data. The merit component includes the additional increases in salary due to performance, seniority, promotions, etc.

The past five years salary experience has been influenced by a number of factors. With pressures on state and local budgets, employers responded with strategies such as pay freezes or cuts and furloughs. In general, salary increases were less than anticipated for all five systems of KRS. However, in light of the broader issues affecting pay during this period, we are not comfortable making any adjustments to the merit component of the salary scales at this time.

<u>KERS Non-Hazardous Members</u>

The analysis salary increases yielded an actual/expected ratio of 97%. A ratio less than 100% indicates that salary increases in general were less than anticipated by the current assumption. Due to the low inflation environment coupled with budgetary issues that faced state and local government during the experience period, we recommend no change to the salary scale other than the reduction due to the lowering of the wage base component of the total salary increase assumption from 4.50% to 4.00%.

KERS Non-Hazardous Salary Experience Under Current Assumptions

	Salaries at End of Year ($1,000)		
	KERS Non-Hazardous Members		
	Actual	Expected	Ratio
Years of Service			Actual/Expected
Less Than 1	220,811	217,487	1.015
1	507,093	520,958	0.973
2	484,743	498,032	0.973
3	482,475	498,747	0.967
4	444,984	459,748	0.968
5	423,318	440,350	0.961
6	391,379	403,277	0.970
7	388,915	402,451	0.966
8	377,814	391,740	0.964
9	387,872	400,573	0.968
10 +	3,734,383	3,866,063	0.966
TOTAL	7,843,787	8,099,426	0.970

KERS Hazardous Members

The analysis salary increases yielded an actual/expected ratio of 97%. A ratio less than 100% indicates that salary increases in general were less than anticipated by the current assumption. Due to the low inflation environment coupled with budgetary issues that faced state and local government during the experience period, we recommend no change to the salary scale other than the reduction due to the lowering of the wage base component of the total salary increase assumption from 4.50% to 4.00%.

KERS Hazardous Salary Experience Under Current Assumptions

	Salaries at End of Year ($1,000)		
	KERS Hazardous Members		
	Actual	Expected	Ratio
Years of Service			Actual/Expected
Less Than 1	24,327,498	23,916,079	1.017
1	49,144,588	50,736,156	0.969
2	43,931,350	46,267,435	0.950
3	43,740,913	46,013,576	0.951
4	39,924,315	41,644,587	0.959
5	36,047,495	37,314,158	0.966
6	32,383,428	33,346,916	0.971
7	28,975,931	30,009,393	0.966
8	25,075,203	25,901,758	0.968
9	24,122,963	24,857,151	0.970
10 +	189,129,979	195,618,216	0.967
TOTAL	536,803,663	555,625,425	0.970

<u>CERS Non-Hazardous Members</u>

The analysis salary increases yielded an actual/expected ratio of 98%. A ratio less than 100% indicates that salary increases in general were less than anticipated by the current assumption. Due to the low inflation environment coupled with budgetary issues that faced state and local government during the experience period, we recommend no change to the salary scale other than the reduction due to the lowering of the wage base component of the total salary increase assumption from 4.50% to 4.00%.

CERS Non-Hazardous Salary Experience Under Current Assumptions

	Salaries at End of Year ($1,000)		
	CERS Non-Hazardous Members		
Years of Service	Actual	Expected	Ratio Actual/Expected
Less Than 1	280,969	278,431	1.009
1	677,525	686,657	0.987
2	608,448	616,362	0.987
3	585,439	597,261	0.980
4	567,095	578,297	0.981
5	546,942	558,511	0.979
6	508,605	519,133	0.980
7	501,666	513,892	0.976
8	500,822	510,180	0.982
9	512,554	523,913	0.978
10 +	4,888,685	5,005,575	0.977
TOTAL	10,178,750	10,388,212	0.980

CERS Hazardous Members

The analysis salary increases yielded an actual/expected ratio of 99%. A ratio less than 100% indicates that salary increases in general were less than anticipated by the current assumption. Due to the low inflation environment coupled with budgetary issues that faced state and local government during the experience period, we recommend no change to the salary scale other than the reduction due to the lowering of the wage base component of the total salary increase assumption from 4.50% to 4.00%.

CERS Hazardous Salary Experience Under Current Assumptions

	Salaries at End of Year ($1,000)		
	CERS Hazardous Members		
Years of Service	Actual	Expected	Ratio Actual/Expected
Less Than 1	49,744	46,339	1.073
1	90,936	90,275	1.007
2	93,672	94,765	0.988
3	101,256	103,644	0.977
4	103,730	105,662	0.982
5	102,859	104,322	0.986
6	103,226	104,688	0.986
7	102,483	103,979	0.986
8	100,254	101,982	0.983
9	104,048	105,508	0.986
10+	921,541	940,292	0.980
TOTAL	1,873,749	1,901,456	0.990

SPRS Members

The analysis salary increases yielded an actual/expected ratio of 97%. A ratio less than 100% indicates that salary increases in general were less than anticipated by the current assumption. Due to the low inflation environment coupled with budgetary issues that faced state and local government during the experience period, we recommend no change to the salary scale other than the reduction due to the lowering of the wage base component of the total salary increase assumption from 4.50% to 4.00%.

SPRS Salary Experience Under Current Assumptions

	Salaries at End of Year ($1,000)		
	SPRS Members		
			Ratio
Years of Service	Actual	Expected	Actual/Expected
Less Than 1	17,063,770	16,133,131	1.058
1	6,594,847	7,100,888	0.929
2	7,551,599	8,148,488	0.927
3	9,676,895	10,087,965	0.959
4	11,865,184	12,808,210	0.926
5	12,325,077	12,910,193	0.955
6	14,560,436	15,121,338	0.963
7	13,799,952	14,377,172	0.960
8	12,187,167	12,704,431	0.959
9	12,726,883	13,059,869	0.975
10 +	113,923,894	117,210,234	0.972
TOTAL	232,275,704	239,661,919	0.970

MISCELLANEOUS ASSUMPTIONS

Percent Married–Currently 100% of members are assumed to be married with the husband three years older than the wife. This is a common and reasonable assumption and we recommend maintaining this assumption.

OTHER POST-EMPLOYMENT BENEFIT ASSUMPTIONS

<u>I. Economic Assumptions</u>

In addition to the three economic assumptions used in all of the actuarial valuations performed for KRS, the Health Care Cost Trend Rates reflect the change in per capita health claims rates over time due to the following factors:

- medical inflation
- utilization
- plan design
- technology improvements

The Actuarial Standards Board has issued Actuarial Standard of Practice (ASOP) No. 6, *"Measuring Retiree Group Benefit Obligations"*, which provides guidance to actuaries in selecting economic assumptions for measuring obligations of postretirement plans other than pensions. The actuary should not consider aging of the covered population when selecting the trend assumption for projecting future costs, but should consider the following key components in setting the health care cost trend rate as noted in ASOP No. 6:

- inflation
- medical inflation
- definition of covered charges
- frequency of services
- leveraging caused by plan design features not explicitly modeled
- plan participation

When setting assumptions for projecting medical and prescription drug costs, Cavanaugh Macdonald Consulting, LLC (CMC) assumes the health benefit plan cost trend rates will decrease from an initial rate to an ultimate level. CMC's methodology for setting the initial trend rate includes the use of published annual health care inflation surveys in conjunction with actual plan experience, where credible. The initial trend rate assumption is subject to continued update and review with each valuation performed given the volatile nature of medical and prescription drug costs. There are various approaches used to determine the timing and level of decreases to the ultimate trend rate (e.g., multi-year grading period, SOA-Getzen Model). The assumed decrease in medical and prescription drug trend rates reflects the belief that health care inflation cannot indefinitely outstrip the growth rate of employer budgets and the overall economy. As a standard of practice, CMC typically assumes a grading period of five to ten years, depending on the level of change (i.e., larger differences between the initial trend rate and the ultimate trend rate are assumed to require a longer reduction period). For the ultimate trend rate assumption, Medicare expenditures increasing at the rate of long-term per capita GDP growth + 1.0% was felt to be reasonable by a 2004 Medicare Trustees Technical Review Panel, and is widely used. As a standard of practice, CMC believes the use of a "GDP + 1%" to "GDP + 2%" assumption is reasonable and CMC typically assumes an ultimate trend rate of 5.0%. As with any standard of practice, the specifics of each plan are reviewed to ensure there is nothing unusual that would necessitate a long-term trend rate that is either higher or lower than what is typical. It appears to be reasonable to use an ultimate rate of 5.0%, as there appears to be nothing unusual about KRS' medical plans that would necessitate a long-term trend that is either higher or lower than what is typically used for this type of calculation.

Background: In our opinion, the economic assumptions recommended in this report have been developed in accordance with ASOP No. 6. Currently, the short term healthcare trend rates are set on an annual basis based on the information and data as previously described, with an ultimate trend rate of 5.0% that is reached after an appropriate grading period.

System Wide Recommendation: Continue to update the healthcare trends annually and base the healthcare trends on KRS' experience and demographics while taking into account the projected trend from external sources.

<u>II. Morbidity Assumptions</u>

The Actuarial Standards Board has issued Actuarial Standard of Practice (ASOP) No. 6, "Measuring Retiree Group Benefit Obligations", which provides guidance to actuaries when developing benefit cost projection assumptions for measuring obligations of postretirement plans other than pensions. As noted in ASOP No. 6, the actuary should consider the variation in rates by age for the benefits being modeled and use appropriate age bands if the rates vary significantly. The age bands should not be overly broad, based on the expected rate variations within the bands. It is inappropriate to assume a single per capita rate that does not vary by age, if the rates vary significantly by age. The relationship between the rates at various ages is an actuarial assumption that may be based on normative databases.

CMC assumes, in the absence of credible KRS plan experience, the projected, non-community-rated medical and prescription drug costs of the Plan vary significantly by age from the average cost at the central age of the applicable group based upon the paper "Aging Curves for Health Care Costs in Retirements", The North American Actuarial Journal, July 2005, Jeffrey P. Petertil. The publication's "Representative Curve for General Use" is used for ages 65 and older. CMC continuously monitors all available data, publications, and research projects undertaken by actuarial organizations regarding age-related morbidity (e.g., "Health Care Costs – From Birth to Death", Health Care Cost Institute's Independent Report Series – Report

2013-1, June 2013, Dale H. Yamamoto) and see no indication of the factors no longer being appropriate.

Background: Currently, the morbidity assumptions are used to adjust Medicare claims costs based on the benefit recipient's age. For pre-Medicare retiree claims costs, the current premium charged by the Kentucky Employees' Health Plan (KEHP) is used as the base cost and is projected forward using the healthcare trend assumption. No implicit rate subsidy is calculated or recognized as the subsidy is the responsibility of KEHP. The Medicare claims cost age adjustment assumptions are as follows.

Participant Age	Annual Increase
65-69	3.0%
70-74	2.5%
75-79	2.0%
80-84	1.0%
85-89	0.5%
90 and over	0.0%

System Wide Recommendation: Continue with the current assumption while continuing to follow up on research regarding morbidity from external sources.

III. Coverage Assumptions

The Actuarial Standards Board has issued Actuarial Standard of Practice (ASOP) No. 6, "Measuring Retiree Group Benefit Obligations", which provides guidance to actuaries in selecting coverage assumptions for measuring obligations of postretirement plans other than pensions. The "Coverage Assumptions" section includes the key components the actuary should consider in setting the coverage assumptions per ASOP No. 6:

- Choice of Coverage
- Plan Participation
- Spouse/Dependent Coverage Eligibility
- Spouse/Dependent Age Differences

A. KRS Plan Elections for Future Post-65 Retirees

Background: Beyond participation in the plan, KRS offers members a choice in coverage. As the costs vary by coverage option, the level of participation in each coverage option is considered by CMC based upon historic participation rates, how plan eligibility rules, plan choices, and retiree contribution rates have changed over time or are assumed to change in the future. The coverage choice assumptions are subject to continued update and review with each valuation performed.

Non-Hazardous Plans					
Plan Elections of Covered Members Age 65 and Older					
Year Ending June 30	2009	2010	2011	2012	2013
Medical Only	14%	13%	13%	12%	10%
Essential (Plus) Plan	8%	8%	6%	7%	7%
Premium Plan	78%	79%	81%	81%	83%

Non-Hazardous Plans Recommendation: Based upon recent experience, plan election rates have remained relatively steady over time and plan benefits and rules regarding coverage are not anticipated to change. As a result, we propose to continue to assume that the distribution of plan elections observed on the valuation date will remain steady.

Hazardous Plans					
Plan Elections of Covered Members Age 65 and Older					
Year Ending June 30	2009	2010	2011	2012	2013
Medical Only	7%	7%	5%	5%	5%
Essential (Plus) Plan	5%	5%	4%	4%	4%
Premium Plan	88%	88%	91%	91%	91%

Hazardous Plans Recommendation: Based upon recent experience, plan election rates have remained relatively steady over time and plan benefits and rules regarding coverage are not anticipated to change. As a result, we propose to continue to assume that the distribution of plan elections observed on the valuation date will remain steady.

Retirement Health Care Participation Rates

Background: KRS requires individuals to contribute toward the cost of health care to maintain coverage based on service at retirement, Medicare eligibility and the coverage tier elected. Some eligible individuals may not elect to be covered, especially if they have coverage available through a spouse or previous employer. The rates of participation are based on experiential data, where available and credible. These rates are considered when selecting the participation assumption for future retirees, as well as the plan eligibility rules, plan choices and the change in retiree contribution rates over time.

Since plan participation may vary in the future due to anticipated retiree contribution levels and plan choices, the appropriateness of participation rates for both current and future retirees need to be considered. The availability to opt in and out of the plan at the time of open enrollment also needs to be considered.

Participation rates vary based on the level of benefit the member may receive, thus the participation rates vary based on the three membership tiers□

Tier 1□Members that began Participating Before September 1, 2008. This includes two sub-tiers□members that began participating prior to July 1, 2003, and members with a participation date between July 1, 2003 and August 31, 2008.

Tier 2□Members with a participation date on or after September 1, 2008, but before January 1, 2014.

Tier 3□Members with a participation date on or after January 1, 2014.

Tier 1□Members Participating □efore □uly 1□2003

KERS Non-Hazardous							
Percentage of Members Participating Before 7/1/2003 Electing Coverage							
Service at Retirement	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Under 10	35%	30%	52%	45%	30%	90%	50%
10 □14	67%	63%	53%	58%	62%	90%	75%
15 □19	81%	78%	81%	79%	85%	90%	90%
20□	95%	92%	96%	94%	96%	90%	100%

KERS Non-Hazardous Recommendation: Historic participation levels suggest an increasing rate of participation as service at retirement increases. This is most likely because the level of subsidy increases as the service at retirement increases. As a result, the use of service based participation rates is proposed.

KERS Hazardous							
Percentage of Members Participating Before 7/1/2003 Electing Coverage							
Service at Retirement	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Under 10	24%	0%	47%	30%	13%	100%	50%
10 □14	58%	69%	73%	46%	58%	100%	75%
15 □19	71%	76%	68%	77%	73%	100%	90%
20□	97%	98%	97%	95%	97%	100%	100%

KERS Hazardous Recommendation: Historic participation levels suggest an increasing rate of participation as service at retirement increases. This is most likely because the level of subsidy increases as the service at retirement increases. As a result, the use of service based participation rates is proposed.

CERS Non-Hazardous							
Percentage of Members Participating Before 7/1/2003 Electing Coverage							
Service at Retirement	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Under 10	28%	27%	52%	26%	22%	85%	50%
10 □14	51%	54%	54%	57%	54%	85%	75%
15 □19	79%	83%	76%	79%	81%	85%	90%
20□	92%	94%	95%	94%	94%	85%	100%

CERS Non-Hazardous Recommendation: Historic participation levels suggest an increasing rate of participation as service at retirement increases. This is most likely because the level of subsidy increases as the service at retirement increases. As a result, the use of service based participation rates is proposed.

CERS Hazardous							
Percentage of Members Participating Before 7/1/2003 Electing Coverage							
Service at Retirement	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Under 10	20%	14%	67%	50%	0%	100%	50%
10 14	54%	50%	44%	65%	46%	100%	75%
15 19	73%	65%	77%	89%	82%	100%	90%
20	94%	96%	97%	95%	97%	100%	100%

CERS Hazardous Recommendation: Historic participation levels suggest an increasing rate of participation as service at retirement increases. This is most likely because the level of subsidy increases as the service at retirement increases. As a result, the use of service based participation rates is proposed.

SPRS							
Percentage of Members Participating Before 7/1/2003 Electing Coverage							
Service at Retirement	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Under 10	100%	N/A	N/A	N/A	0%	100%	100%
10 14	N/A	N/A	100%	N/A	100%	100%	100%
15 19	0%	100%	100%	100%	100%	100%	100%
20	58%	100%	97%	92%	100%	100%	100%

SPRS Recommendation: Historic participation levels support maintaining the current assumption of 100%.

Tier 1 Members Participating Between 7/1/2003 and 9/1/2008

Percentage of Members Participating Between 7/1/2003 and 9/1/2008 Electing Coverage		
System	Current	Proposed
KERS Non-Hazardous	100%	100%
KERS Hazardous	100%	100%
CERS Non-Hazardous	100%	100%
CERS Hazardous	100%	100%
SPRS	100%	100%

System Wide Recommendation: Participation rates for members that began participating between 7/1/2003 and 9/1/2008 will be studied with the next experience study since the very first time those members would be eligible to participate in health care would be 7/1/2013. The use of the current assumption is proposed until such experience can be studied.

Tiers 2 & 3 Members Hired On or After 9/1/2008

Percentage of Members Participating On or After 9/1/2008 Electing Coverage		
System	Current	Proposed
KERS Non-Hazardous	100%	100%
KERS Hazardous	100%	100%
CERS Non-Hazardous	100%	100%
CERS Hazardous	100%	100%
SPRS	100%	100%

System Wide Recommendation: Participation rates for members that began participating on and after 9/1/2008 will be studied in a future experience study once credible experience for these members has been studied. The use of the current assumption is proposed until such experience can be studied.

C. Duty-Disability Retirement Health Care Participation Rates for Tier 1 Members Hired Before 7/1/2003

Percentage of Members Participating Before 7/1/2003 Electing Coverage		
System	Current	Proposed
KERS Non-Hazardous	100%	100%
KERS Hazardous	100%	100%
CERS Non-Hazardous	100%	100%
CERS Hazardous	100%	100%
SPRS	100%	100%

System Wide Recommendation: Participation rates for members becoming disabled in the line of duty as a result of a duty related injury, regardless of actual service receive 100% of the health care benefit paid by KRS. The use of the current assumption is proposed due to the benefit level.

D. Duty Death-In-Service Health Care Participation Rates for Tier 1 Members Hired Before 7/1/2003

Percentage of Members Participating Before 7/1/2003 Electing Coverage		
System	Current	Proposed
KERS Non-Hazardous	100%	100%
KERS Hazardous	100%	100%
CERS Non-Hazardous	100%	100%
CERS Hazardous	100%	100%
SPRS	100%	100%

System Wide Recommendation: Participation rates for spouses and dependents of members that die in the line of duty, regardless of actual service receive 100% of the health care benefit paid by KRS. The use of the current assumption is proposed due to the benefit level.

E. Deferred Vested Member Health Care Participation Rates

Tier 1 – Members Hired Before 7/1/2003

Background: For plans that require some form of contribution to maintain coverage, some eligible individuals that terminated with a vested benefit may not elect to be covered, particularly if they have other coverage available from their most recent employer. Empirical data on plan participation, where available and credible, should be considered when selecting the participation assumption for future covered retirees that retire from deferred vested status. When developing the participation rates, how plan eligibility rules, plan choices, or retiree contribution rates have changed over time should be considered.

Furthermore, plan participation may be different in the future due to participants' response to changes in retiree contribution levels and plan choices. For plans that anticipate changes in retiree contributions, the appropriateness of participation rates that vary over the projection period for both current and future retirees should be considered. Also, plan eligibility rules governing dropping coverage and subsequent re-enrollment when selecting participation rates should be considered.

KERS Non-Hazardous							
Deferred Vested Benefit Recipients Electing Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	31%	27%	28%	45%	41%	90%	50%

KERS Non-Hazardous Recommendation: The percentage of deferred vested benefit recipients electing coverage has been lower than assumed over the last five years. As a result, we propose lowering the assumed rate of participation by current deferred vested who retire in the future to 50%.

KERS Hazardous							
Deferred Vested Benefit Recipients Electing Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	50%	43%	36%	42%	25%	100%	50%

KERS Hazardous Recommendation: The percentage of deferred vested benefit recipients electing coverage has been lower than assumed over the last five years. As a result, we propose lowering the assumed rate of participation by current deferred vested who retire in the future to 50%.

CERS Non-Hazardous							
Deferred Vested Benefit Recipients Electing Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	22%	27%	31%	38%	25%	85%	50%

CERS Non-Hazardous Recommendation: The percentage of deferred vested benefit recipients electing coverage has been lower than assumed over the last five years. As a result, we propose lowering the assumed rate of participation by current deferred vested who retire in the future to 50%.

CERS Hazardous							
Deferred Vested Benefit Recipients Electing Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	15%	14%	33%	33%	35%	100%	50%

CERS Hazardous Recommendation: The percentage of deferred vested benefit recipients electing coverage has been lower than assumed over the last five years. As a result, we propose lowering the assumed rate of participation by current deferred vested who retire in the future to 50%.

SPRS							
Deferred Vested Benefit Recipients Electing Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	0%	67%	100%	N/A	33%	100%	100%

SPRS Recommendation: The percentage of deferred vested benefit recipients electing coverage has been volatile over the last five years and the number of data points has been small. As a result, we propose retaining the current assumed rate of 100%.

Tier 1 Members Participating Between 7/1/2003 and 9/1/2008

Deferred Vested Benefit Recipients Electing Coverage		
System	Current	Proposed
KERS Non-Hazardous	100%	100%
KERS Hazardous	100%	100%
CERS Non-Hazardous	100%	100%
CERS Hazardous	100%	100%
SPRS	100%	100%

System Wide Recommendation: Participation rates for members that began participating between 7/1/2003 and 9/1/2008 will be studied with the next experience study since the very first time those members would be eligible to participate in health care would be 7/1/2013. The use of the current assumption is proposed until such experience can be studied.

Tiers 2 □ 3 Members □ired On or After □/1/2008

Deferred Vested Benefit Recipients Electing Coverage		
System	Current	Proposed
KERS Non-Hazardous	100%	100%
KERS Hazardous	100%	100%
CERS Non-Hazardous	100%	100%
CERS Hazardous	100%	100%
SPRS	100%	100%

System Wide Recommendation: Participation rates for members that began participating on and after 9/1/2008 will be studied in a future experience study once credible experience for these members has been studied. The use of the current assumption is proposed until such experience can be studied.

F□KRS □a□ardous Divisions Spouse and Dependent □ealth Care Participation Rates

Background: Members eligible for coverage under the plan should be considered and appropriate assumptions should be made regarding the coverage of spouses and dependents. Additionally, the impact of plan rules regarding changes in coverage after retirement, such as remarriage, if significant should be considered.

KERS Hazardous							
Percentage of Covered Retirees Electing Spouse Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	42%	42%	44%	44%	44%	100%	50%

KERS Hazardous Recommendation: The percentage of those electing coverage for their spouses has remained steady over time and plan benefits and rules regarding dependent coverage are not anticipated to change. As a result, the use of the historic spouse coverage election average with a small margin for conservatism is proposed.

CERS Hazardous							
Percentage of Covered Retirees Electing Spouse Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	66%	67%	67%	68%	67%	100%	75%

CERS Hazardous Recommendation: The percentage of those electing coverage for their spouses has remained steady over time and plan benefits and rules regarding dependent coverage are not anticipated to change. As a result, the use of the historic spouse coverage election average with a small margin for conservatism is proposed.

SPRS							
Percentage of Covered Retirees Electing Spouse Coverage							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Percentage	65%	71%	72%	73%	72%	100%	75%

SPRS Hazardous Recommendation: The percentage of those electing coverage for their spouses has remained steady over time and plan benefits and rules regarding dependent coverage are not anticipated to change. As a result, the use of the historic spouse coverage election average with a small margin for conservatism is proposed.

G. KRS Deferred Vested Benefit Recipients Initial Age of Benefit Receipt for Members

Tier 1 – Members Participating Before 7/1/2003

Background: Although members may begin receiving their deferred vested benefits once meeting the age and service requirements for retirement eligibility, many members do not begin receiving benefits at the earliest eligibility date. For those members with deferred vested benefits, an average age in which health benefits are to begin must be assumed.

KERS Non-Hazardous Deferred Vested Benefit Recipients Initial Age of Benefit Receipt			
First Year of Benefit Receipt	Average Age	Current	Proposed
2009	58.4		
2010	58.0		
2011	57.0	55	55
2012	57.9		
2013	59.1		

KERS Non-Hazardous Recommendation: The average age of initial receipt has remained relatively steady over time and plan benefits and rules regarding coverage are not anticipated to change. As a result, we recommend continued use of the current assumption.

KERS Hazardous Deferred Vested Benefit Recipients Initial Age of Benefit Receipt			
First Year of Benefit Receipt	Average Age	Current	Proposed
2009	51.2		
2010	53.1		
2011	52.1	50	50
2012	51.2		
2013	52.8		

KERS Hazardous Recommendation: The average age of initial receipt has remained relatively steady over time and plan benefits and rules regarding coverage are not anticipated to change. As a result, we recommend continued use of the current assumption.

CERS Non-Hazardous Deferred Vested Benefit Recipients Initial Age of Benefit Receipt			
First Year of Benefit Receipt	Average Age	Current	Proposed
2009	57.2	55	55
2010	57.7		
2011	58.1		
2012	57.8		
2013	59.1		

CERS Non-Hazardous Recommendation: The average age of initial receipt has remained relatively steady over time and plan benefits and rules regarding coverage are not anticipated to change. As a result, we recommend continued use of the current assumption.

CERS Hazardous Deferred Vested Benefit Recipients Initial Age of Benefit Receipt			
First Year of Benefit Receipt	Average Age	Current	Proposed
2009	47.45	50	50
2010	49.75		
2011	53.55		
2012	42.58		
2013	50.49		

CERS Hazardous Recommendation: The average age of initial receipt has remained relatively steady over time and plan benefits and rules regarding coverage are not anticipated to change. As a result, we recommend continued use of the current assumption.

SPRS Deferred Vested Benefit Recipients Initial Age of Benefit Receipt			
First □ear of Benefit Receipt	Average Age	Current	Proposed
2009	N/A	50	50
2010	46.97		
2011	51.08		
2012	N/A		
2013	45.66		

SPRS Recommendation: The average age of initial receipt has remained relatively steady over time and plan benefits and rules regarding coverage are not anticipated to change. As a result, we recommend continued use of the current assumption.

<u>Tier 1 Members Participating □et□een □/1/2003 and □/1/2008</u>

System	Current	Proposed
KERS Non-Hazardous	55	55
KERS Hazardous	50	50
CERS Non-Hazardous	55	55
CERS Hazardous	50	50
SPRS	50	50

System Wide Recommendation: The average age of initial receipt will be studied with the next experience study since the very first time those members would be eligible to participate in health care would be after 7/1/2013. The use of the current assumption is proposed until such experience can be studied.

<u>Tier 3 – Members Hired After [illegible]/1/2008</u>

System	Current	Proposed
KERS Non-Hazardous	60	60
KERS Hazardous	50	50
CERS Non-Hazardous	60	60
CERS Hazardous	50	50
SPRS	50	50

System Wide Recommendation: The average age of initial receipt will be studied in a future experience once credible experience for these members has been studied. The use of the current assumption is proposed until such experience can be studied.

<u>KERS Hazardous Spouse and Dependent Age</u>

Background: The actual data for the age of the covered spouse and dependents of retired participants is used. The spouse and dependents of an active employee today may not be the same spouse and dependents covered at retirement, therefore the actuary should generally select an assumed covered spouse age difference for purposes of projecting future spouse coverage and assumed dependents' ages for projecting dependent coverage.

KERS Hazardous							
Average Number of Years a Covered Male Spouse is Older than a Covered Female Spouse							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Average Years	3.60	3.42	3.55	3.46	3.39	3	3

KERS Hazardous Recommendation: The average age difference between covered male and female spouses has been slightly higher than assumed. We recommend maintaining the current assumption to remain consistent with the pension valuation.

CERS Hazardous							
Average Number of □ears a Covered Male Spouse is Older than a Covered Female Spouse							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Average □ears	3.74	3.78	3.71	3.76	3.79	3	3

CERS Hazardous Recommendation: The average age difference between covered male and female spouses has been slightly higher than assumed. We recommend maintaining the current assumption to remain consistent with the pension valuation.

SPRS							
Average Number of □ears a Covered Male Spouse is Older than a Covered Female Spouse							
Valuation	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	Current	Proposed
Average □ears	4.04	4.31	4.25	4.35	4.40	3	3

SPRS Recommendation: The average age difference between covered male and female spouses has been slightly higher than assumed. We recommend maintaining the current assumption to remain consistent with the pension valuation.

KERS SUMMARY AND COST OF CHANGES

As a result of the experience investigation, we are recommending revised rates of withdrawal, disability, pre-retirement mortality, service retirement and salary increases for active members. When these proposed assumption changes are applied to the June 30, 2013 valuation, the results will change. The change in results represents the financial impact of adopting the proposed assumptions. The table below summarizes the financial impact.

Pension

	KERS Non-Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates			
Normal Cost Rate	3.48%	3.11%	3.11%
Expenses	0.65	0.65	0.65
UAAL	26.71	27.71	28.78
Total Employer Rate	30.84%	31.47%	32.54%
Actuarial accrued liability	$ 11,386,602,159	$ 11,716,235,034	$ 11,788,258,431
Actuarial value of assets	$ 2,636,122,849	$ 2,636,122,849	$ 2,636,122,849
UAAL	$ 8,750,479,310	$ 9,080,112,185	$ 9,152,135,582

	KERS Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates			
Normal Cost Rate	5.24%	6.23%	6.23%
Expenses	0.55	0.55	0.55
UAAL	10.58	11.44	12.49
Total Employer Rate	16.37%	18.22%	19.27%
Actuarial accrued liability	$ 783,980,594	$ 806,705,619	$ 824,433,293
Actuarial value of assets	$ 505,656,808	$ 505,656,808	$ 505,656,808
UAAL	$ 278,323,786	$ 301,048,811	$ 318,776,485

KERS SUMMARY AND COST OF CHANGES

Insurance

	KERS Non-Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rate:			
Normal Cost Rate	2.69%	2.28%	2.34%
Expenses	0.26	0.26	0.26
UAAL	4.98	5.26	5.67
Total Employer Rate	7.93%	7.80%	8.27%
Actuarial accrued liability	$ 2,128,754,134	$ 2,220,005,137	$ 2,299,035,118
Actuarial value of assets	$ 497,584,327	$ 497,584,327	$ 497,584,327
UAAL	$ 1,631,169,807	$ 1,722,420,810	$ 1,801,450,791

	KERS Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rate:			
Normal Cost Rate	9.27%	7.47%	7.76%
Expenses	0.14	0.14	0.14
UAAL	0.56	-0.75	-0.27
Total Employer Rate	9.97%	6.86%	7.63%
Actuarial accrued liability	$ 385,517,675	$ 351,110,059	$ 363,929,229
Actuarial value of assets	$ 370,774,403	$ 370,774,403	$ 370,774,403
UAAL	$ 14,743,272	-$ 19,664,344	-$ 6,845,174

CERS SUMMARY AND COST OF CHANGES

As a result of the experience investigation, we are recommending revised rates of withdrawal, disability, pre-retirement mortality, service retirement and salary increases for active members. When these proposed assumption changes are applied to the June 30, 2013 valuation, the results will change. The change in results represents the financial impact of adopting the proposed assumptions. The table below summarizes the financial impact.

Pension

	CERS Non-Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates:			
Normal Cost Rate	3.56%	3.28%	3.27%
Expenses	0.79	0.79	0.79
UAAL	8.40	8.90	9.63
Total Employer Rate	12.75%	12.97%	13.69%
Actuarial accrued liability	$ 9,378,876,114	$ 9,603,889,054	$ 9,800,456,616
Actuarial value of assets	$ 5,637,094,485	$ 5,637,094,485	$ 5,637,094,485
UAAL	$ 3,741,781,629	$ 3,966,794,569	$ 4,163,362,131

	CERS Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates:			
Normal Cost Rate	6.09%	3.27%	3.32%
Expenses	0.26	0.26	0.26
UAAL	14.38	14.77	16.05
Total Employer Rate	20.73%	18.30%	19.63%
Actuarial accrued liability	$ 3,124,205,593	$ 3,160,812,289	$ 3,234,447,553
Actuarial value of assets	$ 1,801,691,408	$ 1,801,691,408	$ 1,801,691,408
UAAL	$ 1,322,514,185	$ 1,359,120,881	$ 1,432,756,145

CERS SUMMARY AND COST OF CHANGES

Insurance

	CERS Non-Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates			
Normal Cost Rate	3.32%	2.64%	2.72%
Expenses	0.20	0.20	0.20
UAAL	1.83	1.90	2.19
Total Employer Rate	5.35%	4.74%	5.11%
Actuarial accrued liability	$ 2,443,894,100	$ 2,476,471,085	$ 2,574,442,904
Actuarial value of assets	$ 1,628,244,197	$ 1,628,244,197	$ 1,628,244,197
UAAL	$ 815,649,903	$ 848,226,888	$ 946,198,707

	CERS Hazardous		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates			
Normal Cost Rate	8.90%	6.26%	6.43%
Expenses	0.15	0.15	0.15
UAAL	5.92	5.09	5.82
Total Employer Rate	14.97%	11.50%	12.40%
Actuarial accrued liability	$ 1,437,332,817	$ 1,360,833,390	$ 1,412,656,525
Actuarial value of assets	$ 892,774,391	$ 892,774,391	$ 892,774,391
UAAL	$ 544,558,426	$ 468,058,999	$ 519,882,134

SPRS SUMMARY AND COST OF CHANGES

As a result of the experience investigation, we are recommending revised rates of withdrawal, disability, pre-retirement mortality, service retirement and salary increases for active members. When these proposed assumption changes are applied to the June 30, 2013 valuation, the results will change. The change in results represents the financial impact of adopting the proposed assumptions. The table below summarizes the financial impact.

Pension

	State Police		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates:			
Normal Cost Rate	8.05%	8.69%	8.76%
Expenses	0.41	0.41	0.41
UAAL	45.44	47.55	50.74
Total Employer Rate	53.90%	56.65%	59.91%
Actuarial accrued liability	$ 651,580,654	$ 670,609,014	$ 685,816,016
Actuarial value of assets	$ 241,800,327	$ 241,800,327	$ 241,800,327
UAAL	$ 409,780,327	$ 428,808,687	$ 444,015,689

Insurance

	SPRS		
	Valuation 6/30/2013	Demographic Assumption Changes	All Assumption Changes
Employer Contribution Rates:			
Normal Cost Rate	11.91%	11.52%	11.95%
Expenses	0.41	0.41	0.41
UAAL	9.54	9.74	10.93
Total Employer Rate	21.86%	21.67%	23.29%
Actuarial accrued liability	$ 222,326,743	$ 224,116,167	$ 231,927,769
Actuarial value of assets	$ 136,321,060	$ 136,321,060	$ 136,321,060
UAAL	$ 86,005,683	$ 87,795,107	$ 95,606,709

ACTUARIAL METHODS

Actuarial valuations utilize methods to determine the liabilities, assets, and costs. While these are not like other assumptions that may change over time, an experience study is still a good opportunity to review these methods to see if they are still appropriate for systematically funding the promised benefits. Significant methods are described below.

Actuarial Cost Method□The cost method is used to allocate the present value of benefits between past service (actuarial accrued liability) and future service (normal cost). Currently the valuation uses the entry age normal cost method. This is the most widely used cost method of large public sector plans and has demonstrated the highest degree of stability as compared to alternative methods. We recommend no change in the use of this method.

Actuarial Value of Assets□The purpose of the asset smoothing is to dampen the impact that market volatility has on valuation results by spreading the unexpected market gains and losses over several years. Currently the System uses smoothing method that recognizes 20% of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed rate of return. The actuarial value of assets cannot be less than 80% or more than 120% of market value. We recommend no change in the use of this method.

Amortization Method□The unfunded actuarial accrued liability is amortized using a level percentage of payroll method over the amortization period. The period is a fixed 30 year period, starting July 1, 2013. The payroll growth assumption is used to determine the percentage of payroll required over the remaining amortization period to fully amortize the unfunded liability. The current wage inflation assumption is being changed from 4.50% to 4.00%. We recommend the same change for the payroll growth assumption be made.

HISTORICAL JUNE CPI (U) INDEX

Year	CPI (U)	Year	CPI (U)
1960	29.60	1987	113.50
1961	29.80	1988	118.00
1962	30.20	1989	124.10
1963	30.60	1990	129.90
1964	31.00	1991	136.00
1965	31.60	1992	140.20
1966	32.40	1993	144.40
1967	33.30	1994	148.00
1968	34.70	1995	152.50
1969	36.60	1996	156.70
1970	38.80	1997	160.30
1971	40.60	1998	163.00
1972	41.70	1999	166.20
1973	44.20	2000	172.40
1974	49.00	2001	178.00
1975	53.60	2002	179.90
1976	56.80	2003	183.70
1977	60.70	2004	189.70
1978	65.20	2005	194.50
1979	72.30	2006	202.90
1980	82.70	2007	208.35
1981	90.60	2008	218.82
1982	97.00	2009	215.69
1983	99.50	2010	217.96
1984	103.70	2011	225.72
1985	107.60	2012	229.48
1986	109.50	2013	233.50

Capital Market Assumptions and Asset Allocation

Rates of Real Return and Standard Deviation by Asset Class

Asset Class	Real Return	Standard Deviation
Combined Equity	5.40%	18.35%
Combined Fixed Income	1.50%	6.00%
Real Return (Diversified Inflation Strategies)	3.50%	11.50%
Real Estate	4.50%	12.50%
Absolute Return (Diversified Hedge Funds)	4.25%	9.75%
Private Equity	8.50%	29.00%
Cash Equivalent	-0.25%	3.00%

Asset Class Correlation Coefficients

	E□	Fixed	RR	RE	AR	PE	CE
Comb. Eq.	1.00	0.00	0.74	0.31	0.69	0.74	-0.03
Comb. Fixed Inc.	0.00	1.00	0.23	-0.06	0.13	-0.18	0.27
Real Return	0.74	0.23	1.00	0.36	0.61	0.61	-0.02
Real Estate	0.31	-0.06	0.36	1.00	0.22	0.51	0.08
Absolute Return	0.69	0.13	0.61	0.22	1.00	0.62	0.22
Private Equity	0.74	-0.18	0.61	0.51	0.62	1.00	0.08
Cash Equivalent	-0.03	0.27	-0.02	0.08	0.22	0.08	1.00

ASSET ALLOCATION TARGETS

KERS

Asset Class	Non-Hazardous	Hazardous
Combined Equity	42%	44%
Combined Fixed Income	20%	19%
Real Return (Diversified Inflation Strategies)	10%	10%
Real Estate	3%	5%
Absolute Return (Diversified Hedge Funds)	10%	10%
Private Equity	10%	10%
Cash Equivalent	5%	2%

CERS

Asset Class	Non-Hazardous	Hazardous
Combined Equity	44%	44%
Combined Fixed Income	19%	19%
Real Return (Diversified Inflation Strategies)	10%	10%
Real Estate	5%	5%
Absolute Return (Diversified Hedge Funds)	10%	10%
Private Equity	10%	10%
Cash Equivalent	2%	2%

SPRS

Asset Class	Hazardous
Combined Equity	44%
Combined Fixed Income	18%
Real Return (Diversified Inflation Strategies)	10%
Real Estate	5%
Absolute Return (Diversified Hedge Funds)	10%
Private Equity	10%
Cash Equivalent	3%

SOCIAL SECURITY ADMINISTRATION WAGE INDEX

Year	Wage Index	Annual Increase	Year	Wage Index	Annual Increase
1957	$3,641.72		1985	$16,822.51	4.26%
1958	3,673.80	0.88%	1986	17,321.82	2.97
1959	3,855.80	4.95	1987	18,426.51	6.38
1960	4,007.12	3.92	1988	19,334.04	4.93
1961	4,086.76	1.99	1989	20,099.55	3.96
1962	4,291.40	5.01	1990	21,027.98	4.62
1963	4,396.64	2.45	1991	21,811.60	3.73
1964	4,576.32	4.09	1992	22,935.42	5.15
1965	4,658.72	1.80	1993	23,132.67	0.86
1966	4,938.36	6.00	1994	23,753.53	2.68
1967	5,213.44	5.57	1995	24,705.66	4.01
1968	5,571.76	6.87	1996	25,913.90	4.89
1969	5,893.76	5.78	1997	27,426.00	5.84
1970	6,186.24	4.96	1998	28,861.44	5.23
1971	6,497.08	5.02	1999	30,469.84	5.57
1972	7,133.80	9.80	2000	32,154.82	5.53
1973	7,580.16	6.26	2001	32,921.92	2.39
1974	8,030.76	5.94	2002	33,252.09	1.00
1975	8,630.92	7.47	2003	34,064.95	2.44
1976	9,226.48	6.90	2004	35,648.55	4.65
1977	9,779.44	5.99	2005	36,952.94	3.66
1978	10,556.03	7.94	2006	38,651.41	4.60
1979	11,479.46	8.75	2007	40,405.48	4.54
1980	12,513.46	9.01	2008	41,334.97	2.30
1981	13,773.10	10.07	2009	40,711.61	-1.51
1982	14,531.34	5.51	2010	41,673.83	2.36
1983	15,239.24	4.87	2011	42,979.61	3.13
1984	16,135.07	5.88	2012	44,321.67	3.12

KENTUCKY EMPLOYEES RETIREMENT SYSTEMS

SUMMARY OF ACTUARIAL ASSUMPTIONS

Economic Assumptions

Investment Return: 7.50% net of investment expenses per annum, compounded annually for Non Hazardous Members

7.50% net of investment expenses per annum, compounded annually for Hazardous Members

Salary Increases: Sample rates below:

Service Years	Non Hazardous Members % Increase	Hazardous Members % Increase
0 - 1	16.50	20.50
1 - 2	8.50	8.50
2 – 3	6.00	6.50
3 – 4	5.50	6.00
4 – 5	5.50	5.50
5 – 6	5.50	5.00
6 – 7	5.00	4.50
7 – 8	5.00	4.50
8 – 9	5.00	4.50
9+	4.50	4.50

Payroll Growth: 4.00% per year

KENTUCKY EMPLOYEES RETIREMENT SYSTEMS

Demographic Assumptions

Annual Rates of Retirement
Per 100 Eligible Members

	Non-Hazardous			Hazardous	
Age	Those Eligible For Service Retirement*	Those Eligible For Service Retirement**	Service	Those Eligible For Service Retirement+	Those Eligible For Service Retirement++
55	8		20	40	
56	8		21	40	
57	8		22	40	
58	8		23	40	
59	8		24	40	
60	10	10	25	47	40
61	20	20	26	47	40
62	20	20	27	47	40
63	20	20	28	47	40
64	20	20	29	47	40
65	20	25	30	47	47
66	20	25	31	47	47
67	20	25	32	50	47
68	20	25	33	50	47
69	20	25	34	50	47
70	20	25	35	60	47
71	20	25	36	60	47
72	20	25	37	60	50
73	20	25	38	60	50
74	20	25	39	60	50
75	100	100	40	60	60

** For members participating before 9/1/2008. If service is at least 27 years, the rate is 35%.*
*** For members participating on or after 9/1/2008. If age plus service is at least 87, the rate is 35%.*

+ For members participating before 9/1/2008. The annual rate of service retirement is 100% at age 65.
++ For members participating on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.
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KENTUCKY EMPLOYEES RETIREMENT SYSTEMS

Demographic Assumptions (continued)

Mortality Rates

Active participants: RP-2000 Combined Mortality Table projected to 2013 using Scale BB. The mortality rates were multiplied by 50% for females, and 30% for males.

Disabled pensioners: RP-2000 Combined Disabled Mortality Table projected to 2013 using Scale BB set back 4 years for males.

Retired Healthy pensioners: RP-2000 Combined Mortality Table projected to 2013 using Scale BB, set back one year for females.

Disability Rates: Graduated rates

Disabled rates per 100 members

	Non-Hazardous Members		Hazardous Members	
Nearest Age	Male	Female	Male	Female
20	0.02	0.02	0.03	0.03
30	0.03	0.03	0.05	0.05
40	0.07	0.07	0.10	0.10
50	0.19	0.19	0.28	0.28
60	0.49	0.49	0.73	0.73

KENTUCKY EMPLOYEES RETIREMENT SYSTEMS

Demographic Assumptions (continued)

Withdrawal Rates:

Service	Non Hazardous Rates of Termination	Hazardous Members Rates of Termination
0 – 1	0.2250	0.2500
1 – 2	0.1550	0.1050
2 – 3	0.1250	0.0750
3 – 4	0.1050	0.0650
4 – 5	0.0900	0.0550
5 – 6	0.0650	0.0450
6 – 7	0.0550	0.0300
7 – 8	0.0500	0.0300
8 – 9	0.0450	0.0300
9 – 10	0.0450	0.0250
10 – 11	0.0400	0.0250
11 – 12	0.0400	0.0200
12 – 13	0.0400	0.0200
13 – 14	0.0350	0.0200
14 – 15	0.0350	0.0200
15 +	0.0300	0.0200

Marital Status:

Percentage Married	100%
Age difference	Males are assumed to be three years older than spouses.

Form of Payment: Participants are assumed to elect a life-only form of payment.

COUNTY EMPLOYEES RETIREMENT SYSTEM

SUMMARY OF ACTUARIAL ASSUMPTIONS

Economic Assumptions

Investment Return: 7.50% net of investment expenses per annum, compounded annually for Non Hazardous Members

7.50% net of investment expenses per annum, compounded annually for Hazardous Members

Salary Increases: Sample rates below:

Service Years	Non Hazardous Members % Increase	Hazardous Members % Increase
0 - 1	12.50	19.50
1 - 2	9.00	10.00
2 - 3	5.50	6.00
3 - 4	5.50	5.25
4 - 5	5.00	5.00
5 - 6	5.00	4.50
6 - 7	4.75	4.00
7 - 8	4.75	4.00
8 - 9	4.50	4.00
9 - 10	4.50	4.00
10 –	4.25	4.00

Payroll Growth: 4.00% per year

COUNTY EMPLOYEES RETIREMENT SYSTEM

Demographic Assumptions

Annual Rates of Retirement
Per 100 Eligible Members

	Non-Hazardous			Hazardous	
Age	Those Eligible For Service Retirement*	Those Eligible For Service Retirement**	Service	Those Eligible For Service Retirement+	Those Eligible For Service Retirement++
55	5		20	22.5	
56	6		21	22.5	
57	7		22	22.5	
58	7		23	22.5	
59	8		24	30.0	
60	9	9	25	33.0	22.5
61	15	15	26	33.0	22.5
62	18	18	27	36.0	22.5
63	18	18	28	39.0	22.5
64	18	18	29	55.0	30.0
65	18	18	30	33.0	33.0
66	18	18	31	33.0	33.0
67	18	18	32	50.0	36.0
68	18	18	33	40.0	39.0
69	18	18	34	40.0	55.0
70	18	18	35	40.0	33.0
71	18	18	36	40.0	33.0
72	18	18	37	40.0	50.0
73	18	18	38	40.0	40.0
74	18	18	39	40.0	40.0
75	100	100	40	40.0	40.0

** If service is at least 27 years, the rate is 30% for members participating before 9/1/2008.*
***If age plus service is at least 87, the rate is 30% for members participating on or after 9/1/2008.*

+ Applies to members participating before 9/1/2008. The annual rate of service retirement is 100% at age 62.
++ Applies to members participating on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.

COUNTY EMPLOYEES RETIREMENT SYSTEM

Demographic Assumptions (continued)

Mortality Rates

Active participants	RP-2000 Combined Mortality Table projected to 2013 using Scale BB. The mortality rates were multiplied by 50% for females, and 30% for males.
Disabled pensioners	RP-2000 Combined Disabled Mortality Table projected to 2013 using Scale BB set back 4 years for males.
Retired Healthy pensioners	RP-2000 Combined Mortality Table projected to 2013 using Scale BB, set back one year for females.

Disability Rates: Graduated rates

Disabled rates per 100 members

	Non-Hazardous Members		Hazardous Members	
Nearest Age	Male	Female	Male	Female
20	0.02	0.02	0.05	0.05
30	0.03	0.03	0.09	0.09
40	0.07	0.07	0.20	0.20
50	0.19	0.19	0.56	0.56
60	0.49	0.49	1.46	1.46

COUNTY EMPLOYEES RETIREMENT SYSTEM

Demographic Assumptions (continued)

Withdrawal Rates:

Service	Non Hazardous Rates of Termination	Hazardous Members Rates of Termination
0 - 1	0.2800	0.2050
1 - 2	0.1600	0.1300
2 - 3	0.1200	0.1050
3 - 4	0.1000	0.0900
4 - 5	0.0800	0.0800
5 - 6	0.0600	0.0700
6 - 7	0.0500	0.0700
7 - 8	0.0500	0.0600
8 - 9	0.0400	0.0600
9 - 10	0.0400	0.0600
10 - 11	0.0400	0.0600
11 - 12	0.0400	0.0600
12 - 13	0.0400	0.0600
13 - 14	0.0400	0.0600
14 - 15	0.0300	0.0600
15 +	0.0300	0.0600

Marital Status:

Percentage Married	100%
Age difference	Males are assumed to be three years older than spouses.

Form of Payment: Participants are assumed to elect a life-only form of payment.

STATE POLICE RETIREMENT SYSTEM

SUMMARY OF ACTUARIAL ASSUMPTIONS

Economic Assumptions

Investment Return: 7.50% net of investment expenses per annum, compounded annually

Salary Increases: Sample rates below:

Service Years	% Increase
0 - 1	16.50
1 - 2	11.50
2 – 3	9.50
3 – 4	8.50
4 – 5	7.50
5 – 6	6.50
6 – 7	6.00
7 – 8	6.00
8 – 9	5.00
9 – 10	4.50
10 □	4.00

Payroll Growth: 4.00% per year

STATE POLICE RETIREMENT SYSTEM

Demographic Assumptions

	Annual Rates of Retirement Per 100 Eligible Members	
Service	Those Eligible For Service Retirement[+]	Those Eligible For Service Retirement[++]
20	22	
21	22	
22	22	
23	28	
24	28	
25	28	22
26	28	22
27	28	22
28	44	28
29	44	28
30	44	28
31	58	28
32	58	28
33	58	44
34	58	44
35	58	44
36	58	58
37	58	58
38	58	58
39	58	58
40	58	58

+ For members whose participation began before 9/1/2008. The annual rate of service retirement is 100% at age 55.
++ For members whose participation began on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.

STATE POLICE RETIREMENT SYSTEM

Demographic Assumptions (continued)

Mortality Rates

Active participants	RP-2000 Combined Mortality Table projected to 2013 using Scale BB. The mortality rates were multiplied by 50% for females, and 30% for males.
Disabled pensioners	RP-2000 Combined Disabled Mortality Table projected to 2013 using Scale BB set back 4 years for males.
Retired Healthy pensioners	RP-2000 Combined Mortality Table projected to 2013 using Scale BB, set back one year for females.

Disability Rates: Graduated rates

Disabled rates per 100 members

Nearest Age	Male	Female
20	0.05	0.05
30	0.09	0.09
40	0.20	0.20
50	0.56	0.56
60	1.46	1.46

STATE POLICE RETIREMENT SYSTEM

Demographic Assumptions (continued)

Withdrawal Rates:

Service	State Police Members Rates of Termination
0 – 1	0.2000
1 – 2	0.0700
2 – 3	0.0300
3 – 4	0.0300
4 – 5	0.0300
5 – 6	0.0300
6 – 7	0.0300
7 – 8	0.0300
8 – 9	0.0300
9 – 10	0.0250
10 – 11	0.0250
11 – 12	0.0250
12 – 13	0.0250
13 – 14	0.0250
14 – 15	0.0250
15 +	0.0250

Marital Status:

Percentage Married: 100%

Age difference: Males are assumed to be three years older than spouses.

Form of Payment: Participants are assumed to elect a life-only form of payment.

EXHIBIT 75

ACTUARIAL STANDARDS BOARD

Actuarial Standard of
Practice No. 27

Revised Edition

Selection of Economic Assumptions for Measuring Pension Obligations

Developed by the
Pension Committee of the
Actuarial Standards Board

Adopted by the
Actuarial Standards Board
September 2013

Doc. No. 172

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September 2013

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in the Selection of Economic Assumptions for Measuring Pension Obligations

FROM: Actuarial Standards Board (ASB)

SUBJECT: Actuarial Standard of Practice (ASOP) No. 27

This document contains the final version of a revision of ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations.*

Background

The ASB provides coordinated guidance for measuring pension and retiree group benefit obligations through the series of ASOPs listed below.

1. ASOP No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*;

2. ASOP No. 6, *Measuring Retiree Group Benefit Obligations*;

3. ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*;

4. ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*; and

5. ASOP No. 44, *Selection and Use of Asset Valuation Methods for Pension Valuations*.

First Exposure Draft

The first exposure draft of this ASOP was issued in January 2011, with a comment deadline of April 30, 2011. Twenty comment letters were received and considered in developing modifications reflected in the second exposure draft.

Second Exposure Draft

The second exposure draft of this ASOP was issued in January 2012 with a comment deadline of May 31, 2012. The Pension Committee carefully considered the fifteen comment letters received. Changes made to the final standard in response to these comment letters include the following:

1. Section 3.5.1, Adverse Deviation or Other Valuation Issues, was revised to note that an actuary may determine that it is appropriate to adjust the economic assumptions when valuing plan provisions that are difficult to measure, as discussed in ASOP No. 4. Additionally, the title of this section was revised to Adverse Deviation or Plan Provisions That Are Difficult to Measure.

2. Section 3.6, Selecting a Reasonable Assumption, was revised to describe an economic assumption as reasonable if (among other criteria) it has no significant bias (the exposure draft used the word "unbiased").

3. Section 4.1.1, Assumptions Used, was revised to require that each significant assumption be disclosed.

4. The first clause of the fourth paragraph of section 1.2, Scope, was removed because it contained guidance that was not useful.

5. Section 4.1.3, Changes in Assumptions, was revised to remove the word "nonprescribed" from the first sentence.

6. The language in Section 4.2 and Section 4.3 was revised to clarify how these sections dovetail with ASOP No. 41.

7. Section 4.4 was added to remove confusion regarding the interrelationship of this standard and Precept 9 of the *Code of Professional Conduct*.

8. Defined terms now appear in bold type. Bold type was exposed for comment with the second exposure draft of ASOP No. 4 and was well received.

In addition, a number of clarifying changes were made to the text. Please see appendix 2 for a detailed discussion of the comments received and the reviewers' responses.

<u>Summary of Key Changes from the Previous Version of ASOP No. 27</u>

The following are the four key changes from the previous version of ASOP No. 27 included in this version of ASOP No. 27:

1. This version clarifies that economic assumptions can be based either on the actuary's estimate of future experience or on the actuary's observations of the estimates inherent in market data, depending upon the purpose of the measurement.

2. The guidance regarding the reasonability of an economic assumption has been changed from the "best-estimate range" standard.

3. This version requires disclosing the rationale used in selecting each nonprescribed economic assumption or any changes made to nonprescribed economic assumptions.

4. The guidance now distinguishes between prescribed assumptions or methods set by law and prescribed assumptions or methods set by another party. The language in section 4.2 and section 4.3 was revised to incorporate this distinction and to clarify how these sections dovetail with ASOP No. 41.

ASOP No. 27 is intended to accommodate the concepts of financial economics as well as traditional actuarial practice.

The Pension Committee thanks everyone who took the time to contribute comments and suggestions on the exposure drafts.

The Pension Committee thanks former committee members Thomas B. Lowman, Tonya B. Manning, and Frank Todisco for their assistance with drafting this ASOP.

The ASB voted in September 2013 to adopt this standard.

The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.

ACTUARIAL STANDARD OF PRACTICE NO. 27

SELECTION OF ECONOMIC ASSUMPTIONS FOR MEASURING PENSION OBLIGATIONS

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This standard does the following:

a. provides guidance to actuaries in selecting (including giving advice on selecting) economic assumptions—primarily investment return, discount rate, post-retirement benefit increases, **inflation**, and compensation increases—for measuring obligations under defined benefit pension plans;

b. supplements the guidance in Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, that relate to the selection and use of economic assumptions; and

c. supplements the guidance in ASOP No. 6, *Measuring Retiree Group Benefit Obligations*, that relate to the selection and use of economic assumptions.

1.2 Scope—This standard applies to the selection of economic assumptions to measure obligations under any defined benefit pension plan that is not a social insurance program, as described in section 1.2, Scope, of ASOP No. 32, *Social Insurance* (unless ASOPs on social insurance explicitly call for application of this standard). Measurements of defined benefit pension plan obligations include calculations such as funding valuations or other assignment of plan costs to time periods, liability measurements or other actuarial present value calculations, and cash flow projections or other estimates of the magnitude of future plan obligations. Measurements of pension obligations do not generally include individual benefit calculations, individual benefit statement estimates, or nondiscrimination testing.

To the extent that the guidance in this standard may conflict with ASOP Nos. 4 or 6, ASOP Nos. 4 or 6 will govern. If a conflict exists between this standard and applicable law (statutes, regulations, and other legally binding authority), the actuary should comply with applicable law.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

The actuary should use the guidance set forth in this standard whenever the actuary has an obligation to assess the reasonableness of a prescribed assumption. The actuary's obligations with respect to prescribed assumptions are governed by ASOP Nos. 4, 6, and 41, *Actuarial Communications*, which address prescribed assumptions and methods.

Throughout this standard, any reference to selecting economic assumptions also includes giving advice on selecting economic assumptions. For instance, the actuary may provide advice on selecting economic assumptions under US GAAP or Governmental Accounting Standards even though another party is ultimately responsible for selecting these assumptions. This standard applies to the actuarial advice given in such situations, within the constraints imposed by the relevant accounting standards.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard will be effective for any actuarial work product with a **measurement date** on or after September 30, 2014.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice.

2.1 Inflation—General economic **inflation**, defined as price changes over the whole of the economy.

2.2 Measurement Date—The date as of which the value of the pension obligation is determined (sometimes referred to as the “valuation date”).

2.3 Measurement Period—The period subsequent to the **measurement date** during which a particular economic assumption will apply in a given measurement.

2.4 Merit Adjustments—The rates of change in an individual's compensation attributable to personal performance, promotion, seniority, or other individual factors.

2.5 Prescribed Assumption or Method Set by Another Party—A specific assumption or method that is selected by another party, to the extent that law, regulation, or accounting standards gives the other party responsibility for selecting such an assumption or method. For this purpose, an assumption or method selected by a governmental entity for a plan that such governmental entity or a political subdivision of that entity directly or indirectly sponsors is a **prescribed assumption or method set by another party**.

2.6 Prescribed Assumption or Method Set by Law—A specific assumption or method that is mandated or that is selected from a specified range or set of assumptions or methods that is deemed to be acceptable by applicable law (statutes, regulations, and other legally binding authority). For this purpose, an assumption or method selected by a governmental entity for a plan that such governmental entity or a political subdivision of that entity directly or indirectly sponsors is not a **prescribed assumption or method set by law**.

2.7 Productivity Growth—The rates of change in a group's compensation attributable to the change in the real value of goods or services per unit of work.

Section 3. Analysis of Issues and Recommended Practices

3.1 Overview—Pension obligation values incorporate assumptions about pension payment commencement, duration, and amount. They also require discount rates to convert future expected payments into present values. Some of these assumptions are economic assumptions covered under ASOP No. 27 and some are noneconomic assumptions covered under ASOP No. 35, *Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations*. In order to measure a pension obligation, the actuary will need to select or evaluate assumptions underlying the obligation.

3.2 Identification of Economic Assumptions Used in the Measurement—The actuary should consider the following factors when identifying the types of economic assumptions to use for a specific measurement:

a. the purpose of the measurement;

b. the characteristics of the obligation to be measured (**measurement period**, pattern of plan payments over time, open/closed group, materiality, volatility, etc.); and

c. materiality of the assumption to the measurement (see section 3.5.2).

The types of economic assumptions used to measure obligations under a defined benefit pension plan may include **inflation**, investment return, discount rate, compensation increases, and other economic factors such as Social Security, cost-of-living adjustments, rate of payroll growth, growth of individual account balances, and variable conversion factors.

3.3 General Selection Process—After identifying the economic assumptions to be used for the measurement, the actuary should follow the general process set forth below for selecting each economic assumption for a specific measurement:

a. identify components, if any, of the assumption;

b. evaluate relevant data (section 3.4);

c. consider factors specific to the measurement;

d. consider other general factors (section 3.5); and

e. select a reasonable assumption (section 3.6).

After completing these steps for each economic assumption, the actuary should review the set of economic assumptions for consistency (section 3.12) and make appropriate adjustments if necessary.

3.4 Relevant Data—To evaluate relevant data, the actuary should review appropriate recent and long-term historical economic data. The actuary should not give undue weight to recent experience. The actuary should consider the possibility that some historical economic data may not be appropriate for use in developing assumptions for future periods due to changes in the underlying environment. Appendix 4 lists some generally available sources of economic data and analyses.

3.5 Other General Considerations—The following issues should be addressed when applicable:

3.5.1 Adverse Deviation or Plan Provisions That Are Difficult to Measure—Depending on the purpose of the measurement, the actuary may determine that it is appropriate to adjust the economic assumptions to provide for considerations such as adverse deviation or plan provisions that are difficult to measure, as discussed in ASOP No. 4. Any such adjustment made should be disclosed in accordance with section 4.1.1.

3.5.2 Materiality—The actuary should consider the balance between refined economic assumptions and materiality. The actuary is not required to use a particular type of economic assumption or to select a more refined economic assumption when in the actuary's professional judgment such use or selection is not expected to produce materially different results.

3.5.3 Cost of Using Refined Assumptions—The actuary should consider the balance between refined economic assumptions and the cost of using refined assumptions. For example, actuaries working with small plans may prefer to emphasize the results of general research to comply with this standard. However, they are not precluded from using relevant plan-specific facts.

3.5.4 Rounding—Taking into account the purpose of the measurement, materiality, and the cost of using refined assumptions, the actuary may determine that it is appropriate to apply a rounding technique to the selected economic assumption. In such cases, the rounding technique should be unbiased.

3.5.5 Changes in Circumstances—The **economic assumptions** selected should reflect the actuary's knowledge as of the **measurement date**. However, the actuary may learn of an event occurring after the **measurement date** that would have changed the actuary's selection of an **economic assumption**. (For example, a collective bargaining agreement ratified after the **measurement date** may lead the actuary to change the compensation increase assumption that otherwise would have been selected.) If appropriate, the actuary may reflect this change as of the **measurement date**.

3.5.6 Views of Experts—Economic data and analyses are available from a variety of sources, including representatives of the plan sponsor and administrator, investment advisors, economists, and other professionals. When the actuary is responsible for selecting or giving advice on selecting economic assumptions within the scope of this standard, the actuary may incorporate the views of experts but the selection or advice should reflect the actuary's professional judgment.

3.6 Selecting a Reasonable Assumption—Each economic assumption selected by the actuary should be reasonable. For this purpose, an assumption is reasonable if it has the following characteristics:

a. It is appropriate for the purpose of the measurement;

b. It reflects the actuary's professional judgment;

c. It takes into account historical and current economic data that is relevant as of the **measurement date**;

d. It reflects the actuary's estimate of future experience, the actuary's observation of the estimates inherent in market data, or a combination thereof; and

e. It has no significant bias (i.e., it is not significantly optimistic or pessimistic), except when provisions for adverse deviation or plan provisions that are difficult to measure are included and disclosed under section 3.5.1, or when alternative assumptions are used for the assessment of risk.

3.6.1 Reasonable Assumption Based on Future Experience or Market Data—The actuary should develop a reasonable economic assumption based on the actuary's estimate of future experience, the actuary's observation of the estimates inherent in market data, or a combination thereof. Examples of how the actuary may observe estimates inherent in market data include the following:

a. comparing yields on **inflation**-indexed bonds to yields on equivalent non-**inflation**-indexed bonds as a part of estimating the market's expectation of future **inflation**;

b. comparing yields on bonds of different credit quality to determine market credit spreads;

c. observing yields on U.S. Treasury debt of various maturities to determine a yield curve free of credit risk; and

d. examining annuity prices to estimate the market price to settle pension obligations.

The items listed above, as well as other market observations or prices, include estimates of future experience as well as other considerations. For example, the difference in yields between **inflation**-linked and non-**inflation**-linked bonds may include premiums for liquidity and future **inflation** risk in addition to an estimate of future **inflation**. The actuary may want to adjust estimates based on observations to reflect the various risk premiums and other factors (such as supply and demand for tradable bond or debt securities) that might be reflected in market pricing.

3.6.2 Range of Reasonable Assumptions—The actuary should recognize the uncertain nature of the items for which assumptions are selected and, as a result, may consider several different assumptions reasonable for a given measurement. The actuary should also recognize that different actuaries will apply different professional judgment and may choose different reasonable assumptions. As a result, a range of reasonable assumptions may develop both for an individual actuary and across actuarial practice.

3.7 Selecting an Inflation Assumption—If the actuary is using an approach that treats **inflation** as an explicit component of other economic assumptions or as an independent assumption, the actuary should follow the general process set forth in section 3.3 to select an **inflation** assumption.

3.7.1 Data—The actuary should review appropriate **inflation** data. These data may include consumer price indices, the implicit price deflator, forecasts of **inflation**, yields on government securities of various maturities, and yields on nominal and **inflation**-indexed debt.

3.7.2 Select and Ultimate Inflation Rates—The actuary may assume select and ultimate **inflation** rates in lieu of a single **inflation** rate. Select and ultimate **inflation** rates vary by period from the **measurement date** (for example, **inflation** of 3% for the first 5 years following the **measurement date** and 4% thereafter).

3.8 Selecting an Investment Return Assumption—The investment return assumption reflects the anticipated returns on the plan's current and, if appropriate for the measurement, future assets. This assumption is typically constructed by considering various factors including, but not limited to, the time value of money; **inflation** and **inflation** risk;

illiquidity; credit risk; macroeconomic conditions; and growth in earnings, dividends, and rents.

In developing a reasonable assumption for these factors and in combining the factors to develop the investment return assumption, the actuary may consider a broad range of data and other inputs, including the judgment of investment professionals.

3.8.1 Data: The actuary should review appropriate investment data. These data may include the following:

a. current yields to maturity of fixed income securities such as government securities and corporate bonds;

b. forecasts of **inflation**, GDP growth, and total returns for each asset class;

c. historical and current investment data including, but not limited to, real and nominal returns, the **inflation** and **inflation** risk components implicit in the yield of **inflation**-protected securities, dividend yields, earnings yields, and real estate capitalization rates; and

d. historical plan performance.

The actuary may also consider historical and current statistical data showing standard deviations, correlations, and other statistical measures related to historical or future expected returns of each asset class and to **inflation**. Stochastic simulation models or other analyses may be used to develop expected investment returns from this statistical data.

3.8.2 Components of the Investment Return Assumption: The investment return assumption can be developed using various methods consistent with the guidance set forth in this standard, including combining estimated components of the assumption. Where the assumption is determined as the result of a combination of two or more components or factors, the actuary should ensure that the combination of these factors is logically consistent.

3.8.3 Measurement-Specific Considerations: The actuary should address factors specific to each measurement in selecting an investment return assumption. Examples of such factors are as follows:

a. Investment Policy: The plan's investment policy may include the following: (i) the current allocation of the plan's assets; (ii) types of securities eligible to be held (diversification, marketability, social investing philosophy, etc.); (iii) a stationary or dynamic target allocation of plan assets among different classes of securities; and (iv) permissible ranges for each asset class within which the investment manager is authorized to make investment decisions. The actuary should consider whether the current investment policy is expected to change during the **measurement period**.

b. Effect of Reinvestment—Two reinvestment risks are associated with traditional, fixed income securities: (i) reinvestment of interest and normal maturity values not immediately required to pay plan benefits, and (ii) reinvestment of the entire proceeds of a security that has been called by the issuer.

c. Investment Volatility—Plans investing heavily in those asset classes characterized by high variability of returns may be required to liquidate those assets at depressed values to meet benefit obligations. Other investment risks may also be present, such as default risk or the risk of bankruptcy of the issuer.

d. Investment Manager Performance—Anticipating superior (or inferior) investment manager performance may be unduly optimistic (or pessimistic). The actuary should not assume that superior or inferior returns will be achieved, net of investment expenses, from an active investment management strategy compared to a passive investment management strategy unless the actuary believes, based on relevant supporting data, that such superior or inferior returns represent a reasonable expectation over the **measurement period**.

e. Investment and Other Administrative Expenses—Investment and other administrative expenses may be paid from plan assets. To the extent such expenses are not otherwise recognized, the actuary should reduce the investment return assumption to reflect these expenses.

f. Cash Flow Timing—The timing of expected contributions and benefit payments may affect the plan's liquidity needs and investment opportunities.

g. Benefit Volatility—Benefit volatility may be a primary factor for small plans with unpredictable benefit payment patterns. It may also be an important factor for a plan of any size that provides highly subsidized early-retirement benefits, lump-sum benefits, or supplemental benefits triggered by corporate restructuring or financial distress. In such plans, the untimely liquidation of securities at depressed values may be required to meet benefit obligations.

h. Expected Plan Termination—In some situations, the actuary may expect the plan to be terminated at a determinable date. For example, the actuary may expect a plan to terminate when the owner retires, or a frozen plan to terminate when assets are sufficient to provide all accumulated plan benefits. In these situations, the investment return assumption may reflect a shortened **measurement period** that ends at the expected termination date.

i. Tax Status of the Funding Vehicle—If the plan's assets are not kept in a tax-exempt fund, income taxes may reduce the plan's investment return. Taxes may be reflected by an explicit reduction in the total investment return assumption or by a separately identified assumption.

j. Arithmetic and Geometric Returns—The use of a forward looking expected arithmetic return as an investment return assumption will produce a mean accumulated value. The use of a forward looking expected geometric return as an investment return assumption will produce an accumulated value that generally converges to the median accumulated value as the time horizon lengthens. The actuary should consider the implications of a forward looking expected arithmetic return and a forward looking expected geometric return when constructing an investment return assumption.

In some instances, the actuary will collect forward looking expected returns by asset class from external sources. The actuary should take appropriate steps to determine the time horizon, the price **inflation**, and the expenses reflected in the expected returns. In addition, the actuary should take steps to determine the type of forward looking expected returns collected from external sources (i.e., forward looking expected geometric returns or forward looking expected arithmetic returns) and that they are used appropriately. For example, when determining a forward looking expected geometric return for an entire portfolio, the actuary generally should not take the weighted average of the forward looking expected geometric return for each of the asset classes. In this instance, to determine the forward looking expected geometric return for an entire portfolio, the actuary should take the weighted average of the forward looking expected arithmetic return for each of the asset classes and adjust such determination to reflect the variance of the entire portfolio.

Appendix 3 includes general background on arithmetic and geometric returns.

3.8.4 <u>Multiple Investment Return Rates</u>—The actuary may assume multiple investment return rates in lieu of a single investment return rate. Two examples are as follows:

a. Select and Ultimate Investment Return Rates—Assumed investment return rates vary by period from the **measurement date** (for example, returns of 8% for the first 10 years following the **measurement date** and 6% thereafter). When assuming select and ultimate investment return rates, the actuary should consider the relationships among **inflation**, interest rates, and market appreciation (depreciation).

b. Benefit Payments Covered by Designated Current or Projected Assets: One investment return rate is assumed for benefit payments covered by designated current or projected plan assets on the **measurement date**, and a different investment return rate is assumed for the balance of the benefit payments and assets.

3.9 Selecting a Discount Rate: A discount rate is used to calculate the present value of expected future plan payments. A discount rate may be a single rate or a series of rates, such as a yield curve. The actuary should consider the purpose of the measurement as a primary factor in selecting a discount rate. Some examples of measurement purposes are as follows:

a. Contribution Budgeting: An actuary evaluating the sufficiency of a plan's contribution policy may choose among several discount rates. The actuary may use a discount rate that reflects the anticipated investment return from the pension fund. Alternatively, the actuary may use a discount rate appropriate for defeasance, settlement or market-consistent measurements.

b. Defeasance or Settlement: An actuary measuring a plan's present value of benefits on a defeasance or settlement basis may use a discount rate implicit in annuity prices or other defeasance or settlement options.

c. Market-Consistent Measurements: An actuary making a market-consistent measurement may use a discount rate implicit in the price at which benefits that are expected to be paid in the future would trade in an open market between a knowledgeable seller and a knowledgeable buyer. In some instances, that discount rate may be approximated by market yields for a hypothetical bond portfolio whose cash flows reasonably match the pattern of benefits expected to be paid in the future. The type and quality of bonds in the hypothetical portfolio may depend on the particular type of market-consistent measurement.

The present value of expected future pension payments may be calculated from the perspective of different parties, recognizing that different parties may have different measurement purposes. For example, the present value of expected future payments could be calculated from the perspective of an outside creditor or the entity responsible for funding the plan. The outside creditor may desire a discount rate consistent with other measurements of importance to the creditor even though those other measurements may have little or no importance to the entity funding the plan.

3.10 Selecting a Compensation Increase Assumption: Compensation is a factor in determining participants' benefits in many pension plans. Also, some actuarial cost methods take into account the present value of future compensation. Generally, a participant's compensation will increase over the long term in accordance with **inflation**,

productivity growth, and **merit adjustments**. The assumption used to measure the anticipated year-to-year change in compensation is referred to as the compensation increase assumption. It may be a single rate, it may vary by age or service, or it may vary over future years.

When selecting a compensation increase assumption, the actuary should address the following factors:

3.10.1 Data—The actuary should review available compensation data. These data may include the following:

a. the plan sponsor's current compensation practice and any anticipated changes in this practice;

b. current compensation distributions by age or service;

c. historical compensation increases and practices of the plan sponsor and other plan sponsors in the same industry or geographic area; and

d. historical national wage increases and **productivity growth**.

The actuary should consider available plan-sponsor-specific compensation data, but the actuary should carefully weigh the credibility of these data when selecting the compensation increase assumption. For small plans or recently formed plan sponsors, industry or national data may provide a more appropriate basis for developing the compensation increase assumption.

3.10.2 Measurement-Specific Considerations—The actuary should consider factors specific to each measurement in selecting a specific compensation increase assumption. Examples of such factors are as follows:

a. Compensation Practice—The plan sponsor's current compensation practice and any contemplated changes may affect the compensation increase assumption, at least in the short term. For example, if pension benefits are a function of base compensation and the plan sponsor is changing its compensation practice to put greater emphasis on incentive compensation, future growth in base compensation may differ from historical patterns.

b. Competitive Factors—The level and pattern of future compensation changes may be affected by competitive factors, including competition for employees both within the plan sponsor's industry and within the geographical areas in which the plan sponsor operates, and global price competition. Unless the **measurement period** is short, the actuary should not give undue weight to short-term patterns.

c. Collective Bargaining: The collective bargaining process impacts the level and pattern of compensation changes. However, it may not be appropriate to assume that future contracts will provide the same level of compensation changes as the current or recent contracts.

d. Compensation Volatility: If certain elements of compensation, such as bonuses and overtime, tend to vary materially from year to year, or if aberrations exist in recent compensation amounts, then volatility should be taken into account. In some circumstances, this may be accomplished by adjusting the base amount from which future compensation elements are projected (for example, the projected bonuses might be based on an adjusted average of bonuses over the last 3 years). In some other circumstances, an additional assumption regarding an expected increase in pay in the final year of service may be used.

e. Expected Plan Freeze or Termination: In some situations, as stated in section 3.8.3(h), the actuary may expect the plan to be frozen or terminated at a determinable date. In these situations, the compensation increase assumption may reflect a shortened **measurement period** that ends at the expected termination date.

3.10.3 Multiple Compensation Increase Assumptions: The actuary may use multiple compensation increase assumptions in lieu of a single compensation increase assumption. Three examples are as follows:

a. Select and Ultimate Assumptions: Assumed compensation increases vary by period from the **measurement date** (for example, 4% increases for the first 5 years following the **measurement date**, and 5% thereafter) or by age or service.

b. Separate Assumptions for Different Employee Groups: Different compensation increases are assumed for two or more employee groups that are expected to receive different levels or patterns of compensation increases.

c. Separate Assumptions for Different Compensation Elements: Different compensation increases are assumed for two or more compensation elements that are expected to change at different rates (for example, 5% bonus increases and 3% increases in other compensation elements).

3.11 Selecting Other Economic Assumptions: In addition to **inflation**, investment return, discount rate, and compensation increase assumptions, the following are some of the types of economic assumptions that may be required for measuring certain pension obligations. The actuary should follow the general process described in section 3.3 to select these assumptions. The selected assumptions should also satisfy the consistency requirement of section 3.12.

3.11.1 Social Security. Social Security benefits are based on an individual's covered earnings, the OASDI contribution and benefit base, and changes in the cost of living. Changes in the OASDI contribution and benefit base are determined from changes in national average wages, which reflect the change in national productivity and **inflation**.

3.11.2 Cost-of-Living Adjustments. Plan benefits or limits affecting plan benefits (including the Internal Revenue Code (IRC) section 401(a)(17) compensation limit and section 415(b) maximum annuity) may be automatically adjusted for **inflation** or assumed to be adjusted for **inflation** in some manner (for example, through regular plan amendments). However, for some purposes (such as qualified pension plan funding valuations), the actuary may be precluded by applicable laws or regulations from anticipating future plan amendments or future cost-of-living adjustments in certain IRC limits.

3.11.3 Rate of Payroll Growth. As a result of terminations and new participants, total payroll generally grows at a different rate than does a participant's salary or the average of all current participants combined. As such, when a payroll growth assumption is needed, the actuary should use an assumption that is consistent with but typically not identical to the compensation increase assumption. One approach to setting the payroll growth assumption may be to reduce the compensation increase assumption by the effect of any assumed merit increases. The actuary should apply professional judgment in determining whether, given the purpose of the measurement, the payroll growth assumption should be based on a closed or open group and, if the latter, whether the size of that group should be expected to increase, decrease, or remain constant.

3.11.4 Growth of Individual Account Balances. Certain plan benefits have components directly related to the accumulation of real or hypothetical individual account balances (for example, so-called floor-offset arrangements and cash balance plans). See ASOP No. 4 for further guidance regarding these types of benefits.

3.11.5 Variable Conversion Factors. Measuring certain pension plan obligations may require converting from one payment form to another, such as converting a projected individual account balance to an annuity, converting an annuity to a lump sum, or converting from one annuity form to a different annuity form. The conversion factors may be variable (for example, recalculated each year based on a stated mortality table and interest rate equal to the yield on 30-year Treasury bonds).

3.12 Consistency among Economic Assumptions Selected by the Actuary for a Particular Measurement. With respect to any particular measurement, each economic assumption selected by the actuary should be consistent with every other economic assumption selected by the actuary for the **measurement period**, unless the assumption, considered individually, is not material, as provided in section 3.5.2. A number of factors may interact with one another and may be components of other economic assumptions, such as **inflation**, economic growth, and risk premiums. In some circumstances, consistency may be achieved by using the same **inflation**, economic growth, and other relevant components in each of the economic assumptions selected by the actuary.

Consistency is not necessarily achieved by maintaining a constant difference between one economic assumption and another. For each **measurement date**, the actuary should reevaluate the individual assumptions and the relationships among them, and make appropriate adjustments.

Assumptions selected by the actuary need not be consistent with prescribed assumptions, which are discussed in section 3.13.

3.13 Prescribed Assumption(s)—The actuary should use the guidance set forth in this standard whenever the actuary has an obligation to assess the reasonableness of a prescribed assumption. The actuary's obligations with respect to prescribed assumptions are governed by section 4.2 of this ASOP and by ASOP Nos. 4, 6, or 41 as applicable, which address prescribed assumptions and methods.

Section 4. Communications and Disclosures

4.1 Communications—Any actuarial report prepared to communicate the results of work subject to this standard should contain the following disclosures with respect to economic assumptions:

4.1.1 Assumptions Used—The actuary should describe each significant assumption used in the measurement and whether the assumption represents an estimate of future experience, the actuary's observation of the estimates inherent in market data, or a combination thereof. Sufficient detail should be shown to permit another qualified actuary to assess the level and pattern of each assumption.

Depending on a particular measurement's circumstances, the actuary may give information about specific interrelationships among the assumptions (for example, investment return—8% per year, net of investment expenses and including **inflation** at 3%). The description should also include a disclosure of any explicit adjustment made in accordance with section 3.5.1 for adverse deviation or plan provisions that are difficult to measure as discussed in ASOP No. 4.

4.1.2 Rationale for Assumptions—The actuary should disclose the information and analysis used in selecting each economic assumption that has a significant effect on the measurement. The disclosure may be brief but should be pertinent to the plan's circumstances. For example, the actuary may disclose any specific approaches used, sources of external advice, and how past experience and future expectations were considered. The disclosure may reference any actuarial experience report or study performed, including the date of the report or study. This section is not applicable to **prescribed assumptions or methods set by another party** nor is it applicable to **prescribed assumptions or methods set by law**.

4.1.3 Changes in Assumptions—The actuary should disclose any changes in the economic assumptions from those previously used for the same type of measurement. The general effects of the changes should be disclosed in words or by numerical data, as appropriate. For assumptions that were not prescribed, the actuary should include an explanation of the information and analysis that led to the changes.

The disclosure may be brief but should be pertinent to the plan's circumstances. The disclosure may reference any actuarial experience report or study performed, including the date of the report or study.

4.1.4 Changes in Circumstances—The actuary should refer to ASOP No. 41 for communication and disclosure requirements regarding changes in circumstances known to the actuary that occur after the **measurement date** and that would affect economic assumptions selected as of the **measurement date**.

4.2 Disclosure about Prescribed Assumptions or Methods—The actuary's communication should state the source of any prescribed assumptions or methods.

With respect to **prescribed assumptions or methods set by another party**, the actuary's communication should identify the following, if applicable:

a. any **prescribed assumption or method set by another party** that significantly conflicts with what, in the actuary's professional judgment, would be reasonable for the purpose of the measurement (section 3.13); or

b. any **prescribed assumption or method set by another party** that the actuary is unable to evaluate for reasonableness for the purpose of the measurement (section 3.13).

4.3 Additional Disclosures—The actuary should also include the following, as applicable, in an actuarial communication:

a. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method set by a party other than the actuary; and

b. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.

4.4 Confidential Information□ Nothing in this standard is intended to require the actuary to disclose confidential information.

Appendix 1

Background and Current Practices

Note: This appendix is provided for informational purposes but is not part of the standard of practice.

Background

Economic assumptions have a significant effect on any pension obligation measurement. Small changes of 25 or 50 basis points in these assumptions can change the measurement by several percentage points or more. Assumptions such as compensation increases or cash balance crediting rates are often used to determine projected benefit streams for valuation purposes. The discount rate assumption, arguably the most critical economic assumption in determining a pension obligation, is used to determine the discounted present value of all benefit streams that are part of such obligation measurement.

Historically, actuaries have used various practices for selecting economic assumptions. For example, some actuaries have looked to surveys of economic assumptions used by other actuaries, some have relied on detailed research by experts, some have used highly sophisticated projection techniques, and many actuaries have used a combination of these.

The first decade of the 21st century contained a significant amount of debate inside and outside the actuarial profession regarding the measurement of pension obligations. Much of the debate centered on the economic assumptions actuaries use to measure these obligations. The decade also saw the emergence of a financial economic viewpoint on pension obligations. Applying financial economic theory to the measurement of pension obligations has been controversial and has produced a significant amount of debate in the actuarial profession.

Current Practices

The actuary's discretion over economic assumptions has been curtailed in many situations. In the private single employer plan arena, the IRS, PBGC, and FASB have promulgated rulings that have limited or effectively removed an actuary's judgment regarding the discount rate used for current-year funding or accounting. Actuaries can still set other economic assumptions, such as compensation increases, inflation, or fixed income yields.

For plans other than private single-employer plans (for example, church plans, multiemployer plans, public plans), the discount rate for current-year funding requirements may or may not be prescribed by other entities. Funding valuations for these types of plans often use a discount rate related to the expected return on plan assets. In practice, this discount rate (return on asset) assumption may be set by the legislative body, plan sponsor, a governing board of trustees, or the actuary. The actuary may advise the plan sponsor about the selection of the discount rate.

As in the single-employer situation, the actuary may have discretion over other economic assumptions used to measure obligations for plans other than private single-employer plans.

Alternatively, the actuary may be in an advisory position, helping the legislative body, plan sponsor, or governing board of trustees select the assumptions.

The focus on solvency in the private single-employer plan arena has come along with prescribed economic assumptions that are linked to capital market indices. Actuaries practicing in this area are becoming accustomed to changing assumptions frequently. In nonprescribed situations, practice is still dependent upon the individual actuary. Many actuaries change assumptions infrequently, while other actuaries reevaluate the assumptions as of each measurement date and change economic assumptions more frequently. In the public plan arena, many entities perform assumption reviews every few years, and these reviews may or may not lead to assumption adjustments.

In preparing calculations for purposes other than current-year plan valuations, actuaries often use economic assumptions that are different from those used for the current-year valuation.

Appendix 2

Comments on the Second Exposure Draft and Responses

The second exposure draft of this proposed revision of this ASOP, *Selection of Economic Assumptions for Measuring Pension Obligations*, was issued in January 2012 with a comment deadline of May 31, 2012. Fifteen comment letters were received. Some of the letters were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term "commentator" may refer to more than one person associated with a particular comment letter. The Pension Committee carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses to each. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the second exposure draft.

SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment Response	One commentator suggested adding inflation to the list of economic assumptions covered by the standard. The reviewers agree and made the addition.
Comment Response	One commentator expressed concern about the coordination of guidance between ASOP Nos. 4, 6, and 27. The commentator noted that all three ASOPs are under review and suggested that the ASB take more time to coordinate guidance on assumptions for pension and retiree group benefits actuarial work. The reviewers appreciate the concern but feel that the overall guidance in ASOP No. 27 is appropriate. Considerable time has been spent coordinating the three standards, but the reviewers feel that value gained by spending more time to restructure the standards does not outweigh the value lost by further delaying updated guidance.
Comment Response	One commentator suggested that the ASB use ASOP No. 27 to clarify that mastery of pension practice is not the same as mastery of retiree group benefit practice (or vice versa). The reviewers believe that ASOP No. 27 is not an appropriate place to restate the Qualification Standards and made no change.
Section 1.2, Scope	
Comment Response	One commentator suggested that the term "social insurance" be defined. Another commentator suggested that non-discrimination testing should be specifically excluded from the scope of the standard. Another commentator suggested adding "or designated authority" to plan sponsor. Another commentator suggested different wording for the second and third paragraphs of this section. The reviewers agree with these suggestions and changed this section to more clearly define social insurance and exclude non-discrimination testing from the scope. Language was also changed regarding provision of advice by the actuary relative to assumptions selected by another party.
SECTION 2. DEFINITIONS	
Section 2.2, Measurement Date	
Comment Response	One commentator suggested changing this definition to "valuation date." The reviewers believe the current definition is adequate and made no change.

Section 2.5, Prescribed Assumption, and Section 4.2, Additional Disclosures	
Comment Response	Several commentators thought that the proposed language of section 2.5 and 4.2 expanded the disclosure requirements under ASOP No. 41 when assumptions are selected by another party. The reviewers agree but believe these changes are appropriate and are consistent with ASOP No. 4.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Section 3.3, General Considerations	
Comment Response	One commentator requested examples for this section. The reviewers believe that the guidance provided by this section is adequate without examples and made no change.
Section 3.4, Relevant Data	
Comment Response	One commentator requested clarification of what constituted “appropriate” recent and long-term historical economic data. The reviewers believe that “appropriate” is a matter of professional judgment and depends on the circumstances of the situation.
Comment Response	One commentator suggested that we delete references to giving undue weight to recent experience and historical data. Another commentator suggested language changes designed to balance historical and recent experience. The reviewers believe that the guidance provided is sufficient and made no change.
Section 3.5.1, Adverse Deviation	
Comment Response	Several commentators suggested that the term “adverse deviation” be replaced by the terms “conservative” or “conservatism” as there exists a body of legal precedents using the terms. Other commentators suggested that the term be defined or revised. Other commentators supported the use of “adverse deviation.” Another commentator suggested adding language to section 3.8.3 permitting reduction in the investment return assumption for “gain-sharing” provisions. The reviewers believe that the adverse deviation language is clear and that the current language permits actuaries to use professional judgment on this issue and thus made no change. However, the reviewers believe that the same principles could apply when valuing plan provisions that are difficult to measure, such as plans with “gain-sharing” provisions, and added guidance for selection of assumptions for this purpose to this section.
Section 3.5.4, Rounding	
Comment Response	One commentator suggested that the standard require the selected assumption to be tested for reasonableness after rounding and the rounding convention to be disclosed. Another commentator questioned the need for including guidance on rounding in the standard. The reviewers believe that the current level of guidance is appropriate and made no change.
Section 3.5.5, Changes in Circumstances	
Comment Response	Several commentators suggested that the guidance be strengthened by indicating that assumptions should be changed only after the measurement date when appropriate and when permitted. The reviewers believe that the guidance provided is sufficient and made no change.

Section 3.5, Views of Experts	
Comment	One commentator suggested removing "accountants" from the sources of economic data and analyses. Another commentator suggested that the language of this section permitting the actuary to incorporate the views of experts be strengthened to require the actuary to incorporate the views of experts.
Response	The reviewers agree and removed "accountants." The reviewers also changed the language in this section to clarify the guidance provided, but the new language does not require the actuary to incorporate the views of experts.
Comment	One commentator suggested that more guidance be provided with respect to how an actuary can use views of experts and how to document this process.
Response	The reviewers believe that the guidance provided by this section is sufficient and not overly prescriptive, and therefore made no change.
Section 3.6, Selecting a Reasonable Assumption	
Comment	Several commentators indicated a preference for the changes made to this exposure draft versus the "no gain/loss" concept included in the first exposure draft. One commentator suggested that the language be strengthened to require that an assumption is considered to be reasonable "if and only if" it satisfies the five characteristics set forth in the section. Another commentator was disappointed to see removal of a range definition, particularly for the selection of an investment return assumption. This commentator suggested development of a narrower range than the range in the existing standard such as geometric mean plus or minus one standard deviation.
Response	The reviewers believe that the current language in the proposed exposure draft provides adequate guidance and made no change.
Comment	One commentator proposed alternative language to take into account forecast economic data.
Response	The reviewers believe that the current language provides adequate guidance and made no change.
Comment	Several commentators suggested alternative wording for this section, including adding the phrase "in the actuary's judgment" and modification of the parenthetical language addressing what is considered to be "unbiased."
Response	The reviewers agree and changed the language to include "significant" bias. The reviewers note that the actuary's professional judgment is part of the definition of a reasonable assumption in section 3.6(b).
Section 3.6.1, Reasonable Assumption Based on Future Experience or Market Data	
Comment	Several commentators indicated that the list of how an actuary may observe estimates from financial data was not exhaustive and the items listed should be prefaced with "such as." One commentator suggested a language change to paragraph (a) and another commentator suggested language changes to the last paragraph.
Response	The reviewers note that the language in the stem of 3.6.1 refers to the items in the list as examples and believes that this adequately addresses the non-exhaustive nature of the list. The reviewers modified the language of this section in response to the alternative language suggestions.
Section 3.6.2, Range of Reasonable Assumptions	
Comment	One commentator indicated that the language wasn't clear regarding whether an actuary could use different economic assumptions for different projects. Several other commentators addressed this same issue by suggesting language changes.
Response	The reviewers agree and modified the language.
Comment	One commentator stated this section did not seem appropriate for a standard.
Response	The reviewers disagree and made no change.

Section 3.7, Selecting an Inflation Assumption	
Comment	One commentator suggested that sections 3.7 through 3.11 be addressed in a study note rather than in an actuarial standard.
Response	The reviewers disagree and made no change.
Section 3.8, Selecting an Investment Return Assumption	
Comment	One commentator suggested modifying and expanding the language of section 3.8.1, Data, to include additional data to consider.
Response	The reviewers believe that the current language is sufficient and made no change.
Section 3.8.3, Measurement Specific Considerations	
Comment	Several commentators suggested that the items listed in this section be considered examples of measurement specific factors to consider, not an exhaustive list each of which should be considered. One commenter suggested including two additional measurement specific considerations: a) input from investment professionals and b) special considerations for plans with gain-sharing (or similar) provisions. Another commentator suggested adding a section on investment horizon to the list of examples. Another commentator suggested adding a section on inputs from investment professionals.
Response	The reviewers agree with the first suggestion and have now described the items as "examples." Since these are examples, the reviewers did not feel it necessary to include the additional suggested considerations.
Comment	Several commentators suggested that the standard consider known or possible future changes in the investment policy. Another commentator suggested that the standard provide specific guidance when the investment policy may change during the measurement period according to pre-defined criteria, such as funded status.
Response	The reviewers believe that section 3.8.3 (a) provides appropriate guidance regarding future changes in investment policy. The reviewers changed the language to permit consideration of a stationary or dynamic asset allocation. The reviewers believe the changes made provide adequate guidance in the situation where the dynamic asset allocation strategy may change according to pre-defined criteria.
Comment	One commentator stated that most actuaries are not qualified to set investment assumptions and should be required to consult with investment professionals.
Response	The reviewers agree that investment consultants may be an appropriate source of information for actuaries who do not feel qualified to set investment assumptions and note that use of external sources is mentioned in the standard. The reviewers do not believe that ASOP No. 27 is the appropriate place to establish qualification standards.
Comment	One commentator suggested that the language should be strengthened to require compelling evidence that superior or inferior returns have been achieved. Another commentator suggested alternative wording for this section.
Response	The reviewers made a small change to the language to make the intent clearer.
Comment	One commentator suggested defining investment expenses and comment that sometimes it is difficult to determine such expenses.
Response	The reviewers believe that the existing language is clear and made no change.
Comment	One commentator indicated that this section fails to provide guidance to the actuary regarding how benefit volatility affects the investment return selection process.
Response	The reviewers believe that the current language is appropriate and made no change.

Section 3.8.3—Arithmetic and Geometric Returns	
Comment	Several comments were received regarding the guidance on arithmetic and geometric returns. Some commentators were pleased with the guidance. Several commentators said that all or parts of this section belong in a practice note or in the appendix. Two commentators said that the terms "arithmetic mean" and "geometric mean" should be defined. One commentator suggested that the last sentence of the first paragraph should say that the actuary "may," not "should," consider implications of forward looking returns. One commentator said that the attachment of "forward-looking" to arithmetic mean or geometric mean is a new financial concept and should be defined.
Response	The reviewers believe that the current language strikes an appropriate balance of all the considerations raised and made no changes.
Comment	One commentator argued that the harmonic mean investment return is a more appropriate rate for discounting pension obligations than either the arithmetic or geometric mean return.
Response	The reviewers believe that the guidance in section 3.8.3 and the discussion in appendix 3 will help pension actuaries use the expected investment return estimates most commonly provided by investment professionals in the selection of an investment return assumption and made no changes.
Comment	One commentator suggested adding a reference list of recommended reading on this subject to the appendix.
Response	The reviewers believe that additional details on arithmetic and geometric returns beyond appendix 3 are better placed in a practice note.
Comment	One commentator said that the standard should not draw a line between the actuary and an investment consultant by stating that the actuary will receive capital market assumptions from an investment consultant.
Response	The reviewers agree and made changes to the language.
Section 3.8.4—Multiple Investment Return Rates	
Comment	One commentator suggested that examples include benefit payments covered by current or projected plan assets.
Response	The reviewers agree and added "projected" assets to the second example of how multiple investment return rates could be used.
Section 3.9—Selecting A Discount Rate	
Comment	Two commentators suggested that the language be better coordinated with the types of present values then anticipated under ASOP No. 4. One commentator suggested a complete re-write of the section using the concept of present value types that was contained in the exposure draft of ASOP No. 4 issued in January 2012.
Response	The reviewers made changes to this section to make it consistent with the market-consistent concepts in the anticipated revision of ASOP No. 4. The reviewers note that the anticipated revision of ASOP No. 4 no longer contains the concept of present value types.
Comment	One commentator opined that the guidance should not say that a discount rate is used to measure present values since present values are a measurement in themselves. Instead, the guidance should indicate that a discount rate is used to determine or calculate present values.
Response	The reviewers agreed and made changes to the language.
Comment	One commentator stated that the examples in this section provided too much guidance on measurements if they are just examples of measurement purposes.
Response	The reviewers believe that language in the examples does not restrict the actuary in making measurements appropriate to the measurement's purpose and made no change.

Comment Response	One commentator suggested that the section be expanded to include a description of a current market measurement approach and an expected cost measurement approach. The commentator also suggested an expanded list of measurement purpose examples. The reviewers believe that guidance regarding measurement approaches belongs in ASOP No. 4 and will consider this comment in its work on ASOP No. 4. The reviewers note that the list of examples is not exhaustive and believe that the current guidance is sufficient, and made no change.
Comment Response	One commentator suggested that the section be re-written. Key comments include the following: • The language should be based on the principle that discount rates are measurements of portfolio returns. The commentator pointed out that this principle would support both traditional and financial economic practice. • The draft implies that discount rates are specified first and then present values are calculated using those discount rates. The commentator suggested that the guidance acknowledge that present values can be observed first and implied discount rates can then be determined or not determined at all if the actuary does not want to use a deterministic discount rate. • The commentator felt the guidance was inadequate because it focuses solely on deterministic discount rates and deterministic present values. The commentator suggested that using deterministic discount rates and deterministic present values is an actuarial assumption that should be disclosed and also suggested that the standard should make room for stochastic present values to exist. The reviewers believe that the section as drafted supports traditional and financial economic practice and does not preclude the actuary from using observed present values if desired. The reviewers note that the concept of stochastic present values has not been discussed widely in the pension profession but that the use of stochastic values is not precluded. The reviewers made no change to the guidance.
Comment Response	One commentator suggested that the list of examples be amended to acknowledge the emerging frequency of participant contributions to retiree health benefit plans and to make a distinction between sponsor and participant contributions. The reviewers note that the list of examples is not exhaustive and believe that the current guidance is sufficient and made no change.
Section 3.10, Selecting a Compensation Increase Assumption	
Comment Response	One commentator suggested renaming this section "Selecting a Compensation Change Assumption." The reviewers believe the current language is appropriate and made no change.
Section 3.10.1, Data	
Comment Response	One commentator suggested adding "relevant" to the requirement to review available compensation data in section 3.10.1. The reviewers believe the current language provides clear guidance and made no change.
Section 3.10.2, Measurement-Specific Considerations	
Comment Response	One commentator suggested removing the example in section 3.10.2(c) since it did not add value. The reviewers agree and removed the example.
Section 3.11.3, Rate of Payroll Growth	
Comment Response	One commentator suggested changing the title of this section to "Rate of Payroll Change." The reviewers believe the current language to be appropriate and made no change.

Section 3.12, Consistency among Economic Assumptions Selected by the Actuary for a Particular Measurement	
Comment	One commentator suggested adding an exception to the language for circumstances where there will not be consistency.
Response	The reviewers believe this is adequately covered in the last sentence of section 3.12, but changed the title of this section to make it clear that consistency applies to a particular measurement.
Section 3.13, Prescribed Assumption(s)	
Comment	One commentator stated that the term "principles" is not defined and causes the first sentence of this section to be misleading and unnecessary.
Response	The reviewers agreed and substituted the term "guidance" for principles.
Section 3.14, Changing Assumptions	
Comment	One commentator suggested deleting the second sentence of this section.
Response	The reviewers agree and deleted the entire section.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Communications	
Comment	One commentator suggested that the guidance in section 4.1 be clarified to apply to reports and not to all actuarial communications.
Response	The reviewers agree and made the change.
Section 4.1.1, Economic Assumptions	
Comment	One commentator suggested that disclosure should be for "explicit" adjustments for adverse deviations and that the general requirement to describe each economic assumption be limited to each "material" economic assumption. Another commentator suggested moving the last sentence of this section to section 4.1.2
Response	The reviewers agree with the suggestion to require disclosure of explicit adjustments for adverse deviations (and for plan provisions that are difficult to measure) and made changes to the language. The reviewers do not believe that moving the last sentence to section 4.1.2 is appropriate.
Section 4.1.2, Rationale for Assumptions, and Section 4.1.3, Changes in Assumptions	
Comment	One commentator objected to the extra work not requested by the Principal resulting from these sections. Another commentator indicated that this was an impractical expansion of the standards and suggested that instead of "should" disclose the standard specify that the actuary "should consider" disclosing the rationale.
Response	The reviewers believe that, in spite of the possible drawbacks of requiring disclosure of assumption rationale, the proposed language will lead to a more thorough actuarial assumption-setting process. The reviewers note that the guidance indicates that the rationale can be brief and the actuary can reference a previously published work product and made no change.
Comment	One commentator suggested that the section provide a disclosure exception when the Principal instructs the actuary not to disclose certain information.
Response	The reviewers note that in such an instance the actuary can deviate from guidance as long as the actuary makes the disclosures required in ASOP No. 41, section 4.4.
Comment	One commentator felt the language in this section could be interpreted to require the actuary to disclose confidential information. This interpretation conflicts with Precept 9 of the *Code of Professional Conduct* and would provide conflicting guidance to the actuary.
Response	The reviewers understand the concern and added section 4.4 to avoid confusion.

Appendix 3

Arithmetic and Geometric Returns

A. Introduction

One of the most important assumptions an actuary uses in measuring pension obligations is the discount rate. The exposure draft of ASOP No. 27 issued in January 2011 included the following question in transmittal memorandum:

> “4. Do you agree that the guidance on arithmetic and geometric returns is appropriate? Should the consequences of the use of geometric or arithmetic returns be disclosed?”

Given the wide range of responses received to the above question, the Pension Committee of the Actuarial Standards Board determined that the inclusion of some educational material regarding arithmetic and geometric returns in ASOP No. 27 would be beneficial. The following material is not meant to be an exhaustive discussion of the matter. It is meant to give the actuary some direction regarding the considerations that may be employed in determining whether the use of arithmetic or geometric returns is more appropriate in the selection of a discount rate. In many circumstances, as with the selection of other assumptions, the purpose of the measurement is one of the most important determinants.

The use of a *forward looking expected geometric return* as a discount rate will produce a present value that generally converges to the median present value as the time horizon lengthens (i.e., if the actuary determines a funding obligation using the *forward looking expected geometric return* to discount the obligation to produce a present value, it is expected that in the limiting case there will be enough money to fund the obligation 50% of the time). The use of a *forward looking expected arithmetic return* as a discount rate will generally produce a *mean* present value (i.e., there will be no expected actuarial gains and/or losses).

This appendix should not be construed as a preference for any particular present value measurements over others (for example, market-consistent present value measurements or measurements using a discount rate reflecting anticipated investment return).

B. Looking Back versus Looking Forward

The discount rate used in the measurement of a pension obligation is a forward-looking assumption. While the actuary may use some historical results in establishing expectations regarding the future, the discount rate reflects an expectation of events to come, not events that have already occurred.

One of the more confusing aspects of the debate regarding arithmetic and geometric returns is as follows:

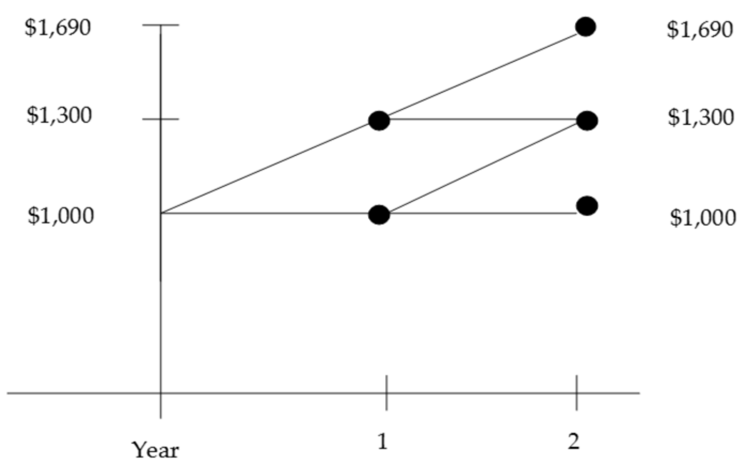
(a) determining whether we are talking about using historical results to establish forward looking (i.e., future) expectations, or

(b) determining whether we are talking about whether a *forward looking expected geometric return* or *forward looking expected arithmetic return* is a more appropriate discount rate

Note that a *forward looking expected geometric return* is not synonymous with compounding. That is, both a *forward looking expected geometric return* and a *forward looking expected arithmetic return* would be used in a compounding nature.

C. An Example

The following example illustrates the use of a *forward looking expected arithmetic return* to produce a *mean* present value. Assume that an asset class is expected to have a 50% probability of earning a return of 30% and a 50% probability of earning a return of 0% for each of the next two years and that these returns are the only possible outcomes. (The *forward looking expected arithmetic return* in this example would be 15%.) The chart below illustrates the totality of possible investment results for an initial $1,000 investment placed in this asset class:



The expected ending wealth values and a derivation of the *forward looking expected geometric return* is presented below:

Ending Wealth				Rate of Return			
\$1,690	x 1/4	=	\$ 422.50	$\left[\left(\frac{\$1{,}690}{\$1{,}000}\right)^{1/2} - 1\right]$	x 1/4	=	7.50%
\$1,300	x 2/4	=	\$ 650.00	$\left[\left(\frac{\$1{,}300}{\$1{,}000}\right)^{1/2} - 1\right]$	x 1/2	=	7.01%
\$1,000	x 1/4	=	\$ 250.00	$\left[\left(\frac{\$1{,}000}{\$1{,}000}\right)^{1/2} - 1\right]$	x 1/4	=	0.00%
Expected Value =			\$1,322.50				14.51%

The *forward looking expected geometric return* in this example is 14.51%. The question then becomes what discount rate would take the expected value of \$1,322.50 at the end of year 2 and produce a present value of \$1,000. The answer is shown below:

$$\text{Mean PV Rate of Return} = \left[\left(\frac{\$1{,}322.50}{\$1{,}000.00}\right)^{1/2} - 1\right] = 15\%$$

which is the *forward looking expected <u>arithmetic</u> return*. Note however in this simple example, that if the actuary funded an obligation that is expected to be \$1,322.50 at the end of year two with a one-time payment of \$1,000 at the beginning of year 1, there would be insufficient funds at the end of year 2 three-quarters of the time.

D. Capital Market Assumptions from External Sources

In many instances, the actuary will collect capital market assumptions from external sources in order to determine the *forward looking expected arithmetic return* and/or the *forward looking expected geometric return*. The capital market assumptions can be broadly classified into the following categories:

(a) expected returns by asset class;

(b) standard deviations by asset class; and

(c) correlation coefficients between asset classes.

With respect to expected returns by asset class, some external sources report *forward looking expected arithmetic returns*, some report *forward looking expected geometric returns* and some report both. It is important to understand what type of return was collected as well as the future time horizon to which the expected returns apply.

In general, a *forward looking expected geometric return* for an asset class can be approximated by taking the *forward looking expected arithmetic return* and subtracting one-half of the variance of the asset class[1].

If the actuary is trying to determine the *forward looking expected arithmetic return* for an entire portfolio from individual asset classes, this can be accomplished by taking the appropriate weightings from the individual asset classes' *forward looking expected arithmetic returns.* However, if the actuary is trying to determine the *forward looking expected geometric return* for an entire portfolio from individual asset classes, this cannot be accomplished by taking the appropriate weightings from the individual asset classes' *forward looking expected geometric returns.* In approximating the *forward looking expected geometric return* for the entire portfolio, the actuary would first determine the *forward looking expected arithmetic return* for the entire portfolio and then subtract one-half of the variance of the entire portfolio.

[1] Investments, Bodie, Kane and Marcus, 2005, p. 864.

Appendix 2

Selected References for Economic Data and Analyses

The following list of references is a representative sample of available sources. It is not intended to be an exhaustive list.

1. General Comprehensive Sources

   a. Kellison, Stephen G. *The Theory of Interest*. 3rd ed. Colorado Springs, CO: McGraw-Hill, 2008.

   b. *Statistics for Employee Benefits Actuaries*. Committee on Retirement Systems Practice Education, and the Pension and Health Sections, Society of Actuaries. Updated annually.

   c. *Stocks, Bonds, Bills, and Inflation (SBBI)*. Chicago, IL: Ibbotson Associates. Annual Yearbook, market results 1926 through previous year.

2. Recent Data, Various Indexes, and Some Historical Data

   a. *Barron's National Business and Financial Weekly*. Dow Jones and Co., Inc. Available on newsstands and by subscription.

   b. U.S. Bureau of the Census. *Statistical Abstract of the United States*. http://www.census.gov/compendia/statab/

   c. U.S. Department of Labor, Bureau of Labor Statistics. *Consumer Price Index*. http://www.bls.gov/cpi/

   d. U.S. Federal Reserve Weekly Statistical Release H.15. Interest rate information for selected Treasury securities. http://www.federalreserve.gov/releases/h15/

   e. U.S. House of Representatives, Committee on Ways and Means. *Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee* http://greenbook.waysandmeans.house.gov/

   f. U.S. Social Security Administration. *Social Security Bulletin*. http://www.ssa.gov/policy/docs/ssb/

   g. *The Wall Street Journal*. Daily periodical. Available on newsstands and by subscription.

3. Forecasts

   a. *Blue Chip Financial Forecasts*. Capital Publications, Inc., P.O. Box 1453, Alexandria, VA 22313-2053. March and October issues contain long-range forecasts for interest rates and inflation.

   b. Congressional Budget Office's economic forecast. The forecast projects three-month Treasury Bill rates, 10-year Treasury Note rates, CPI-U, gross domestic product, and unemployment rates. http://www.cbo.gov/publication/43907

EXHIBIT 76

To: Robben, Rich (KRS)[Rich.Robben@kyret.ky.gov]
Cc: David Lindberg[redacted] Bill Cook[redacted] Neil Ramsey[redacted] Chiu, Anthony (KRS)[Anthony.Chiu@kyret.ky.gov]; Kiehl, Andy (KRS)[andy.kiehl@kyret.ky.gov]; Gilbert, Joe (KRS)[joe.gilbert@kyret.ky.gov]; Chris Tessman[redacted]
From: Dave Harris[redacted]
Sent: Tue 4/10/2018 10:12:32 AM (UTC-04:00)
Subject: Re: April 9 Revision USM

RR - thx for circling your comments. I trust our team and Wilshire to orchestrate "a" Asset Allocation / Policy for each plan that fits.
Harris bots for the Lower risk allocation than the similar risks for the K & S Plans

Dave Harris
CEO
MCF Advisors
[redacted]

On Apr 10, 2018, at 8:59 AM, Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov> wrote:

All,

Thanks for the comments. Keep them coming. It is a bit counterintuitive but if we increase core fixed income in the K and S plans, we actually lower the probability of hitting the 5.25% assumed rate of return. I believe this is because the return assumption for core fixed income is roughly 3.5% versus 6.25% for stocks, so as we increase its weight we essentially "lock in" the lower return.

With regard to Private Equity, the 7% figure was chosen to balance the reality that even though we are not investing in new PE for those funds, it will take several more years for all of the old investments to run off. We need to model the plans as holding some PE, but 10% is probably too high. Bill, I believe you asked how much longer the current PE investments will be around. Best guess is that we have approximately 4 years left on the investments in the KERS plan, and a bit longer on the PE in the SPRS plan.

Rich

From: Dave Harris[redacted]
Sent: Monday, April 09, 2018 8:35 PM
To: David Lindberg <[redacted]
Cc: Bill Cook <[redacted] Neil Ramsey <[redacted]Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov>; Chiu, Anthony (KRS) <Anthony.Chiu@kyret.ky.gov>; Kiehl, Andy (KRS) <andy.kiehl@kyret.ky.gov>; Gilbert, Joe (KRS) <joe.gilbert@kyret.ky.gov>; Chris Tessman <[redacted]
Subject: Re: April 9 Revision USM

DH Broad Comments:
a) Wilshire slide deck pages 4,5 & 6 > remove any reference to periods longer than 10 years. Any reference to these long term return assumptions significantly above the 5 25% & 6 25% will light the fire to undo our assumed rates of return that we fought hard for last year. Lets keep it simple and focus on 10 years only

b) My guess is that the assumed equity returns are too high. Decent risk of equities to experience both a profit margin compression and a multiple compression - which would create a large impediment to returns within the next 10 years

RRobben Questions:
1. For whatever reason I had in my mind a ARR probability factor of 70% , no lower than 60% probability. Therefore seems for the two non-funded plans (K & S) fixed income needs to be 25% - 30% allocation.

Would lower the Real Return level to 10% cap

2. Private Equity - not sure of what are pacing model illustrated. However, I am comfortable with a 7% cap of Private Equity allocation

3. Probabilities and Std Dev comments in #1 answer

Dave Harris
CEO
[redacted]
www.mcfadvisors.com

On Apr 9, 2018, at 5:44 PM, David Lindberg [redacted] wrote:

Thanks Bill, I will address the first issue you raise:

on page 5 for current risk vs similar
why does current look better in returns and probability of beating hurdle rate-why change?

Although Current for KERS/SPRS has a higher return by 6 bps, and slightly higher probability of meeting the 5.25 discount rate than Similar Risk, the win here is that this is achieved with a much greater level of liquidity, and a significantly reduced hedge fund allocation. Essentially, we found similar results with constraints that would not allow the current allocation mix.

From: bill cook [redacted]
Sent: Monday, April 9, 2018 4:58 PM
To: Dave Harris [redacted] Neil Ramsey [redacted] Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov>
Cc: Chiu, Anthony (KRS) <Anthony.Chiu@kyret.ky.gov ; Kiehl, Andy (KRS) andy kiehl@kyret ky gov ; Gilbert, Joe (KRS) <joe.gilbert@kyret.ky.gov>; David Lindberg [redacted] Chris Tessman [redacted]
Subject: Re: FW: April 9 Revision USM

on page 5 for current risk vs similar
why does current look better in returns and probability of beating hurdle rate-why change?

1. Do we feel like a 23.5% allocation to the "Safety" or Liquidity bucket is enough for KERS and SPRS?

unclear to me- the key question is how sure do we want to be on hitting 5.25% thus is 60% probability the right goal? 60 to 70% is the range I have in mind so this is at the bottom of my range

2. Are we comfortable modeling a 7% allocation to Private Equity in the KERS/SPRS plans, given that they haven't made any new investments in the space in several years?

How long does it take to get down to 7% from roll off? how much and when would new investment need to be made to maintain 7%?

3. Please take a look at the probabilities of meeting the ARR for each of the policies, and

the standard deviations for each on page 5. We need to be comfortable with these.

Is 50% probability our goal?

William S. Cook
1400 Willow Ave.
Louisville, KY 40204-2522

On Monday, April 09, 2018 04:16:12 PM EDT, Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov> wrote:

Gentlemen,

After much discussion and back and forth with the Wilshire team today, we decided to add a second potential asset allocation policy for the KERS / SPRS plans that allocates more to core fixed income in recognition of the extreme underfunded status of those 2 plans. Our work is shaping up as follows: I think that the allocation labeled as "Lower Risk" is the right allocation for the KERS/SPRS plans, which all other plans can use the allocation labeled "Similar Risk". The questions we need to answer in the next day or so are:

1. Do we feel like a 23.5% allocation to the "Safety" or Liquidity bucket is enough for KERS and SPRS?

2. Are we comfortable modeling a 7% allocation to Private Equity in the KERS/SPRS plans, given that they haven't made any new investments in the space in several years?

3. Please take a look at the probabilities of meeting the ARR for each of the policies, and the standard deviations for each on page 5. We need to be comfortable with these.

Any other comments or suggestions are always welcome. We do need to settle on the asset allocation policies for each of the plans in the next day or so in order for Wilshire to have enough time to add the liabilities and produce their final study in time for our May 1st Investment Committee meeting.

Thanks everyone,

Rich

From: David Lindberg [redacted]
Sent: Monday, April 09, 2018 3:53 PM
To: Robben, Rich (KRS) <Rich.Robben@kyret.ky.gov>
Cc: TeamKRS <[redacted] Steve Foresti <[redacted]; Ned McGuire <[redacted]
Subject: April 9 Revision

Rich,

Enclosed is a revised document from the one we sent on Friday. After discussion with you today, we added one more policy to consider for the less funded plans of KERS and SPRS. This policy, also chosen from the frontier, is one with lower expected volatility.   The sub-committee may prefer that we bring this policy forward in the asset liability work as it has less volatility, more investment grade fixed income, and is positioned more in line with those Funds' discount rate of 5.25 and greater need for cash liquidity.

We look forward to feedback. Thanks for your input today. That was very helpful!

<image001.jpg>

David Lindberg, CFA

Managing Director | Wilshire Consulting

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EXHIBIT 77

From: Burnside, Mike (KRS) [mailto:mike.burnside@kyret.ky.gov]
Sent: Friday, November 06, 2009 3:17 PM
To: Overstreet, Randy (PPC); Bobby Henson; Vince Lang; Lewis Reynolds; Bob Wilcher; Elliott, Jennifer; Longmeyer, Timothy (PERS)
Cc: Thielen, Bill (KRS); Olt, Schuyler (KRS); Tosh, Adam (KRS)
Subject: USM Cavanaugh projections

We just received the attached set of projections from Cavanaugh today. As you can see from his analysis, the funding levels based on actuarial projections are not much better than we had discussed at the board retreat. Based on 7.75% rate of return and a 1.5% COLA, we could run out of money in 2017 if we are held to the same employer contributions we are receiving this year.

If we do not receive at least the amount of funding required by HB 1 in each of the coming 10 years, it will be extremely difficult to keep the KERS NH and SPRS funds viable. I plan to try to meet with Mary Lassiter early next week to discuss.

Please let me know if you have any questions.

Thanks,
Mike

Mike Burnside
Executive Director
Kentucky Retirement Systems
502-696-8800
Fax 502-696-8801

EXHIBIT 78

To: Thielen, Bill (KRS)[bill.thielen@kyret.ky.gov]
From: Tom Cavanaugh[TomC@cavmacconsulting.com]
Sent: Thur 5/31/2012 3:30:18 PM (UTC-04:00)
Subject: RE: KY Pension Task Force

Bill – the other paper doesn't say anything new although it is not as strident as some I've read. To me the issue for KRS is a serious look at whether benefits can be changed for current members. Something has to be done but the legislature has dug such a deep hole with the funding shortfalls that seeing the edge of the hole to climb out is getting tougher and tougher. We are ready willing and able to assist in this effort if the legislators recognize there is no magic bullet.

The possible "solutions" provided in the paper are approaches, some of which have been considered in the past in KY, that can help IF structured properly. By that I mean they have to recognize the relatively low cost of new hires under the current benefit structure and the challenge KRS faces in financing the UAL, particularly if the legal position of no changes to existing benefits is still valid.

Tom

From: Thielen, Bill (KRS) [mailto:bill.thielen@kyret.ky.gov]
Sent: Thursday, May 31, 2012 2:02 PM
To: Tom Cavanaugh
Subject: usm: KY Pension Task Force

Tom,

As you may already know, the Kentucky General Assembly passed House Concurrent Resolution 162 in its most recently completed regular session. This resolution creates a 12-member task force of state legislators (six house members and six senate members) charged with the responsibility of studying and developing consensus recommendations concerning the benefits, investments, and funding of the state-administered retirement systems. I attended a kickoff meeting yesterday where representative of the PEW Center and the Laura and John Arnold Foundation (LJAF) expressed the desire and willingness to become involved in the pension reform effort in Kentucky. Our legislators are now mulling over whether they should be involved and to what extent.

In my view, the two entities (partners) mentioned above will be involved, at least to the extent of providing policy advice and trying to educate our legislators about the wisdom of moving from a DB plan to a DC, cash balance, or hybrid type plan. I have attached two documents that were passed out yesterday. I just wondered if you had seen them. Also, I wanted to give you a "heads up" about this process because we (and you) will be involved in it on occasion during the summer and fall. The task force is supposed to make its recommendations to the Legislative Research Commission no later than December 7, 2012.

I know this is nothing new, but any advice you have about what we can think about preparing to respond to their suggested solutions would be appreciated. In particular, I am interested in the response to their suggestion in the "GASB" paper about basically ignoring GASB from a funding perspective.

Anyway, if you have any thoughts on this, let me know. I'm sure we'll be talking more in the near future. I expect the first official meeting of this task force to take place on June 19 when we will likely be giving them an overview of KRS. It will be later on when we begin talking about specific solutions.

Bill

William A. Thielen
Interim Executive Director
Kentucky Retirement Systems
Tel: (502) 696-8444
Fax: (502) 696-8801
bill.thielen@kyret.ky.gov

You must use the KRS Secure Email Portal when sending us confidential information or attachments via electronic mail. The *KRS Secure Email Portal User Manual* can be found at http://www.kyret.com/Employers/KRSSecureEmailUserManualForExternalUsers.pdf. The secure email portal is: ***https://web1.zixmail.net/s/login?b=kyret***

EXHIBIT 79

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

August 25, 2009

Mr. William A. Thielen
Chief Operations Officer
Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601

Dear Mr. Thielen:

Enclosed are 25 copies of the "Kentucky Retirement Systems Experience Study for the Three-Year Period Ending June 30, 2008". The report includes the experience study results for the following:

- Kentucky Employees Retirement System
- County Employees Retirement System
- State Police Retirement System

Let us know if there are any questions concerning this report.

Sincerely,

Thomas J. Cavanaugh FSA, FCA, MAAA, EA
Chief Executive Officer

TJC/tbg

S:\Kentucky Retirement Systems\Experience Studies\2009\Experience Study 2005-2008\KRS Experience Study 2005-2008.docx

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Experience Study

For the Three-Year Period

Ending June 30, 2008

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Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

August 25, 2009

The Board of Trustees
Kentucky Retirement System
1260 Louisville Road
Frankfort Kentucky

Members of the Board:

We are pleased to submit the results of a study of the economic and demographic experience for the Kentucky Employees Retirement System, County Employees Retirement System and State Police Retirement System. The purpose of this investigation is to assess the reasonability of the actuarial assumptions for each system. This investigation covers the three-year period from July 1, 2005 to June 30, 2008. As a result of the investigation, it is recommended that revised assumptions be adopted by the Board for future use.

The experience studies for each system include all active members, retired members and beneficiaries of deceased members. The mortality experience was studied separately for males and females. Incidences of withdrawal, disability, retirement and compensation increases were investigated without regard to gender.

This report shows comparisons between the actual and expected cases of separation from active service, actual and expected number of deaths, and actual and expected salary increases. Tables and graphs are used to show the actual decrement rates, the expected decrement rates and, where applicable, the proposed decrement rates.

The newly proposed rates of separation and mortality for all three systems are shown in Appendix D of this report. In the actuary's judgment, the recommended rates are suitable for use until further experience indicates that modifications are needed.

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The experience study was performed by, and under the supervision of, independent actuaries who are members of the American Academy of Actuaries with experience in performing valuations for public retirement systems. The undersigned meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Thomas J. Cavanaugh FSA, FCA, MAAA, EA
Chief Executive Officer

TJC:tbg

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Section I Summary of Results

The following summarizes the findings and recommendations with regard to the assumptions utilized by the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS). Explanations for the recommendations are found in the sections that follow.

Recommended Demographic Assumption Changes

The table below lists, for each division, the demographic assumptions that should be changed based on the experience of the last three years.

System	Assumption Change
KERS Non-Hazardous	Increase rates of withdrawal Decrease rates of pre-retirement mortality Decrease rates of disability retirements Decrease rates of service retirement Increase rates of salary growth
KERS Hazardous	Increase rates of withdrawal Decrease rates of pre-retirement mortality Decrease rates of disability retirements Increase rates of service retirement Increase rates of salary growth
CERS Non-Hazardous	Increase rates of withdrawal Decrease rates of pre-retirement mortality Decrease rates of disability retirements Decrease rates of service retirements Increase rates of salary growth
CERS Hazardous	Increase rates of withdrawal Decrease rates of pre-retirement mortality Decrease rates of disability retirements Decrease rates of service retirements Increase rates of salary growth
SPRS	Increase rates of withdrawal Decrease rates of pre-retirement mortality Decrease rates of disability retirements Decrease rates of service retirements Increase rates of salary growth

Recommended Economic Assumption Changes

The table below lists the three economic assumptions used in the actuarial valuations and their current and proposed rates.

Item	Current	Proposed
Price Inflation	3.50%	3.50%
Investment Return	7.75%	7.75%
Wage Inflation	3.50%	4.50%

Financial Impact

The following tables highlight the impact of the recommended changes on the unfunded accrued liabilities (UAL), funded statuses and employer contribution rates for the three systems for both the pension and insurance funds.

Pension		
System	**Before Change**	**After Change**
KERS Non-Hazardous		
UAL	$4,810,897,092	$4,797,682,776
Funded Status	52.51%	52.58%
Employer Rate	18.96%	18.03%
KERS Hazardous		
UAL	$115,878,613	$125,898,798
Funded Status	81.25%	80.00%
Employer Rate	11.98%	12.69%
CERS Non-Hazardous		
UAL	$1,572,715,253	$1,619,797,588
Funded Status	78.47%	77.97%
Employer Rate	8.62%	8.26%
CERS Hazardous		
UAL	$652,254,722	$648,102,909
Funded Status	72.86%	72.98%
Employer Rate	16.11%	14.66%
SPRS		
UAL	$236,237,806	$232,833,830
Funded Status	59.76%	60.11%
Employer Rate	35.23%	32.26%

Insurance		
System	Before Change	After Change
KERS Non-Hazardous		
UAL	$4,828,301,524	$4,195,137,746
Funded Status	11.11%	12.57%
Employer Rate	20.49%	18.54%
KERS Hazardous		
UAL	$253,495,455	$214,520,288
Funded Status	53.20%	57.32%
Employer Rate	23.56%	22.60%
CERS Non-Hazardous		
UAL	$2,414,310,296	$2,117,635,067
Funded Status	32.62%	35.57%
Employer Rate	12.29%	11.38%
CERS Hazardous		
UAL	$1,156,256,638	$986,307,155
Funded Status	34.67%	38.35%
Employer Rate	27.25%	24.55%
SPRS		
UAL	$321,146,271	$265,834,088
Funded Status	27.85%	31.80%
Employer Rate	56.89%	53.28%

Section II – Economic Assumptions

There are three economic assumptions used in performing the actuarial valuations for KRS. These economic assumptions are used in the valuations of KERS, CERS and SPRS. The assumptions are:

- Price Inflation
- Investment Return
- Wage Inflation

The Actuarial Standards Board has issued Actuarial Standard of Practice (ASOP) No. 27, *"Selection of Economic Assumptions for Measuring Pension Obligations"*, which provides guidance to actuaries in selecting economic assumptions for measuring obligations under defined benefit plans. As noted in ASOP No. 27, because no one knows what the future holds, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes based on a mixture of past experience and future expectations. These estimates therefore are best stated as a range utilizing the actuary's professional judgment. In setting the range and the single point within that range to use, the actuary should consider a number of factors, including the purpose and nature of the measurement, and appropriate recent and long-term historical economic data. However, the standard explicitly advises the actuary not to give undue weight to recent experience.

Each economic assumption should individually satisfy this standard. Furthermore, with respect to any particular valuation, each economic assumption should be consistent with every other economic assumption over the measurement period.

In our opinion, the economic assumptions recommended in this report have been developed in accordance with ASOP No. 27. The following table shows our recommendations followed by explanations of each assumption.

Item	Current	Proposed
Price Inflation	3.50%	3.50%
Real Rate of Return	4.25	4.25
Investment Return	7.75%	7.75%
Price Inflation	3.50%	3.50%
Real Wage Growth	0.00	1.00
Wage Inflation	3.50%	4.50%

Price Inflation

Background: As seen in the table on the previous page, assumed price inflation is used as the basis for both the investment return assumption and the wage inflation assumption. The latter two assumptions will be discussed in detail in the following sections.

It is important that the price inflation assumption be consistently applied throughout the economic assumptions utilized in an actuarial valuation. This is called for in ASOP No. 27 and is also required to meet the parameters for determining pension liabilities and expense under Governmental Accounting Standards Board (GASB) Statements No. 25 and 27.

The current price inflation assumption is 3.50% per year.

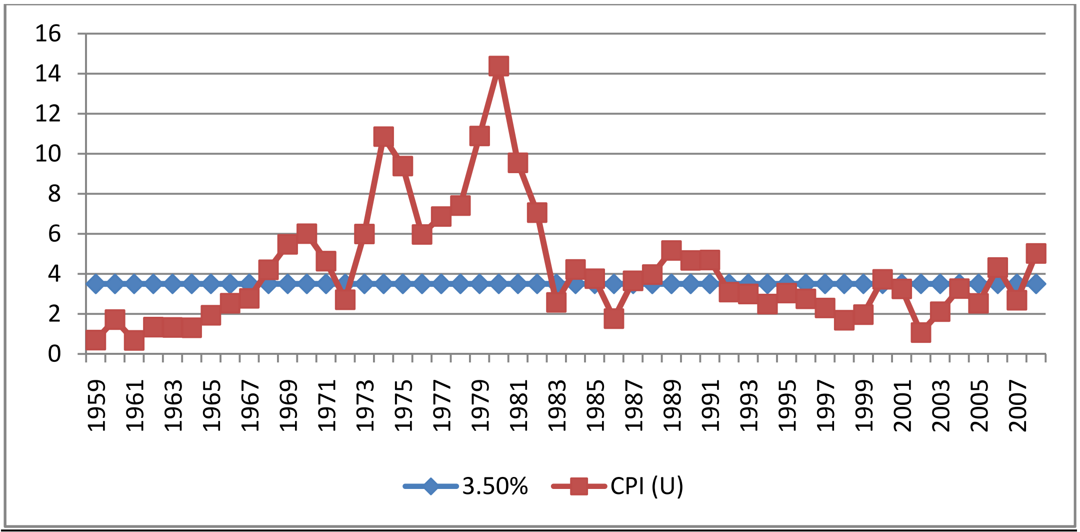
Past Experience: The Consumer Price Index, US City Average, All Urban Consumers, CPI (U), has been used as the basis for reviewing historical levels of price inflation. The level of that index in June of each of the last 50 years is provided in Appendix A.

In analyzing this data, annual rates of inflation have been determined by measuring the compound growth rate of the CPI (U) over various time periods. The results are as follows

Period	Inflation
1999-2008	2.99%
1989-1998	3.28
1979-1988	6.11
1969-1978	6.51
1959-1968	1.85
1989-2008	3.14%
1979-2008	4.12
1969-2008	4.71
1959-2008	4.13

The graph below shows the annual increases in the CPI (U) over the entire 50 year period.

Annual CPI (U) Increases



Recommendation: It is difficult to accurately predict inflation. Inflation's short-term volatility is illustrated by comparing its average rate over the last 10, 30 and 50 years. Although the 10-year average of 3.1% is lower than the Systems' assumed rate of 3.50%, the longer 30, 40 and 50-year averages of 4.1%, 4.7% and 4.1% respectively, are all slightly higher than the Systems' rate. The validity of the Systems' assumption is, therefore, dependent upon the emphasis one assigns to the short and long-terms.

Current economic forecasts suggest lower inflation but are generally looking at a shorter time period than appropriate for our purposes. In the 2008 OASDI Trustees Report, the Chief Actuary for Social Security bases the 75 year cost projections on an intermediate inflation assumption of 2.8% with a range of 1.8% - 3.8%. We concur in general with a range of 2.0% - 4.0%, and recommend use of a 2.5% per year rate recognizing the likely inflation pressures built into the economy at the current time.

Price Inflation Assumption	
Current	3.50%
Reasonable Range	2.00% - 4.00%
Recommended	3.50%

Investment Return

Background: The assumed investment return is one of the most significant assumptions in the annual actuarial valuation process as it is used to discount the expected benefit payments for all active, inactive and retired members of the systems. Minor changes in this assumption can have a major impact on valuation results. The investment return assumption should reflect the asset allocation target for the funds set by the Board of Trustees.

The current assumption is 7.75%, consisting of a price inflation assumption of 3.50% and a real rate of return assumption of 4.25%. The return is net of all investment and administrative expenses.

Past Experience: The assets of each System are valued using a widely accepted asset-smoothing methodology that fully recognizes the expected investment income and also recognizes 20% of each year's investment gain or loss (the difference between actual and expected investment income). The recent experience for the retirement funds over the last three years is shown in the table below.

Nominal Total Rate of Return		
Year Ending 6/30	Actuarial Value	Market Value
2006	4.97%	9.70%
2007	9.01	15.29
2008	8.02	(4.09)
Average	7.33%	6.97%

Because of the significant variability in past year-to-year results and the inter-play of inflation on those results in the short term, we prefer to base our investment return assumption on the capital market assumptions utilized by the Board in setting investment policy and the asset allocation established by the Board as a result of that policy. This approach is referred to as the building block method in ASOP No. 27.

Analysis: The current capital market assumptions and asset allocation are shown in Appendix B. Using stochastic projection results provides an expected range of real rates of return over a 50 year time horizon. Looking at one year results produces an expected real return of 4.55% but also has a high standard deviation, which means there is high volatility. By expanding the time horizon, the average return does not change much but the volatility declines significantly. The following table provides a summary of results.

Time Span In Years	Mean Real Return	Standard Deviation	Real Returns by Percentile				
			5^{th}	25^{th}	50^{th}	75^{th}	95^{th}
1	4.78%	7.16%	-6.64%	-0.19%	4.55%	9.47%	17.02%
5	4.61	3.18	-0.61	2.46	4.64	6.69	9.95
10	4.57	2.25	0.91	3.04	4.55	6.08	8.30
20	4.56	1.60	1.96	3.47	4.53	5.63	7.23
30	4.57	1.28	2.44	3.71	4.53	5.44	6.70
40	4.55	1.12	2.70	3.80	4.54	5.30	6.40
50	4.55	1.01	2.89	3.87	4.55	5.24	6.23

The percentile results are percentages of the 5,000 random series that produce returns of less than the return at that particular percentile level over the time span. Thus for the 10 year time span, 5% of the resulting real rates of return were below 0.91% and 95% were above that. As the time span increases, the results begin to merge. Over a 50 year time span, the results indicate there is a 25% chance that real returns will be below 3.87% and a 25% chance they will be above 5.24%. In other words there is a 50% chance the real returns will be between 3.87% and 5.24%.

Administrative and Investment Expenses: The investment return is assumed to be net of administrative and investment expenses. The table below compares, for the last three years, the expense levels during the fiscal year to the market value of assets for the systems at the end of the fiscal year (all amounts in $ thousands).

FY Ending June 30	Administrative Expenses	Investment Expenses	Total Expenses	Market Value of Assets	Expense Ratio
2006	22,257	10,611	32,868	12,950,226	0.25
2007	21,116	11,991	33,106	14,228,184	0.23
2008	22,907	12,751	35,658	12,955,385	0.28

The increase in expenses ratio in 2008 reflects the market loss during that year. Over the three-year period the expense ratio averaged 0.25%. We recommend a long term expense ratio of 0.25% for the net investment return assumption.

Recommendation: Using the building block approach of ASOP No. 27 and the projection results outlined above, we recommend a range for the investment return assumption of the 25^{th} to 75^{th} percentile real returns over the 50 year time span plus the recommended inflation assumption less the recommended expense ratio assumption. The following table details the range.

Item	25th Percentile	50th Percentile	75th Percentile
Real Rate of Return	3.87%	4.55%	5.24%
Inflation	3.50	3.50	3.50
Expenses	(0.25)	(0.25)	(0.25)
New Investment Return	7.12%	7.80%	8.49%

There is a slightly greater than 50% chance that the net return will be 7.75% or more over a 50-year period. A net return of 7.75% is at the 47th percentile. Although not in the center of the recommended range, in our opinion a 7.75% return is still reasonable. We recommend the long-term net investment return assumption of 7.75% be retained.

Investment Return Assumption	
Current	7.75%
Reasonable Range	7.12% - 8.49%
Recommended	7.75%

Although the current asset allocation for the insurance funds is different than that used for the retirement funds, we recommend the continuation of past practice in utilizing the retirement fund assumption for the insurance funds (before any adjustment required to reflect actual contribution levels to the insurance funds).

□ age Inflation

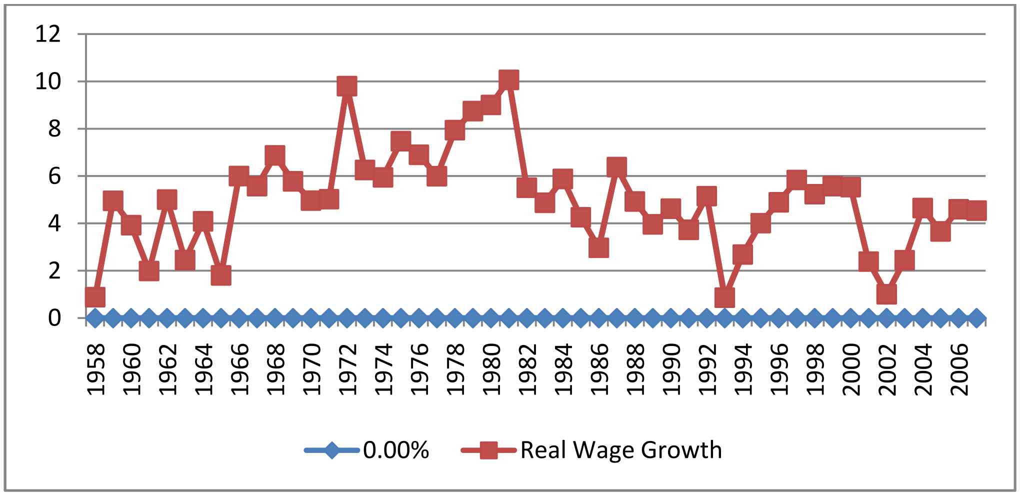
Background: The assumed future increases in salaries consist of an inflation component and a component for promotion and longevity, often called merit increases. Merit increases are generally age and or service related, and will be dealt with in the demographic assumption section of the report. Wage inflation normally is above price inflation, which reflects the overall return on labor in the economy. The current wage inflation assumption is 3.50%, or 0.00% above price inflation.

Past Experience: The Social Security Administration publishes data on wage growth in the United States. Appendix C shows the last 50 calendar years□data. As we did in our analysis of inflation, we show below the wage inflation and a comparison with the price inflation over various time periods. Since wage data is only available through 2007 we use that year as the starting point.

Period	Wage Inflation	Price Inflation	Real Wage Growth
1998-2007	3.95%	2.66%	1.29%
1988-1997	4.06	3.51	0.55
1978-1987	6.54	6.46	0.08
1968-1977	6.49	6.19	0.30
1958-1967	3.65	1.71	1.94
1988-2007	4.00	3.08%	0.92
1978-2007	4.84	4.20	0.64
1968-2007	5.25	4.69	0.44
1958-2007	4.93	4.09	0.84

Thus, over the last 50 years, annual real wage growth has averaged 0.84%. The graph below shows the annual increases in real wage growth over the entire 50 year period.

Annual Real Wage Growth



Recommendation: As we did with price inflation, we again look at the 2008 OASDI Trustees Report. The Chief Actuary for Social Security bases the 75 year cost projections on a national wage growth assumption 1.1% greater than the price inflation assumption of 2.8%. We concur in general with a range of .5% - 1.5%, and recommend use of a 1.00% per year rate at the current time.

Wage Inflation Assumption		
Current	3.50%	
	Reasonable Range	
Real Wage Growth	0.50%	1.50%
Inflation	3.50	3.50
Total	4.00%	5.00%
Recommended	4.50%	

Section III Demographic Assumptions

There are several demographic assumptions used in the actuarial valuations performed for the Kentucky Retirement Systems. They are

- Rates of Withdrawal
- Pre-retirement Mortality
- Rates of Disability Retirement
- Rates of Service Retirement
- Post-retirement Mortality
- Post-retirement Disabled Mortality
- Rates of Salary Increase

The Actuarial Standards Board has issued Actuarial Standard of Practice (ASOP) No. 35, *"Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations"*, which provides guidance to actuaries in selecting demographic assumptions for measuring obligations under defined benefit plans. In our opinion, the demographic assumptions recommended in this report have been developed in accordance with ASOP No. 35.

The purpose of a study of demographic experience is to compare what actually happened to the membership during the study period (July 1, 2005 through June 30, 2008) with what was expected to happen based on the assumptions used in the most recent Actuarial Valuations.

Detailed tabulations by age, service and/or gender are performed over the entire study period. These tabulations look at all active and retired members during the period as well as separately identifying those who experience a demographic event, also referred to as a decrement. In addition, the tabulation of all members together with the current assumptions permits the calculation of the number of expected decrements during the study period.

If the actual experience differs significantly from the overall expected results, or if the pattern of actual decrements, or rates of decrement, by age, gender, or service does not follow the expected pattern, new assumptions are recommended. Recommended changes usually do not follow the exact actual experience during the observation period. Judgment is required to extrapolate future experience from past trends and current member behavior. In addition non-recurring events, such as early retirement windows, need to be taken into account in determining the weight to give to recent experience.

The remainder of this section presents the results of the demographic study. We have prepared tables that show a comparison of the actual and expected decrements and the overall ratio of actual to expected results under the current assumptions. If a change is being proposed, the revised actual to expected ratios are shown as well.

Salary ad ustments, other than the economic assumption for wage inflation discussed in th previous section, are treated as demographic assumptions, and are also analyzed in the following pages.

KERS NON-HAZARDOUS
WITHDRAWAL EXPERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND EXPECTED WITHDRAWALS FROM ACTIVE SERVICE FOR MEMBERS WITH LESS THAN 5 YEARS OF SERVICE

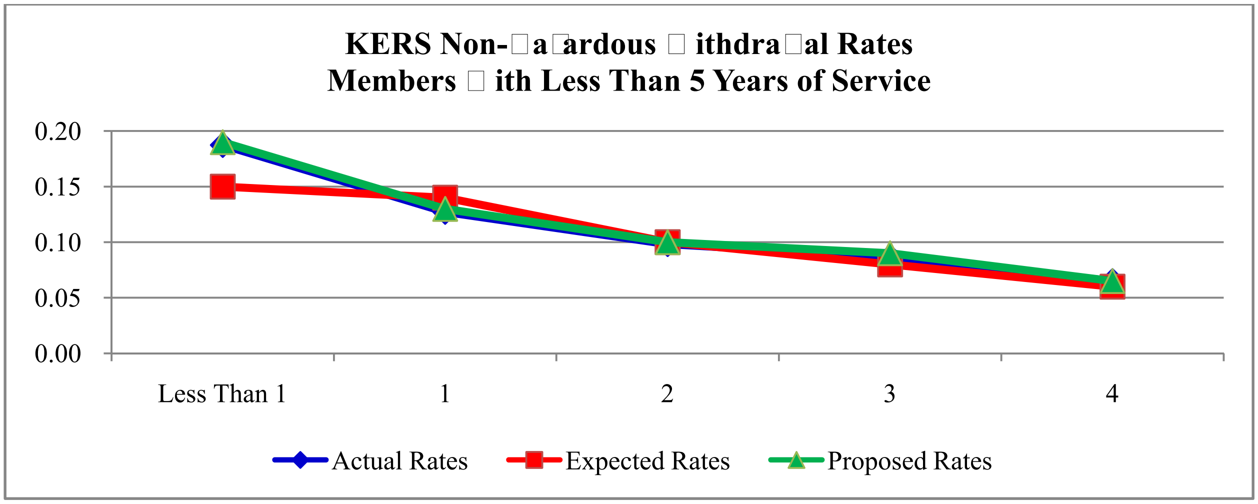
Year of Service	Withdrawal KERS Non-Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	2,450	1,961.70	1.25
1	1,310	1,441.58	0.91
2	862	877.50	0.98
3	690	637.68	1.08
4	541	499.44	1.08
TOTAL	5,853	5,417.90	1.08

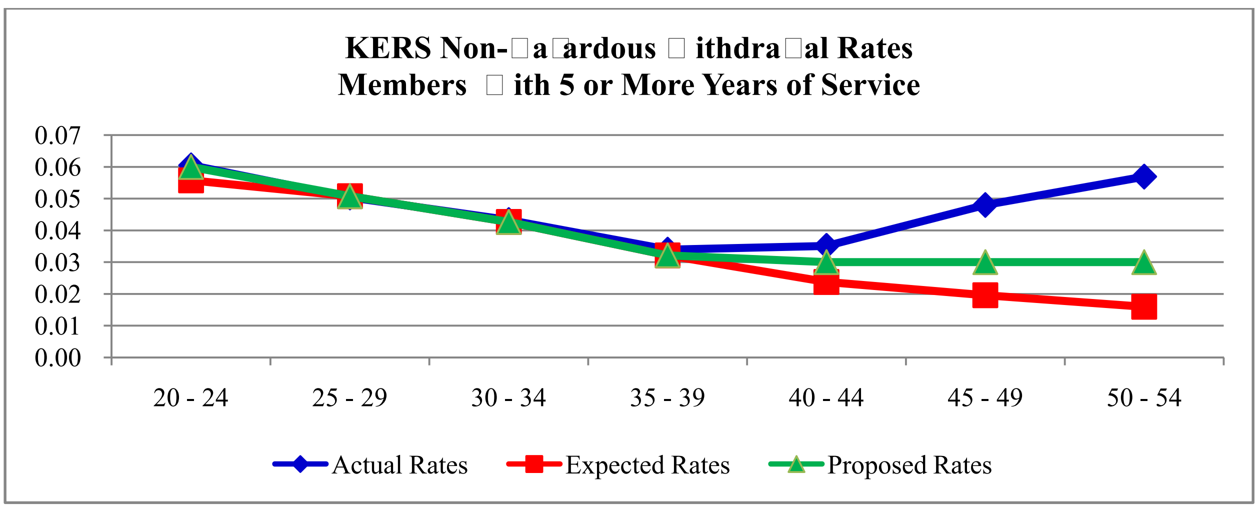
COMPARISON OF ACTUAL AND EXPECTED WITHDRAWALS FROM ACTIVE SERVICE FOR MEMBERS WITH 5 OR MORE YEARS OF SERVICE

Age Group	Withdrawal KERS Non-Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
20 - 24	15	13.83	1.08
25 - 29	134	135.05	0.99
30 - 34	339	334.25	1.01
35 - 39	379	359.00	1.06
40 - 44	489	330.94	1.48
45 - 49	678	276.35	2.45
50 - 54	723	202.48	3.57
55 - 59	0	0.00	0.00
60 & Over	0	0.00	0.00
TOTAL	2,757	1,651.90	1.67

KERS NON-□A□ARDOUS RATES OF □ IT□DRA□ AL

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The rates of withdrawal adopted by the Board are used to determine the expected number of separations from active service that will occur as a result of resignation or dismissal. The preceding tables and graphs show a significant difference between the expected and actual withdrawal rates.

We recommend that the rates of withdrawal be revised at this time to more closely reflect the experience of the System. The proposed rates provide a closer fit to the actual rates of withdrawal than the currently assumed rates.

KERS NON-□A□ARDOUS
CURRENT □S□PROPOSED RATES OF □ IT□DRA□ AL

COMPARISON OF CURRENT AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ear of Service	Withdrawal KERS Non-Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
Less Than 1	0.1500	0.1900
1	0.1400	0.1300
2	0.1000	0.1000
3	0.0800	0.0900
4	0.0600	0.0650

COMPARISON OF CURRENT AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age	Withdrawal KERS Non-Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
20	0.0600	0.0600
25	0.0540	0.0508
30	0.0480	0.0426
35	0.0360	0.0321
40	0.0266	0.0300
45	0.0198	0.0300
50	0.0192	0.0300
55	0.0108	0.0300
60	0.0075	0.0300

KERS NON-□A□ARDOUS
□ IT□DRA□ AL E□PERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ear of Service	Withdrawal KERS Non-Hazardous Members Males and Females Withdrawal Experience		
	Actual	Proposed	Ratio Actual/Proposed
Less Than 1	2,450	2,484.82	0.99
1	1,310	1,338.61	0.98
2	862	877.50	0.98
3	690	717.39	0.96
4	541	541.06	1.00
TOTAL	5,853	5,959.38	0.98

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age Group	Withdrawal KERS Non-Hazardous Members Males and Females Withdrawal Experience		
	Actual	Proposed	Ratio Actual/Proposed
20 - 24	15	14.88	1.01
25 - 29	134	135.05	0.99
30 - 34	339	334.25	1.01
35 - 39	379	359.00	1.06
40 - 44	489	417.84	1.17
45 - 49	678	423.78	1.60
50 - 54	723	381.06	1.90
55 - 59	0	0.00	0.00
60 & Over	0	0.00	0.00
TOTAL	2,757	2,065.86	1.33

KERS □A□ARDOUS
□ IT□DRA□ AL E□PERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

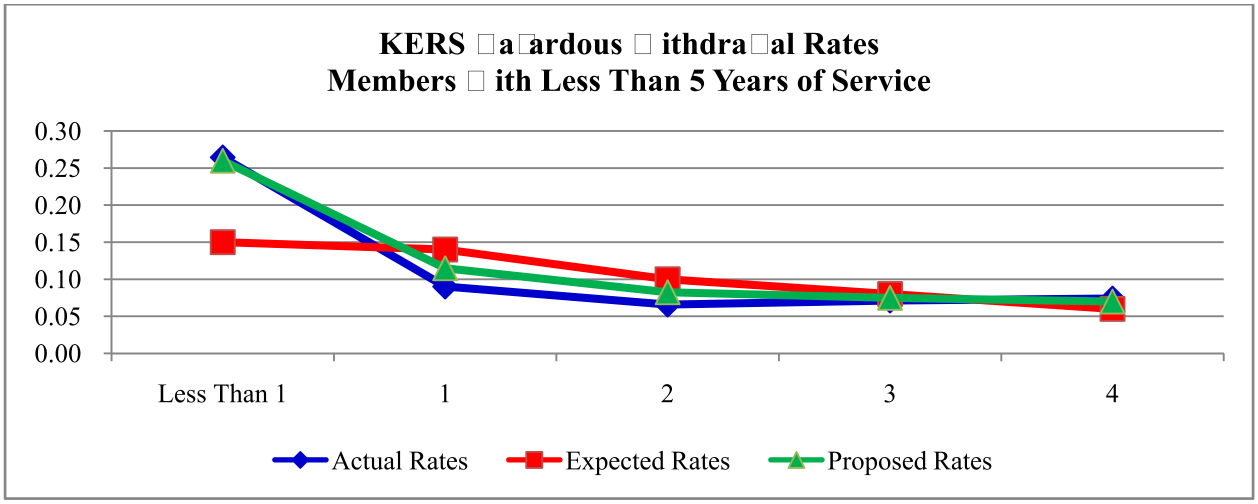
□ears of Service	Withdrawal KERS Hazardous Members Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	393	222.90	1.76
1	105	163.10	0.64
2	60	91.20	0.66
3	47	52.80	0.89
4	52	42.18	1.23
TOTAL	657	572.18	1.15

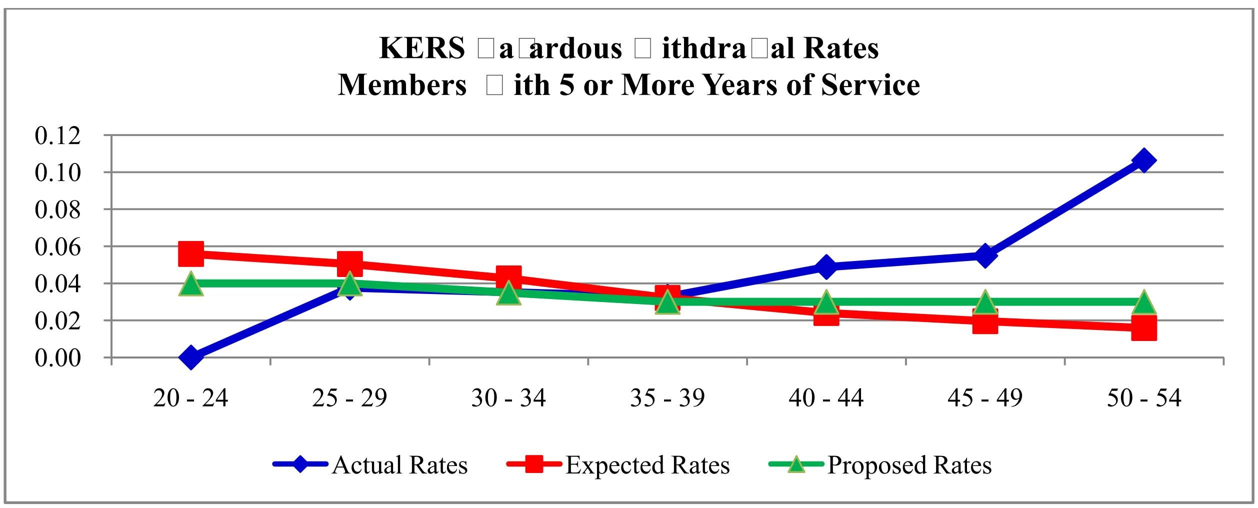
COMPARISON OF ACTUAL AND E□PECTED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age Group	Withdrawal KERS Hazardous Members Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
20 - 24	0	0.95	0.0000
25 - 29	7	9.38	0.7463
30 - 34	26	31.46	0.8264
35 - 39	34	33.40	1.0180
40 - 44	51	25.07	2.0343
45 - 49	53	18.89	2.8057
50 - 54	102	15.23	6.6973
55 - 59	86	7.77	11.0682
60 & Over	82	0.89	92.1348
TOTAL	441	143.04	3.0831

KERS HAZARDOUS RATES OF WITHDRAWAL

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The rates of withdrawal adopted by the Board are used to determine the expected number of separations from active service that will occur as a result of resignation or dismissal. The preceding tables and graphs show a significant difference between the expected and actual withdrawal rates for all the service breakpoints.

We recommend that the rates of withdrawal be revised at this time to more closely reflect the experience of the System. The proposed rates provide a closer fit to the actual rates of withdrawal than the currently assumed rates.

KERS HAZARDOUS
CURRENT VS. PROPOSED RATES OF WITHDRAWAL

COMPARISON OF CURRENT AND PROPOSED RATES OF WITHDRAWAL FROM ACTIVE SERVICE FOR MEMBERS WITH LESS THAN 5 YEARS OF SERVICE

Years of Service	Withdrawal KERS Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
Less Than 1	0.1500	0.2600
1	0.1400	0.1150
2	0.1000	0.0825
3	0.0800	0.0750
4	0.0600	0.0700

COMPARISON OF CURRENT AND PROPOSED RATES OF WITHDRAWAL FROM ACTIVE SERVICE FOR MEMBERS WITH 5 OR MORE YEARS OF SERVICE

Age	Withdrawal KERS Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
20	0.0600	0.0400
25	0.0540	0.0400
30	0.0480	0.0350
35	0.0360	0.0300
40	0.0266	0.0300
45	0.0198	0.0300
50	0.0192	0.0300
55	0.0108	0.0300
60	0.0075	0.0300

KERS HAZARDOUS
WITHDRAWAL EXPERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED WITHDRAWALS FROM ACTIVE SERVICE FOR MEMBERS WITH LESS THAN 5 YEARS OF SERVICE

Years of Service	Withdrawal KERS Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Proposed	Ratio Actual/Proposed
Less Than 1	393	386.36	1.02
1	105	133.98	0.78
2	60	75.24	0.80
3	47	49.50	0.95
4	52	49.21	1.06
TOTAL	657	694.29	0.95

COMPARISON OF CURRENT AND PROPOSED RATES OF WITHDRAWAL FROM ACTIVE SERVICE FOR MEMBERS WITH 5 OR MORE YEARS OF SERVICE

Age Group	Withdrawal KERS Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Proposed	Ratio Actual/Proposed
20 - 24	0	0.68	0.0000
25 - 29	7	7.44	0.9409
30 - 34	26	25.83	1.0066
35 - 39	34	31.17	1.0908
40 - 44	51	31.35	1.6268
45 - 49	53	28.98	1.8288
50 - 54	102	28.77	3.5454
55 - 59	86	24.60	3.4959
60 & Over	82	11.04	7.4275
TOTAL	441	189.86	2.3228

KERS NON- □A□ARDOUS
PRE-RETIREMENT MORTALITY

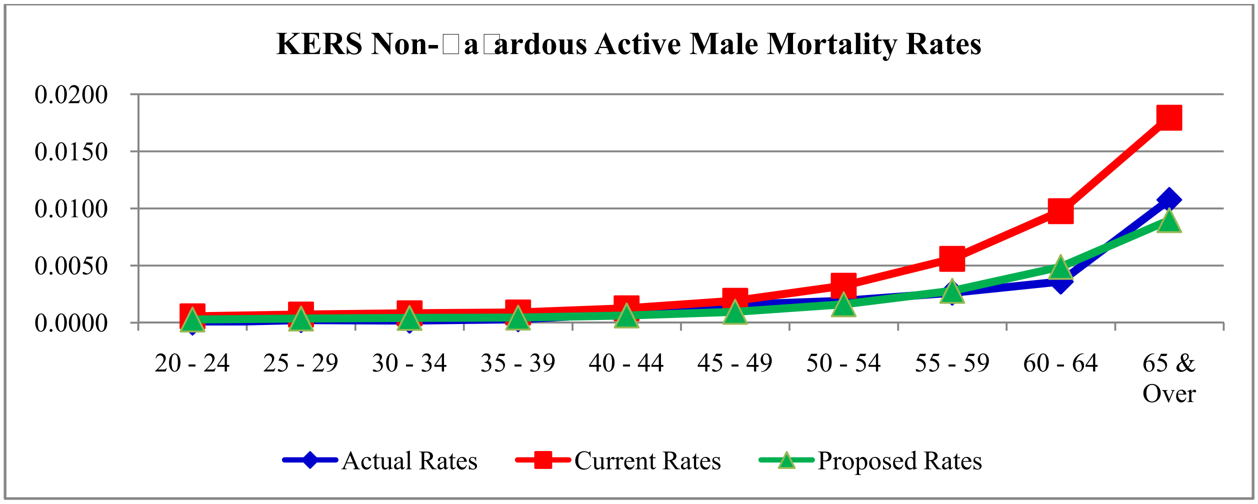
COMPARISON OF ACTUAL AND E□PECTED PRE-RETIREMENT DEAT□S

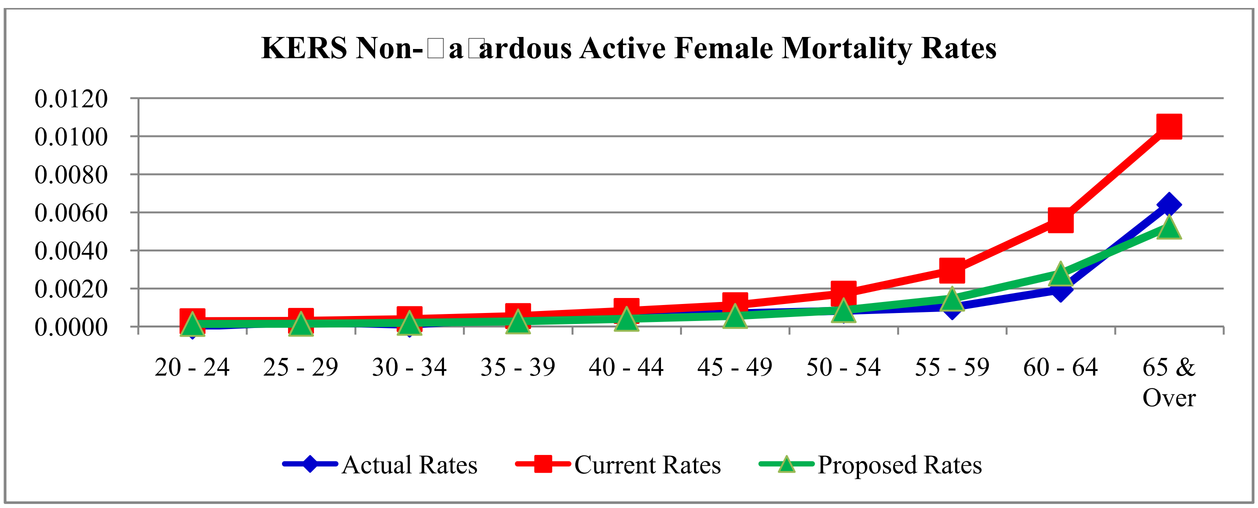
Age Group	Active Mortality Experience KERS Non-Hazardous Members — Males: Actual	Expected	Ratio Actual/Expected
Under 20	0	0.73	0.00
20 - 24	0	1.34	0.00
25 - 29	1	3.28	0.30
30 - 34	1	4.68	0.21
35 - 39	2	6.17	0.32
40 - 44	6	9.29	0.65
45 - 49	12	14.76	0.81
50 - 54	14	23.63	0.59
55 - 59	16	34.06	0.47
60 - 64	11	29.88	0.37
65 & Over	15	25.02	0.60
TOTAL	78	152.84	0.51

Age Group	Active Mortality Experience KERS Non-Hazardous Members — Females: Actual	Expected	Ratio Actual/Expected
Under 20	0	0.02	0.00
20 - 24	0	0.66	0.00
25 - 29	2	2.51	0.80
30 - 34	1	3.83	0.26
35 - 39	5	5.90	0.85
40 - 44	6	9.77	0.61
45 - 49	9	14.60	0.62
50 - 54	10	20.83	0.48
55 - 59	9	26.10	0.34
60 - 64	8	23.07	0.35
65 & Over	10	16.40	0.61
TOTAL	60	123.69	0.49

KERS NON-HAZARDOUS PRE-RETIREMENT MORTALITY

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The currently assumed rates of mortality in active service for both males and females can be adjusted to more closely fit actual experience.

KERS NON-HAZARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF CURRENT AND PROPOSED RATES OF PRE-RETIREMENT DEATHS

Age	Active Mortality Rates KERS Non-Hazardous Members Males	
	Current	Proposed
20	0.0005	0.0003
25	0.0007	0.0004
30	0.0008	0.0004
35	0.0009	0.0005
40	0.0011	0.0006
45	0.0016	0.0008
50	0.0026	0.0013
55	0.0044	0.0022
60	0.0080	0.0040
65	0.0145	0.0073
70	0.0237	0.0119

Age	Active Mortality Rates KERS Non-Hazardous Members Females	
	Current	Proposed
20	0.0003	0.0002
25	0.0003	0.0002
30	0.0004	0.0002
35	0.0005	0.0003
40	0.0007	0.0004
45	0.0010	0.0005
50	0.0014	0.0007
55	0.0023	0.0012
60	0.0044	0.0022
65	0.0086	0.0043
70	0.0137	0.0069

KERS NON- HAZARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND PROPOSED PRE-RETIREMENT DEATHS

Age Group	Active Mortality Experience KERS Non-Hazardous Members — Males		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.37	0.00
20 - 24	0	0.67	0.00
25 - 29	1	1.64	0.61
30 - 34	1	2.34	0.43
35 - 39	2	3.09	0.65
40 - 44	6	4.65	1.29
45 - 49	12	7.38	1.63
50 - 54	14	11.82	1.18
55 - 59	16	17.03	0.94
60 - 64	11	14.94	0.74
65 & Over	15	12.51	1.20
TOTAL	78	76.42	1.02

Age Group	Active Mortality Experience KERS Non-Hazardous Members — Females		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.01	0.00
20 - 24	0	0.33	0.00
25 - 29	2	1.26	1.59
30 - 34	1	1.92	0.52
35 - 39	5	2.95	1.69
40 - 44	6	4.89	1.23
45 - 49	9	7.30	1.23
50 - 54	10	10.42	0.96
55 - 59	9	13.05	0.69
60 - 64	8	11.54	0.69
65 & Over	10	8.20	1.22
TOTAL	60	61.85	0.97

KERS HAZARDOUS
PRE-RETIREMENT MORTALITY

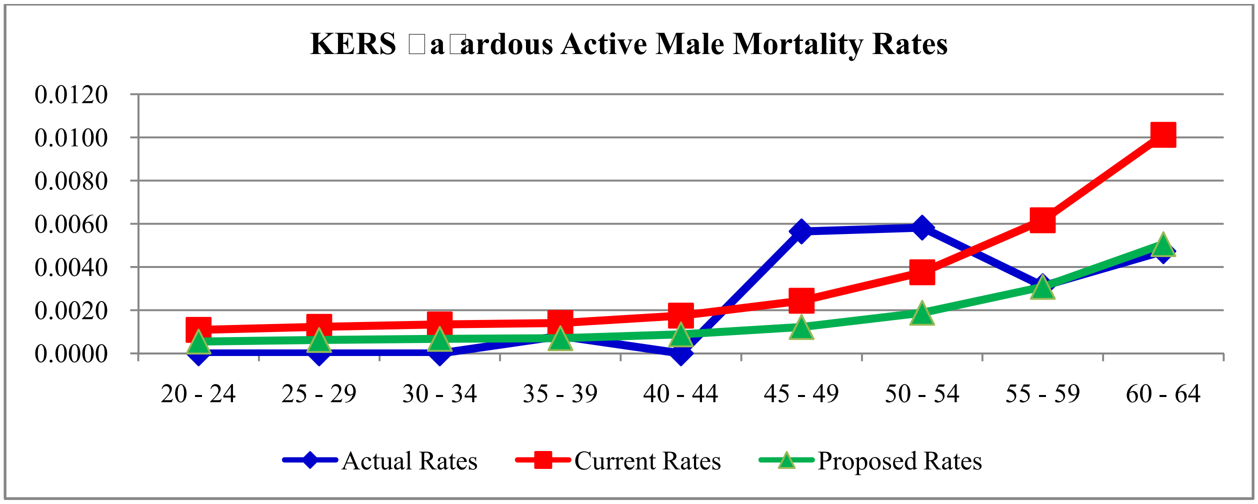
COMPARISON OF ACTUAL AND EXPECTED PRE-RETIREMENT DEATHS

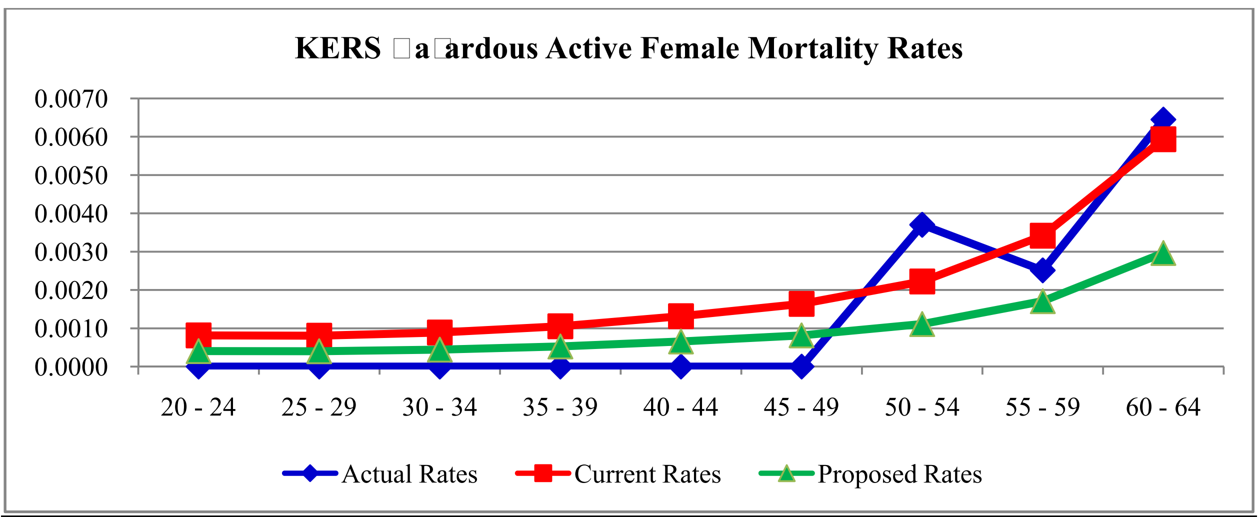
Age Group	Active Mortality Experience KERS Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.11	0.00
20 - 24	0	0.45	0.00
25 - 29	0	1.12	0.00
30 - 34	0	1.47	0.00
35 - 39	1	1.73	0.58
40 - 44	0	2.04	0.00
45 - 49	6	2.59	2.32
50 - 54	6	3.87	1.55
55 - 59	3	5.93	0.51
60 - 64	2	4.28	0.47
65 & Over	1	0.00	0.00
TOTAL	19	23.59	0.81

Age Group	Active Mortality Experience KERS Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.07	0.00
25 - 29	0	0.27	0.00
30 - 34	0	0.40	0.00
35 - 39	0	0.52	0.00
40 - 44	0	0.64	0.00
45 - 49	0	0.88	0.00
50 - 54	2	1.20	1.67
55 - 59	1	1.36	0.74
60 - 64	1	0.92	1.09
65 & Over	1	0.00	0.00
TOTAL	5	6.26	0.80

KERS HAZARDOUS PRE-RETIREMENT MORTALITY

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The currently assumed rates of mortality in active service for both males and females can be adjusted to more closely fit actual experience.

KERS HAZARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF CURRENT AND PROPOSED RATES OF PRE-RETIREMENT DEATHS

Age	Active Mortality Rates KERS Hazardous Members	
	Males	
	Current	Proposed
20	0.0005	0.0003
25	0.0007	0.0004
30	0.0008	0.0004
35	0.0009	0.0005
40	0.0011	0.0006
45	0.0016	0.0008
50	0.0026	0.0013
55	0.0044	0.0022
60	0.0080	0.0040

Age	Active Mortality Rates KERS Hazardous Members	
	Females	
	Current	Proposed
20	0.0003	0.0002
25	0.0003	0.0002
30	0.0004	0.0002
35	0.0005	0.0003
40	0.0007	0.0004
45	0.0010	0.0005
50	0.0014	0.0007
55	0.0023	0.0012
60	0.0044	0.0022

KERS HAZARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND PROPOSED PRE-RETIREMENT DEATHS

Age Group	Active Mortality Experience KERS Hazardous Members		
	Males		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.06	0.00
20 - 24	0	0.23	0.00
25 - 29	0	0.56	0.00
30 - 34	0	0.74	0.00
35 - 39	1	0.87	1.16
40 - 44	0	1.02	0.00
45 - 49	6	1.30	4.63
50 - 54	6	1.94	3.10
55 - 59	3	2.97	1.01
60 - 64	2	2.14	0.93
65 & Over	1	0.00	0.00
TOTAL	19	11.80	1.61

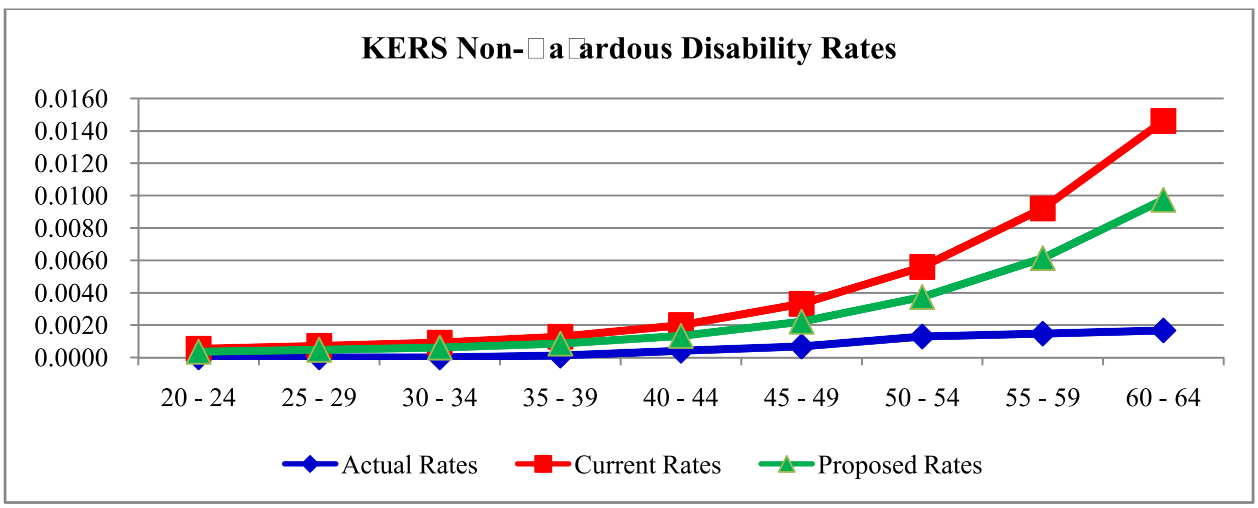
Age Group	Active Mortality Experience KERS Hazardous Members		
	Females		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.00	0.00
20 - 24	0	0.04	0.00
25 - 29	0	0.14	0.00
30 - 34	0	0.20	0.00
35 - 39	0	0.26	0.00
40 - 44	0	0.32	0.00
45 - 49	0	0.44	0.00
50 - 54	2	0.60	3.33
55 - 59	1	0.68	1.47
60 - 64	1	0.46	2.17
65 & Over	1	0.00	0.00
TOTAL	5	3.13	1.60

KERS NON-□A□ARDOUS
DISA□ILITY RETIREMENTS UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED DISA□ILITY RETIREMENTS

	Disability Experience KERS Non-Hazardous Members		
Age Group	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	2.47	0.00
25 - 29	0	9.01	0.00
30 - 34	0	13.95	0.00
35 - 39	2	22.29	0.09
40 - 44	8	38.26	0.21
45 - 49	14	68.47	0.20
50 - 54	25	108.06	0.23
55 - 59	22	137.58	0.16
60 & Over	0	4.81	0.00
TOTAL	71	404.90	0.18

The following graphs show a comparison of the present, actual, and proposed male and female disability retirement rates.



The currently assumed rates of disability retirement can be ad□usted to more closely fit actual experience.

KERS NON-HAZARDOUS
CURRENT VS. PROPOSED RATES OF DISABILITY RETIREMENTS

COMPARISON OF ACTUAL AND PROPOSED RATES OF DISABILITY RETIREMENTS

Age	Disability Rates KERS Non-Hazardous Members	
	Total	
	Current	Proposed
20	0.0005	0.0004
25	0.0007	0.0004
30	0.0009	0.0006
35	0.0013	0.0009
40	0.0020	0.0013
45	0.0033	0.0022
50	0.0056	0.0037
55	0.0092	0.0061
60	0.0146	0.0097

COMPARISON OF ACTUAL AND PROPOSED DISABILITY RETIREMENTS

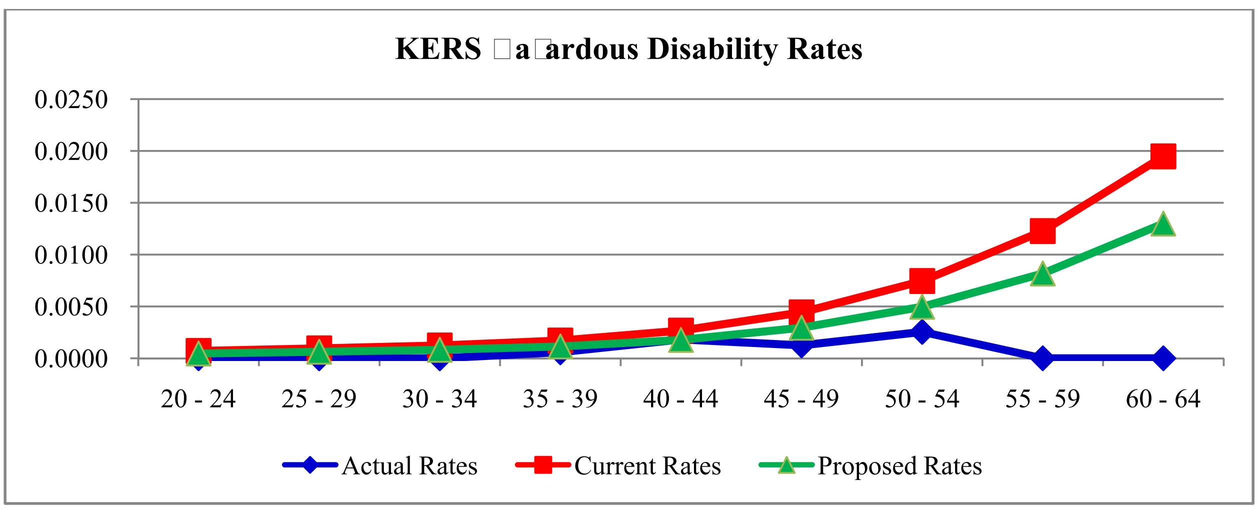
Age Group	Disability Experience KERS Non-Hazardous Members		
	Total		
	Actual	Proposed	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	1.65	0.00
25 - 29	0	6.01	0.00
30 - 34	0	9.30	0.00
35 - 39	2	14.86	0.13
40 - 44	8	25.51	0.31
45 - 49	14	45.65	0.31
50 - 54	25	72.04	0.35
55 - 59	22	91.72	0.24
60 & Over	0	4.81	0.00
TOTAL	71	271.54	0.26

KERS □A□ARDOUS
DISA□ILITY RETIREMENTS UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED DISA□ILITY RETIREMENTS

	Disability Experience KERS Hazardous Members		
	Males		
			Ratio
Age Group	Actual	Expected	Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.35	0.00
25 - 29	0	1.18	0.00
30 - 34	0	1.90	0.00
35 - 39	1	2.95	0.34
40 - 44	3	4.39	0.68
45 - 49	2	7.08	0.28
50 - 54	4	11.70	0.34
55 - 59	0	16.68	0.00
60 & Over	0	4.81	0.00
TOTAL	10	51.04	0.20

The following graphs show a comparison of the present, actual, and proposed male and female disability retirement rates.



The currently assumed rates of disability retirement can be ad□usted to more closely fit actual experience.

KERS HAZARDOUS
CURRENT VS. PROPOSED RATES OF DISABILITY RETIREMENTS

COMPARISON OF ACTUAL AND PROPOSED RATES OF DISABILITY RETIREMENTS

Age	Disability Rates KERS Hazardous Members	
	Total	
	Current	Proposed
20	0.0007	0.0005
25	0.0009	0.0007
30	0.0012	0.0009
35	0.0017	0.0013
40	0.0027	0.0020
45	0.0044	0.0033
50	0.0075	0.0056
55	0.0123	0.0092
60	0.0195	0.0146

COMPARISON OF ACTUAL AND PROPOSED DISABILITY RETIREMENTS

Age Group	Disability Experience KERS Hazardous Members		
	Total		
	Actual	Proposed	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.26	0.00
25 - 29	0	0.89	0.00
30 - 34	0	1.43	0.00
35 - 39	1	2.21	0.45
40 - 44	3	3.29	0.91
45 - 49	2	5.31	0.38
50 - 54	4	8.78	0.46
55 - 59	0	12.51	0.00
60 & Over	0	4.81	0.00
TOTAL	10	39.48	0.25

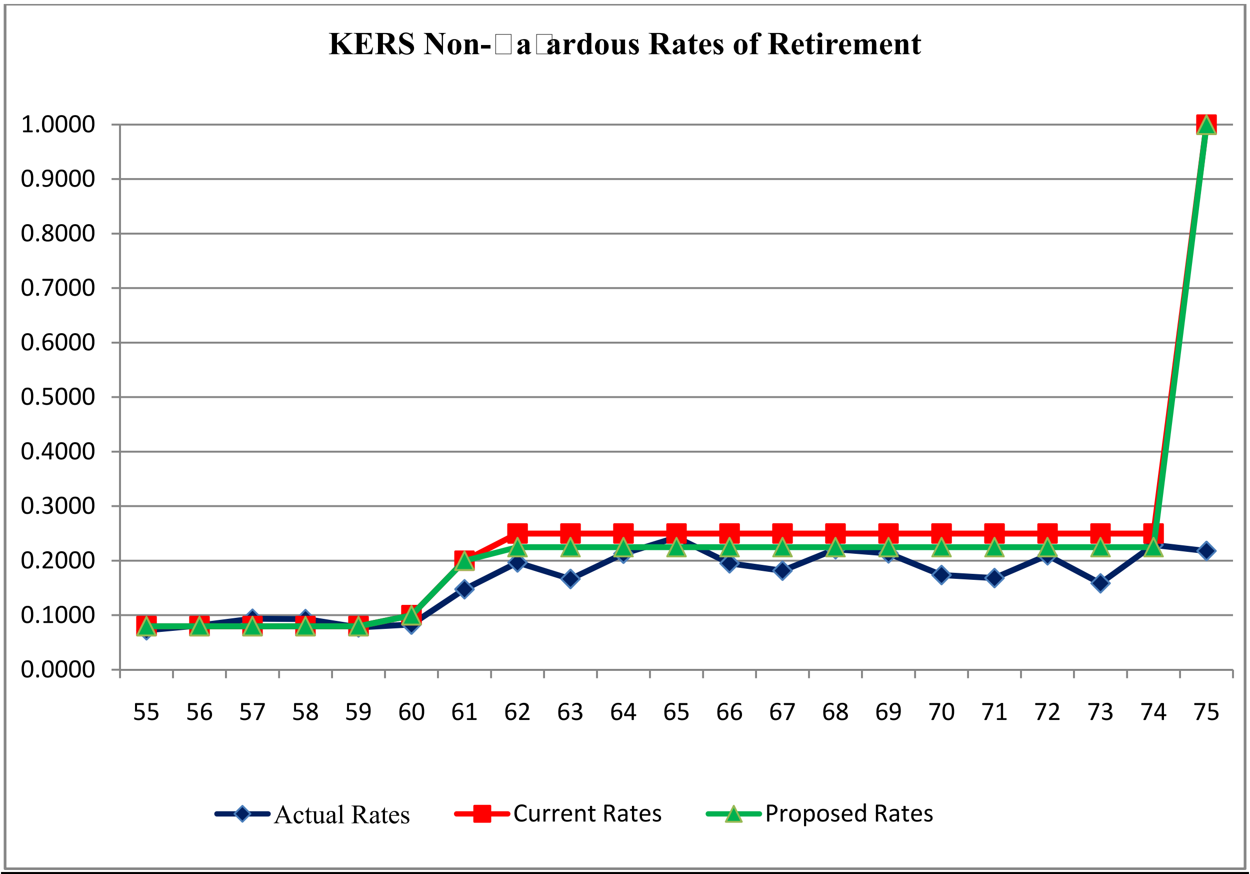
KERS NON-□A□ARDOUS
RETIREMENT E□PERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED RETIREMENTS

Age	Retirement Experience KERS Non-Hazardous Members		
	Males and Females		
	Actual	Expected	Ratio Actual/Expected
55	106	118.56	0.89
56	112	112.00	1.00
57	126	108.64	1.16
58	120	104.96	1.14
59	92	95.52	0.96
60	84	101.90	0.82
61	121	165.40	0.73
62	128	164.00	0.78
63	91	137.50	0.66
64	92	108.75	0.85
65	111	115.25	0.96
66	59	76.00	0.78
67	44	61.00	0.72
68	42	47.75	0.88
69	35	41.00	0.85
70	20	28.75	0.70
71	17	25.25	0.67
72	17	20.50	0.83
73	10	15.75	0.63
74	11	12.25	0.90
75	29	133.00	0.22
TOTAL	1,467	1,793.73	0.82

KERS NON-□A□ARDOUS RATES OF RETIREMENT

The following graphs show a comparison of the present, actual, and proposed rates of service retirements.



The currently assumed rates of disability retirement can be ad□usted to more closely fit actual experience.

KERS NON-HAZARDOUS
CURRENT VS. PROPOSED RATES OF RETIREMENT

COMPARISON OF CURRENT AND PROPOSED RATES OF RETIREMENT

Age	Retirement Rates KERS Non-Hazardous Members Males and Females	
	Current	Proposed
55	0.0800	0.0800
56	0.0800	0.0800
57	0.0800	0.0800
58	0.0800	0.0800
59	0.0800	0.0800
60	0.1000	0.1000
61	0.2000	0.2000
62	0.2500	0.2250
63	0.2500	0.2250
64	0.2500	0.2250
65	0.2500	0.2250
66	0.2500	0.2250
67	0.2500	0.2250
68	0.2500	0.2250
69	0.2500	0.2250
70	0.2500	0.2250
71	0.2500	0.2250
72	0.2500	0.2250
73	0.2500	0.2250
74	0.2500	0.2250
75	1.0000	1.0000

KERS NON-□A□ARDOUS
CURRENT □S□PROPOSED RATES OF RETIREMENT

COMPARISON OF ACTUAL AND PROPOSED RETIREMENTS

Age	Retirement Experience KERS Non-Hazardous Members		
	Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
55	106	118.01	0.90
56	112	111.45	1.00
57	126	108.29	1.16
58	120	104.39	1.15
59	92	95.15	0.97
60	84	81.68	1.03
61	121	164.28	0.74
62	128	146.46	0.87
63	91	122.99	0.74
64	92	97.31	0.95
65	111	102.97	1.08
66	59	68.02	0.87
67	44	54.52	0.81
68	42	42.79	0.98
69	35	36.90	0.95
70	20	25.88	0.77
71	17	22.73	0.75
72	17	18.50	0.92
73	10	14.18	0.71
74	11	11.08	0.99
75	29	133.00	0.22
TOTAL	1,467	1,680.58	0.87

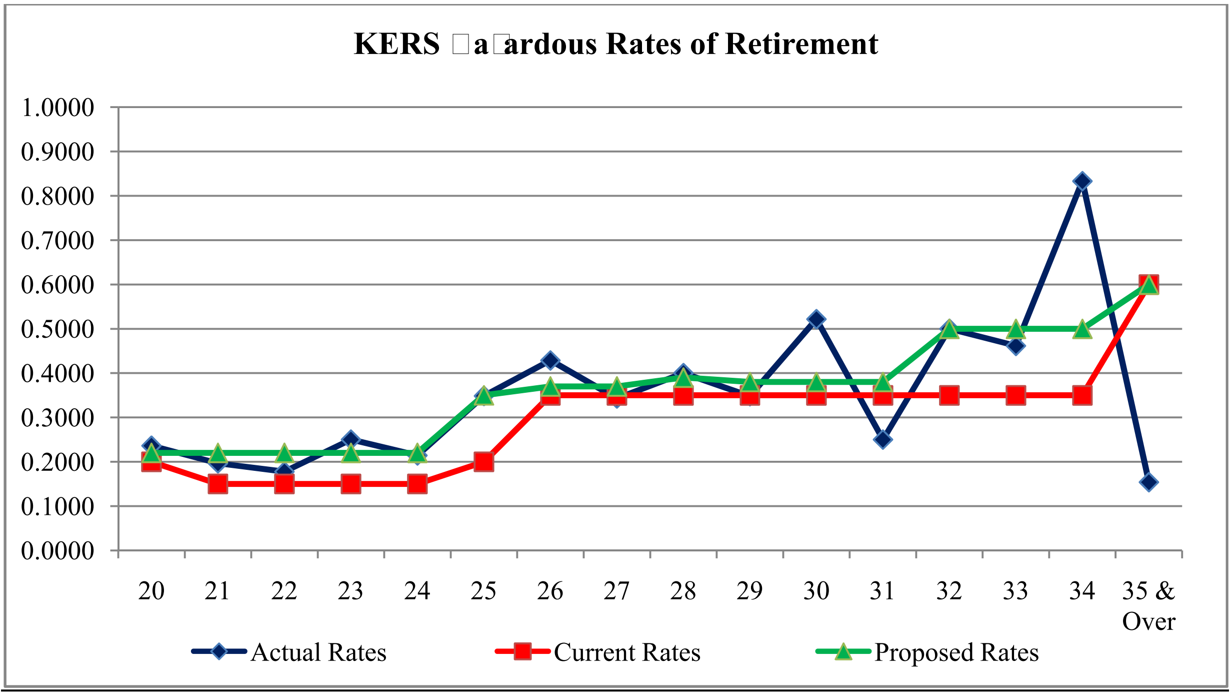
KERS HAZARDOUS
RETIREMENT EXPERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND EXPECTED RETIREMENTS

	Retirement Experience KERS Hazardous Members		
	Males and Females		
Service	Actual	Expected	Ratio Actual/Expected
20	34	28.80	1.18
21	23	17.55	1.31
22	19	16.05	1.18
23	20	12.00	1.67
24	21	14.70	1.43
25	23	13.20	1.74
26	24	19.60	1.22
27	12	12.25	0.98
28	14	12.25	1.14
29	8	8.05	0.99
30	12	8.05	1.49
31	3	4.20	0.71
32	6	4.20	1.43
33	6	4.55	1.32
34	5	2.10	2.38
35 & Over	2	7.80	0.26
TOTAL	232	185.35	1.25

KERS HAZARDOUS
RETIREMENT EXPERIENCE UNDER CURRENT ASSUMPTIONS

The following graphs show a comparison of the present, actual, and proposed rates of service retirements.



The currently assumed rates of retirement can be adjusted to more closely fit actual experience.

In addition to age based retirements, a service based retirement is also assumed for all members who obtain 27 or more years of service. It is currently assumed active members that have obtained 27 or more years of service will retire at the rate of 25% per year. As a result of the experience investigation we recommend no change for this assumption.

KERS □A□ARDOUS
CURRENT □S□PROPOSED RATES OF RETIREMENT

COMPARISON OF CURRENT AND PROPOSED RATES OF RETIREMENT

Service	Retirement Rates KERS Hazardous Members Males and Females	
	Current	Proposed
20	0.2000	0.2200
21	0.1500	0.2200
22	0.1500	0.2200
23	0.1500	0.2200
24	0.1500	0.2200
25	0.2000	0.3500
26	0.3500	0.3700
27	0.3500	0.3700
28	0.3500	0.3900
29	0.3500	0.3800
30	0.3500	0.3800
31	0.3500	0.3800
32	0.3500	0.5000
33	0.3500	0.5000
34	0.3500	0.5000
35 & Over	0.6000	0.6000

KERS HAZARDOUS
CURRENT VS PROPOSED RATES OF RETIREMENT

COMPARISON OF CURRENT AND PROPOSED RETIREMENTS

	Retirement Experience KERS Hazardous Members		
	Males and Females		
	Actual	Proposed	Ratio
Service			Actual/Proposed
20	34	31.68	1.07
21	23	25.74	0.89
22	19	23.54	0.81
23	20	17.60	1.14
24	21	21.56	0.97
25	23	23.10	1.00
26	24	20.72	1.16
27	12	12.95	0.93
28	14	13.65	1.03
29	8	8.74	0.92
30	12	8.74	1.37
31	3	4.56	0.66
32	6	6.00	1.00
33	6	6.50	0.92
34	5	3.00	1.67
35 & Over	2	7.80	0.26
TOTAL	232	235.88	0.98

KERS NON-□A□ARDOUS
POST-RETIREMENT MORTALITY
E□PERIENCE UNDER CURRENT ASSUMPTIONS

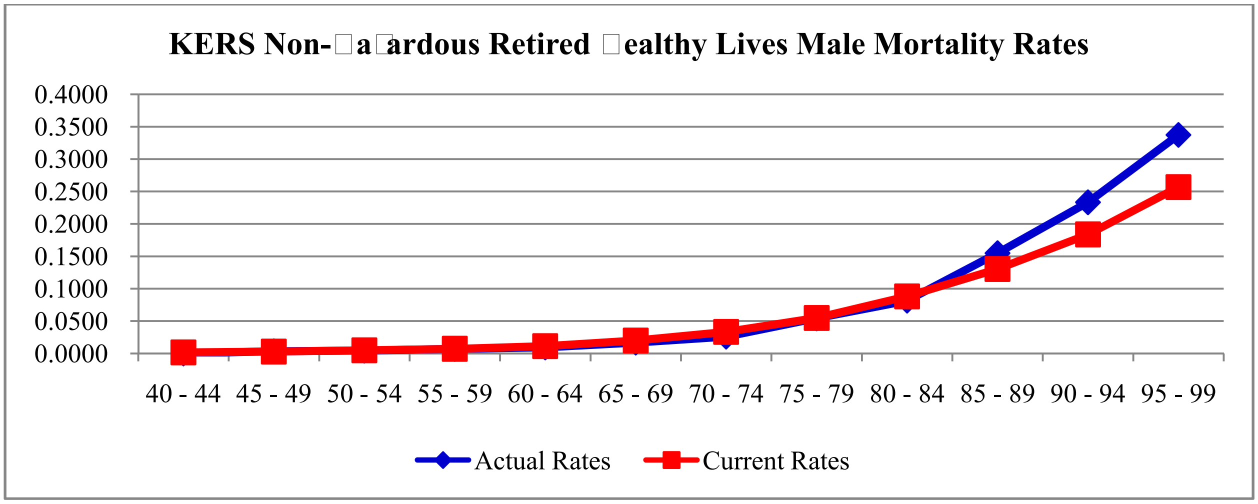
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DEAT□S

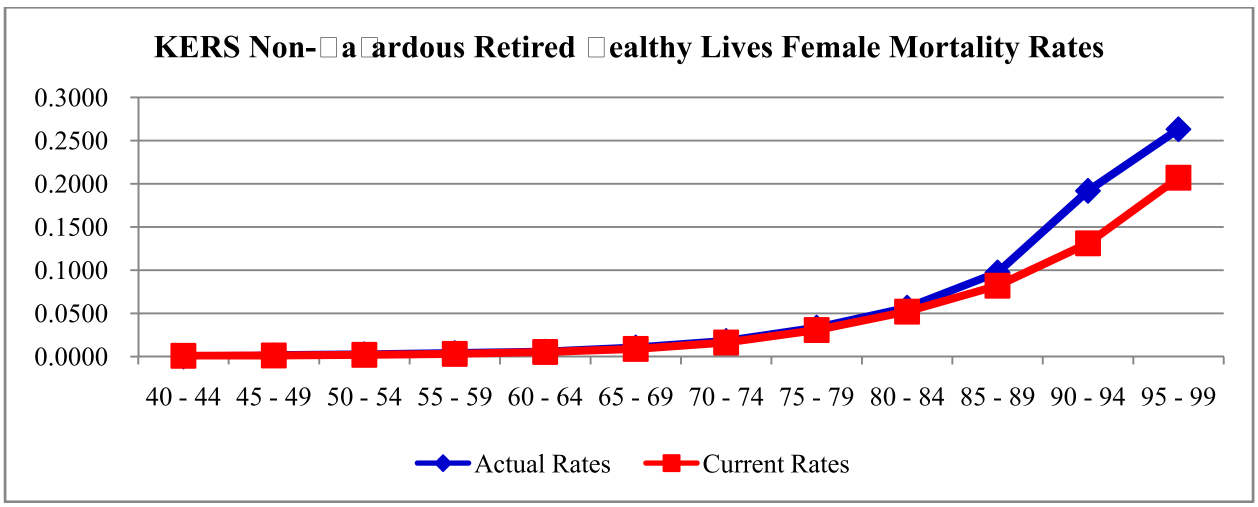
Age Group	Retired Healthy Lives Morality Experience KERS Non-Hazardous Members Males Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.26	0.00
45 - 49	4	3.44	1.16
50 - 54	15	16.25	0.92
55 - 59	42	42.91	0.98
60 - 64	53	62.98	0.84
65 - 69	88	104.03	0.85
70 - 74	116	149.35	0.78
75 - 79	200	201.89	0.99
80 -84	225	243.13	0.93
85 - 89	214	179.98	1.19
90 - 94	105	82.70	1.27
95 - 99	28	21.31	1.31
100 & Over	1	2.98	0.34
TOTAL	1,091	1,111.21	0.98

Age Group	Retired Healthy Lives Morality Experience KERS Non-Hazardous Members Females Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.13	0.00
45 - 49	3	2.42	1.24
50 - 54	13	9.71	1.34
55 - 59	30	23.86	1.26
60 - 64	43	40.20	1.07
65 - 69	73	60.79	1.20
70 - 74	97	87.26	1.11
75 - 79	152	139.12	1.09
80 -84	185	169.90	1.09
85 - 89	175	147.67	1.19
90 - 94	142	97.03	1.46
95 - 99	45	35.40	1.27
100 & Over	7	5.54	1.26
TOTAL	965	819.03	1.18

KERS NON-HAZARDOUS
POST-RETIREMENT MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement mortalities.





The currently assumed rates of post-retirement mortality for both males and females do not need to be revised.

KERS □A□ARDOUS
POST-RETIREMENT MORTALITY
E□PERIENCE UNDER CURRENT ASSUMPTIONS

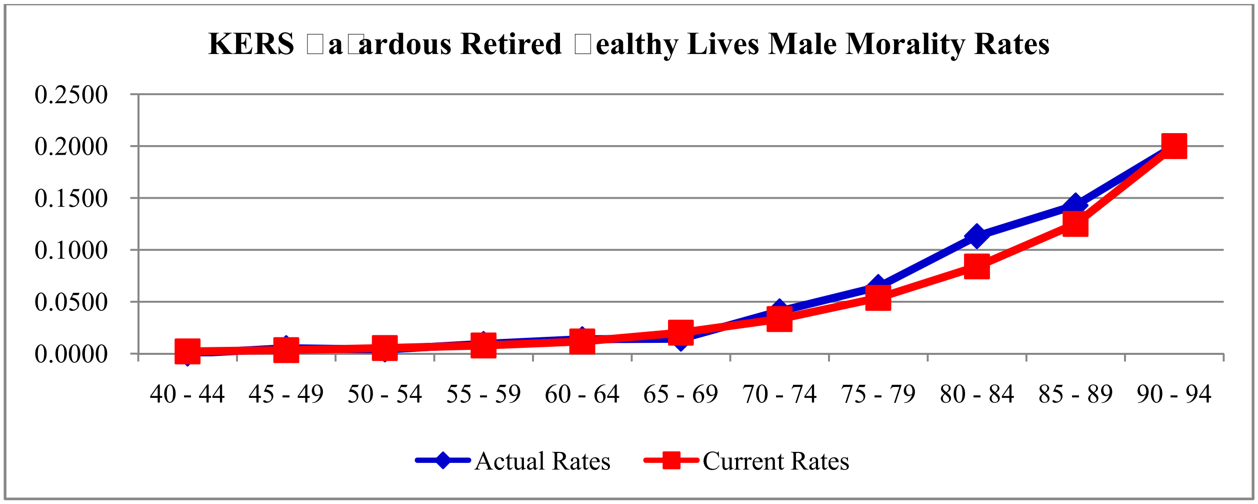
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DEAT□S

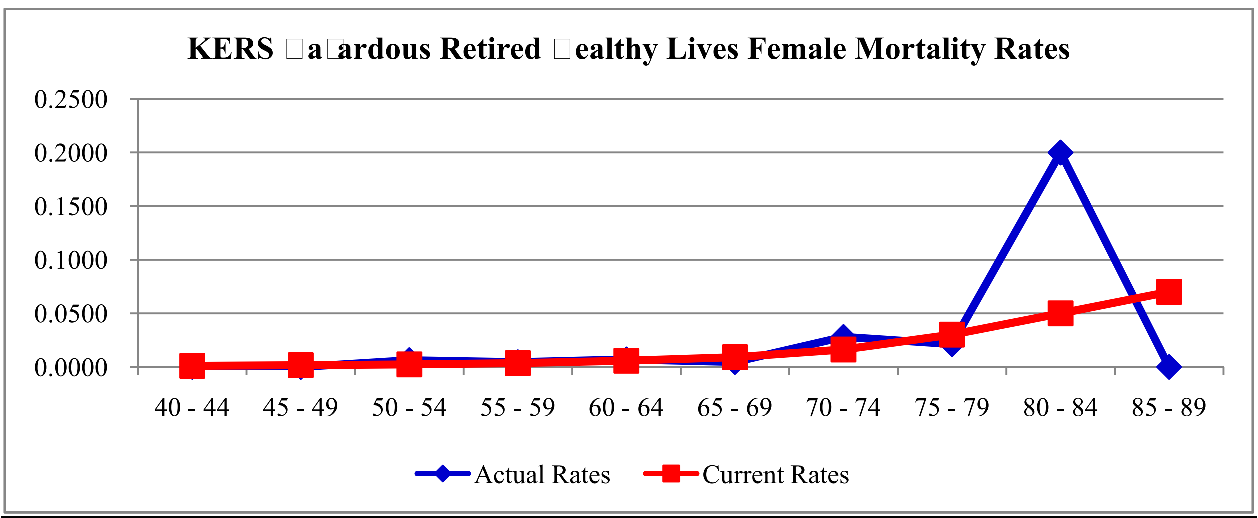
Age Group	Retired Healthy Lives Morality Experience KERS Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.16	0.00
45 - 49	1	0.62	1.61
50 - 54	2	2.65	0.75
55 - 59	9	7.35	1.22
60 - 64	11	9.16	1.20
65 - 69	8	11.22	0.71
70 - 74	17	13.85	1.23
75 - 79	13	10.84	1.20
80 -84	6	4.45	1.35
85 - 89	2	1.75	1.14
90 - 94	1	1.00	1.00
95 - 99	1	0.25	4.00
100 & Over	0	0.00	0.00
TOTAL	71	63.30	1.12

Age Group	Retired Healthy Lives Morality Experience KERS Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.02	0.00
45 - 49	0	0.22	0.00
50 - 54	1	0.38	2.63
55 - 59	1	0.83	1.20
60 - 64	2	1.65	1.21
65 - 69	1	2.01	0.50
70 - 74	3	1.74	1.72
75 - 79	1	1.42	0.70
80 -84	2	0.50	4.00
85 - 89	0	0.07	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	11	8.84	1.24

KERS □A□ARDOUS
POST-RETIREMENT □EALT□Y LI□ES MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement mortalities.





The currently assumed rates of post-retirement mortality for both males and females do not need to be revised.

KERS NON-□A□ARDOUS
POST-RETIREMENT DISA□LED LI□ES MORTALITY
E□PERIENCE UNDER CURRENT ASSUMPTIONS

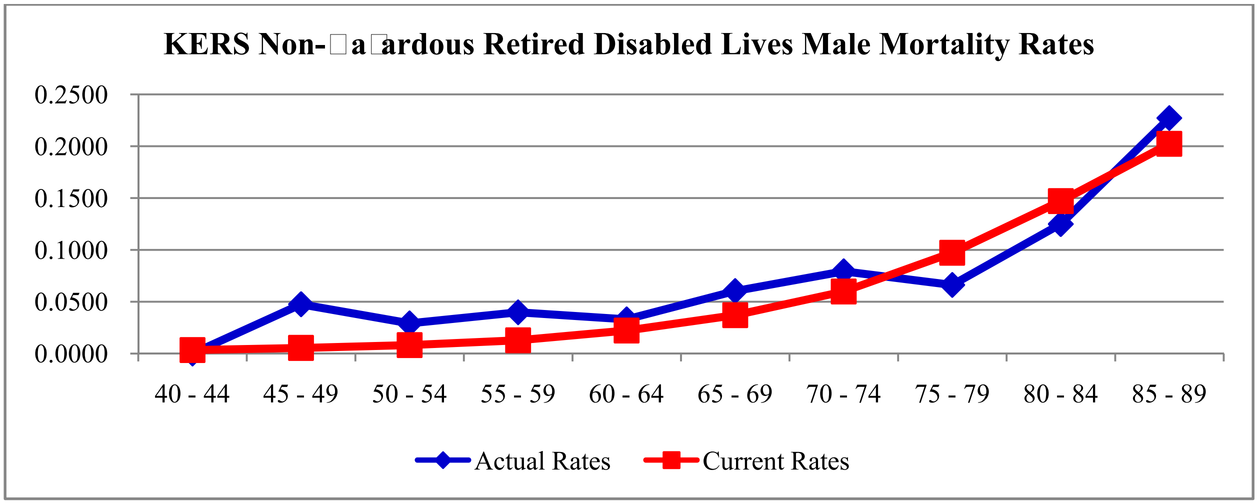
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DISA□LED DEAT□S

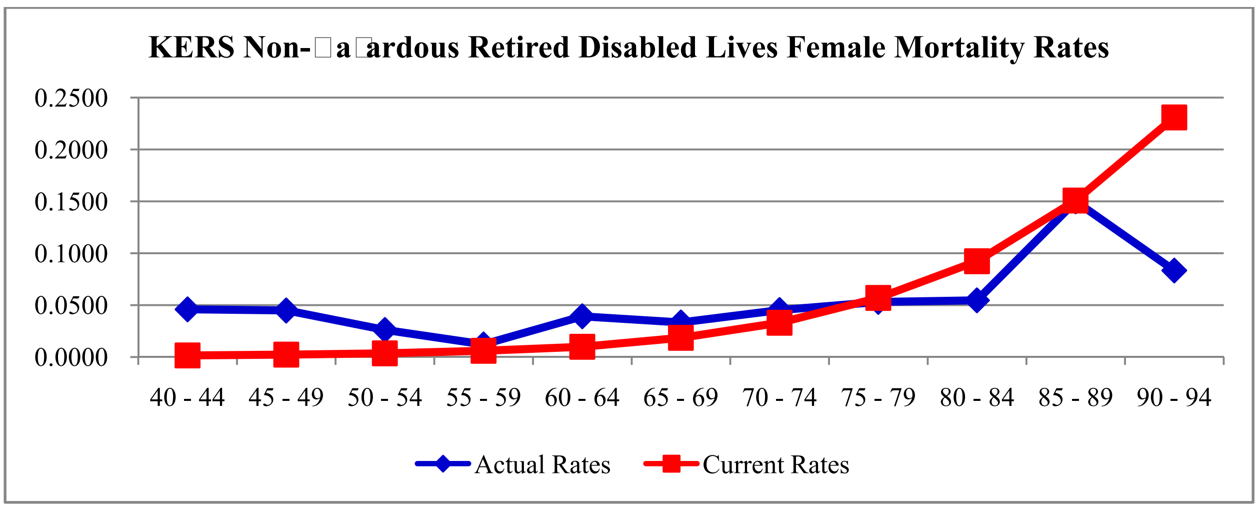
Age Group	Retired Disabled Lives Morality Experience KERS Non-Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	3	0.06	50.00
40 - 44	0	0.21	0.00
45 - 49	8	0.91	8.79
50 - 54	9	2.52	3.57
55 - 59	16	5.14	3.11
60 - 64	15	10.08	1.49
65 - 69	28	17.16	1.63
70 - 74	27	20.32	1.33
75 - 79	11	16.13	0.68
80 -84	12	14.11	0.85
85 - 89	10	8.90	1.12
90 - 94	2	2.96	0.68
95 - 99	0	1.14	0.00
100 & Over	0	0.00	0.00
TOTAL	141	99.64	1.42

Age Group	Retired Disabled Lives Morality Experience KERS Non-Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.02	0.00
40 - 44	5	0.16	31.25
45 - 49	9	0.44	20.45
50 - 54	10	1.36	7.35
55 - 59	7	3.45	2.03
60 - 64	23	5.75	4.00
65 - 69	19	10.51	1.81
70 - 74	16	11.65	1.37
75 - 79	7	7.50	0.93
80 -84	3	5.07	0.59
85 - 89	6	6.03	1.00
90 - 94	1	2.77	0.36
95 - 99	1	0.33	3.03
100 & Over	0	0.00	0.00
TOTAL	107	55.04	1.94

KERS NON-□A□ARDOUS
POST-RETIREMENT DISA□LED LI□ES MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement disabled mortalities.





The currently assumed rates of disabled mortality for both males and females do not need to be revised.

KERS HAZARDOUS
POST-RETIREMENT DISABLED LIVES MORTALITY
EXPERIENCE UNDER CURRENT ASSUMPTIONS

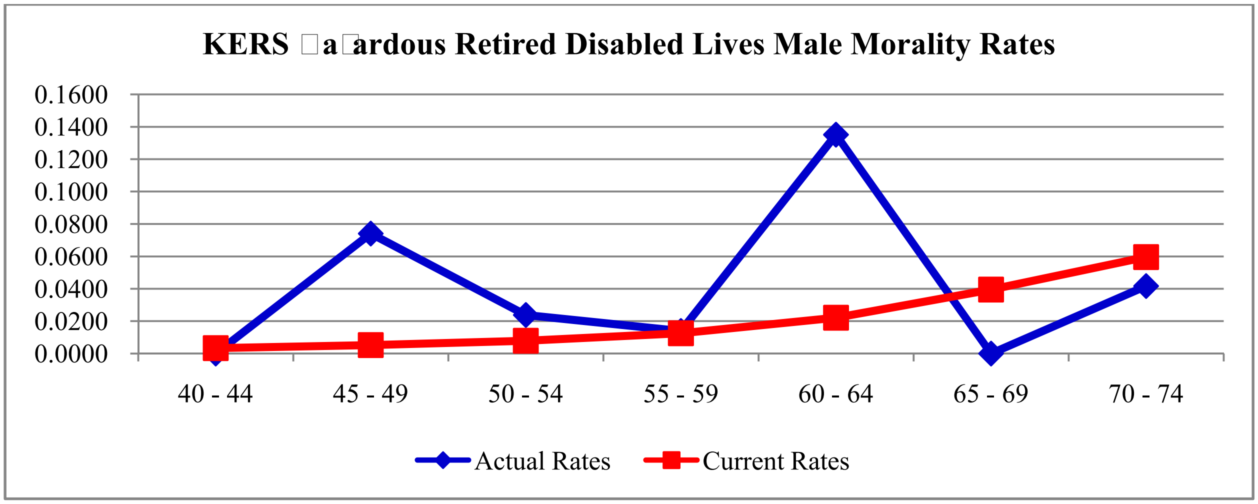
COMPARISON OF ACTUAL AND EXPECTED CASES OF
POST-RETIREMENT DISABLED DEATHS

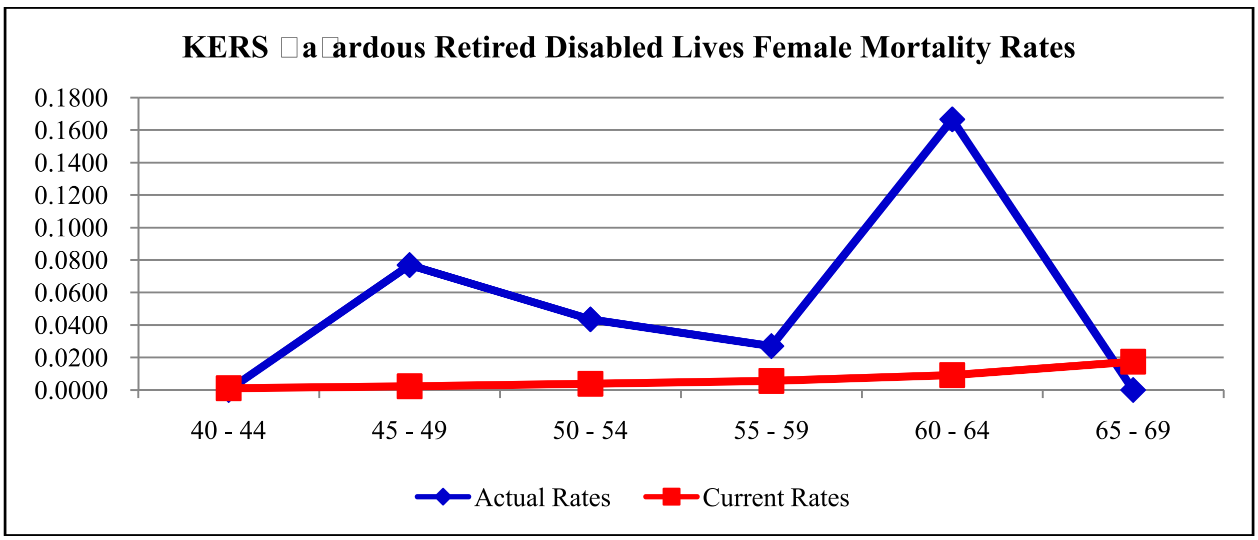
Age Group	Retired Disabled Lives Morality Experience KERS Hazardous Members		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.01	0.00
40 - 44	0	0.06	0.00
45 - 49	2	0.14	14.29
50 - 54	1	0.33	3.03
55 - 59	1	0.90	1.11
60 - 64	5	0.82	6.10
65 - 69	0	0.79	0.00
70 - 74	1	1.43	0.70
75 - 79	0	0.35	0.00
80 -84	0	0.00	0.00
85 - 89	0	0.00	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	10	4.83	2.07

Age Group	Retired Disabled Lives Morality Experience KERS Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.01	0.00
45 - 49	1	0.03	33.33
50 - 54	1	0.09	11.11
55 - 59	1	0.21	4.76
60 - 64	2	0.11	18.18
65 - 69	0	0.07	0.00
70 - 74	0	0.23	0.00
75 - 79	0	0.00	0.00
80 -84	0	0.00	0.00
85 - 89	0	0.00	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	5	0.75	6.67

KERS HAZARDOUS
POST-RETIREMENT DISABLED LIVES MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement disabled mortalities.



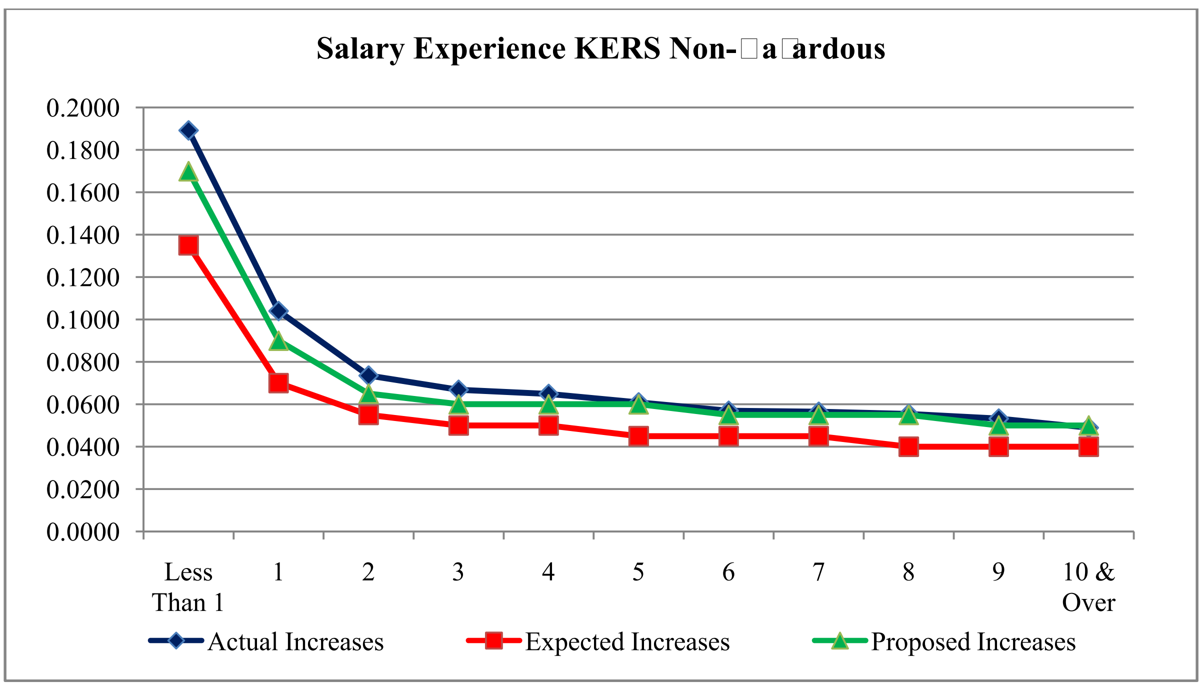


The currently assumed rates of disabled mortality for both males and females do not need to be revised.

KERS NON-HAZARDOUS
SALARY GROWTH

COMPARISON OF ACTUAL AND EXPECTED SALARIES OF ACTIVE MEMBERS

	Salaries at End of Year ($1,000)		
	KERS Non-Hazardous Members		
	Actual	Expected	Ratio
Years of Service			Actual/Expected
Less Than 1	175,312	167,322	1.048
1	329,773	319,613	1.032
2	296,010	290,893	1.018
3	256,938	252,871	1.016
4	267,332	263,590	1.014
5	282,679	278,433	1.015
6	274,947	271,825	1.011
7	240,965	238,340	1.011
8	209,579	206,510	1.015
9	174,601	172,397	1.013
10 +	2,244,280	2,225,066	1.009
TOTAL	4,752,416	4,686,860	1.010



KERS NON-□A□ARDOUS
SALARY GRO□ T□

The actual rates of salary increase appear to be consistently above the assumed rates. Therefore, we recommend changing the current salary increase assumption slightly for this group. The changes include the recommended change in wage inflation discussed in a previous section of the report.

COMPARISON OF ACTUAL AND E□PECTED RATES OF SALARY INCREASES OF ACTI□E MEM□ERS

Service	Salary Experience KERS Non-Hazardouse Members: Current Rates	Salary Experience KERS Non-Hazardouse Members: Proposed Rates
Less Than 1	13.50%	17.00%
1	7.00%	9.00%
2	5.50%	6.50%
3	5.00%	6.00%
4	5.00%	6.00%
5	4.50%	6.00%
6	4.50%	5.50%
7	4.50%	5.50%
8	4.00%	5.50%
9	4.00%	5.00%
10 and Over	4.00%	5.00%

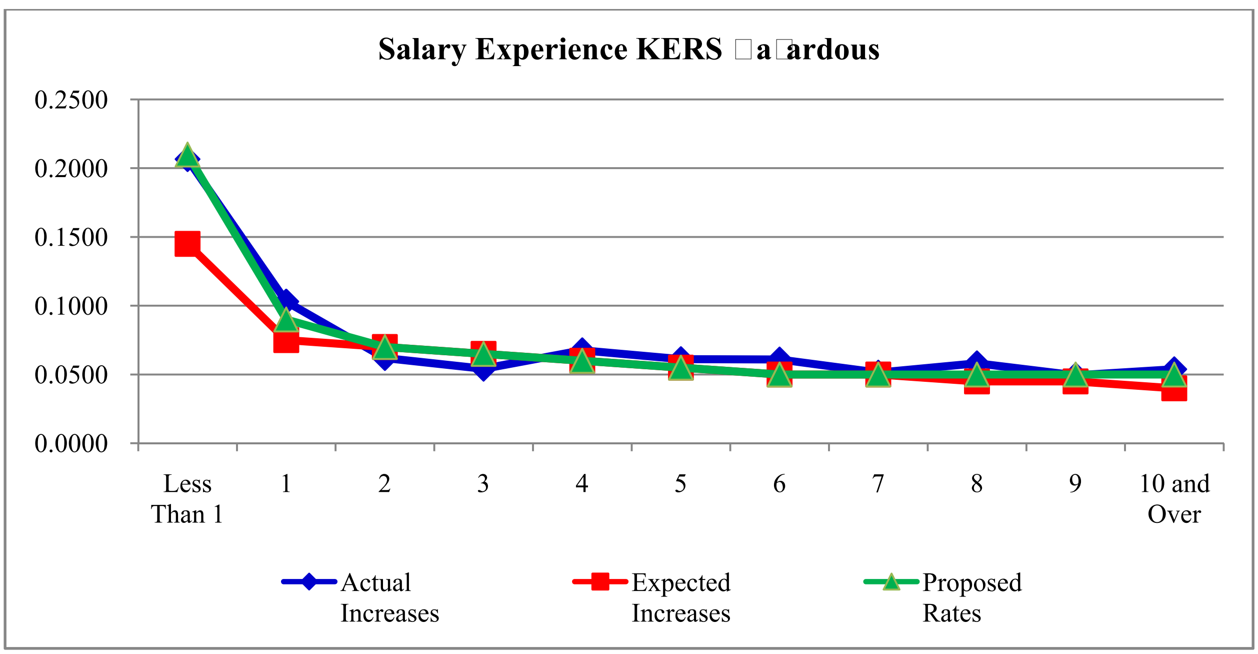
COMPARISON OF ACTUAL AND PROPOSED SALARIES OF ACTI□E MEM□ERS

□ears of Service	Salaries at End of □ear ($1,000) KERS Non-Hazardous Members: Actual	Proposed	Ratio Actual/Expected
Less Than 1	175,312	172,481	1.016
1	329,773	325,587	1.013
2	296,010	293,650	1.008
3	256,938	255,280	1.006
4	267,332	266,100	1.005
5	282,679	282,430	1.001
6	274,947	274,427	1.002
7	240,965	240,620	1.001
8	209,579	209,488	1.000
9	174,601	174,055	1.003
10 □	2,244,280	2,246,461	0.999
TOTAL	4,752,416	4,740,580	1.000

KERS □A□ARDOUS
SALARY GRO□ T□

COMPARISON OF ACTUAL AND E□PECTED SALARIES
OF ACTI□E MEM□ERS

□ears of Service	Salaries at End of □ear ($1,000)		
	KERS Hazardous Members		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	19,115,328	18,140,125	1.054
1	37,080,648	36,139,892	1.026
2	31,401,840	31,639,134	0.992
3	22,178,532	22,405,973	0.990
4	20,798,652	20,651,098	1.007
5	21,625,776	21,500,972	1.006
6	20,637,372	20,425,318	1.010
7	20,961,624	20,934,421	1.001
8	17,928,336	17,705,866	1.013
9	15,652,356	15,586,944	1.004
10 □	144,886,440	142,988,552	1.013
TOTAL	372,266,904	368,118,295	1.010



KERS HAZARDOUS
SALARY GROWTH

The actual rates of salary increase appear to be consistently above the assumed rates. Therefore, we recommend changing the current salary increase assumption slightly for this group. The changes include the recommended change in wage inflation discussed in a previous section of the report.

COMPARISON OF ACTUAL AND EXPECTED RATES OF SALARY INCREASES OF ACTIVE MEMBERS

	Salary Experience KERS Hazardouse Members	
Service	Current Rates	Proposed Rates
Less Than 1	14.50%	21.00%
1	7.50%	9.00%
2	7.00%	7.00%
3	6.50%	6.50%
4	6.00%	6.00%
5	5.50%	5.50%
6	5.00%	5.00%
7	5.00%	5.00%
8	4.50%	5.00%
9	4.50%	5.00%
10 and Over	4.00%	5.00%

KERS HAZARDOUS
SALARY GROWTH

COMPARISON OF ACTUAL AND PROPOSED
SALARIES OF ACTIVE MEMBERS

Years of Service	Salaries at End of Year ($1,000)		
	KERS Hazardous Members		
	Actual	Proposed	Ratio Actual/Expected
Less Than 1	19,115,328	19,169,914	0.997
1	37,080,648	36,644,169	1.012
2	31,401,840	31,639,134	0.992
3	22,178,532	22,405,973	0.990
4	20,798,652	20,651,098	1.007
5	21,625,776	21,500,972	1.006
6	20,637,372	20,425,318	1.010
7	20,961,624	20,934,421	1.001
8	17,928,336	17,790,583	1.008
9	15,652,356	15,661,523	0.999
10 +	144,886,440	144,363,442	1.004
TOTAL	372,266,904	371,186,546	1.000

KERS SUMMARY AND COST OF CHANGES

As a result of the experience investigation, we are recommending revised rates of withdrawal, disability, pre-retirement mortality, service retirement and salary increases for active members. When these proposed assumption changes are applied to the June 30, 2008 valuation, the results will change. The change in results represents the financial impact of adopting the proposed assumptions. The table below summarizes the financial impact.

Pension

	KERS Non-Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates:				
Normal Cost Rate	3.55%	3.23%	4.59%	4.23%
Expenses	0.42	0.42	0.42	0.42
UAAL	14.99	14.72	13.62	13.38
Total Employer Rate	18.96%	18.37%	18.63%	18.03%
Actuarial accrued liability	$ 10,129,689,985	$ 10,042,123,451	$ 10,205,284,296	$ 10,116,475,669
Actuarial value of assets	$ 5,318,792,893	$ 5,318,792,893	$ 5,318,792,893	$ 5,318,792,893
UAAL	$ 4,810,897,092	$ 4,723,330,558	$ 4,886,491,403	$ 4,797,682,776

	KERS Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates:				
Normal Cost Rate	7.07%	6.86%	8.16%	7.90%
Expenses	0.45	0.45	0.45	0.45
UAAL	4.46	4.60	4.25	4.34
Total Employer Rate	11.98%	11.91%	12.85%	12.69%
Actuarial accrued liability	$ 618,010,827	$ 621,616,932	$ 625,330,129	$ 628,031,012
Actuarial value of assets	$ 502,132,214	$ 502,132,214	$ 502,132,214	$ 502,132,214
UAAL	$ 115,878,613	$ 119,484,718	$ 123,197,915	$ 125,898,798

KERS SUMMARY AND COST OF CHANGES

Insurance

	KERS Non-Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rate:				
Normal Cost Rate	9.97%	10.20%	10.30%	10.48%
Expenses	0.19	0.19	0.19	0.19
UAAL	10.33	10.32	7.87	7.87
Total Employer Rate	20.49%	20.71%	18.36%	18.54%
Actuarial accrued liability	$5,431,499,285	$5,428,229,238	$4,800,438,707	$4,798,335,507
Actuarial value of assets	$603,197,761	$603,197,761	$603,197,761	$603,197,761
UAAL	$4,828,301,524	$4,825,031,477	$4,197,240,946	$4,195,137,746

	KERS Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rate:				
Normal Cost Rate	13.74%	13.79%	14.94%	15.15%
Expenses	0.06	0.06	0.06	0.06
UAAL	9.76	10.11	7.02	7.39
Total Employer Rate	23.56%	23.96%	22.02%	22.60%
Actuarial accrued liability	$541,657,214	$550,720,835	$491,885,300	$502,682,047
Actuarial value of assets	$288,161,759	$288,161,759	$288,161,759	$288,161,759
UAAL	$253,495,455	$262,559,076	$203,723,541	$214,520,288

CERS NON-HAZARDOUS
WITHDRAWAL EXPERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND EXPECTED WITHDRAWALS FROM ACTIVE SERVICE FOR MEMBERS WITH LESS THAN 5 YEARS OF SERVICE

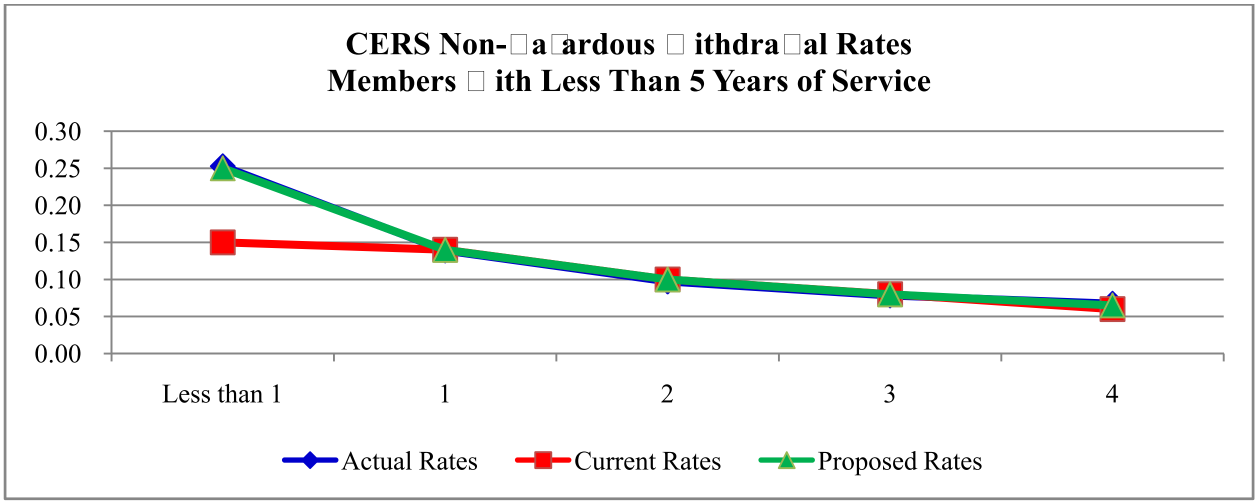
Year of Service	Withdrawal CERS Non-Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	5,735	3,401.70	1.69
1	2,910	2,931.32	0.99
2	1,677	1,725.60	0.97
3	1,192	1,217.28	0.98
4	992	885.60	1.12
TOTAL	12,506	10,161.50	1.23

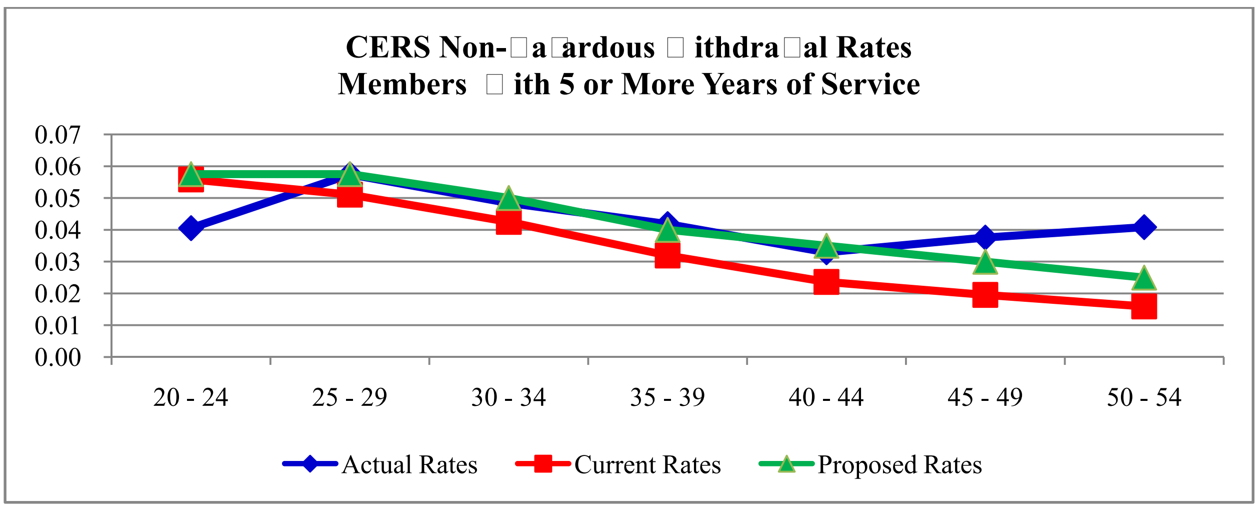
COMPARISON OF ACTUAL AND EXPECTED WITHDRAWALS FROM ACTIVE SERVICE FOR MEMBERS WITH 5 OR MORE YEARS OF SERVICE

Age Group	Withdrawal CERS Non-Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
20 - 24	27	37.19	0.73
25 - 29	185	164.52	1.12
30 - 34	349	306.02	1.14
35 - 39	551	420.88	1.31
40 - 44	715	512.43	1.40
45 - 49	1,029	535.26	1.92
50 - 54	1,105	430.52	2.57
55 - 59	0	0.01	0.00
60 & Over	0	0.00	0.00
TOTAL	3,961	2,406.83	1.65

CERS NON-HAZARDOUS RATES OF WITHDRAWAL

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The rates of withdrawal adopted by the Board are used to determine the expected number of separations from active service that will occur as a result of resignation or dismissal. The preceding tables and graphs show a significant difference between the expected and actual withdrawal rates.

We recommend that the rates of withdrawal be revised at this time to more closely reflect the experience of the System. The proposed rates provide a closer fit to the actual rates of withdrawal than the currently assumed rates.

CERS NON-□A□ARDOUS
CURRENT □S PROPOSED RATES OF □ IT□DRA□ AL

COMPARISON OF ACTUAL AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ears of Service	Withdrawal CERS Non-Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
Less Than 1	0.1500	0.2500
1	0.1400	0.1400
2	0.1000	0.1000
3	0.0800	0.0800
4	0.0600	0.0650

COMPARISON OF ACTUAL AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age	Withdrawal CERS Non-Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
20	0.0600	0.0575
25	0.0540	0.0575
30	0.0480	0.0530
35	0.0360	0.0440
40	0.0266	0.0370
45	0.0198	0.0302
50	0.0192	0.0270
55	0.0108	0.0220
60	0.0075	0.0075

CERS NON-□A□ARDOUS
□ IT□DRA□ AL E□PERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ear of Service	Withdrawal CERS Non-Hazardous Members Males and Females Withdrawal Experience Actual	Proposed	Ratio Actual/Proposed
Less Than 1	5,735	5,669.50	1.01
1	2,910	2,931.32	0.99
2	1,677	1,725.60	0.97
3	1,192	1,217.28	0.98
4	992	959.40	1.03
TOTAL	12,506	12,503.10	1.00

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age Group	Withdrawal CERS Non-Hazardous Members Males and Females Withdrawal Experience Actual	Proposed	Ratio Actual/Proposed
20 - 24	27	38.30	0.71
25 - 29	185	185.27	1.00
30 - 34	349	360.10	0.97
35 - 39	551	527.32	1.04
40 - 44	715	759.29	0.94
45 - 49	1,029	821.13	1.25
50 - 54	1,105	676.25	1.63
55 - 59	0	0.02	0.00
60 & Over	0	0.00	0.00
TOTAL	3,961	3,367.67	1.18

CERS □A□ARDOUS
□ IT□DRA□ AL E□PERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

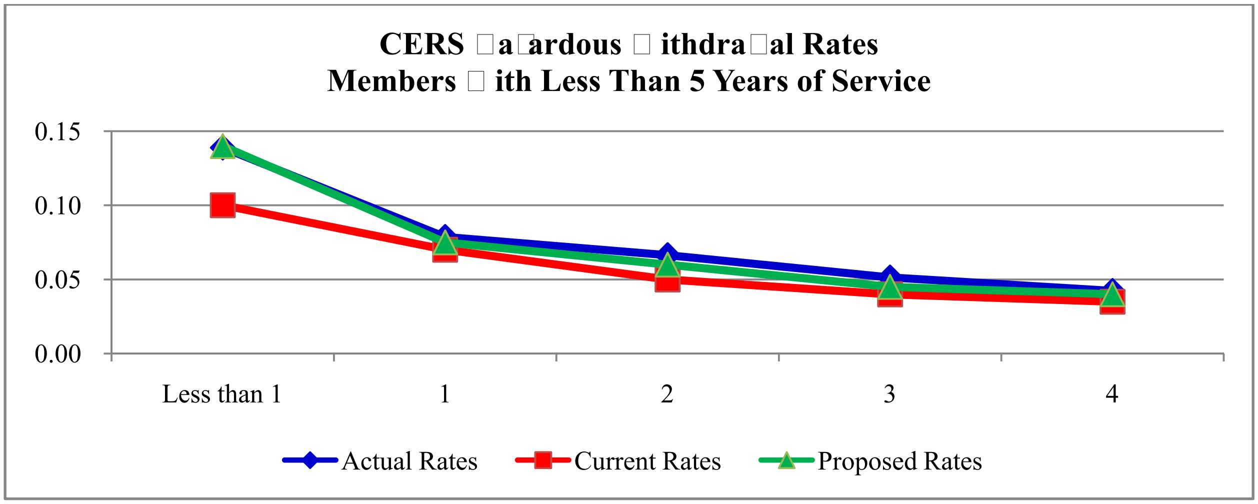
□ears of Service	Withdrawal CERS Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	305	219.60	1.39
1	158	140.49	1.12
2	118	88.85	1.33
3	85	66.16	1.28
4	70	57.88	1.21
TOTAL	736	572.98	1.28

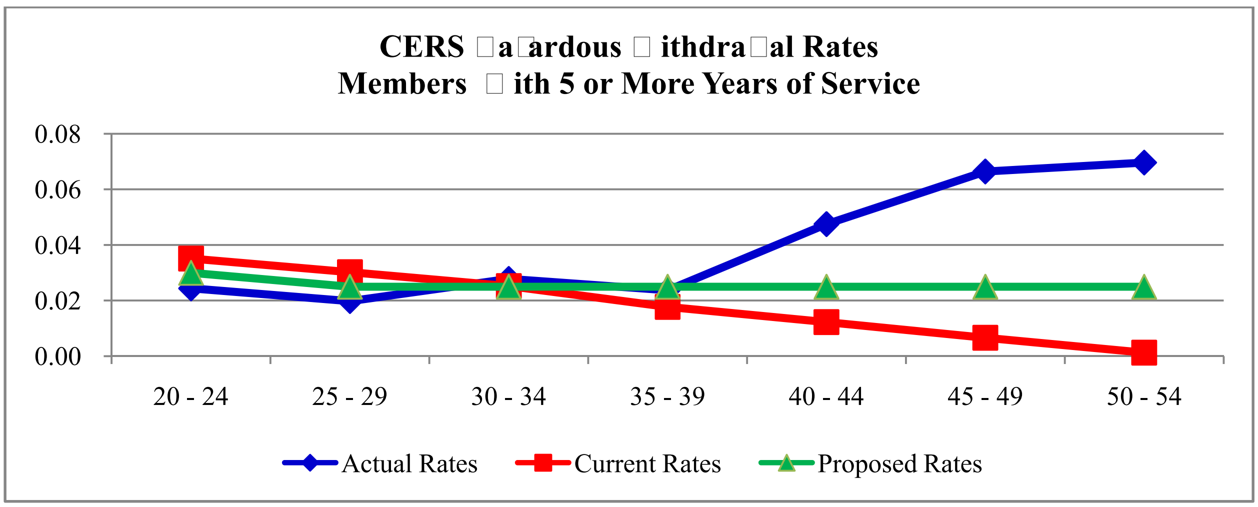
COMPARISON OF ACTUAL AND E□PECTED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age Group	Withdrawal CERS Hazardous Members		
	Males and Females Withdrawal Experience		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.14	0.00
20 - 24	1	1.44	0.69
25 - 29	17	25.93	0.66
30 - 34	94	85.29	1.10
35 - 39	109	81.61	1.34
40 - 44	175	45.20	3.87
45 - 49	128	12.78	10.02
50 & Over	162	1.38	117.39
TOTAL	686	253.77	2.70

CERS □A□ARDOUS RATES OF □ IT□DRA□ AL

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The rates of withdrawal adopted by the Board are used to determine the expected number of separations from active service that will occur as a result of resignation or dismissal. The preceding tables and graphs show a significant difference between the expected and actual withdrawal rates.

We recommend that the rates of withdrawal be revised at this time to more closely reflect the experience of the System. The proposed rates provide a closer fit to the actual rates of withdrawal than the currently assumed rates.

CERS □A□ARDOUS
CURRENT □S□PROPOSED RATES OF □ IT□DRA□ AL

COMPARISON OF ACTUAL AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ears of Service	Withdrawal CERS Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
Less Than 1	0.1000	0.1400
1	0.0700	0.0750
2	0.0500	0.0600
3	0.0400	0.0450
4	0.0350	0.0400

COMPARISON OF ACTUAL AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age	Withdrawal CERS Hazardous Members Males and Females Withdrawal Rates	
	Current	Proposed
20	0.0456	0.0300
25	0.0304	0.0270
30	0.0301	0.0250
35	0.0195	0.0250
40	0.0150	0.0250
45	0.0075	0.0250
50	0.0050	0.0250

CERS □A□ARDOUS
□ IT□DRA□ AL E□PERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ears of Service	Withdrawal CERS Hazardous Members Males and Females Withdrawal Experience		
	Actual	Proposed	Ratio Actual/Proposed
Less Than 1	305	307.44	0.99
1	158	150.53	1.05
2	118	106.62	1.11
3	85	74.43	1.14
4	70	66.16	1.06
TOTAL	736	705.18	1.04

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age Group	Withdrawal CERS Hazardous Members Males and Females Withdrawal Experience		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.09	0.00
20 - 24	1	1.17	0.85
25 - 29	17	21.59	0.79
30 - 34	94	84.53	1.11
35 - 39	109	114.92	0.95
40 - 44	175	92.07	1.90
45 - 49	128	48.14	2.66
50 & Over	162	6.94	23.34
TOTAL	686	369.45	1.86

CERS NON- □A□ARDOUS
PRE-RETIREMENT MORTALITY

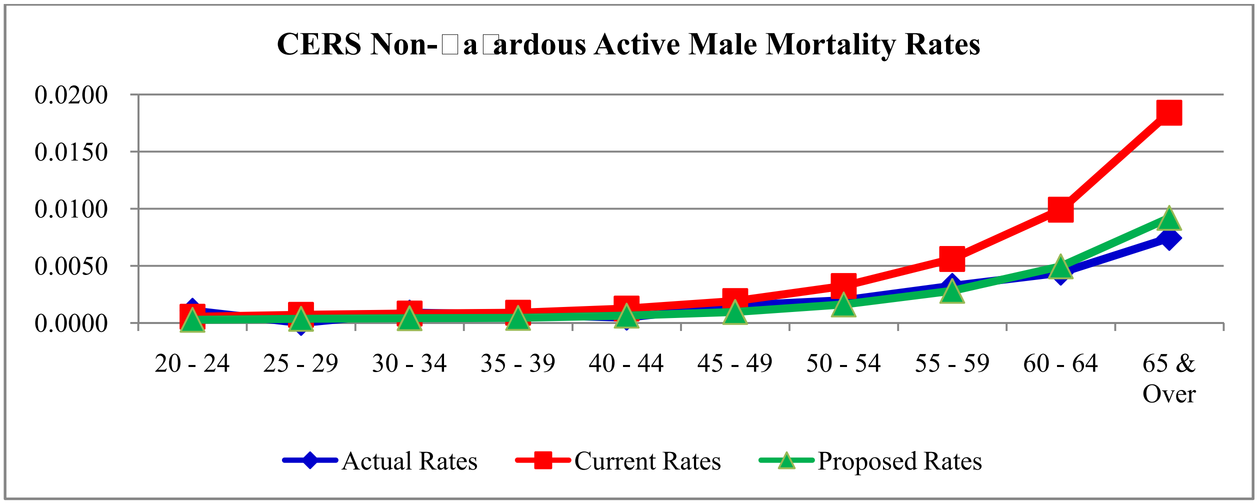
COMPARISON OF ACTUAL AND E□PECTED PRE-RETIREMENT DEAT□S

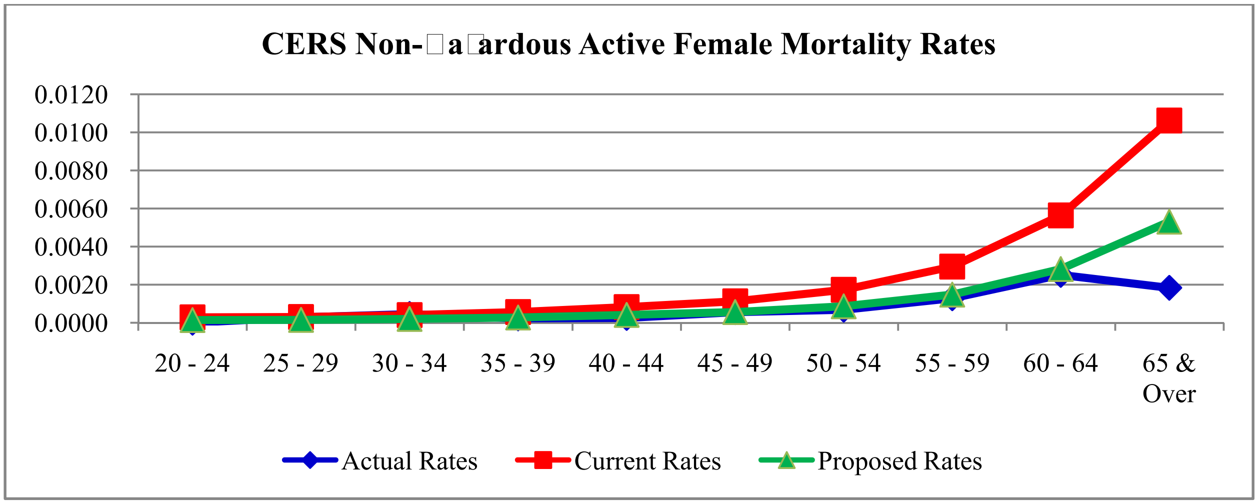
Age Group	Active Mortality Experience CERS Non-Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 20	4	2.27	1.76
20 - 24	6	3.10	1.94
25 - 29	0	4.21	0.00
30 - 34	6	5.51	1.09
35 - 39	7	8.69	0.81
40 - 44	5	13.66	0.37
45 - 49	19	24.03	0.79
50 - 54	24	39.08	0.61
55 - 59	35	60.47	0.58
60 - 64	29	65.52	0.44
65 & Over	35	86.68	0.40
TOTAL	170	313.22	0.54

Age Group	Active Mortality Experience CERS Non-Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.04	0.00
20 - 24	0	0.77	0.00
25 - 29	2	2.14	0.93
30 - 34	5	4.41	1.13
35 - 39	4	9.78	0.41
40 - 44	6	19.53	0.31
45 - 49	15	30.38	0.49
50 - 54	17	43.37	0.39
55 - 59	25	57.36	0.44
60 - 64	27	60.71	0.44
65 & Over	10	57.98	0.17
TOTAL	111	286.47	0.39

CERS NON-HAZARDOUS
PRE-RETIREMENT MORTALITY

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The currently assumed rates of mortality in active service for both males and females can be adjusted to more closely fit actual experience.

CERS NON- □A□ARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND E□PECTED RATES
OF PRE-RETIREMENT DEAT□S

Age	Active Mortality Rates CERS Non-Hazardous Members	
	Males	
	Current	Proposed
20	0.0005	0.0002
25	0.0007	0.0004
30	0.0008	0.0004
35	0.0009	0.0005
40	0.0009	0.0005
45	0.0011	0.0006
50	0.0016	0.0008
55	0.0026	0.0013
60	0.0080	0.0040
65	0.0145	0.0073
70	0.0237	0.0119

Age	Active Mortality Rates CERS Non-Hazardous Members	
	Females	
	Current	Proposed
20	0.0003	0.0001
25	0.0003	0.0001
30	0.0004	0.0002
35	0.0005	0.0003
40	0.0007	0.0004
45	0.0010	0.0005
50	0.0014	0.0007
55	0.0023	0.0012
60	0.0044	0.0022
65	0.0086	0.0043
70	0.0137	0.0069

CERS NON-HAZARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND PROPOSED PRE-RETIREMENT DEATHS

Age Group	Active Mortality Experience CERS Non-Hazardous Members		
	Males		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	4	1.14	3.52
20 - 24	6	1.55	3.87
25 - 29	0	2.11	0.00
30 - 34	6	2.76	2.18
35 - 39	7	4.35	1.61
40 - 44	5	6.83	0.73
45 - 49	19	12.02	1.58
50 - 54	24	19.54	1.23
55 - 59	35	30.24	1.16
60 - 64	29	32.76	0.89
65 & Over	35	43.34	0.81
TOTAL	170	156.61	1.09

Age Group	Active Mortality Experience CERS Non-Hazardous Members		
	Females		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.02	0.00
20 - 24	0	0.39	0.00
25 - 29	2	1.07	1.87
30 - 34	5	2.21	2.27
35 - 39	4	4.89	0.82
40 - 44	6	9.77	0.61
45 - 49	15	15.19	0.99
50 - 54	17	21.69	0.78
55 - 59	25	28.68	0.87
60 - 64	27	30.36	0.89
65 & Over	10	28.99	0.34
TOTAL	111	143.24	0.77

CERS □A□ARDOUS
PRE-RETIREMENT MORTALITY

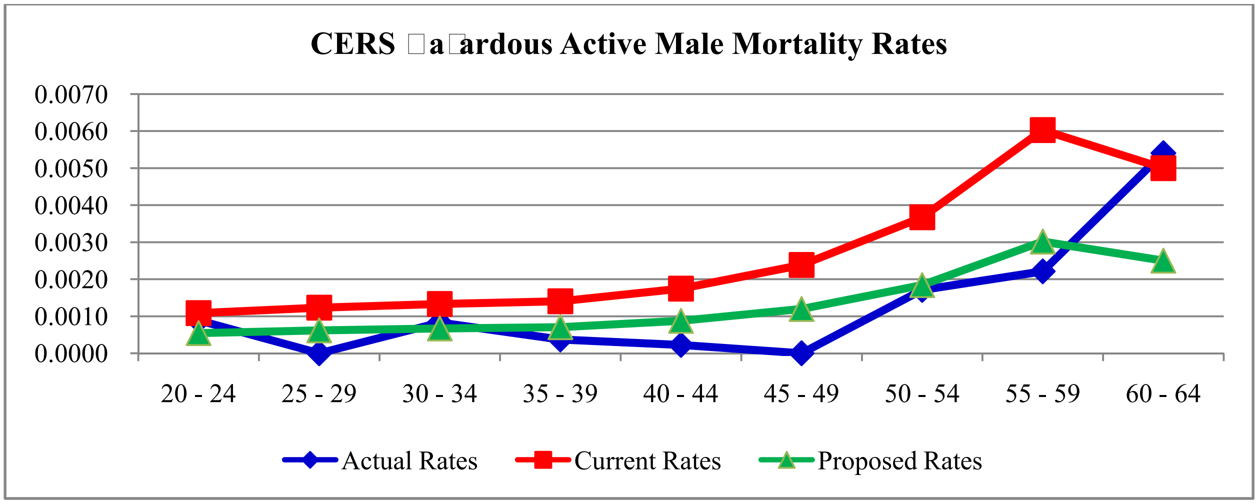
COMPARISON OF ACTUAL AND E□PECTED PRE-RETIREMENT DEAT□S

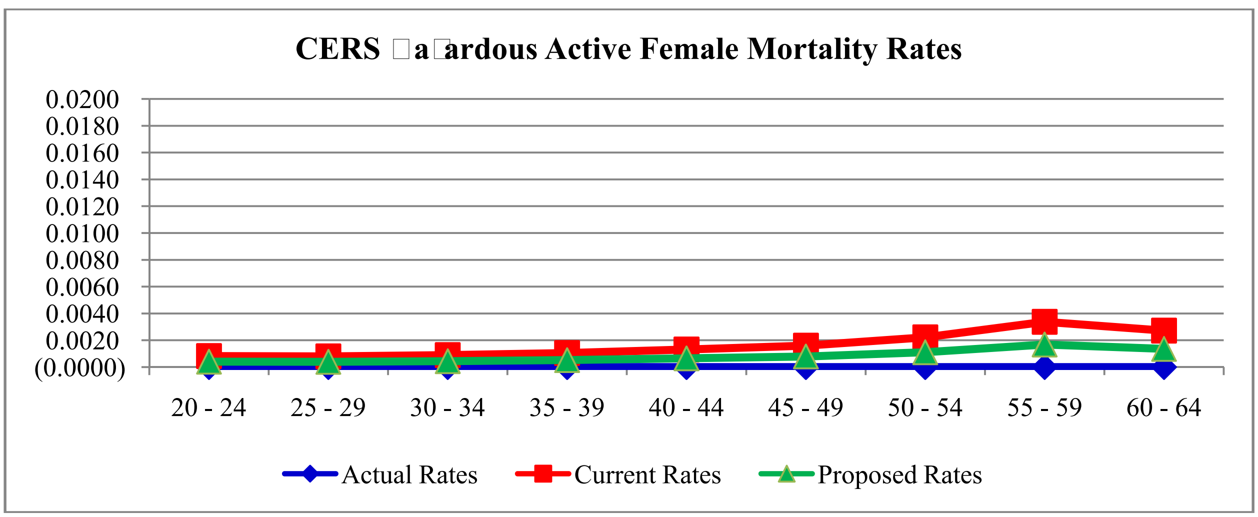
Age Group	Active Mortality Experience CERS Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.29	0.00
20 - 24	1	1.22	0.82
25 - 29	0	3.98	0.00
30 - 34	4	6.43	0.62
35 - 39	2	7.56	0.26
40 - 44	1	7.80	0.13
45 - 49	0	6.56	0.00
50 - 54	3	6.44	0.47
55 - 59	2	5.45	0.37
60 - 64	2	1.85	1.08
65 & Over	2	0.00	0.00
TOTAL	17	47.58	0.36

Age Group	Active Mortality Experience CERS Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.09	0.00
25 - 29	0	0.29	0.00
30 - 34	0	0.45	0.00
35 - 39	0	0.62	0.00
40 - 44	0	0.69	0.00
45 - 49	0	0.53	0.00
50 - 54	0	0.57	0.00
55 - 59	0	0.45	0.00
60 - 64	0	0.21	0.00
65 & Over	0	0.00	0.00
TOTAL	0	3.90	0.00

CERS HAZARDOUS
PRE-RETIREMENT MORTALITY

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The currently assumed rates of mortality in active service for both males and females can be adjusted to more closely fit actual experience.

CERS HAZARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND EXPECTED RATES OF PRE-RETIREMENT DEATHS

Age Group	Active Mortality Rates CERS Hazardous Members	
	Males	
	Current	Proposed
20	0.0005	0.0003
25	0.0007	0.0004
30	0.0008	0.0004
35	0.0009	0.0005
40	0.0011	0.0006
45	0.0016	0.0008
50	0.0026	0.0013
55	0.0044	0.0022
60	0.0080	0.0040

Age Group	Active Mortality Rates CERS Hazardous Members	
	Females	
	Current	Proposed
20	0.0003	0.0002
25	0.0003	0.0002
30	0.0004	0.0002
35	0.0005	0.0003
40	0.0007	0.0004
45	0.0010	0.0005
50	0.0014	0.0007
55	0.0023	0.0012
60	0.0044	0.0022

CERS HAZARDOUS
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND PROPOSED PRE-RETIREMENT DEATHS

	Active Mortality Experience CERS Hazardous Members		
	Males		
Age Group	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.15	0.00
20 - 24	1	0.61	1.64
25 - 29	0	1.99	0.00
30 - 34	4	3.22	1.24
35 - 39	2	3.78	0.53
40 - 44	1	3.90	0.26
45 - 49	0	3.28	0.00
50 - 54	3	3.22	0.93
55 - 59	2	2.73	0.73
60 - 64	2	0.93	2.16
65 & Over	2	0.00	0.00
TOTAL	17	23.79	0.71

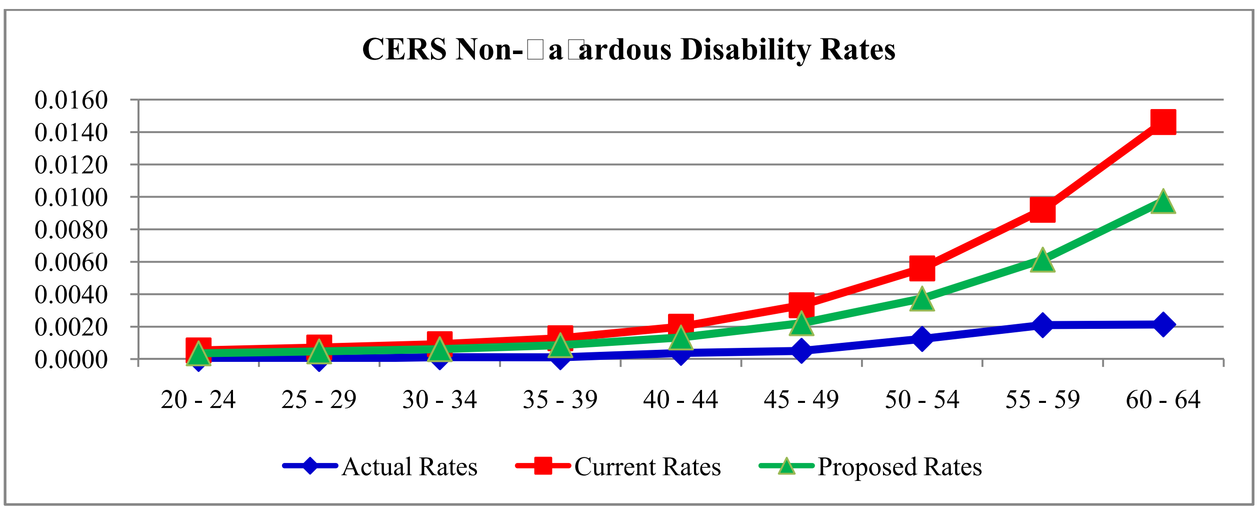
	Active Mortality Experience CERS Hazardous Members		
	Females		
Age Group	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.00	0.00
20 - 24	0	0.05	0.00
25 - 29	0	0.15	0.00
30 - 34	0	0.23	0.00
35 - 39	0	0.31	0.00
40 - 44	0	0.35	0.00
45 - 49	0	0.27	0.00
50 - 54	0	0.29	0.00
55 - 59	0	0.23	0.00
60 - 64	0	0.11	0.00
65 & Over	0	0.00	0.00
TOTAL	0	1.95	0.00

CERS NON-HAZARDOUS
DISABILITY RETIREMENT EXPERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND EXPECTED DISABILITY RETIREMENTS

Age Group	Disability Experience CERS Non-Hazardous Members		
	Total		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	4.39	0.00
25 - 29	0	9.06	0.00
30 - 34	2	16.10	0.12
35 - 39	3	34.58	0.09
40 - 44	13	68.53	0.19
45 - 49	20	130.81	0.15
50 - 54	46	207.42	0.22
55 - 59	63	277.63	0.23
60 & Over	0	4.81	0.00
TOTAL	147	753.33	0.20

The following graphs show a comparison of the present, actual, and proposed male and female disability retirement rates.



The assumed rates of disability retirements can be improved for both males and females. The proposed rates of disability retirement are compared with the currently assumed and actual rates in the following tables.

CERS NON-HAZARDOUS
DISABILITY RETIREMENT UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED RATES OF DISABILITY RETIREMENTS

Age	Disability Rates CERS Non-Hazardous Members	
	Total	
	Current	Proposed
20	0.0005	0.0004
25	0.0007	0.0005
30	0.0009	0.0006
35	0.0013	0.0009
40	0.0020	0.0013
45	0.0033	0.0022
50	0.0056	0.0037
55	0.0092	0.0061
60	0.0146	0.0097

COMPARISON OF ACTUAL AND PROPOSED DISABILITY RETIREMENTS

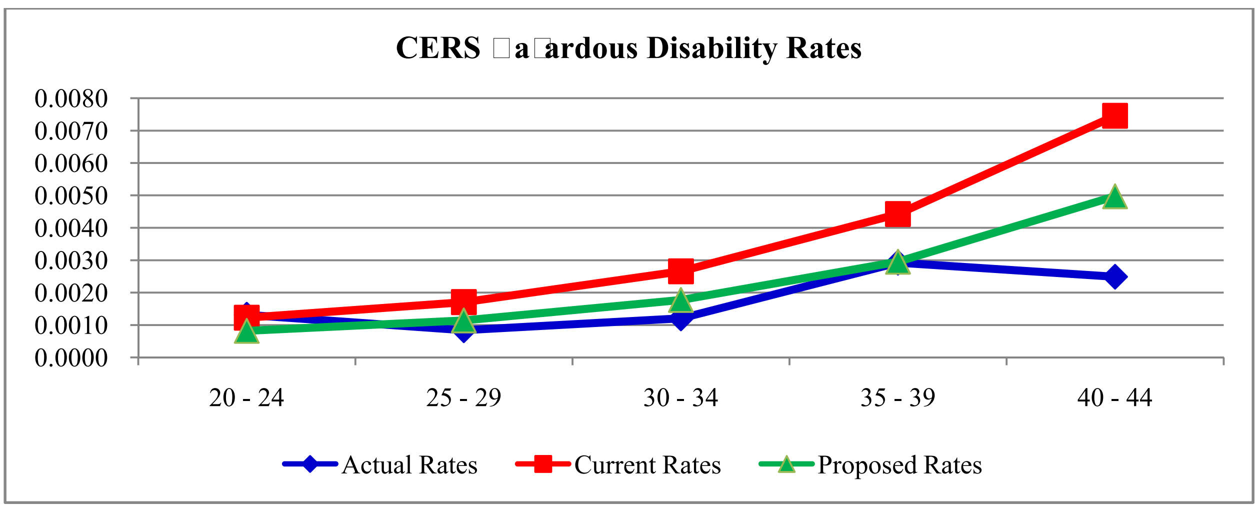
Age Group	Disability Experience CERS Non-Hazardous Members		
	Total		
	Actual	Proposed	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	2.93	0.00
25 - 29	0	6.04	0.00
30 - 34	2	10.73	0.19
35 - 39	3	23.05	0.13
40 - 44	13	45.69	0.28
45 - 49	20	87.21	0.23
50 - 54	46	138.28	0.33
55 - 59	63	185.09	0.34
60 & Over	0	4.81	0.00
TOTAL	147	503.82	0.29

CERS HAZARDOUS
DISABILITY RETIREMENT EXPERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND EXPECTED DISABILITY RETIREMENTS

Age Group	Disability Experience CERS Hazardous Members		
	Total		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.88	0.00
25 - 29	0	3.41	0.00
30 - 34	7	6.53	1.07
35 - 39	5	10.19	0.49
40 - 44	6	13.26	0.45
45 - 49	9	13.63	0.66
50 - 54	5	14.98	0.33
55 - 59	0	12.72	0.00
60 & Over	0	4.81	0.00
TOTAL	32	80.41	0.40

The following graphs show a comparison of the present, actual, and proposed male and female disability retirement rates.



The assumed rates of disability retirements can be improved for both males and females. The proposed rates of disability retirement are compared with the currently assumed and actual rates in the following tables.

CERS HAZARDOUS
DISABILITY RETIREMENT EXPERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED
RATES OF DISABILITY RETIREMENTS

Age	Disability Rates CERS Hazardous Members	
	Total	
	Current	Proposed
20	0.0007	0.0005
25	0.0009	0.0007
30	0.0012	0.0009
35	0.0017	0.0013
40	0.0027	0.0020
45	0.0044	0.0033
50	0.0075	0.0056
55	0.0123	0.0092
60	0.0195	0.0146

COMPARISON OF ACTUAL AND PROPOSED DISABILITY RETIREMENTS

Age Group	Disability Experience CERS Hazardous Members		
	Total		
	Actual	Proposed	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.66	0.00
25 - 29	0	2.56	0.00
30 - 34	7	4.90	1.43
35 - 39	5	7.64	0.65
40 - 44	6	9.95	0.60
45 - 49	9	10.22	0.88
50 - 54	5	11.24	0.45
55 - 59	0	9.54	0.00
60 & Over	0	3.61	0.00
TOTAL	32	60.31	0.53

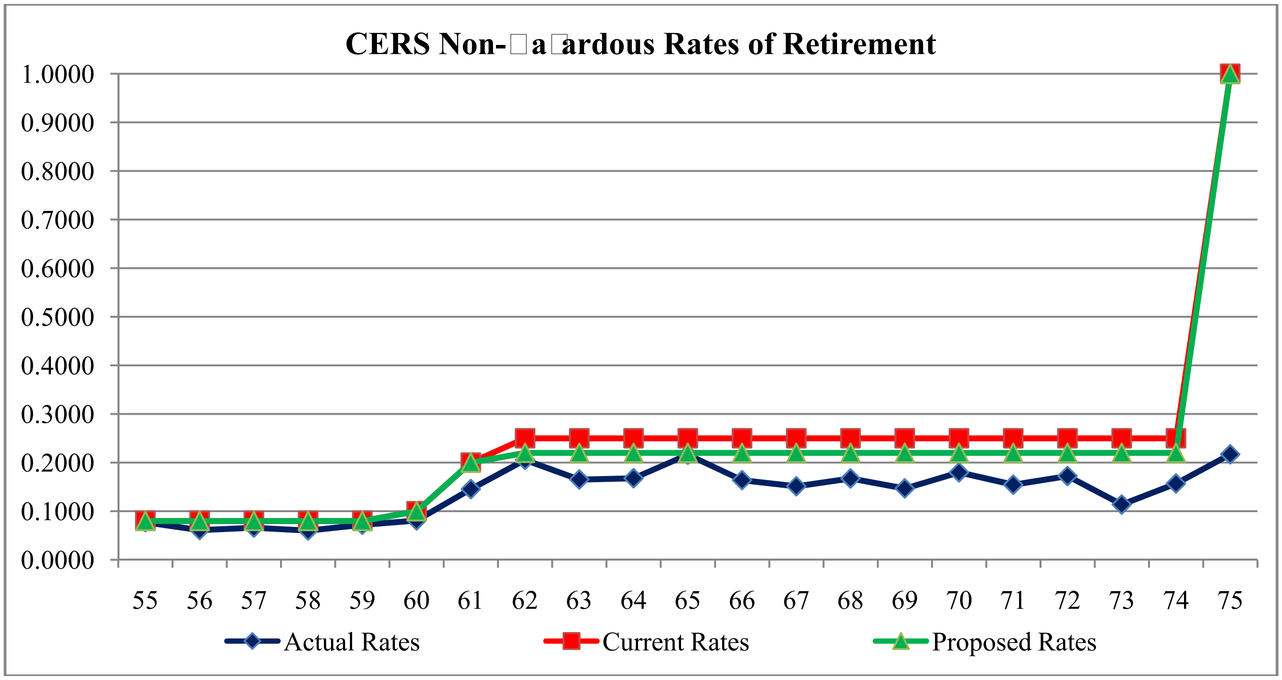
CERS NON-□A□ARDOUS
RETIREMENT E□PERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED RETIREMENTS

Age	Retirement Experience CERS Non-Hazardous Members		
	Males and Females		
	Actual	Expected	Ratio Actual/Expected
55	383	395.36	0.97
56	283	369.44	0.77
57	285	344.72	0.83
58	251	333.04	0.75
59	279	308.96	0.90
60	276	340.80	0.81
61	417	573.60	0.73
62	507	616.75	0.82
63	331	500.75	0.66
64	280	417.25	0.67
65	416	481.00	0.86
66	233	355.50	0.66
67	187	309.00	0.61
68	169	252.50	0.67
69	127	216.25	0.59
70	130	180.75	0.72
71	91	147.25	0.62
72	81	117.50	0.69
73	38	83.50	0.46
74	43	68.50	0.63
75	199	917.00	0.22
TOTAL	4,645	6,142.92	0.76

CERS NON-□A□ARDOUS
RATES OF RETIREMENT

The following graphs show a comparison of the present, actual, and proposed rates of service retirements.



The preceding table and graph indicate that the actual rates of retirement for members in all service breakpoints were significantly different than expected. The proposed rates provide for a closer fit to the actual rates of service retirements.

In addition to age based retirements, a service based retirement is also assumed for all members who obtain 27 or more years of service. It is currently assumed active members that have obtained 27 or more years of service will retire at the rate of 25% per year. As a result of the experience investigation we recommend a revision of this assumption from 25% to 30% to more accurately reflect rates of retirement for those active members that obtain 27 or more years of service.

CERS NON-□A□ARDOUS
RETIREMENTS UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED RATES OF RETIREMENT

Age	Retirement Experience CERS Non-Hazardous Members Males and Females	
	Current	Proposed
55	0.0800	0.0800
56	0.0800	0.0800
57	0.0800	0.0800
58	0.0800	0.0800
59	0.0800	0.0800
60	0.1000	0.1000
61	0.2000	0.2000
62	0.2500	0.2200
63	0.2500	0.2200
64	0.2500	0.2200
65	0.2500	0.2200
66	0.2500	0.2200
67	0.2500	0.2200
68	0.2500	0.2200
69	0.2500	0.2200
70	0.2500	0.2200
71	0.2500	0.2200
72	0.2500	0.2200
73	0.2500	0.2200
74	0.2500	0.2200
75	1.0000	1.0000

CERS NON-HAZARDOUS
RETIREMENTS UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED RETIREMENTS

Age	Retirement Experience CERS Non-Hazardous Members		
	Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
55	383	395.36	0.97
56	283	369.44	0.77
57	285	344.72	0.83
58	251	333.04	0.75
59	279	308.96	0.90
60	276	340.80	0.81
61	417	573.60	0.73
62	507	542.74	0.93
63	331	440.66	0.75
64	280	367.18	0.76
65	416	423.28	0.98
66	233	312.84	0.74
67	187	271.92	0.69
68	169	222.20	0.76
69	127	190.30	0.67
70	130	159.06	0.82
71	91	129.58	0.70
72	81	103.40	0.78
73	38	73.48	0.52
74	43	60.28	0.71
75	199	917.00	0.22
TOTAL	4,645	5,725.68	0.81

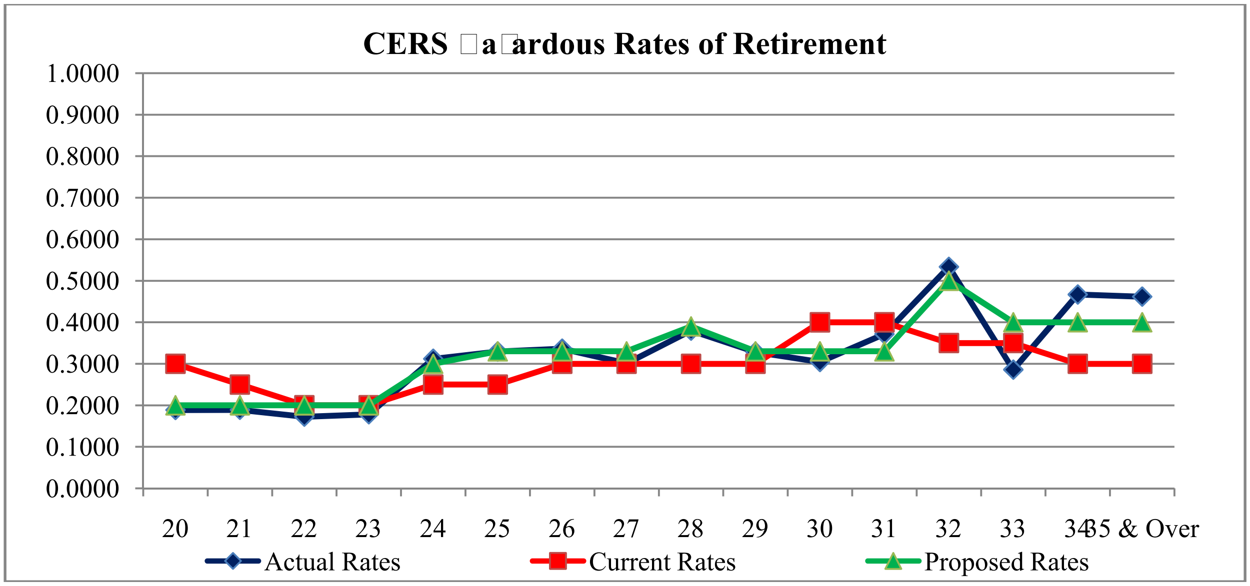
CERS □A□ARDOUS
RETIREMENT E□PERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED RETIREMENTS

Service	Retirement Experience CERS Hazardous Members Males and Females		
	Actual	Expected	Ratio Actual/Expected
20	79	129.90	0.61
21	67	90.00	0.74
22	53	61.60	0.86
23	40	45.60	0.88
24	57	45.25	1.26
25	54	40.75	1.33
26	38	33.30	1.14
27	30	30.30	0.99
28	30	23.70	1.27
29	22	19.80	1.11
30	14	18.00	0.78
31	13	14.00	0.93
32	16	10.50	1.52
33	6	7.00	0.86
34	7	4.50	1.56
35 & Over	16	12.60	1.27
TOTAL	542	586.80	0.92

CERS HAZARDOUS RATES OF RETIREMENT

The following graphs show a comparison of the present, actual, and proposed rates of service retirements.



The preceding table and graph indicate that the actual rates of retirement for members in all service breakpoints were significantly different than expected. The proposed rates provide for a closer fit to the actual rates of service retirements.

CERS HAZARDOUS
RETIREMENT EXPERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED RATES OF RETIREMENT

Service	Retirement Experience CERS Hazardous Members — Males and Females: Current	Retirement Experience CERS Hazardous Members — Males and Females: Proposed
20	0.3000	0.2000
21	0.2500	0.2000
22	0.2000	0.2000
23	0.2000	0.2000
24	0.2500	0.3000
25	0.2500	0.3300
26	0.3000	0.3300
27	0.3000	0.3300
28	0.3000	0.3900
29	0.3000	0.3300
30	0.4000	0.3300
31	0.4000	0.3300
32	0.3500	0.5000
33	0.3500	0.4000
34	0.3000	0.4000
35 & Over	0.3000	0.4000

CERS HAZARDOUS
RETIREMENT EXPERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED RETIREMENTS

Service	Retirement Experience CERS Hazardous Members Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
20	79	86.60	0.91
21	67	72.00	0.93
22	53	61.60	0.86
23	40	45.60	0.88
24	57	54.30	1.05
25	54	53.79	1.00
26	38	36.63	1.04
27	30	33.33	0.90
28	30	30.81	0.97
29	22	21.78	1.01
30	14	14.85	0.94
31	13	11.55	1.13
32	16	15.00	1.07
33	6	8.00	0.75
34	7	6.00	1.17
35 & Over	16	16.80	0.95
TOTAL	542	568.64	0.95

CERS NON-□A□ARDOUS
POST-RETIREMENT MORTALITY

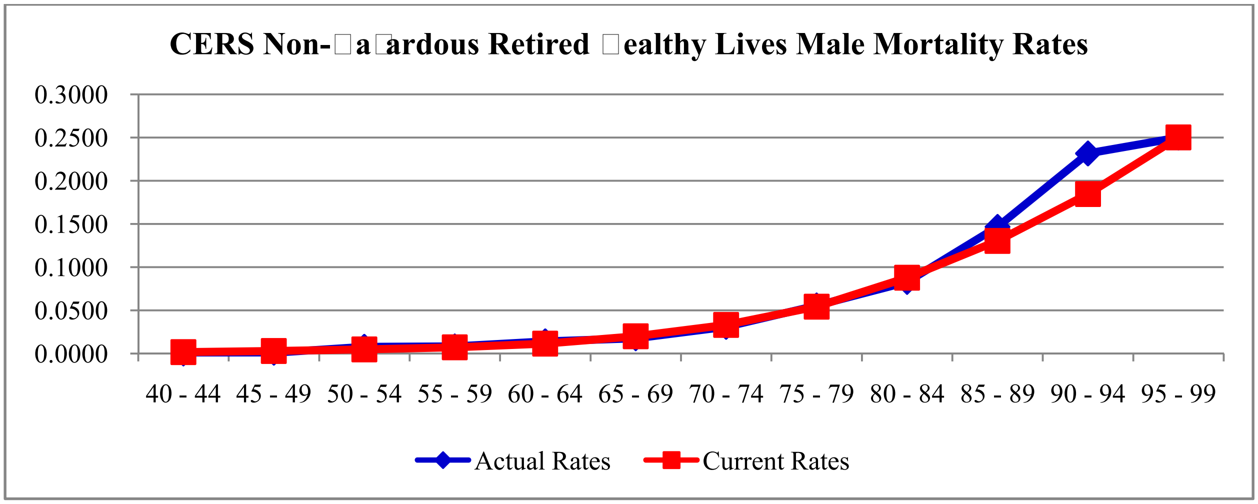
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DEAT□S

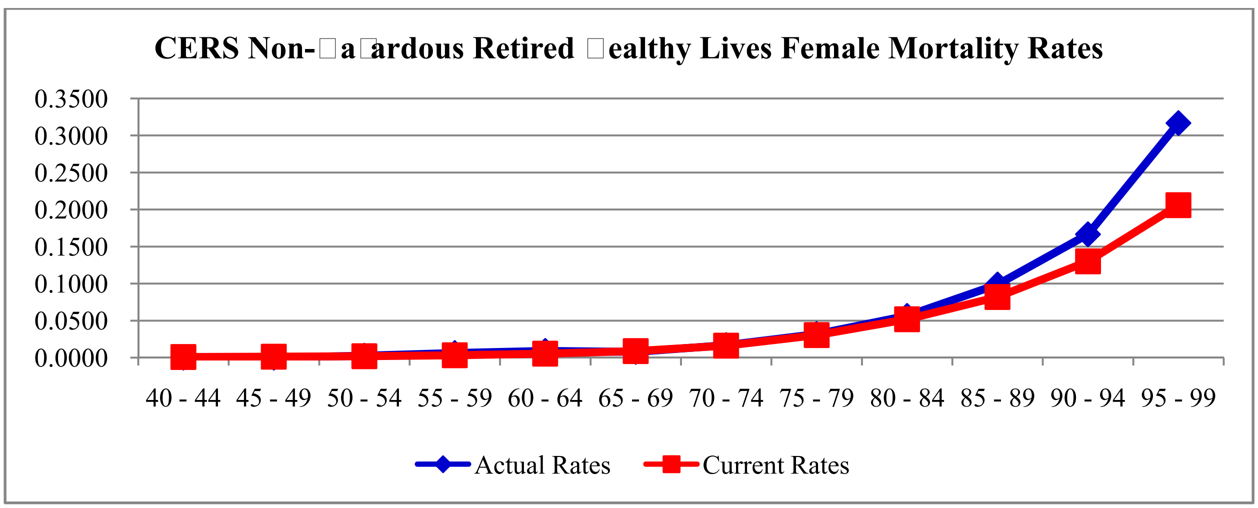
Age Group	Retired Healthy Lives Morality Experience CERS Non-Hazardous Members — Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.20	0.00
45 - 49	1	3.23	0.31
50 - 54	20	12.14	1.65
55 - 59	33	28.51	1.16
60 - 64	63	51.08	1.23
65 - 69	108	122.32	0.88
70 - 74	166	178.57	0.93
75 - 79	214	208.98	1.02
80 -84	189	200.30	0.94
85 - 89	148	131.55	1.13
90 - 94	63	50.23	1.25
95 - 99	13	13.01	1.00
100 & Over	1	0.66	1.52
TOTAL	1,019	1,000.78	1.02

Age Group	Retired Healthy Lives Morality Experience CERS Non-Hazardous Members — Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.08	0.00
45 - 49	0	1.11	0.00
50 - 54	5	3.98	1.26
55 - 59	35	18.21	1.92
60 - 64	80	47.99	1.67
65 - 69	83	94.25	0.88
70 - 74	147	140.67	1.04
75 - 79	197	187.84	1.05
80 -84	230	212.03	1.08
85 - 89	200	166.14	1.20
90 - 94	104	81.19	1.28
95 - 99	32	20.80	1.54
100 & Over	2	2.78	0.72
TOTAL	1,115	977.07	1.14

CERS NON-HAZARDOUS
POST-RETIREMENT MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement mortalities.





The currently assumed rates of post-retirement mortality for both males and females do not need to be revised.

CERS □A□ARDOUS
POST-RETIREMENT □EALT□Y LI□ES MORTALITY

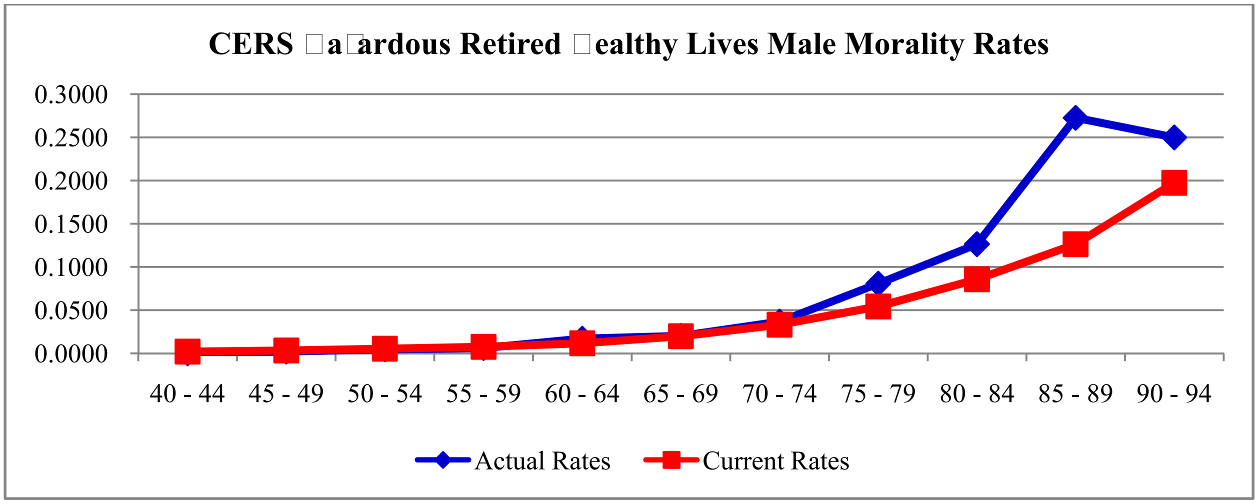
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DEAT□S

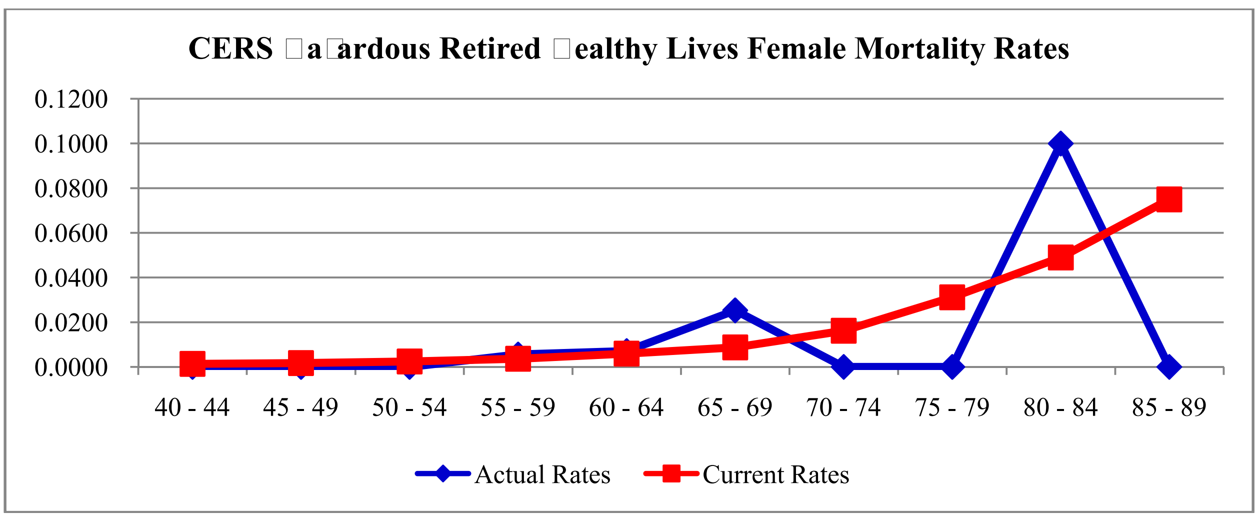
Age Group	Retired Healthy Lives Morality Experience CERS Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.01	0.00
40 - 44	0	0.73	0.00
45 - 49	2	3.28	0.61
50 - 54	10	11.42	0.88
55 - 59	17	21.31	0.80
60 - 64	34	23.13	1.47
65 - 69	26	25.50	1.02
70 - 74	25	22.52	1.11
75 - 79	24	16.10	1.49
80 -84	11	7.47	1.47
85 - 89	3	1.39	2.16
90 - 94	1	0.79	1.27
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	153	133.65	1.14

Age Group	Retired Healthy Lives Morality Experience CERS Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.04	0.00
45 - 49	0	0.19	0.00
50 - 54	0	0.40	0.00
55 - 59	1	0.66	1.52
60 - 64	1	0.84	1.19
65 - 69	2	0.69	2.90
70 - 74	0	0.76	0.00
75 - 79	0	0.81	0.00
80 -84	1	0.49	2.04
85 - 89	0	0.15	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	5	5.03	0.99

CERS □A□ARDOUS
POST-RETIREMENT MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement mortalities.





The currently assumed rates of post-retirement mortality for both males and females do not need to be revised.

CERS NON-□A□ARDOUS
POST-RETIREMENT DISA□LED LI□ES MORTALITY

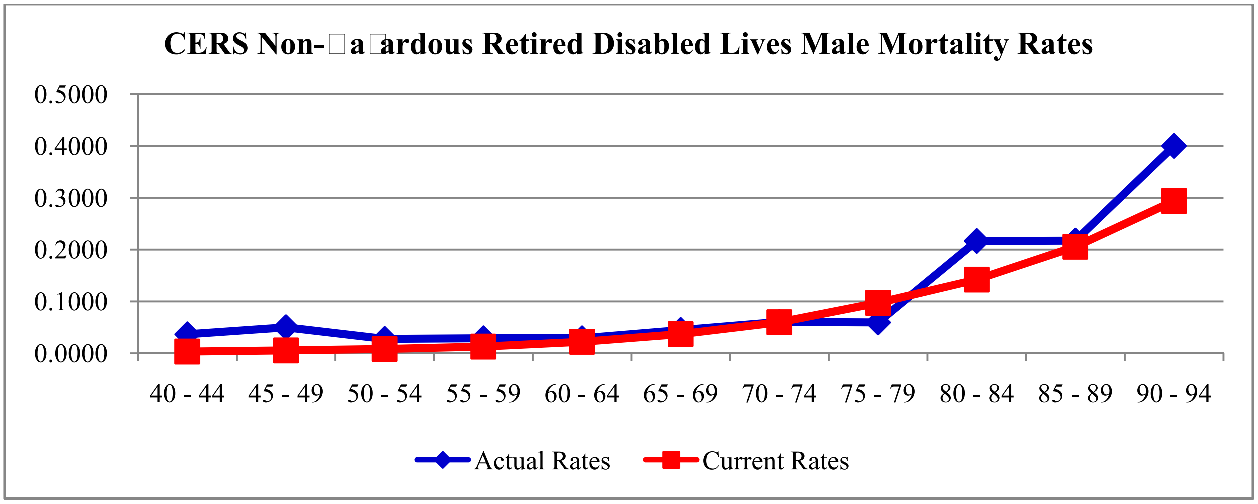
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DISA□LED DEAT□S

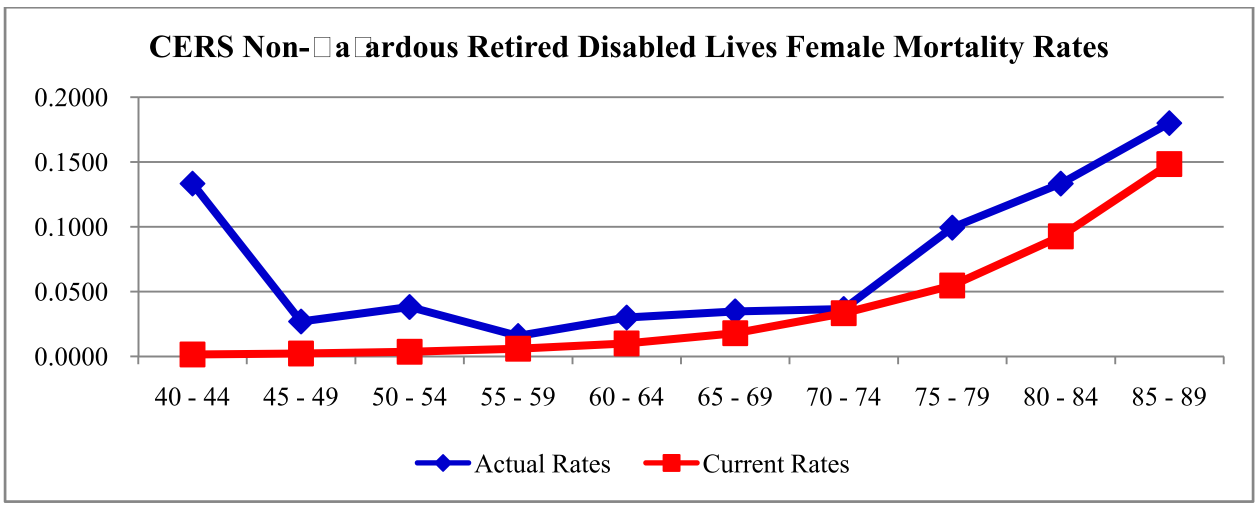
Age Group	Retired Disabled Lives Morality Experience CERS Non-Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	3	0.06	50.00
40 - 44	4	0.36	11.11
45 - 49	14	1.51	9.27
50 - 54	13	3.81	3.41
55 - 59	22	9.66	2.28
60 - 64	24	18.25	1.32
65 - 69	33	27.08	1.22
70 - 74	30	29.58	1.01
75 - 79	10	16.31	0.61
80 -84	13	8.53	1.52
85 - 89	5	4.73	1.06
90 - 94	2	1.47	1.36
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	173	121.35	1.43

Age Group	Retired Disabled Lives Morality Experience CERS Non-Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	2	0.02	100.00
40 - 44	8	0.09	88.89
45 - 49	6	0.50	12.00
50 - 54	17	1.62	10.49
55 - 59	15	5.67	2.65
60 - 64	32	10.63	3.01
65 - 69	39	20.10	1.94
70 - 74	19	17.28	1.10
75 - 79	15	8.26	1.82
80 -84	6	4.17	1.44
85 - 89	9	7.42	1.21
90 - 94	0	1.57	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	168	77.33	2.17

CERS NON-HAZARDOUS
POST-RETIREMENT DISABLED LIVES MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement disabled mortalities.





The currently assumed rates of post-retirement disabled mortality for both males and females do not need to be revised.

CERS □A□ARDOUS
POST-RETIREMENT DISA□LED LI□ES MORTALITY

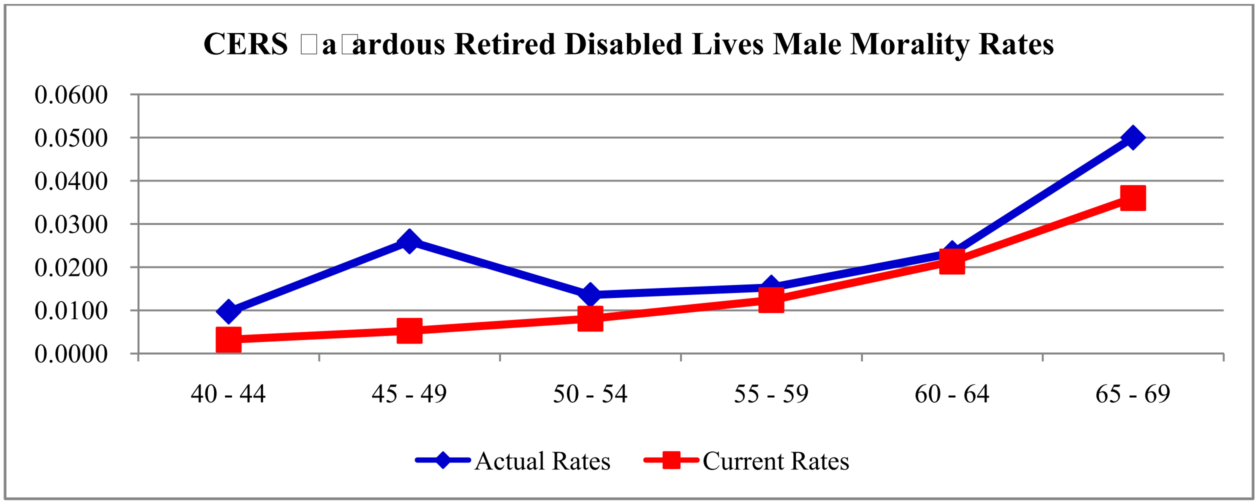
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DISA□LED DEAT□S

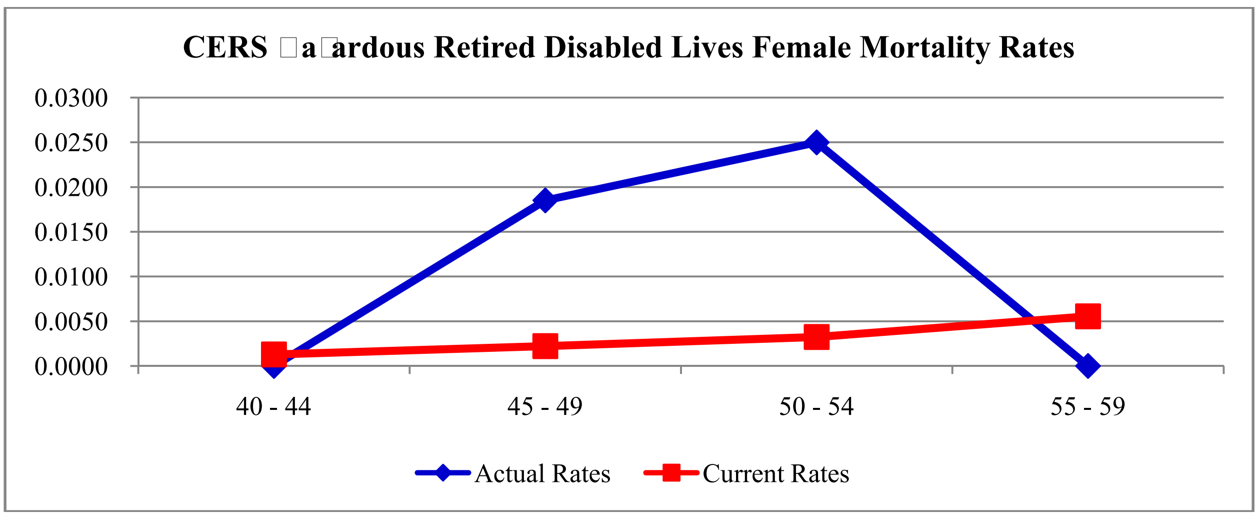
Age Group	Retired Disabled Lives Morality Experience CERS Hazardous Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	1	0.10	10.00
40 - 44	1	0.33	3.03
45 - 49	4	0.81	4.94
50 - 54	3	1.78	1.69
55 - 59	3	2.42	1.24
60 - 64	2	1.83	1.09
65 - 69	1	0.72	1.39
70 - 74	0	1.46	0.00
75 - 79	0	0.65	0.00
80 -84	0	0.41	0.00
85 - 89	0	0.00	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	15	10.51	1.43

Age Group	Retired Disabled Lives Morality Experience CERS Hazardous Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	1	0.01	100.00
40 - 44	0	0.04	0.00
45 - 49	1	0.12	8.33
50 - 54	1	0.13	7.69
55 - 59	0	0.05	0.00
60 - 64	0	0.13	0.00
65 - 69	0	0.06	0.00
70 - 74	0	0.00	0.00
75 - 79	0	0.00	0.00
80 -84	0	0.00	0.00
85 - 89	0	0.00	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	3	0.54	5.56

CERS □A□ARDOUS
POST-RETIREMENT DISA□LED LI□ES MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement disabled mortalities.



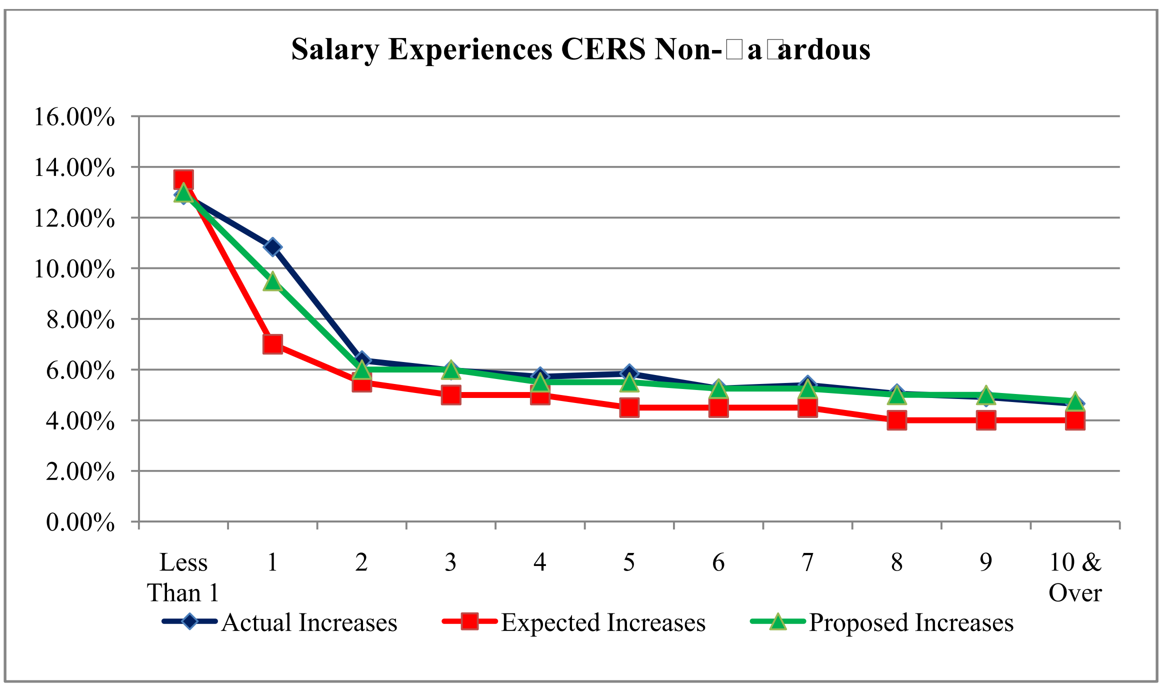


The currently assumed rates of post-retirement disabled mortality for both males and females do not need to be revised.

CERS NON-HAZARDOUS
SALARY GROWTH

COMPARISON OF ACTUAL AND EXPECTED SALARIES OF ACTIVE MEMBERS

Years of Service	Salaries at End of Year ($1,000)		
	CERS Non-Hazardous Members		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	193,403	194,427	0.995
1	395,482	381,785	1.036
2	362,558	359,625	1.008
3	338,201	335,085	1.009
4	346,679	344,311	1.007
5	332,663	328,450	1.013
6	345,462	343,000	1.007
7	334,755	331,918	1.009
8	303,613	300,575	1.010
9	251,154	248,961	1.009
10 □	2,371,083	2,356,301	1.006
TOTAL	5,575,053	5,524,438	1.010



CERS NON-HAZARDOUS
SALARY GROWTH

The actual rates of salary increase appear to be consistently above the assumed rates. Therefore, we recommend changing the current salary increase assumption slightly for this group. The changes include the recommended change in wage inflation discussed in a previous section of the report.

COMPARISON OF ACTUAL AND PROPOSED RATES OF SALARY INCREASES OF ACTIVE MEMBERS

	Salary Experience CERS Non-Hazardous Members	
Service	Current Rates	Proposed Rates
Less Than 1	13.50%	13.00%
1	7.00%	9.50%
2	5.50%	6.00%
3	5.00%	6.00%
4	5.00%	5.50%
5	4.50%	5.50%
6	4.50%	5.25%
7	4.50%	5.25%
8	4.00%	5.00%
9	4.00%	5.00%
10 and Over	4.00%	4.75%

CERS NON-HAZARDOUS

COMPARISON OF ACTUAL AND PROPOSED SALARIES OF ACTIVE MEMBERS

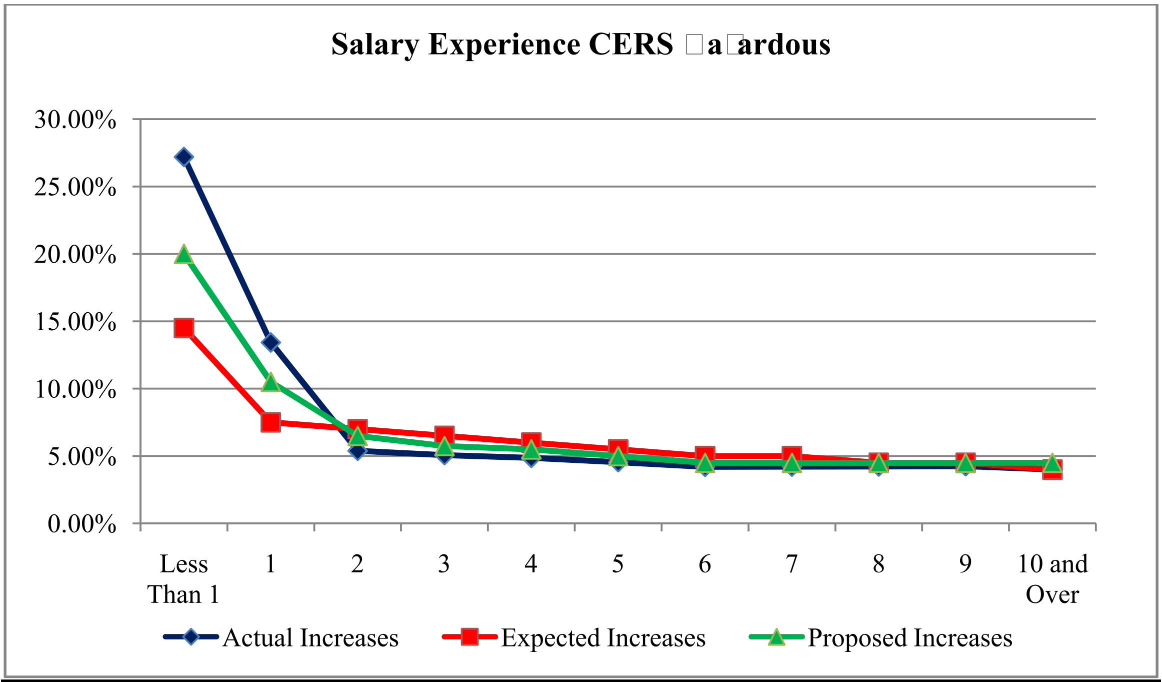
Years of Service	Salaries at End of Year ($1,000)		
	CERS Non-Hazardous Members		
	Actual	Proposed	Ratio Actual/Expected
Less Than 1	193,403	193,570	0.999
1	395,482	390,706	1.012
2	362,558	361,330	1.003
3	338,201	338,277	1.000
4	346,679	345,951	1.002
5	332,663	331,593	1.003
6	345,462	345,462	1.000
7	334,755	334,300	1.001
8	303,613	303,465	1.000
9	251,154	251,355	0.999
10+	2,371,083	2,373,294	0.999
TOTAL	5,575,053	5,569,302	1.000

CERS □A□ARDOUS
SALARY GRO□ T□

COMPARISON OF ACTUAL AND E□PECTED SALARIES OF ACTI□E MEM□ERS

□ears of Service	Salaries at End of □ear ($1,000)		
	CERS Hazardous Members		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	38,512	34,669	1.111
1	80,301	76,103	1.055
2	80,053	81,274	0.985
3	72,983	73,976	0.987
4	73,357	74,148	0.989
5	80,841	81,579	0.991
6	79,891	80,502	0.992
7	80,878	81,488	0.993
8	68,529	68,709	0.997
9	60,305	60,451	0.998
10 □	521,788	521,777	1.000
TOTAL	1,237,438	1,234,676	1.000

CERS □A□ARDOUS
SALARY GRO□ T□



The actual rates of salary increase vary from the assumed rates. Therefore, we recommend changing the current salary increase assumption slightly for this group. The changes include the recommended change in wage inflation discussed in a previous section of the report. The changes include the recommended change in wage inflation discussed in a previous section of the report.

CERS HAZARDOUS
SALARY GROWTH

COMPARISON OF ACTUAL AND PROPOSED RATES OF SALARY INCREASES OF ACTIVE MEMBERS

Service	Salary Experience CERS Hazardous Members	
	Current Rates	Proposed Rates
Less Than 1	14.50%	20.00%
1	7.50%	10.50%
2	7.00%	6.50%
3	6.50%	5.75%
4	6.00%	5.50%
5	5.50%	5.00%
6	5.00%	4.50%
7	5.00%	4.50%
8	4.50%	4.50%
9	4.50%	4.50%
10 and Over	4.00%	4.50%

COMPARISON OF ACTUAL AND PROPOSED SALARIES OF ACTIVE MEMBERS

Years of Service	Salaries at End of Year ($1,000)		
	CERS Hazardous Members		
	Actual	Proposed	Ratio Actual/Expected
Less Than 1	38,512	36,335	1.060
1	80,301	78,227	1.027
2	80,053	80,894	0.990
3	72,983	73,455	0.994
4	73,357	73,798	0.994
5	80,841	81,192	0.996
6	79,891	80,118	0.997
7	80,878	81,100	0.997
8	68,529	68,709	0.997
9	60,305	60,451	0.998
10 □	521,788	524,286	0.995
TOTAL	1,237,438	1,238,565	1.000

CERS SUMMARY AND COST OF CHANGES

As a result of the experience investigation, we recommend revised rates of withdrawal, disability, pre-retirement mortality, service retirement and salary increases for active state employees. When these proposed assumption changes are applied to the June 30, 2008 valuation, the results will change. The change in results represents the financial impact of adopting the proposed assumptions. The table below summarizes this financial impact. The financial impact is negligible in this case.

Pension

	CERS Non-Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates:				
Normal Cost Rate	3.85%	3.11%	4.62%	3.82%
Expenses	0.61	0.61	0.61	0.61
UAAL	4.16	4.10	3.88	3.83
Total Employer Rate	8.62%	7.82%	9.11%	8.26%
Actuarial accrued liability	$7,304,217,691	$7,281,934,155	$7,371,974,192	$7,351,300,026
Actuarial value of assets	$5,731,502,438	$5,731,502,438	$5,731,502,438	$5,731,502,438
UAAL	$1,572,715,253	$1,550,431,717	$1,640,471,754	$1,619,797,588

	CERS Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates:				
Normal Cost Rate	7.99%	6.96%	8.45%	7.42%
Expenses	0.24	0.24	0.24	0.24
UAAL	7.88	7.65	7.21	7.00
Total Employer Rate	16.11%	14.85%	15.90%	14.66%
Actuarial accrued liability	$2,403,122,095	$2,384,101,813	$2,417,763,061	$2,398,970,282
Actuarial value of assets	$1,750,867,373	$1,750,867,373	$1,750,867,373	$1,750,867,373
UAAL	$652,254,722	$633,234,440	$666,895,688	$648,102,909

CERS SUMMARY AND COST OF CHANGES

Insurance

	CERS Non-Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates				
Normal Cost Rate	5.75%	5.56%	6.32%	6.21%
Expenses	0.16	0.16	0.16	0.16
UAAL	6.38	6.49	4.90	5.01
Total Employer Rate	12.29%	12.21%	11.38%	11.38%
Actuarial accrued liability	$ 3,583,193,466	$ 3,623,227,441	$ 3,240,113,106	$ 3,286,518,237
Actuarial value of assets	$ 1,168,883,170	$ 1,168,883,170	$ 1,168,883,170	$ 1,168,883,170
UAAL	$ 2,414,310,296	$ 2,454,344,271	$ 2,071,229,936	$ 2,117,635,067

	CERS Hazardous			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates				
Normal Cost Rate	13.21%	12.40%	14.61%	13.81%
Expenses	0.08	0.08	0.08	0.08
UAAL	13.96	13.63	10.87	10.66
Total Employer Rate	27.25%	26.11%	25.56%	24.55%
Actuarial accrued liability	$ 1,769,782,957	$ 1,742,561,579	$ 1,619,332,231	$ 1,599,833,474
Actuarial value of assets	$ 613,526,319	$ 613,526,319	$ 613,526,319	$ 613,526,319
UAAL	$ 1,156,256,638	$ 1,129,035,260	$ 1,005,805,912	$ 986,307,155

STATE POLICE
□ IT□DRA□ ALS E□PERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

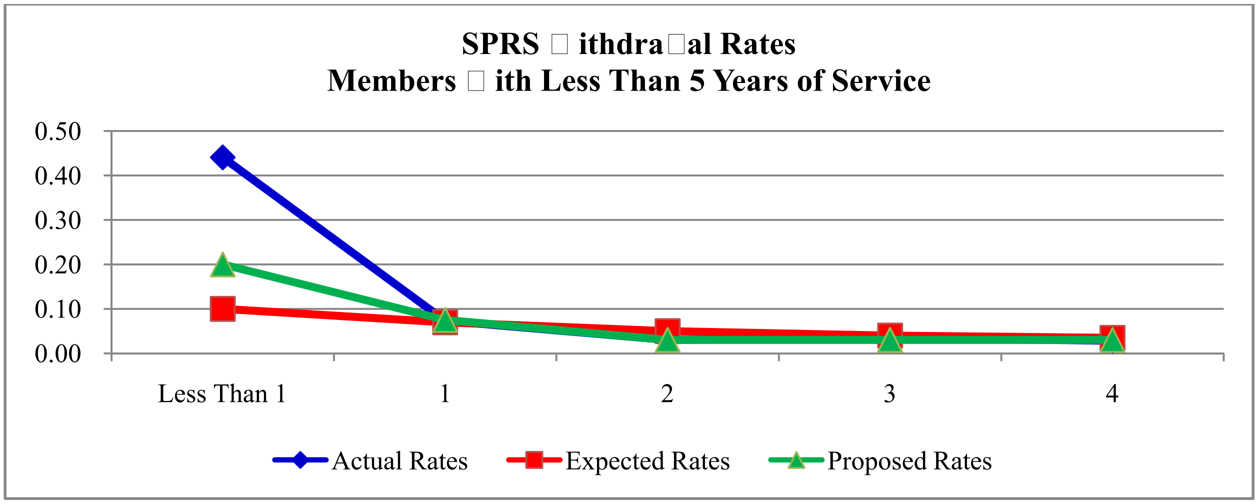
□ear of Service	Withdrawal SPRS Members Males and Females		
	Actual	Expected	Ratio Actual/Expected
Less Than 1	41	9.30	4.41
1	11	10.50	1.05
2	5	8.25	0.61
3	5	5.72	0.87
4	4	4.94	0.81
TOTAL	66	38.71	1.70

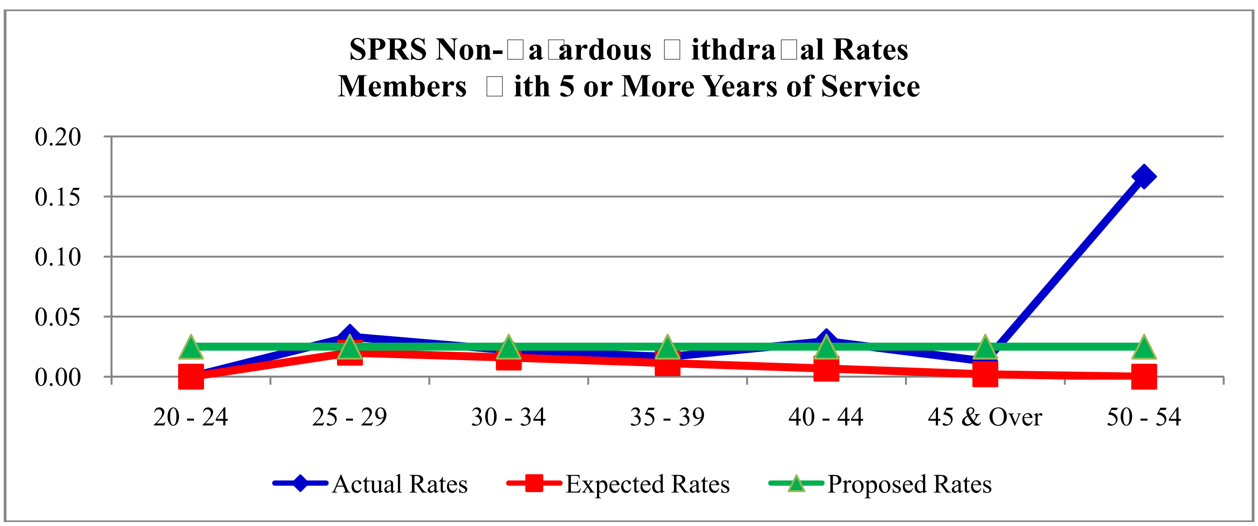
COMPARISON OF ACTUAL AND E□PECTED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age Group	Withdrawal SPRS Members Males and Females		
	Actual	Expected	Ratio Actual/Expected
Under 20	1	0.03	33.3333
20 - 24	0	0.00	0.0000
25 - 29	4	2.39	1.6736
30 - 34	11	7.93	1.3871
35 - 39	11	7.51	1.4647
40 - 44	9	2.04	4.4118
45 & Over	2	0.16	12.5000
TOTAL	38	20.06	1.8943

STATE POLICE
RATES OF □ IT□DRA□ AL

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The rates of withdrawal adopted by the Board are used to determine the expected number of separations from active service that will occur as a result of resignation or dismissal. The graphs above show a significant difference between the expected and actual withdrawal rates for all the service breakpoints.

We recommend that the rates of withdrawal be revised at this time to more closely reflect the experience of the System. The proposed rates provide a closer fit to the actual rates of withdrawal than the currently assumed rates.

STATE POLICE
CURRENT □S□PROPOSED RATES OF □ IT□DRA□ AL

COMPARISON OF ACTUAL AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ear of Service	Withdrawal SPRS Members Males and Females Withdrawal Rates Current	 Proposed
Less Than 1	0.1000	0.2000
1	0.0700	0.0750
2	0.0500	0.0300
3	0.0400	0.0300
4	0.0350	0.0300

COMPARISON OF ACTUAL AND PROPOSED RATES OF □ IT□DRA□ AL FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age	Withdrawal SPRS Members Males and Females Withdrawal Rates Current	 Proposed
20	0.0250	0.0250
25	0.0228	0.0250
30	0.0183	0.0250
35	0.0131	0.0250
40	0.0081	0.0250
45	0.0041	0.0250

STATE POLICE
□ IT□DRA□ AL E□PERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ LESS T□AN 5 YEARS OF SER□ICE

□ear of Service	Withdrawal SPRS Members Males and Females Actual	Proposed	Ratio Actual/Expected
Less Than 1	41	18.60	2.20
1	11	11.25	0.98
2	5	4.95	1.01
3	5	4.29	1.17
4	4	4.23	0.95
TOTAL	66	43.32	1.52

COMPARISON OF ACTUAL AND PROPOSED □ IT□DRA□ ALS FROM ACTI□E SER□ICE FOR MEM□ERS □ IT□ 5 OR MORE YEARS OF SER□ICE

Age Group	Withdrawal SPRS Members Males and Females Actual	Proposed	Ratio Actual/Expected
Under 20	1	0.00	0.0000
20 - 24	0	0.00	0.0000
25 - 29	4	3.00	1.3333
30 - 34	11	12.45	0.8835
35 - 39	11	16.65	0.6607
40 - 44	9	7.60	1.1842
45 & Over	2	2.10	0.9524
TOTAL	38	41.80	0.9091

STATE POLICE
PRE-RETIREMENT MORTALITY

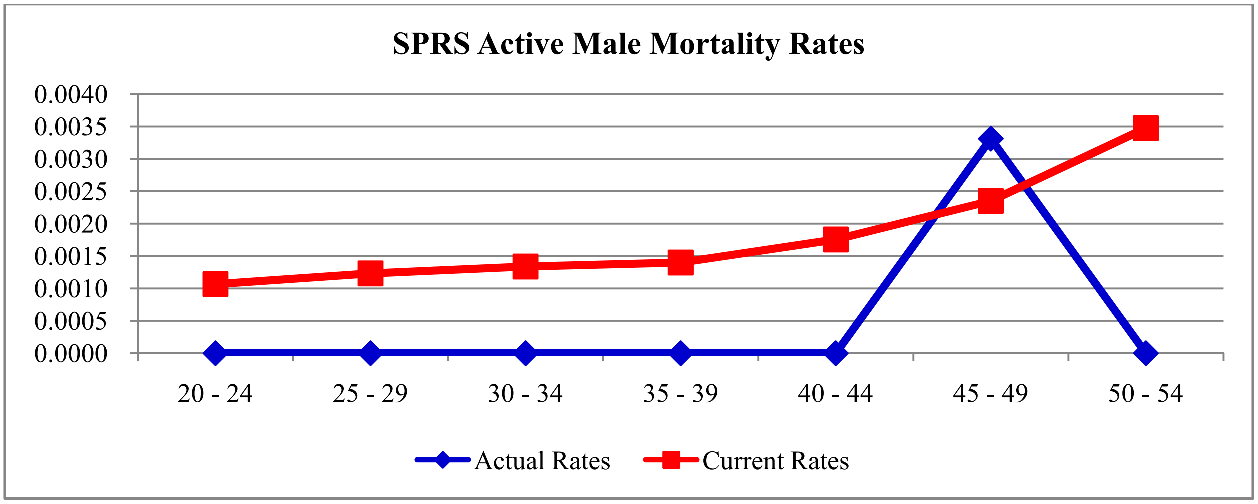
COMPARISON OF ACTUAL AND E□PECTED PRE-RETIREMENT DEAT□S

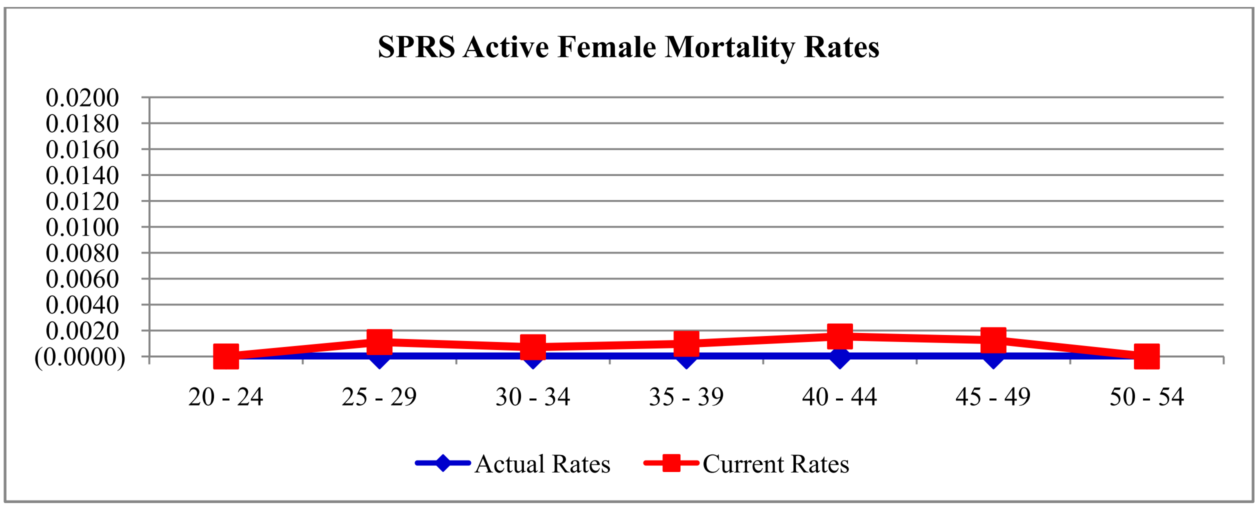
Age Group	Active Mortality Experience SPRS Members — Males		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.01	0.00
20 - 24	0	0.08	0.00
25 - 29	0	0.55	0.00
30 - 34	0	0.85	0.00
35 - 39	0	1.02	0.00
40 - 44	0	0.86	0.00
45 - 49	1	0.71	1.41
50 - 54	0	0.41	0.00
55 - 59	0	0.00	0.00
60 - 64	0	0.00	0.00
65 & Over	0	0.00	0.00
TOTAL	1	4.49	0.22

Age Group	Active Mortality Experience SPRS Members — Females		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.00	0.00
25 - 29	0	0.01	0.00
30 - 34	0	0.02	0.00
35 - 39	0	0.04	0.00
40 - 44	0	0.02	0.00
45 - 49	0	0.01	0.00
50 - 54	0	0.00	0.00
55 - 59	0	0.00	0.00
60 - 64	0	0.00	0.00
65 & Over	0	0.00	0.00
TOTAL	0	0.10	0.00

STATE POLICE
PRE-RETIREMENT MORTALITY

The following graphs compare the present, actual, and proposed rates of withdrawal for each of the service categories.





The currently assumed rates of mortality in active service for both males and females can be adjusted to more closely fit actual experience.

STATE POLICE
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND E□PECTED RATES OF PRE-RETIREMENT DEAT□S

Age	Active Mortality Rates SPRS Members — Males	
	Current	Proposed
20	0.0005	0.0003
25	0.0007	0.0004
30	0.0008	0.0004
35	0.0009	0.0005
40	0.0011	0.0006
45	0.0016	0.0008
50	0.0026	0.0013
55	0.0044	0.0022
60	0.0080	0.0040

Age	Active Mortality Rates SPRS Members — Females	
	Current	Proposed
20	0.0003	0.0002
25	0.0003	0.0002
30	0.0004	0.0002
35	0.0005	0.0003
40	0.0007	0.0004
45	0.0010	0.0005
50	0.0014	0.0007
55	0.0023	0.0012
60	0.0044	0.0022

STATE POLICE
PRE-RETIREMENT MORTALITY

COMPARISON OF ACTUAL AND PROPOSED PRE-RETIREMENT DEAT□S

Age Group	Active Mortality Experience SPRS Members		
	Males		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.01	0.00
20 - 24	0	0.04	0.00
25 - 29	0	0.28	0.00
30 - 34	0	0.43	0.00
35 - 39	0	0.51	0.00
40 - 44	0	0.43	0.00
45 - 49	1	0.36	2.82
50 - 54	0	0.21	0.00
55 - 59	0	0.00	0.00
60 - 64	0	0.00	0.00
65 & Over	0	0.00	0.00
TOTAL	1	2.25	0.45

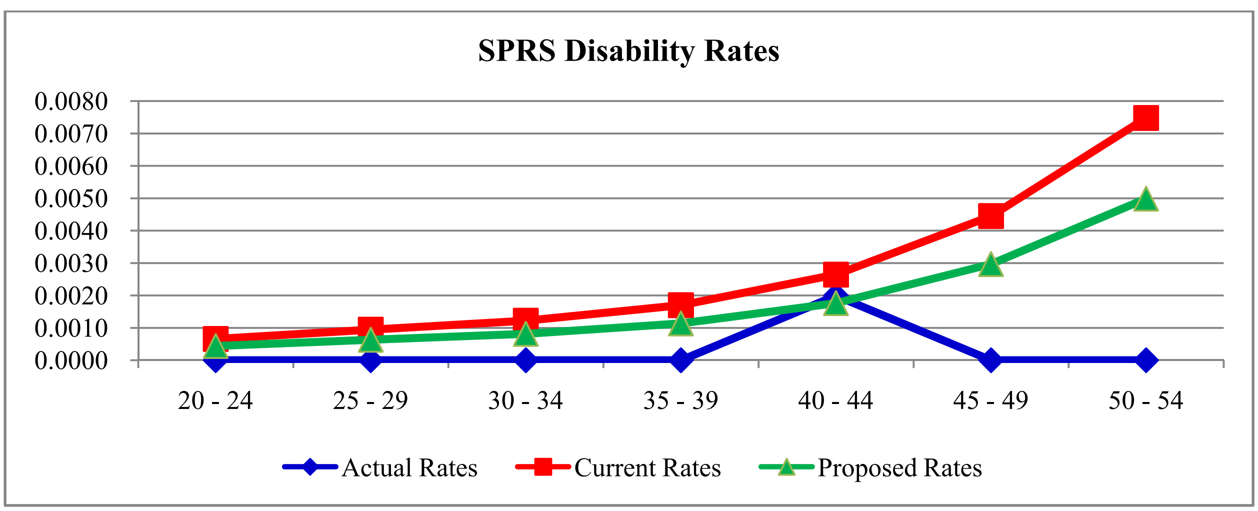
Age Group	Active Mortality Experience SPRS Members		
	Females		
	Actual	Proposed	Ratio Actual/Proposed
Under 20	0	0.00	0.00
20 - 24	0	0.00	0.00
25 - 29	0	0.01	0.00
30 - 34	0	0.01	0.00
35 - 39	0	0.02	0.00
40 - 44	0	0.01	0.00
45 - 49	0	0.01	0.00
50 - 54	0	0.00	0.00
55 - 59	0	0.00	0.00
60 - 64	0	0.00	0.00
65 & Over	0	0.00	0.00
TOTAL	0	0.05	0.00

STATE POLICE
DISA□ILITY RETIREMENT

COMPARISON OF ACTUAL AND E□PECTED DISA□ILITY RETIREMENTS

Age Group	Disability Experience SPRS Members		
	Total		
	Actual	Expected	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.05	0.00
25 - 29	0	0.43	0.00
30 - 34	0	0.81	0.00
35 - 39	0	1.31	0.00
40 - 44	1	1.33	0.75
45 - 49	0	1.38	0.00
50 & Over	0	0.89	0.00
TOTAL	1	6.20	0.16

The following graphs show a comparison of the present, actual, and proposed disability retirement rates.



The assumed rates of disability retirements can be ad□usted to better fit the recent experience for both males and females. The proposed rates of disability retirement are compared with the currently assumed and actual rates.

STATE POLICE
DISA□ILITY RETIREMENT

COMPARISON OF ACTUAL AND PROPOSED RATES OF DISA□ILITY RETIREMENTS

Age	Disability Experience SPRS Members Total – Current	Disability Experience SPRS Members Total – Proposed
20	0.0007	0.0005
25	0.0009	0.0007
30	0.0012	0.0009
35	0.0017	0.0013
40	0.0027	0.0020
45	0.0044	0.0033
50	0.0075	0.0056

COMPARISON OF ACTUAL AND PROPOSED DISA□ILITY RETIREMENTS

Age Group	Disability Experience SPRS Members Total – Actual	Proposed	Ratio Actual/Expected
Under 20	0	0.00	0.00
20 - 24	0	0.04	0.00
25 - 29	0	0.32	0.00
30 - 34	0	0.61	0.00
35 - 39	0	0.98	0.00
40 - 44	1	1.00	1.00
45 - 49	0	1.04	0.00
50 - 54	0	0.67	0.00
TOTAL	1	4.65	0.22

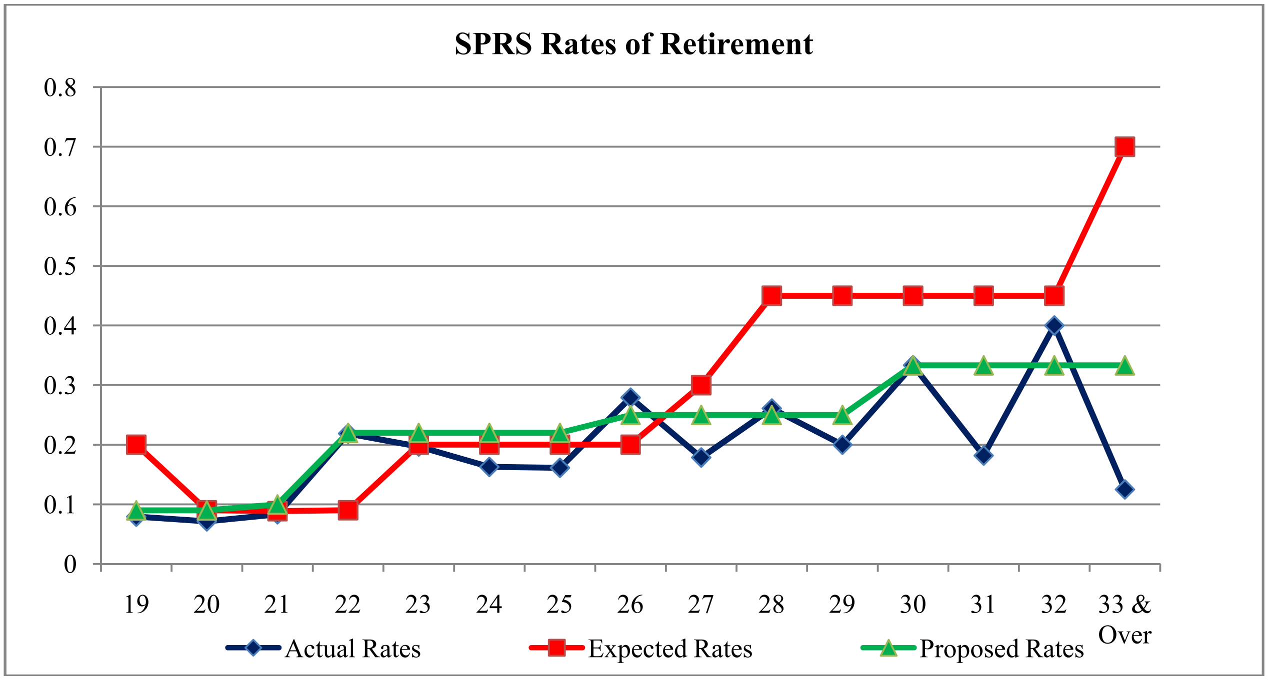
STATE POLICE
RETIREMENT E□PERIENCE UNDER CURRENT ASSUMPTIONS

COMPARISON OF ACTUAL AND E□PECTED RETIREMENTS

	Retirement Experience SPRS Members Males and Females		
			Ratio
Service	Actual	Expected	Actual/Expected
19	5	12.60	0.40
20	5	6.30	0.79
21	5	5.31	0.94
22	14	5.76	2.43
23	13	13.20	0.98
24	7	8.60	0.81
25	5	6.20	0.81
26	12	8.60	1.40
27	5	8.40	0.60
28	6	10.35	0.58
29	2	4.50	0.44
30	4	5.40	0.74
31	2	4.95	0.40
32	2	2.25	0.89
33 & Over	1	5.60	0.18
TOTAL	88	108.02	0.81

STATE POLICE
RETIREMENT E PERIENCE

The following graphs show a comparison of the present, actual, and proposed rates of service retirements.



The preceding table and graph indicate that the actual rates of retirement for members were significantly different than expected. The proposed rates provide for a closer fit to the actual rates of service retirements.

STATE POLICE
RETIREMENT E□PERIENCE UNDER PROPOSED ASSUMPTIONS

COMPARISON OF ACTUAL AND PROPOSED RATES OF RETIREMENT

Service	Retirement Rates SPRS Members Males and Females	
	Current	Proposed
19	0.2000	0.0900
20	0.0900	0.0900
21	0.0900	0.1000
22	0.0900	0.2200
23	0.2000	0.2200
24	0.2000	0.2200
25	0.2000	0.2200
26	0.2000	0.2500
27	0.3000	0.2500
28	0.4500	0.2500
29	0.4500	0.2500
30	0.4500	0.3333
31	0.4500	0.3333
32	0.4500	0.3333
33 & Over	0.7000	0.3333

COMPARISON OF ACTUAL AND PROPOSED RETIREMENTS

Service	Retirement Experience SPRS Members Males and Females		
	Actual	Proposed	Ratio Actual/Proposed
19	5	5.67	0.88
20	5	6.30	0.79
21	5	5.90	0.85
22	14	14.08	0.99
23	13	14.52	0.90
24	7	9.46	0.74
25	5	6.82	0.73
26	12	10.75	1.12
27	5	7.00	0.71
28	6	5.75	1.04
29	2	2.50	0.80
30	4	4.00	1.00
31	2	3.67	0.54
32	2	1.67	1.20
33 & Over	1	2.99	0.33
TOTAL	88	101.08	0.87

STATE POLICE
POST-RETIREMENT MORTALITY

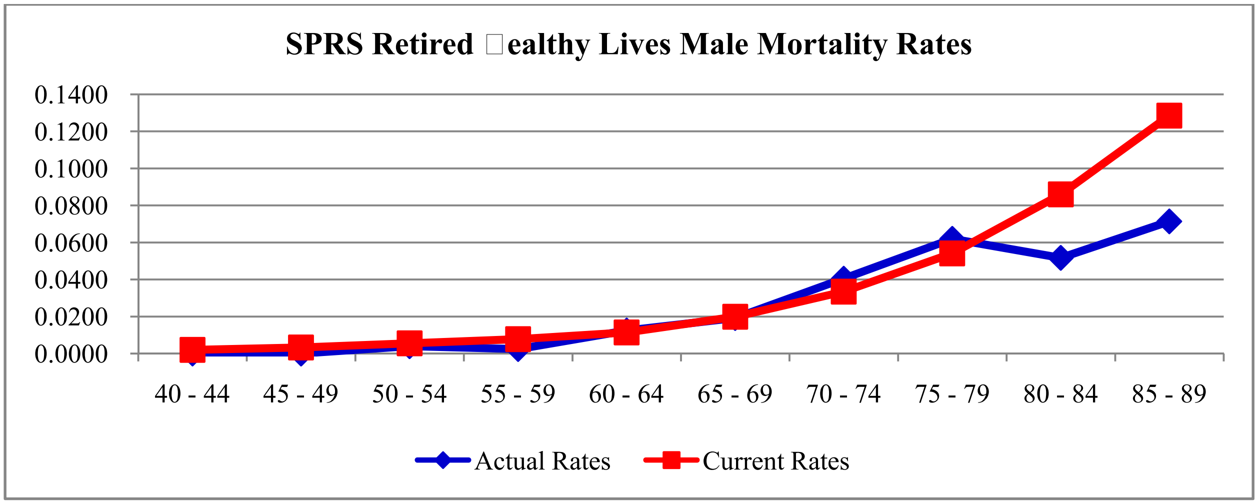
COMPARISON OF ACTUAL AND E□PECTED CASES OF POST-RETIREMENT DEAT□S

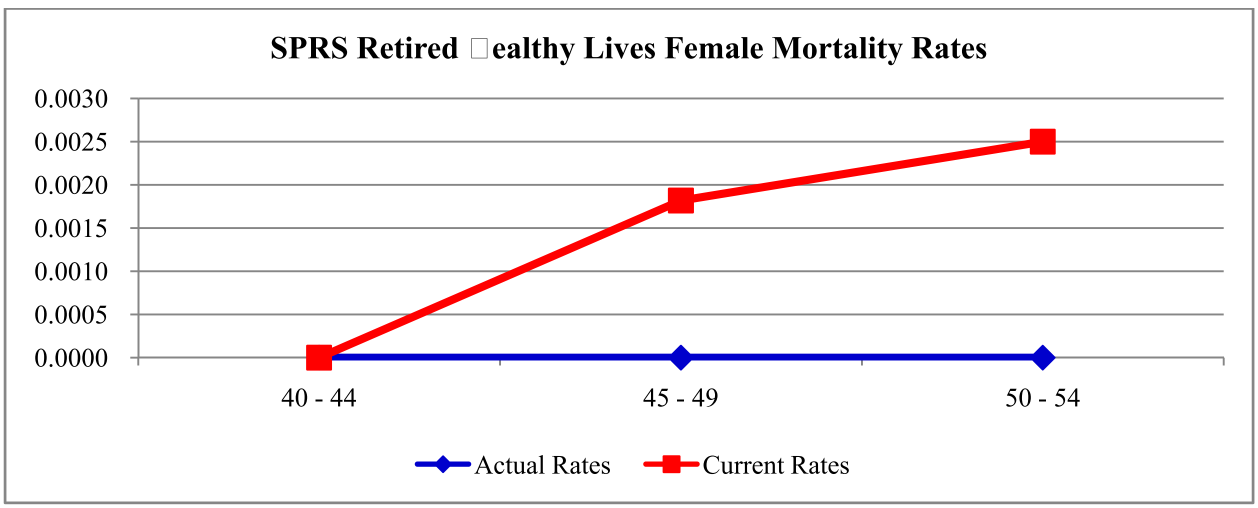
Age Group	Retired Healthy Lives Morality Experience SPRS Members		
	Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.01	0.00
40 - 44	0	0.10	0.00
45 - 49	0	0.49	0.00
50 - 54	2	2.76	0.72
55 - 59	2	6.33	0.32
60 - 64	6	5.49	1.09
65 - 69	6	6.19	0.97
70 - 74	7	5.79	1.21
75 - 79	8	6.98	1.15
80 -84	3	4.99	0.60
85 - 89	1	1.80	0.56
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	35	40.93	0.86

Age Group	Retired Healthy Lives Morality Experience SPRS Members		
	Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.00	0.00
45 - 49	0	0.02	0.00
50 - 54	0	0.02	0.00
55 - 59	0	0.00	0.00
60 - 64	0	0.00	0.00
65 - 69	0	0.00	0.00
70 - 74	0	0.00	0.00
75 - 79	0	0.00	0.00
80 -84	0	0.00	0.00
85 - 89	0	0.00	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	0	0.04	0.00

STATE POLICE
POST-RETIREMENT MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement mortalities.





The currently assumed rates of post-retirement mortality for both males and females do not need to be revised.

STATE POLICE
POST-RETIREMENT DISABLED LIVES MORTALITY

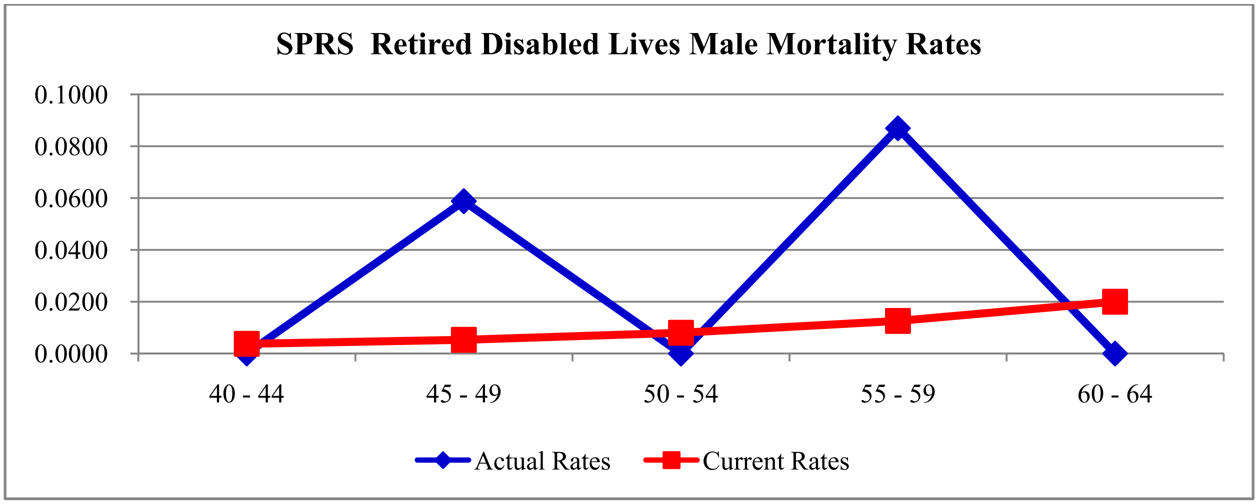
COMPARISON OF ACTUAL AND EXPECTED CASES OF POST-RETIREMENT DISABLED DEATHS

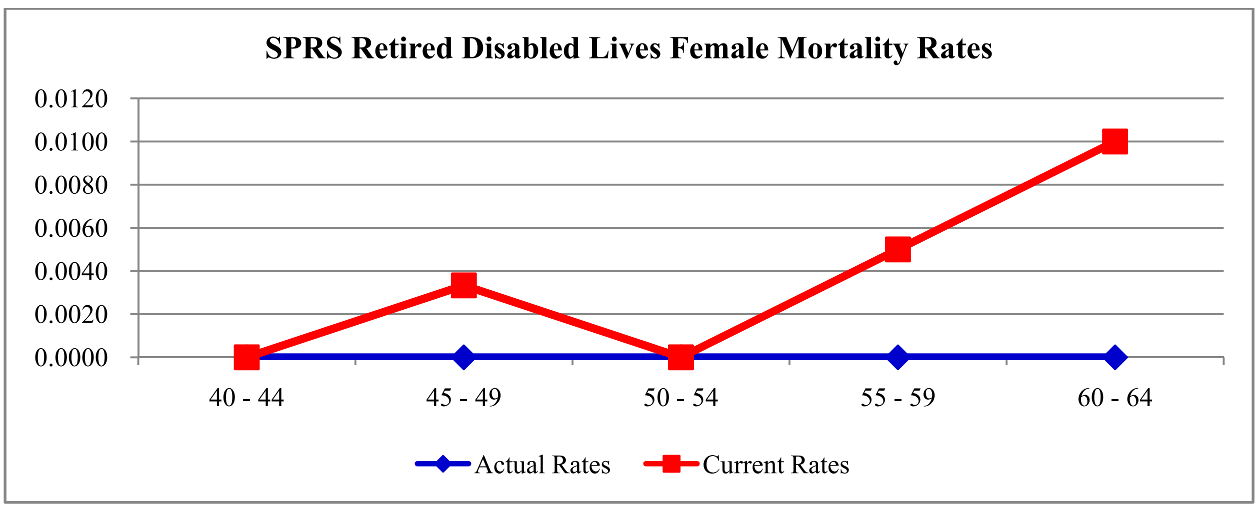
Age Group	Retired Disabled Lives Morality Experience SPRS Members – Males		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.03	0.00
45 - 49	1	0.09	11.11
50 - 54	0	0.16	0.00
55 - 59	2	0.29	6.90
60 - 64	0	0.28	0.00
65 - 69	0	0.29	0.00
70 - 74	0	0.61	0.00
75 - 79	0	0.08	0.00
80 -84	0	0.00	0.00
85 - 89	0	0.00	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	3	1.83	1.64

Age Group	Retired Disabled Lives Morality Experience SPRS Members – Females		
	Actual	Expected	Ratio Actual/Expected
Under 40	0	0.00	0.00
40 - 44	0	0.00	0.00
45 - 49	0	0.01	0.00
50 - 54	0	0.00	0.00
55 - 59	0	0.01	0.00
60 - 64	0	0.01	0.00
65 - 69	0	0.00	0.00
70 - 74	0	0.00	0.00
75 - 79	0	0.00	0.00
80 -84	0	0.00	0.00
85 - 89	0	0.00	0.00
90 - 94	0	0.00	0.00
95 - 99	0	0.00	0.00
100 & Over	0	0.00	0.00
TOTAL	0	0.03	0.00

STATE POLICE
POST-RETIREMENT DISA□LED LI□ES MORTALITY

The following graphs show a comparison of the present, actual, and proposed rates of post-retirement disabled mortalities.



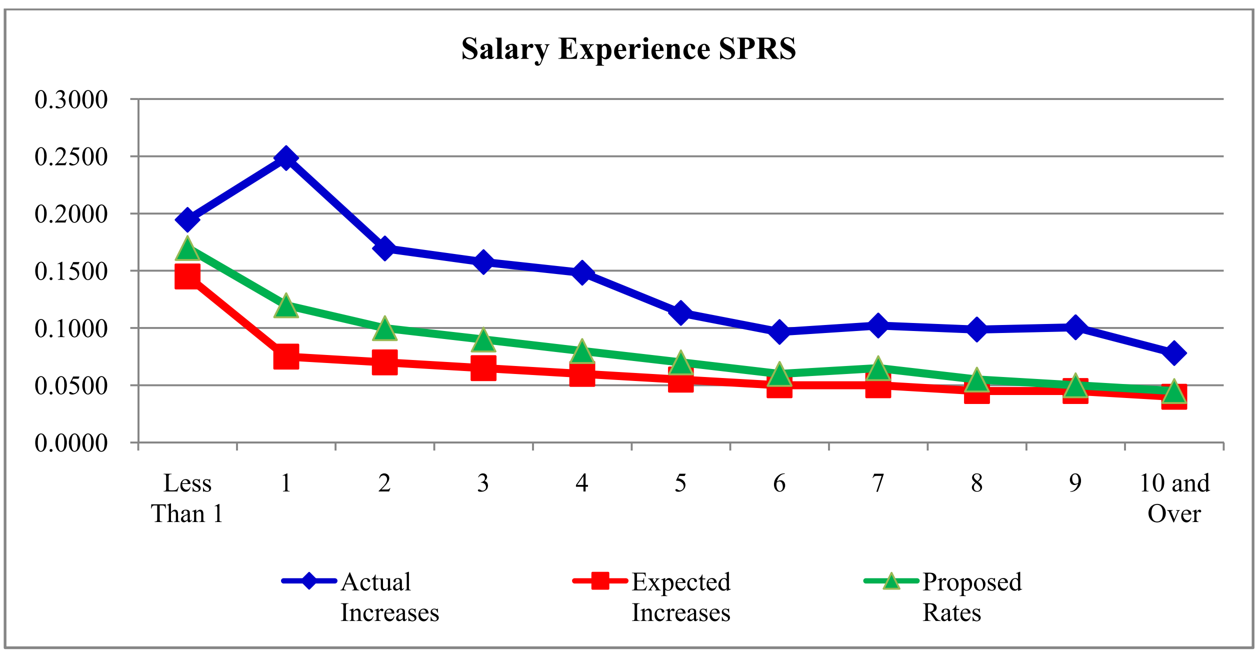


The currently assumed rates of post-retirement disabled mortality for both males and females do not need to be revised.

STATE POLICE
SALARY GRO□ T□

COMPARISON OF ACTUAL AND E□PECTED SALARIES OF ACTI□E MEM□ERS

	Salaries at End of □ear ($1,000)		
	SPRS Members		
			Ratio
□ears of Service	Actual	Expected	Actual/Expected
Less Than 1	428,736	410,963	1.043
1	5,338,476	4,596,889	1.161
2	8,283,624	7,579,028	1.093
3	8,173,644	7,519,522	1.087
4	5,840,052	5,390,940	1.083
5	7,826,436	7,417,190	1.055
6	6,981,624	6,685,157	1.044
7	6,190,272	5,897,203	1.050
8	5,509,128	5,239,814	1.051
9	5,468,448	5,191,974	1.053
10 □	83,512,284	80,559,348	1.037
TOTAL	143,552,724	136,488,028	1.050



STATE POLICE
SALARY GROWTH

The actual rates of salary increase appear to be consistently above the assumed rates. Therefore, we recommend changing the current salary increase assumption slightly for this group. However, due to a onetime adjustment in pensionable earnings during the experience period we are not increasing the rates as much as raw experience would suggest we do. The changes include the recommended change in wage inflation discussed in a previous section of the report.

COMPARISON OF ACTUAL AND EXPECTED RATES OF SALARY INCREASES OF ACTIVE MEMBERS

	Salary Experience SPRS Members	
Service	Current Rates	Proposed Rates
Less Than 1	14.50%	17.00%
1	7.50%	12.00%
2	7.00%	10.00%
3	6.50%	9.00%
4	6.00%	8.00%
5	5.50%	7.00%
6	5.00%	6.00%
7	5.00%	6.50%
8	4.50%	5.50%
9	4.50%	5.00%
10 and Over	4.00%	4.50%

STATE POLICE
SALARY GROWTH

COMPARISON OF ACTUAL AND PROPOSED SALARIES OF ACTIVE MEMBERS

Years of Service	Salaries at End of Year ($1,000)		
	SPRS Members		
	Actual	Proposed	Ratio Actual/Expected
Less Than 1	428,736	419,936	1.021
1	5,338,476	4,789,317	1.115
2	8,283,624	7,791,524	1.063
3	8,173,644	7,696,037	1.062
4	5,840,052	5,492,655	1.063
5	7,826,436	7,522,648	1.040
6	6,981,624	6,748,825	1.034
7	6,190,272	5,981,449	1.035
8	5,509,128	5,289,956	1.041
9	5,468,448	5,216,816	1.048
10 +	83,512,284	80,946,653	1.032
TOTAL	143,552,724	137,895,816	1.040

SPRS SUMMARY AND COST OF CHANGES

As a result of the experience investigation, we recommend revised rates of withdrawal, disability, pre-retirement mortality, service retirement and salary increases for active state employees. When these proposed assumption changes are applied to the June 30, 2008 valuation, the results will change. The change in results represents the financial impact of adopting the proposed assumptions. The table below summarizes this financial impact. The financial impact is negligible in this case.

Pension

	State Police			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates				
Normal Cost Rate	9.57%	8.23%	11.03%	9.60%
Expenses	0.26	0.26	0.26	0.26
UAAL	25.40	25.02	22.71	22.40
Total Employer Rate	35.23%	33.51%	34.00%	32.26%
Actuarial accrued liability	$587,129,257	$583,641,440	$586,999,588	$583,725,281
Actuarial value of assets	$350,891,451	$350,891,451	$350,891,451	$350,891,451
UAAL	$236,237,806	$232,749,989	$236,108,137	$232,833,830

Insurance

	State Police			
	Valuation 6/30/2008	Demographic Assumption Changes	Economic Assumption Changes	All Assumption Changes
Employer Contribution Rates				
Normal Cost Rate	32.98%	32.29%	35.71%	35.87%
Expenses	0.20	0.20	0.20	0.20
UAAL	23.71	23.53	17.16	17.21
Total Employer Rate	56.89%	56.02%	53.07%	53.28%
Actuarial accrued liability	$445,107,468	$442,675,846	$389,047,304	$389,795,285
Actuarial value of assets	$123,961,197	$123,961,197	$123,961,197	$123,961,197
UAAL	$321,146,271	$318,714,649	$265,086,107	$265,834,088

Appendix A

Historical June CPI (U) Index

Year	CPI (U)	Year	CPI (U)
1958	28.9	1984	103.7
1959	29.1	1985	107.6
1960	29.6	1986	109.5
1961	29.8	1987	113.5
1962	30.2	1988	118.0
1963	30.6	1989	124.1
1964	31.0	1990	129.9
1965	31.6	1991	136.0
1966	32.4	1992	140.2
1967	33.3	1993	144.4
1968	34.7	1994	148.0
1969	36.6	1995	152.5
1970	38.8	1996	156.7
1971	40.6	1997	160.3
1972	41.7	1998	163.0
1973	44.2	1999	166.2
1974	49.0	2000	172.4
1975	53.6	2001	178.0
1976	56.8	2002	179.9
1977	60.7	2003	183.7
1978	65.2	2004	189.7
1979	72.3	2005	194.5
1980	82.7	2006	202.9
1981	90.6	2007	208.4
1982	97.0	2008	218.8
1983	99.5		

<u>**Appendix □**</u>

Capital Market Assumptions and Asset Allocation

Rates of Return and Standard Deviations by Asset Class

Asset Class	Return	Standard Deviation
Domestic Equity	8.45%	17.25%
International Equity	8.85%	18.10%
Emerging Market Equity	10.50%	26.00%
Private Equity	1.25%	29.75%
Real Estate	7.00%	9.25%
Core US Fixed Income	5.25%	4.50%
High Yield US Fixed Income	7.25%	11.50%
Non-US Fixed Income	5.50%	8.75%
Commodities	7.75%	19.00%
TIPS	5.00%	4.75%
Cash	3.25%	2.00%

Asset Class Correlation Coefficients

	Dom Eq	Int'l Eq	Emging Mkts Eq	Pvt Eq	Real Estate	US Core Fxd Inc	High Yield	Non-US Fxd Inc	TIPS	Comm	Cash Eqv
Dom Eq	1.0000	0.0220	0.0290	0.0330	0.0010	0.0020	0.0110	-0.0010	0.0030	-0.0010	0.0000
Int'l Eq	0.0220	1.0000	0.0330	0.0300	0.0030	0.0000	0.0100	0.0050	0.0100	-0.0010	0.0000
Emerging Mkts Eq	0.0290	0.0330	1.0000	0.0350	0.0010	0.0000	0.0140	0.0000	0.0140	-0.0010	0.0000
Private Eq	0.0330	0.0300	0.0350	1.0000	0.0050	-0.0010	0.0110	-0.0050	0.0000	-0.0050	0.0000
Real Estate	0.0010	0.0030	0.0010	0.0050	1.0000	-0.0010	-0.0010	-0.0010	0.0020	0.0000	0.0010
US Core Fxd Inc	0.0020	0.0000	0.0000	-0.0010	-0.0010	1.0000	0.0010	0.0020	0.0000	0.0020	0.0000
High Yield Fxd Inc	0.0110	0.0100	0.0140	0.0110	-0.0010	0.0010	1.0000	0.0000	0.0030	0.0000	0.0000
Non-US Fxd Inc	-0.0010	0.0050	0.0000	-0.0050	-0.0010	0.0020	0.0000	1.0000	0.0030	0.0020	0.0000
TIPS	0.0030	0.0100	0.0140	0.0000	0.0020	0.0000	0.0030	0.0030	1.0000	0.0020	0.0000
Comm	-0.0010	-0.0010	-0.0010	-0.0050	0.0000	0.0020	0.0000	0.0020	0.0020	1.0000	0.0000
Cash Eqv	0.0000	0.0000	0.0000	0.0000	0.0010	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000

Appendix □

Asset Allocation Targets

Asset Class	Allocation Percentage
Domestic Equity	30%
International Equity	22%
Emerging Market Equity	5%
Private Equity	7%
Real Estate	5%
Core US Fixed Income	10%
High Yield US Fixed Income	5%
Non-US Fixed Income	5%
Commodities	5%
TIPS	5%
Cash	1%

Appendix C

Social Security Administration Wage Index

Year	Wage Index	Annual Increase	Year	Wage Index	Annual Increase
1957	$3,641.72		1983	$15,239.24	4.87%
1958	3,673.80	0.88%	1984	16,135.07	5.88
1959	3,855.80	4.95	1985	16,822.51	4.26
1960	4,007.12	3.92	1986	17,321.82	2.97
1961	4,086.76	1.99	1987	18,426.51	6.38
1962	4,291.40	5.01	1988	19,334.04	4.93
1963	4,396.64	2.45	1989	20,099.55	3.96
1964	4,576.32	4.09	1990	21,027.98	4.62
1965	4,658.72	1.80	1991	21,811.60	3.73
1966	4,938.36	6.00	1992	22,935.42	5.15
1967	5,213.44	5.57	1993	23,132.67	0.86
1968	5,571.76	6.87	1994	23,753.53	2.68
1969	5,893.76	5.78	1995	24,705.66	4.01
1970	6,186.24	4.96	1996	25,913.90	4.89
1971	6,497.08	5.02	1997	27,426.00	5.84
1972	7,133.80	9.80	1998	28,861.44	5.23
1973	7,580.16	6.26	1999	30,469.84	5.57
1974	8,030.76	5.94	2000	32,154.82	5.53
1975	8,630.92	7.47	2001	32,921.92	2.39
1976	9,226.48	6.90	2002	33,252.09	1.00
1977	9,779.44	5.99	2003	34,064.95	2.44
1978	10,556.03	7.94	2004	35,648.55	4.65
1979	11,479.46	8.75	2005	36,952.94	3.66
1980	12,513.46	9.01	2006	38,651.41	4.60
1981	13,773.10	10.07	2007	40,405.48	4.54
1982	14,531.34	5.51			

Appendix D

Suggested Decrement Assumptions for KERS Non Hazardous Members

Years of Service	Rates of Salary Increases	Rates of Withdrawal
Less Than 1	17.0000%	19.0000%
1	9.0000%	13.0000%
2	6.5000%	10.0000%
3	6.0000%	9.0000%
4	6.0000%	6.5000%
5	6.0000%	
6	5.5000%	
7	5.5000%	
8	5.5000%	
9	5.0000%	
10+	5.0000%	

	Rates of Termination Due to				
				Death	
Age	Retirement*	Withdrawal	Disability	Males	Females
19		6.0000%	0.0000%	0.0242%	0.0140%
20		6.0000%	0.0354%	0.0253%	0.0142%
21		5.8160%	0.0354%	0.0265%	0.0143%
22		5.6320%	0.0354%	0.0278%	0.0145%
23		5.4480%	0.0354%	0.0295%	0.0146%
24		5.2640%	0.0354%	0.0312%	0.0146%
25		5.0800%	0.0474%	0.0331%	0.0146%
26		4.9160%	0.0474%	0.0348%	0.0147%
27		4.7520%	0.0474%	0.0364%	0.0151%
28		4.5880%	0.0474%	0.0377%	0.0157%
29		4.4240%	0.0474%	0.0390%	0.0166%
30		4.2600%	0.0612%	0.0401%	0.0176%
31		4.0500%	0.0612%	0.0411%	0.0187%
32		3.8400%	0.0612%	0.0420%	0.0199%
33		3.6300%	0.0612%	0.0424%	0.0211%
34		3.4200%	0.0612%	0.0425%	0.0225%
35		3.2100%	0.0853%	0.0426%	0.0239%
36		3.1680%	0.0853%	0.0431%	0.0256%
37		3.1260%	0.0853%	0.0446%	0.0276%
38		3.0840%	0.0853%	0.0470%	0.0299%
39		3.0420%	0.0853%	0.0500%	0.0326%
40		3.0000%	0.1329%	0.0536%	0.0355%
41		3.0000%	0.1329%	0.0578%	0.0384%
42		3.0000%	0.1329%	0.0626%	0.0413%
43		3.0000%	0.1329%	0.0676%	0.0439%
44		3.0000%	0.1329%	0.0729%	0.0462%
45		3.0000%	0.2213%	0.0789%	0.0487%
46		3.0000%	0.2213%	0.0861%	0.0517%
47		3.0000%	0.2213%	0.0950%	0.0556%
48		3.0000%	0.2213%	0.1051%	0.0603%

*If service is at least 27 years, the rate is 25%

Appendix D

Suggested Decrement Assumptions for KERS Non Hazardous Members

	Rates of Termination Due to				
				Death	
Age	Retirement*	Withdrawal	Disability	Males	Females
49		3.0000%	0.2213%	0.1163%	0.0655%
50		3.0000%	0.3727%	0.1290%	0.0714%
51		3.0000%	0.3727%	0.1436%	0.0784%
52		3.0000%	0.3727%	0.1607%	0.0867%
53		3.0000%	0.3727%	0.1792%	0.0954%
54		3.0000%	0.3727%	0.1990%	0.1042%
55	8.0000%	3.0000%	0.6133%	0.2213%	0.1147%
56	8.0000%	3.0000%	0.6133%	0.2475%	0.1282%
57	8.0000%	3.0000%	0.6133%	0.2791%	0.1460%
58	8.0000%	3.0000%	0.6133%	0.3150%	0.1680%
59	8.0000%	3.0000%	0.6133%	0.3545%	0.1932%
60	10.0000%	3.0000%	0.9745%	0.3988%	0.2220%
61	20.0000%		0.9745%	0.4493%	0.2547%
62	22.5000%		0.9745%	0.5074%	0.2916%
63	22.5000%		0.9745%	0.5736%	0.3339%
64	22.5000%		0.9745%	0.6470%	0.3811%
65	22.5000%			0.7268%	0.4318%
66	22.5000%			0.8120%	0.4847%
67	22.5000%			0.9017%	0.5382%
68	22.5000%			0.9930%	0.5882%
69	22.5000%			1.0865%	0.6355%
70	22.5000%			1.1865%	0.6865%
71	22.5000%			1.2976%	0.7477%
72	22.5000%			1.4241%	0.8253%
73	22.5000%			1.5601%	0.9172%
74	22.5000%			1.7026%	1.0191%
75	100.0000%				

*If service is at least 27 years, the rate is 25%

Appendix D

Suggested Decrement Assumptions for KERS □a□ardous Members

□ears of Service	Rates of Salary Increases	Rates of Withdrawal	Rates of Retirement*
Less Than 1	21.0000%	26.0000%	
1	9.0000%	11.5000%	
2	7.0000%	8.2500%	
3	6.5000%	7.5000%	
4	6.0000%	7.0000%	
5	5.5000%		
6	5.0000%		
7	5.0000%		
8	5.0000%		
9	5.0000%		
11	5.0000%		
12	5.0000%		
13	5.0000%		
14	5.0000%		
15	5.0000%		
16	5.0000%		
17	5.0000%		
18	5.0000%		
19	5.0000%		
20	5.0000%		22.0000%
21	5.0000%		22.0000%
22	5.0000%		22.0000%
23	5.0000%		22.0000%
24	5.0000%		22.0000%
25	5.0000%		35.0000%
26	5.0000%		37.0000%
27	5.0000%		37.0000%
28	5.0000%		39.0000%
29	5.0000%		38.0000%
30	5.0000%		38.0000%
31	5.0000%		38.0000%
32	5.0000%		50.0000%
33	5.0000%		50.0000%
34	5.0000%		50.0000%
35□	5.0000%		60.0000%

	Rates of Termination due to			
			Death	
Age	Withdrawal	Disability	Males	Females
19	4.0000%	0.0000%	0.0242%	0.0140%
20	4.0000%	0.0531%	0.0253%	0.0142%
21	4.0000%	0.0531%	0.0265%	0.0143%
22	4.0000%	0.0531%	0.0278%	0.0145%
23	4.0000%	0.0531%	0.0295%	0.0146%
24	4.0000%	0.0531%	0.0312%	0.0146%
25	4.0000%	0.0711%	0.0331%	0.0146%
26	3.9000%	0.0711%	0.0348%	0.0147%
27	3.8000%	0.0711%	0.0364%	0.0151%
28	3.7000%	0.0711%	0.0377%	0.0157%
29	3.6000%	0.0711%	0.0390%	0.0166%
30	3.5000%	0.0918%	0.0401%	0.0176%
31	3.4000%	0.0918%	0.0411%	0.0187%
32	3.3000%	0.0918%	0.0420%	0.0199%
33	3.2000%	0.0918%	0.0424%	0.0211%
34	3.1000%	0.0918%	0.0425%	0.0225%
35	3.0000%	0.1280%	0.0426%	0.0239%
36	3.0000%	0.1280%	0.0431%	0.0256%
37	3.0000%	0.1280%	0.0446%	0.0276%
38	3.0000%	0.1280%	0.0470%	0.0299%
39	3.0000%	0.1280%	0.0500%	0.0326%
40	3.0000%	0.1994%	0.0536%	0.0355%
41	3.0000%	0.1994%	0.0578%	0.0384%
42	3.0000%	0.1994%	0.0626%	0.0413%
43	3.0000%	0.1994%	0.0676%	0.0439%
44	3.0000%	0.1994%	0.0729%	0.0462%
45	3.0000%	0.3320%	0.0789%	0.0487%
46	3.0000%	0.3320%	0.0861%	0.0517%
47	3.0000%	0.3320%	0.0950%	0.0556%
48	3.0000%	0.3320%	0.1051%	0.0603%
49	3.0000%	0.3320%	0.1163%	0.0655%
50	3.0000%	0.5590%	0.1290%	0.0714%
51	3.0000%	0.5590%	0.1436%	0.0784%
52	3.0000%	0.5590%	0.1607%	0.0867%
53	3.0000%	0.5590%	0.1792%	0.0954%
54	3.0000%	0.5590%	0.1990%	0.1042%
55	3.0000%	0.9200%	0.2213%	0.1147%
56	3.0000%	0.9200%	0.2475%	0.1282%
57	3.0000%	0.9200%	0.2791%	0.1460%
58	3.0000%	0.9200%	0.3150%	0.1680%
59	3.0000%	0.9200%	0.3545%	0.1932%
60	3.0000%	1.4618%	0.3988%	0.2220%
61		1.4618%	0.4493%	0.2547%
62		1.4618%	0.5074%	0.2916%
63		1.4618%	0.5736%	0.3339%
64		1.4618%	0.6470%	0.3811%

* 100% assumed to retire at age 65

Appendix D

Suggested Decrement Assumptions for CERS Non Hazardous Members

Years of Service	Rates of Salary Increases	Rates of Withdrawal
Less Than 1	13.0000%	25.0000%
1	9.5000%	14.0000%
2	6.0000%	10.0000%
3	6.0000%	8.0000%
4	5.5000%	6.5000%
5	5.5000%	
6	5.2500%	
7	5.2500%	
8	5.0000%	
9	5.0000%	
10+	4.2500%	

Age	Rates of Termination Due to				
				Death	
	Retirement*	Withdrawal	Disability	Males	Females
19		5.7500%	0.0000%	0.0242%	0.0140%
20		5.7500%	0.0354%	0.0253%	0.0142%
21		5.7500%	0.0354%	0.0265%	0.0143%
22		5.7500%	0.0354%	0.0278%	0.0145%
23		5.7500%	0.0354%	0.0295%	0.0146%
24		5.7500%	0.0354%	0.0312%	0.0146%
25		5.7500%	0.0474%	0.0331%	0.0146%
26		5.6600%	0.0474%	0.0348%	0.0147%
27		5.5700%	0.0474%	0.0364%	0.0151%
28		5.4800%	0.0474%	0.0377%	0.0157%
29		5.3900%	0.0474%	0.0390%	0.0166%
30		5.3000%	0.0612%	0.0401%	0.0176%
31		5.1200%	0.0612%	0.0411%	0.0187%
32		4.9400%	0.0612%	0.0420%	0.0199%
33		4.7600%	0.0612%	0.0424%	0.0211%
34		4.5800%	0.0612%	0.0425%	0.0225%
35		4.4000%	0.0853%	0.0426%	0.0239%
36		4.2600%	0.0853%	0.0431%	0.0256%
37		4.2600%	0.0853%	0.0446%	0.0276%
38		4.2600%	0.0853%	0.0470%	0.0299%
39		4.2600%	0.0853%	0.0500%	0.0326%
40		3.7000%	0.1329%	0.0536%	0.0355%
41		3.5640%	0.1329%	0.0578%	0.0384%
42		3.5640%	0.1329%	0.0626%	0.0413%
43		3.5640%	0.1329%	0.0676%	0.0439%
44		3.5640%	0.1329%	0.0729%	0.0462%
45		3.0200%	0.2213%	0.0789%	0.0487%
46		2.9560%	0.2213%	0.0861%	0.0517%
47		2.9560%	0.2213%	0.0950%	0.0556%
48		2.9560%	0.2213%	0.1051%	0.0603%

*If service is at least 27 years, the rate is 30%

Appendix D

Suggested Decrement Assumptions for CERS Non □a□ardous Members

Age	Rates of Termination Due to				
				Death	
	Retirement*	Withdrawal	Disability	Males	Females
49		2.9560%	0.2213%	0.1163%	0.0655%
50		2.7000%	0.3727%	0.1290%	0.0714%
51		2.6000%	0.3727%	0.1436%	0.0784%
52		2.6000%	0.3727%	0.1607%	0.0867%
53		2.6000%	0.3727%	0.1792%	0.0954%
54		2.6000%	0.3727%	0.1990%	0.1042%
55	8.0000%	2.2000%	0.6133%	0.2213%	0.1147%
56	8.0000%	1.9100%	0.6133%	0.2475%	0.1282%
57	8.0000%	1.9100%	0.6133%	0.2791%	0.1460%
58	8.0000%	1.9100%	0.6133%	0.3150%	0.1680%
59	8.0000%	1.9100%	0.6133%	0.3545%	0.1932%
60	10.0000%	0.7500%	0.9745%	0.3988%	0.2220%
61	20.0000%		0.9745%	0.4493%	0.2547%
62	22.0000%		0.9745%	0.5074%	0.2916%
63	22.0000%		0.9745%	0.5736%	0.3339%
64	22.0000%		0.9745%	0.6470%	0.3811%
65	22.0000%			0.7268%	0.4318%
66	22.0000%			0.8120%	0.4847%
67	22.0000%			0.9017%	0.5382%
68	22.0000%			0.9930%	0.5882%
69	22.0000%			1.0865%	0.6355%
70	22.0000%			1.1865%	0.6865%
71	22.0000%			1.2976%	0.7477%
72	22.0000%			1.4241%	0.8253%
73	22.0000%			1.5601%	0.9172%
74	22.0000%			1.7026%	1.0191%
75	100.0000%				

* If service is at least 27 years, the rate is 30%

Appendix D

Suggested Decrement Assumptions for CERS Hazardous Members

Years of Service	Rates of Salary Increases	Rates of Withdrawal	Rates of Retirement*
Less Than 1	20.0000%	14.0000%	
1	10.5000%	7.5000%	
2	6.5000%	6.0000%	
3	5.7500%	4.5000%	
4	5.5000%	4.0000%	
5	5.0000%		
6	4.5000%		
7	4.5000%		
8	4.5000%		
9	4.5000%		
11	4.5000%		
12	4.5000%		
13	4.5000%		
14	4.5000%		
15	4.5000%		
16	4.5000%		
17	4.5000%		
18	4.5000%		
19	4.5000%		
20	4.5000%		20.0000%
21	4.5000%		20.0000%
22	4.5000%		20.0000%
23	4.5000%		20.0000%
24	4.5000%		30.0000%
25	4.5000%		33.0000%
26	4.5000%		33.0000%
27	4.5000%		33.0000%
28	4.5000%		39.0000%
29	4.5000%		33.0000%
30	4.5000%		33.0000%
31	4.5000%		33.0000%
32	4.5000%		50.0000%
33	4.5000%		40.0000%
34	4.5000%		40.0000%
35+	4.5000%		40.0000%

	Rates of Termination due to			
			Death	
Age	Withdrawal	Disability	Males	Females
19	3.0000%	0.0000%	0.0242%	0.0140%
20	3.0000%	0.0531%	0.0253%	0.0142%
21	3.0000%	0.0531%	0.0265%	0.0143%
22	3.0000%	0.0531%	0.0278%	0.0145%
23	2.9000%	0.0531%	0.0295%	0.0146%
24	2.8000%	0.0531%	0.0312%	0.0146%
25	2.7000%	0.0711%	0.0331%	0.0146%
26	2.6000%	0.0711%	0.0348%	0.0147%
27	2.5000%	0.0711%	0.0364%	0.0151%
28	2.5000%	0.0711%	0.0377%	0.0157%
29	2.5000%	0.0711%	0.0390%	0.0166%
30	2.5000%	0.0918%	0.0401%	0.0176%
31	2.5000%	0.0918%	0.0411%	0.0187%
32	2.5000%	0.0918%	0.0420%	0.0199%
33	2.5000%	0.0918%	0.0424%	0.0211%
34	2.5000%	0.0918%	0.0425%	0.0225%
35	2.5000%	0.1280%	0.0426%	0.0239%
36	2.5000%	0.1280%	0.0431%	0.0256%
37	2.5000%	0.1280%	0.0446%	0.0276%
38	2.5000%	0.1280%	0.0470%	0.0299%
39	2.5000%	0.1280%	0.0500%	0.0326%
40	2.5000%	0.1994%	0.0536%	0.0355%
41	2.5000%	0.1994%	0.0578%	0.0384%
42	2.5000%	0.1994%	0.0626%	0.0413%
43	2.5000%	0.1994%	0.0676%	0.0439%
44	2.5000%	0.1994%	0.0729%	0.0462%
45	2.5000%	0.3320%	0.0789%	0.0487%
46	2.5000%	0.3320%	0.0861%	0.0517%
47	2.5000%	0.3320%	0.0950%	0.0556%
48	2.5000%	0.3320%	0.1051%	0.0603%
49	2.5000%	0.3320%	0.1163%	0.0655%
50	2.5000%	0.5590%	0.1290%	0.0714%
51		0.5590%	0.1436%	0.0784%
52		0.5590%	0.1607%	0.0867%
53		0.5590%	0.1792%	0.0954%
54		0.5590%	0.1990%	0.1042%
55		0.9200%	0.2213%	0.1147%
56		0.9200%	0.2475%	0.1282%
57		0.9200%	0.2791%	0.1460%
58		0.9200%	0.3150%	0.1680%
59		0.9200%	0.3545%	0.1932%
60		1.4618%	0.3988%	0.2220%
61		1.4618%	0.4493%	0.2547%

* 100% assumed to retire at age 62

Appendix D

Suggested Decrement Assumptions for SPRS Members

Years of Service	Rates of Salary Increases	Rates of Withdrawal	Rates of Retirement*
Less Than 1	17.0000%	20.0000%	
1	12.0000%	7.5000%	
2	10.0000%	3.0000%	
3	9.0000%	3.0000%	
4	8.0000%	3.0000%	
5	7.0000%		
6	6.0000%		
7	6.5000%		
8	5.5000%		
9	5.0000%		
11	4.5000%		
12	4.5000%		
13	4.5000%		
14	4.5000%		
15	4.5000%		
16	4.5000%		
17	4.5000%		
18	4.5000%		
19	4.5000%		9.0000%
20	4.5000%		9.0000%
21	4.5000%		10.0000%
22	4.5000%		22.0000%
23	4.5000%		22.0000%
24	4.5000%		22.0000%
25	4.5000%		22.0000%
26	4.5000%		25.0000%
27	4.5000%		25.0000%
28	4.5000%		25.0000%
29	4.5000%		25.0000%
30	4.5000%		33.3300%
31	4.5000%		33.3300%
32	4.5000%		33.3300%
33	4.5000%		33.3300%
34	4.5000%		33.3300%
35+	4.5000%		33.3300%

Age	Rates of Termination due to			
	Withdrawal	Disability	Death	
			Males	Females
19	2.5000%	0.0000%	0.0242%	0.0140%
20	2.5000%	0.0531%	0.0253%	0.0142%
21	2.5000%	0.0531%	0.0265%	0.0143%
22	2.5000%	0.0531%	0.0278%	0.0145%
23	2.5000%	0.0531%	0.0295%	0.0146%
24	2.5000%	0.0531%	0.0312%	0.0146%
25	2.5000%	0.0711%	0.0331%	0.0146%
26	2.5000%	0.0711%	0.0348%	0.0147%
27	2.5000%	0.0711%	0.0364%	0.0151%
28	2.5000%	0.0711%	0.0377%	0.0157%
29	2.5000%	0.0711%	0.0390%	0.0166%
30	2.5000%	0.0918%	0.0401%	0.0176%
31	2.5000%	0.0918%	0.0411%	0.0187%
32	2.5000%	0.0918%	0.0420%	0.0199%
33	2.5000%	0.0918%	0.0424%	0.0211%
34	2.5000%	0.0918%	0.0425%	0.0225%
35	2.5000%	0.1280%	0.0426%	0.0239%
36	2.5000%	0.1280%	0.0431%	0.0256%
37	2.5000%	0.1280%	0.0446%	0.0276%
38	2.5000%	0.1280%	0.0470%	0.0299%
39	2.5000%	0.1280%	0.0500%	0.0326%
40	2.5000%	0.1994%	0.0536%	0.0355%
41	2.5000%	0.1994%	0.0578%	0.0384%
42	2.5000%	0.1994%	0.0626%	0.0413%
43	2.5000%	0.1994%	0.0676%	0.0439%
44	2.5000%	0.1994%	0.0729%	0.0462%
45	2.5000%	0.3320%	0.0789%	0.0487%
46	2.5000%	0.3320%	0.0861%	0.0517%
47	2.5000%	0.3320%	0.0950%	0.0556%
48	2.5000%	0.3320%	0.1051%	0.0603%
49	2.5000%	0.3320%	0.1163%	0.0655%
50	2.5000%	0.5590%	0.1290%	0.0714%
51	2.5000%	0.5590%	0.1436%	0.0784%
52	2.5000%	0.5590%	0.1607%	0.0867%
53	2.5000%	0.5590%	0.1792%	0.0954%
54	2.5000%	0.5590%	0.1990%	0.1042%

* 100% assumed to retire at age 55

EXHIBIT 80

To: Tom Cavanaugh[TomC@cavmacconsulting.com]; Burnside, Mike (KRS)[mike.burnside@kyret.ky.gov]
From: Thielen, Bill (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=BILL.THIELEN]
Sent: Wed 10/28/2009 3:36:26 PM (UTC-04:00)
Subject: RE: USM Experience study

Tom,

I haven't had a chance yet to follow up on the payroll data. I will try and do that very shortly.

William A. Thielen
Chief Operations Officer
Kentucky Retirement Systems
Tel: (502) 696-8444
Fax: (502) 696-8801
bill.thielen@kyret.com

From: Tom Cavanaugh [mailto:TomC@cavmacconsulting.com]
Sent: Wednesday, October 28, 2009 3:08 PM
To: Burnside, Mike (KRS)
Cc: Thielen, Bill (KRS)
Subject: Re: USM Experience study

Just landed. I have some time before my connection if you want to discuss this but the answer is laid out in the exp study report. Maybe you can give her a copy. That assumption is a long range assumption not what we expect will happen over the next year or two. Frank raised the very same issue with me last week so maybe he's feeding this to her. Its why I asked Bill for some 1970's or 1980's payroll information so we can hopefully show that such growth is not out of the question.
Tom Cavanaugh
Cavanaugh Macdonald Consulting, LLC

----- Original Message -----
From: Burnside, Mike (KRS) <mike.burnside@kyret.ky.gov>
To: Tom Cavanaugh
Cc: Thielen, Bill (KRS) <bill.thielen@kyret.ky.gov>
Sent: Wed Oct 28 13:36:17 2009
Subject: USM Experience study

Greetings!

I just got a call from the Courier Journal asking about our experience study. The question is, why are we assuming an increase in wages of 4.5% vs. the 3.5% we used previously, especially in light of the fact that the Governor's office is saying they are leaving 2,000 positions vacant and are not planning for any significant salary increases? I told her I would contact you for the full answer of what we assume with the 4.5% growth rate (i.e. there is more to this than just saying everyone gets a 4.5% raise).

Thanks!

Mike

Mike Burnside

Executive Director

Kentucky Retirement Systems

502-696-8800

Fax 502-696-8801

EXHIBIT 81

To: Ramirez, Regina (KRS)[regina.ramirez@kyret.ky.gov]
From: Carlson, TJ (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=TJ.CARLSON]
Sent: Fri 11/2/2012 11:00:06 AM (UTC-04:00)
Subject: RE: USM KRS September 2012 Monthly Performance Update

Great idea. I will suggest it to Bill.

From: Ramirez, Regina (KRS)
Sent: Friday, November 02, 2012 10:59 AM
To: Carlson, TJ (KRS)
Subject: RE: USM KRS September 2012 Monthly Performance Update

I have added it! Wow that is really great news! Maybe we should put some sort of lead article on the home page.

From: Carlson, TJ (KRS)
Sent: Friday, November 02, 2012 10:55 AM
To: Ramirez, Regina (KRS)
Subject: RE: USM KRS September 2012 Monthly Performance Update

Awesome! I really appreciate it.

For the 10 years ending September 30, 2012, the Pension plan returned 7.22% while the Insurance fund returned 7.71%, nearly matching our long run goal of 7.75.

Thanks again Regina

From: Ramirez, Regina (KRS)
Sent: Friday, November 02, 2012 10:46 AM
To: Carlson, TJ (KRS)
Subject: RE: USM KRS September 2012 Monthly Performance Update

Done ☺

From: Carlson, TJ (KRS)
Sent: Friday, November 02, 2012 10:39 AM
To: Ramirez, Regina (KRS)
Subject: RE: USM KRS September 2012 Monthly Performance Update

Hi Regina,

Thanks much for getting this on the web.

Can you make a couple changes to the placement though? Can you please move it to the main article on the investment tab and move the Sept 19 down to the history column?

Thanks

TJ

From: Ramirez, Regina (KRS)
Sent: Friday, November 02, 2012 10:35 AM
To: Gilbert, Joe (KRS); Carlson, TJ (KRS)
Cc: Consalvi, Scarlett (KRS)
Subject: RE: USM KRS September 2012 Monthly Performance Update

This has been updated on the website.
Thanks,
Regina

From: Gilbert, Joe (KRS)
Sent: Thursday, November 01, 2012 11:50 AM
To: 'tommy.elliott@oldnational.com'; 'jlelliott@stites.com'; Longmeyer, Timothy (PERS); 'vlang@kcjea.org'; 'dbauer@bellarmine.edu'; Thielen, Bill (KRS); Carlson, TJ (KRS); Jones, Jennifer (KRS); Davis, Connie (KRS); Case, Ann (KRS); Coleman, Todd (KRS); Consalvi, Scarlett (KRS); Ramirez, Regina (KRS); Fields, Amy (KRS); Aldridge, Brent (KRS); Cracraft, Bo (KRS); Schelling, Chris (KRS); Peden, David (KRS); Murnighan, Bill (KRS); Masthay, Thomas (KRS); Carter, Brian (KRS); Miller, Laura (KRS); Gross, Brad (LRC); Willey, Frank (LRC); Fontana, Alex (LRC)
Cc: Gilbert, Joe (KRS)
Subject: USM KRS September 2012 Monthly Performance Update

Good Morning –

Both funds underperformed their respective benchmarks during the month of September. The Pension fund gained 1.83% for the period, versus the 2.28% of its benchmark; while the Insurance fund fell to its benchmark by 39 basis points, earning 1.84% for the period.

For the Pension Fund, the primary source of outperformance from a stock selection perspective came from the Fixed Income portfolio, specifically from within the high yield and global fixed allocations. In addition, strength was provided by the Absolute Return portfolio, with all three FOFs producing excess returns. The overweight position to the Private Equity portfolio provided was a positive, which was evidenced by the healthy 4.24% return of the benchmark. However; these positives were not enough to overcome some missteps from a stock selection perspective within the public equity allocations, and an underweight to Real Estate, which further hampered performance.

The Insurance Fund, mirrored the pension fund, benefiting from solid stock selection within the High Yield and Global Fixed Income spaces, and within the Absolute and Real Return buckets. The overweight position of the Global Fixed Income and U.S. Equity allocations contributed to the fund, as these were two solid performing areas for the month. Despite these contributors, weak stock selection within the public equity program, combined with an underweight to Private and Non-U.S. Equities caused the fund to trail for the period.

As of close September 30, 2012, KRS assets totaled $14.141 billion.

Joe Gilbert
Kentucky Retirement Systems | Investment Analyst
☎ 502.696.8632 | **Fax** 502.696.8805 | ✉joe.gilbert@kyret.ky.gov

EXHIBIT 82

To: Lewis Reynolds[reynoldswlr@bellsouth.net]
Cc: <bwilcher@khsa.org>[bwilcher@khsa.org]; Chris Tobe[tobecb@aol.com]; Elliott, Jennifer[jeElliott@stites.com]; Henson, Bobby (KRS)[Bobby.Henson@kyret.ky.gov]; Longmeyer, Timothy (PERS)[Timothy.Longmeyer@ky.gov]; Overstreet, Randy (PPC)[Randy.Overstreet@ky.gov]; Smith, Susan (GAPS)[Susan.Smith2@ky.gov]; Susan Smith[go-transy71@hotmail.com]; Vince Lang[vlang@kcjea.org]
From: Burnside, Mike (KRS)[/O=KYGOVTMAIL/OU=KYRET/CN=RECIPIENTS/CN=MIKE.BURNSIDE]
Sent: Mon 1/31/2011 11:41:52 AM (UTC-05:00)
Subject: RE: USM Friday's special called board meeting

I can't speak totally for Tom on the discount rate, but when he did the experience study in late 2008 and recommended updated actuarial assumptions he did recommend we stay with 7.75% for the 30-year term of the annual valuations. The rationale is that he was assuming an inflation rate of 3.5% and a real rate of return of 4.25% over the long haul. Many people have been saying that assumed rates are too high across the industry, and they use that as a lead-in for their argument that the size of the unfunded liability for all pension systems is significantly understated.

If we use a lower discount rate than 7.75%, the unfunded liability will increase even further and employer contribution rates will increase proportionally.

That being said, If you would like to have Tom opine on this, I will send it on to him.

Thanks!
Mike

Mike Burnside
Executive Director
Kentucky Retirement Systems
502-696-8800
Fax 502-696-8801

From: Lewis Reynolds [mailto:reynoldswlr@bellsouth.net]
Sent: Monday, January 31, 2011 11:16 AM
To: Burnside, Mike (KRS)
Cc: <bwilcher@khsa.org>; Chris Tobe; Elliott, Jennifer; Henson, Bobby (KRS); Longmeyer, Timothy (PERS); Overstreet, Randy (PPC); Smith, Susan (GAPS); Susan Smith; Vince Lang
Subject: Re: USM Friday's special called board meeting

There is one big question that has been bothering me since Friday. It is a question for Tom Cavanaugh. In doing the projection for a 20 or 25 year study, would you be comfortable with a discount rate of 7.75?
If a lower discount rate is used during any part of a 20 or 25 year study would't the ARC go off the charts?

Lew R.
Sent from my iPhone
On Jan 31, 2011, at 9:07 AM, "Burnside, Mike (KRS)" <mike.burnside@kyret.ky.gov> wrote:

> We held a special called board meeting last Friday to discuss SB 2 and the implications for KRS. Susan and Jenni joined by phone, Randy and Chris were unable to attend, and everyone else was present. For the benefit of Randy and Chris, the board discussed the impact of SB 2 and closing down the existing DB plan at length. The final result was a vote taken and passed to state that the board does not support the bill, and that they are very concerned about the impact that the more aggressive funding schedule will have on employers. Employer agencies will have a difficult time meeting the current demands of HB 1 and recovering from the economic recession, and adding the stress of more aggressive payments from closing down the system to new members may prove to be more than they can handle. If employers are unable to meet the increased payments to the system with a closed plan, the health of our trust funds will be jeopardized, making it extremely difficult for us to manage our cash flow and restore the funds to a healthy status.
>
> Following Friday's meeting, I received a request from Senator Williams' office for additional actuarial analysis. The statutes require us to provide a 20-year projection on the economic impact of any pension

reform, and he wants to add 5 more years to the analysis of SB 2, taking the projection out to 25 years. Cavanaugh is working on that, and it may be a week before they can get the additional projections completed.

Shawn will be sending out his daily updates on the bills we are tracking, and I will let you know when I am scheduled to testify on the bill again. I suspect it will not be called to the Senate floor until they receive the additional information from Cavanaugh, but that is only my opinion.

Please let me know if you have any questions.

Thanks,
Mike

Mike Burnside
Executive Director
Kentucky Retirement Systems
502-696-8800
Fax 502-696-8801

EXHIBIT 83

To: "Burnside, Mike \(KRS\)"; Christopher Tobe[tobecb@aol.com]; Jennifer Landrum Elliott[jeElliott@stites.com]; "Henson, Bobby \(KRS\)"; "Longmeyer, Timothy \(PERS\)"; "Overstreet, Randy \(PPC\)"; W. Lewis Reynolds III[reynoldswlr@bellsouth.net]; "Smith, Susan \(GAPS\)"; Susan Smith[go-transy71@hotmail.com]; Vince Lang[vlang@kcjea.org]
Cc: "Thielen, Bill \(KRS\)"; "Carlson, TJ \(KRS\)"; "Olt, Schuyler \(KRS\)"; "Haydon, Charlene \(KRS\)"
From: Bob Wilcher (KHSA)[bwilcher@khsa.org]
Sent: Fri 2/18/2011 12:40:25 PM (UTC-05:00)
Subject: Re: USM Acturial Analysis

With all due respect to Tom, this does a great of harm to whatever credibility we had. It may not be possible to restore that in this session and Tom's work product may be permanently tainted in the eyes of the legislature and LRC.

~~~~~~

Bob Wilcher | **Executive Director** | **Kentucky Head Start Association** |
Toll-free: 800.869.9257 | Phone: 502.607.0770 | Fax: 502.607.0771 |
Email: bwilcher@khsa.org <mailto:bwilcher@khsa.org> |

Kentucky Head Start Association |
649 Charity Court | Suite 1 | Frankfort, KY 40601-4224 |
Website: www.khsa.org <http://www.khsa.org> |

From: "Robert M. Burnside" <mike.burnside@kyret.ky.gov>
Date: Fri, 18 Feb 2011 12:14:55 -0500
To: Bob Wilcher <bwilcher@khsa.org>, Christopher Tobe <tobecb@aol.com>, Jennifer Landrum Elliott <jeElliott@stites.com>, "Bobby D. Henson" <bobby.henson@kyret.ky.gov>, Timothy Longmeyer <Timothy.Longmeyer@ky.gov>, "Randy J. Overstreet" <Randy.Overstreet@ky.gov>, "W. Lewis Reynolds III" <reynoldswlr@bellsouth.net>, Susan Smith <Susan.Smith2@ky.gov>, Susan Smith <go-transy71@hotmail.com>, Vince Lang <vlang@kcjea.org>
Cc: Bill Thielen <bill.thielen@kyret.ky.gov>, "Carlson, TJ (KRS)" <TJ.Carlson@kyret.ky.gov>, Schuyler Olt <Schuyler.Olt@kyret.ky.gov>, "Haydon, Charlene (KRS)" <charlene.haydon@kyret.ky.gov>
Subject: USM Acturial Analysis

Here is an update on the email I forwarded to you last night from Tom Cavanaugh. Tom explained in his email that, in completing the actuarial analysis for the current version of SB 2 (CERS only pays 85% of the ARC, etc), he found an error in the previous letters he has provided to us that analyze SB 2.

Basically, they had an incorrect formula in a spreadsheet that pulled information from the wrong column for calculations of the employer contributions. In the letters we have received to date, the proposed employer contribution rate for CERS Non-Hazardous Pension funds shows an amount that is a combination of <u>both</u> the <u>employer</u> and <u>employee</u> contributions rates. Accordingly, the proposed contribution rates start out almost 5% higher in the early years, decreasing to about 1% higher than they should be at the end of the period in question. The impact is that CERS employer contribution rates as currently shown are too high, that the corrected rates will be lower, that the additional cost over the HB 1 rates will be lower, and savings will differ accordingly. The analysis for all other systems is correct.

We have told Tom to correct those columns in the letters for the 25-year projection requested by Senator Williams and in the 20-year analysis that adds long-term disability insurance back in as a benefit. He will then give us the 20-year projection for the current version of the bill that allows CERS to intentionally underfund the system and receive the more favorable actuarial assumptions dictated by the bill. This will give everyone an “apples to apples” look at how the numbers change with the most recent version of the bill.

The correct information will not be available to us until Monday. Tom will put an explanation in each of the corrected letters about the error. We will forward the data to each of you as soon as we receive it, and we will need to give that same corrected and updated information to LRC for posting with the bills. I will also call the bill sponsors and let them know the error.
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The trend information is still the same, and closing the DB plan to new members will still cost more over the short term than staying with the revisions in HB 1. When we get his analysis of the 85% funding, it will show that about 7 years after the enactment, employers will actually be paying more than they would be if they continued with HB 1 and paid the full ARC. That increase will eventually flatten out, but it will be many years before that happens.

Tom is very apologetic about the mistake. Unfortunately, the end result is that we will have some who use this as ammunition to cast doubt on other analyses we have provided in the past and will continue to provide for future bills. Cavanaugh Macdonald has been an excellent business partner and very responsive to our needs. Pushing a bill through in such a short period of time while requiring so many permutations in the content of the bill have contributed to the likelihood of making mistakes, but still does not excuse the error.

Please let me know if you have questions.

Mike Burnside

Executive Director

Kentucky Retirement Systems

502-696-8800

Fax 502-696-8801

EXHIBIT 84

CONTRACT

THIS CONTRACT, made and entered into this 18th day of May, 2006, by and between the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, hereinafter referred to as the "Systems", and Cavanaugh Macdonald Consulting, LLC, 665 Molly Lane, Suite 150, Woodstock, Georgia 30189, hereinafter referred to as the "Contractor".

WHEREAS, The Systems by its Board of Trustees at a meeting held on the 18th day of May, 2006, has by order pursuant to authority granted in Kentucky Revised Statutes ("KRS") Chapter 61.645 selected the Contractor to provide actuary services in connection with the administration of the Kentucky Employees Retirement System, County Employees Retirement System, State Police Retirement System and Kentucky Retirement Systems Insurance Fund; and

WHEREAS, the Contractor is a reputable, qualified, and established actuarial firm, and has agreed to provide actuary services to the Systems; and

WHEREAS, The Systems is responsible for administration of three retirement systems and insurance fund hereinbefore mentioned and desires to avail itself of the services of the Contractor to fulfill the responsibility under KRS Chapters 61.645, 61.670, and other provisions of law.

1. DEFINITIONS.

1.1. "Actuary" means the legal entity known as Cavanaugh Macdonald, LLC, and its officers, employees and agents.

1.2. "Consulting Actuaries" means the Primary Actuary and all Secondary Actuaries assigned to and providing services directly to the Systems under this contract.

1.3. "Contract" means the negotiated contract, the terms and conditions of the RFP, the Actuary's proposal made in response to the RFP, and any written clarifications or changes made in accordance with the provisions herein.

1.4. "Systems" means the Kentucky Retirement Systems as it is defined in Kentucky Revised Statutes.

1.5. "Primary Actuary" means the lead and most senior actuary assigned to and providing services directly to the Systems.

1.6. "Secondary Actuary" means the less senior actuary that will support the Primary Actuary in providing direct services to the Systems.

2. PARTIES TO THE CONTRACT. This contract shall be between Cavanaugh Macdonald, LLC, hereinafter referred to as Contractor, and the Kentucky Retirement System, hereinafter referred to as the Systems, for actuarial services as specified by this Contract.

3. DURATION OF CONTRACT. This contract shall begin on July 1, 2006. The initial term of the contract shall be for a three (3) year period ending on June 30, 2009. The Systems shall have the exclusive option to renew and renegotiate this contract for three (3) additional one-year periods after the expiration of this contract. Notice of renewal will be served upon the Contractor thirty days prior to the expiration of the initial contract period or subsequent renewal date.

4. DELIVERABLES.

4.1. Contractor Assurances and Warranties: All services will be performed for the Systems in accordance with, but not limited to, generally recognized and accepted principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries. The Contractor shall perform its services with the judgment, care, skill, prudence, and diligence which persons of prudence, discretion, and intelligence acting in a like capacity and familiar with such matters would use in performing like services relative to the conduct of the enterprise of like character and with like aims.

4.2. Reports and Presentations: The Contractor shall provide as many copies of the reports, including but not limited to those in paragraph 4.3, as are reasonably requested by the Systems. Reports may include both written reports and oral presentations to legislative committees, the Systems' Board of Trustees, Systems' staff, or other relevant parties as requested from time to time.

4.3. The Contractor shall be responsible for the following deliverables as they are required by the Systems and such other deliverables as may be mutually agreed upon in writing between the Contractor and the Systems:

4.3.1. General Duties:

i <u>Load and reconcile the Systems' data.</u> The Systems will furnish the Consulting Actuaries with all data and statistical information deemed necessary to perform the specified contract services, provided the data is available in the Systems' records and files. Data will be provided in a form agreed upon by the Systems and the Consulting Actuaries.

ii <u>Treat all member information as confidential.</u> The Consulting Actuaries are expected to comply with Kentucky Revised Statute 61.661 regarding the confidentiality of member information.

iii <u>Seek written consent prior to public release of information resulting from the engagement.</u> With respect to any publication of information regarding the actuarial services provided under the terms of the resulting contract, the Contractor shall identify the Systems as the sponsoring agency and shall not release any information without prior approval of the Executive Director or appointed designee. This information includes, but is not limited to, press releases, research, and reports.

iv Communicate directly to the Executive Director (or appointed designee). The Systems expects the Consulting Actuaries to route all requests, reports and all other communication in connection with this contract through the Executive Director or appointed designee.

v Document discussion ideas, issues, and manage extended services. Share responsibility with the Systems for documenting in writing all ideas and issues that arise in discussions and meetings. The Consulting Actuaries must review, approve, and sign all price quotations for extended services, all final reports, all correspondence regarding actuarial assumptions and other technical issues.

vi Perform all services within the scope of the contract under the direct supervision of a qualified Actuary. The Consulting Actuaries must be regularly engaged in the business of providing actuarial services and meet the Minimum Qualifications outlined in Section I.B. of the RFP, which is incorporated by reference in Section 16 of this contract. The firm's choice of Consulting Actuaries must be employees of the firm. The Systems reserves the right to reject the firm's choice of Consulting Actuaries and may terminate the contract if a consulting actuary, acceptable to the Systems' Executive Director, cannot be made available by the firm.

4.3.2. Valuation Services

i Perform annual actuarial valuations of the assets and liabilities of the System as required by KRS Chapters 61.565, 61.702 and 61.670 for the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS) and the State Police Retirement System (SPRS) for each of the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008. The results of the actuarial valuations will be presented in a report to the Board and will be certified by the Primary Actuary. Minimum report requirements and deadlines are specified in Attachment A.

ii Annual Actuarial Investigation: The Consulting Actuaries will perform an actuarial investigation for the periods July 1, 2005 through June 30, 2006, July 1, 2006 through June 30, 2007, and July 1, 2007 through June 30, 2008. The results of these investigations will be used with the results of other years' investigations to complete an actuarial experience study for the period July 1, 2005 through June 30, 2010 and subsequent periods. Under state law, completion of an experience study of the Systems is required at least once in every ten years by KRS Chapter 61.670 but has historically been completed once in every five years. The results of the annual actuarial investigation shall be contained in the annual actuarial valuation.

iii Comprehensive Annual Financial Report "CAFR". The Primary Actuary will annually prepare a letter and summary of the annual actuarial valuation for reproduction in the Systems' CAFR. The letter and valuation summary shall be prepared in accordance with Governmental Accounting Standards Board (GASB) principles and reporting requirements. Minimum report requirements and deadlines are specified in Attachment A.

4.3.3. Consultation and Advisory Services:

i Provide actuarial consultation and advisory services. These services will be delivered in meetings and by telephone calls, written correspondence and reports. The Systems expects these services may include public testimony to committees, boards, commissions, and legislators on any technical, policy, legal or administrative issues arising during the course of the Systems' operations. Either the Primary or a Secondary Actuary should be readily accessible to the Executive Director or appointed designee by telephone within one (1) working day and will be available for meetings within ten (10) working days of a request. The Systems expects the Primary Actuary to attend a minimum of two (2) on-site meetings per contract year to give presentations and/or answer questions before the Board and one (1) on-site planning session in May with the Systems staff to discuss upcoming projects for the fiscal year. The Systems also expects the Primary Actuary to be available for educational discussions with the Board of Trustees and/or the Systems employees. The Primary Actuary must have the ability to discuss actuarial theory, actuarial terminology and other matters in lay terms. Dates for specific meetings and requests are specified in Attachment A.

ii Prepare various actuarial operating tables and factors. From time to time, revision and review of these tables and factors may be required for operation of the Systems. These tables and factors include, but are not limited to payment option tables for retirees and beneficiaries, present value factors, service purchase factor tables, and present value calculations. The Primary or Secondary Actuary must be available on-site as requested to assist with implementation of any factors. Due to the recently completed Experience Study, the Consulting Actuaries should anticipate completing a full review of the payment option tables for retiree and beneficiaries and a full review of service purchase factor tables and methodologies during the first six (6) months of the contract. Deadlines for specific projects are specified in Attachment A.

iii Prepare actuarial cost estimates of proposed legislation. The Consulting Actuaries shall provide timely actuarial cost analysis of proposed statutory amendments as requested by the Executive Director or appointed designee. All actuarial cost analysis must be completed in accordance Kentucky Revised Statute Chapter 6.350. The Systems expects the Consulting Actuaries to prepare an average of twenty-five (25) estimates per contract year. The majority of these actuarial analysis requests will occur during the regular session of the Kentucky General Assembly and will require the Consulting Actuaries response within three working days or sooner.

iv Recommend possible improvements in the Systems financing and benefit structure. Throughout the duration of the contract, the Primary Actuary will inform the Systems of developments in the retirement industry and their effect on the financing and benefit structure of a retirement system. The Primary Actuary should keep the Executive Director or appointed designee apprised of current trends and advancements within the actuarial profession.

v Assist the Systems staff in drafting new legislation or proposed changes to existing retirement laws affecting the Systems. Furthermore, the Consulting Actuaries should assist the Systems developing strategies and recommend specific strategies for resolving any policy or administrative problems associated with implementing new legislation.

vi Assist in establishing actuarial specifications for the Systems' data files. From time to time the Systems may ask the Consulting Actuaries to provide feedback on the content of the data files and make suggestions for modifications to ensure that the full range of data needed for costing proposed legislation and performing actuarial valuations, experience studies and asset/liability studies is maintained.

vii Provide advice on special benefit cases. The Systems may occasionally request that the Consulting Actuaries review individual benefit applications and perform computations related to these special cases.

4.3.4. Extended Contract Services and Deliverables. The Consulting Actuaries will perform the services identified below on an as-needed basis.

i Conduct experience studies. When requested, conduct experience studies for the Systems and make recommendations for changing actuarial assumptions and/or the actuarial cost method, as appropriate, for presentation to the Executive Director, Executive Director and Board.

ii Conduct asset/liability studies. When requested, conduct or provide assistance with asset/liability studies and modeling

iii Perform other services as requested. The Contractor may be requested to provide additional consulting services or develop reports, which are not specifically listed in this scope of services. These services and/or reports will be negotiated individually with the Contractor on an as needed basis.

iv Provide/Develop a simulation model for use by the Systems, if requested by the Systems. Develop, deliver and install a simulation model for use by the Systems based on the most recent year's valuation results and current plan provisions. The model shall project actuarial and statutory contribution rates, asset and liability measures, and the unfunded actuarial accrued liability. The model will allow the Systems to make projections based on changes to key variables such as investment return, amortization period, medical inflation rates, future Cost of Living Adjustments (COLA), and future payroll growth scenarios. The System shall be responsible for obtaining and maintaining the software necessary to run the model, including all licensing fees, if any, paid directly to the software vendor. If the Systems requests the simulation model be completed, the model shall be updated and provided to the Systems within sixty (60) calendar days after completion of each annual valuation. The Consulting Actuaries shall provide the necessary training and, upon request, technical assistance to the System.

5. RETAINER FEES. In exchange for the services and deliverables provided to the Systems by the Contractor as outlined in this Contract, the Systems will pay the Contractor as

follows:

Annual Valuation Services:

Annual Actuarial Valuation including pension and OPEB valuations	$89,000.00
Annual Actuarial Investigation	$9,000.00
Comprehensive Annual Financial Report	$0.00
Total	$98,000.00

Hourly Consulting and Advisory Fee:

Tom Cavanaugh and Ed Macdonald	$360.00
Cathy Turcot	$300.00
Ed Koebel, Todd Green and Alisa Bennett	$280.00
Sandra Henry	$100.00

Future Contractor staff additions that provide services under this contract will be billed at the hourly rate listed above commensurate with their positions with the Contractor, but no greater than the follow range of positions and hourly rates:

Senior Actuary	$280 - $360
Senior Consultant	$224 - $300
Actuary	$200 - $224
Consultant	$160 - $200
Other	$100

If the Systems requests that a simulation model be performed for use by the Systems, the cost will be $20,000. The cost for subsequent simulation models will be renegotiated at fiscal year end prior to work beginning on the annual actuarial valuation. Costs for the development of subsequent simulation models shall not exceed $20,000 annually unless mutually agreed upon in writing between the Contractor and the Systems.

All travel, lodging and subsistence will be reimbursed at amounts and rates permitted under the Systems' Travel Policy and Procedures, attached hereto and made a part hereof. All requests for reimbursement must be accompanied by receipts for expenditures where applicable.

6. EXTENDED SERVICE FEES. Periodically, the Systems may request services and/or deliverables from the Contractor in which a project fee is more suitable. In the event that a project is requested, the Systems will provide the Contractor with the general scope of the project and allow the Contractor to submit a proposed project cost. If the proposed project

cost is acceptable to the Systems, services and deliverables related to the project will be billed to the Systems on a monthly basis. Monthly billing shall equal the agreed upon project cost divided by the number of months anticipated for the project. The Systems shall pay the monthly billing minus five (5) percent. The Systems shall retain the five (5) percent until completion of the project. Upon completion of all project requirements, the Systems shall assess the Contractor's performance and determine how much of the retained amount will be paid to the Contractor. The Contractor will be entitled to the full retained amount if all project and performance requirements were completed to the Systems' satisfaction.

7. TERMINATION OF CONTRACT.

7.1 Termination for cause: The Systems may terminate the contract at any time after fifteen (15) calendar days written notice if the Contractor fails to carry out its duties and obligations under this contract. The Systems shall provide the Contractor with fifteen (15) calendar days written notice of Contractor's failure to adequately perform the duties and obligations under the contract. If after such notice the Contractor fails to remedy the failure to adequately perform the duties and obligations under the contract contained in the notice, the Systems may terminate the contract.

7.2 The Contractor shall not be considered to be in default under this contract, nor shall monetary damages be assessed, if performance is delayed or made impossible by an act of God, or such other event that is beyond the reasonable control of the Contractor. In each such case, the delay or impossibility must be beyond the reasonable control and without the fault or negligence of the Contractor.

7.3 Should the Systems obtain a money judgment against the Contractor as a result of a breach of this contract, the Contractor consents to such judgment being offset against monies owed the Contractor by the Systems under this or any other agreement with the Systems. The Systems shall notify the Contractor in writing of any claims for damages on or before the date the Systems deducts such sums from money payable to the Contractor.

7.4 Notwithstanding any other provisions of contract, if funds anticipated for continued fulfillment of said contract are at any time not forthcoming or sufficient, either through the failure of the Systems to receive appropriated funds, discontinuance, or material alteration of the program for which funds were provided, then the Systems shall give written notice as soon as practical documenting the lack of funding, discontinuance, or program alteration. Unless otherwise agreed to by the parties, the contract shall become null and void on the last day for which appropriations were available.

7.5 Remedies of the Contractor in Event of Termination by the Systems. In the event of termination of this Contract for any reason by the Systems, the Systems shall pay only those amounts, if any, due and owing to the Contractor for services actually rendered up to and including the date of termination of the Contract and for which the Systems is obligated to pay pursuant to this Contract. Payment will be made only upon submission of invoices and proper proof of the Contractor's claim. This provision in no way limits the remedies available to the Systems under this Contract in the event of termination. However, the Systems shall not be liable for any costs incurred by the Contractor unless otherwise specified in this Contract.

7.6 Termination at will: the Systems may terminate the contract without penalty on any day by giving written notice to the Contractor at least 30 calendar days prior to the termination. The Contractor may terminate the contract without penalty on any given day by giving written notice to the Systems at least 180 days prior to the termination. The notice of intent to terminate shall be served on other party by registered or certified mail.

8 EQUAL EMPLOYMENT OPPORTUNITIES. The Contractor is prohibited from engaging in discriminatory employment practices forbidden by federal and state law, or executive orders pertaining to Equal Employment Opportunity.

9 AUDIT AND EXAMINATION OF RECORDS. The Contractor agrees that the Auditor of the Commonwealth of Kentucky, or any authorized representative of the Systems, shall have access to, and the right to examine, audit, excerpt and transcribe any directly pertinent books, documents, papers, and records of the Contractor relative to services performed, orders, invoices or payments of this contract.

9.1 All records relating to this contract shall be retained by the Contractor for five (5) years following the date of final payment or completion of any required audit, whichever is earlier.

9.2 Compliance with this clause does not relieve the Contractor from retaining any records required by other laws or regulations of federal, state or local governmental units. The Contractor will not be eligible for additional payments from the Systems, for expenses incurred, to comply with the foregoing audit requirements.

10 CONTRACT CHANGES. Written modifications, amendments or additions to this contract shall be effective only when signed by both parties.

11 INDEMNIFICATION AND LIABILITY RESTRICTIONS.

11.1 The Contractor will indemnify the Systems against liability for any suits, actions, or claims arising from or relating to performance of the Contractor under this contract.

11.2 The Systems has no obligation to provide legal counsel or defense to the Contractor if a suit, claim, or action is brought against the Contractor or its subcontractors as a result of the Contractor's performance of its obligations under the contract. In addition, the Systems has no obligation for the payment of any judgments or the settlement of any claims against the Contractor as a result of the Contractor's performance of its obligations under the contract. The Contractor shall immediately notify the Systems of any claim made or suit filed against the Contractor resulting from the Contractor's obligations under the contract. The Contractor will cooperate, assist, and consult with the Systems in the defense or investigation of any claim made or suit filed against the Systems resulting from the Contractor's performance under the contract.

11.3 The Systems will not indemnify the Contractor for any reason associated with the Contractor's performance under this Contract. The Systems has not waived any right or entitlement to claim sovereign immunity under this Contract.

11.4 The Contractor agrees to indemnify and hold harmless the Systems, its Employees, and its Board of Trustees, harmless from any and all liabilities, damages, settlements, judgments, costs and expenses, including reasonable attorney fees of the Systems, its Employees, or its Board of Trustees.

12 SECURITY, CONFIDENTIALITY, AND OWNERSHIP OF DATA.

12.1 Access to Confidential Data. The Contractor's employees, agents and subcontractors may have access to confidential data maintained by the Systems to the extent necessary to carry out its responsibilities under the Contract. The Contractor shall presume that all information received pursuant to this Contract is confidential and subject to the provisions of KRS 61.661 unless otherwise designated by the Systems. The Contractor shall provide to the Systems a written description of its policies and procedures to safeguard confidential information. Policies of confidentiality shall address, as appropriate, information conveyed in verbal, written, and electronic formats. The Consulting Actuary shall remain the responsible authority in charge of all data collected, used, or disseminated by the Contractor in connection with the performance of the Contract. The Contractor shall provide adequate supervision and training to its agents, employees and subcontractors to ensure compliance with the terms of this Contract. The private or confidential data shall remain the property of the Systems at all times.

12.2 No Dissemination of Confidential Data. No confidential data collected, maintained, or used in the course of performance of the Contract shall be disseminated except as authorized by law and with the written consent of the Systems either during the period of the Contract or thereafter. Any data supplied to or created by the Contractor shall be considered the property of the Agency. The Contractor must return any and all data collected, maintained, created or used in the course of the performance of the Contract in whatever form it is maintained promptly at the request of the Systems.

12.3 Subpoena. In the event that a subpoena or other legal process is served upon the Contractor for records containing confidential information, the Contractor shall promptly notify the Systems and cooperate with the Systems in any lawful effort to protect the confidential information.

12.4 Reporting of Unauthorized Disclosure. The Contractor shall immediately report to the Systems any unauthorized disclosure of confidential information.

12.5 Survives Termination. The Contractor's obligation under this Contract shall survive termination of this Contract.

13 RIGHTS IN PRODUCTS. The Systems retains all rights to the services and deliverables, and other results of the contract. These rights exclude any copyrighted materials by the Contractor that are utilized by the Systems. The Contractor may not reproduce or otherwise use the products of this contract without the written consent of the Systems.

14 WARRANTY AGAINST CONTINGENT FEES. The Contractor warrants that no person or selling agency has been employed or retained to solicit and secure this contract upon an agreement or understanding of commission, percentage, brokerage or contingency fee except bona fide employees maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty, the Systems shall have the right to immediately terminate this contract without liability other than for services already performed, or in the Systems discretion, to deduct from the contract price or to otherwise recover, the full amount of such commission, percentage, brokerage or contingency.

15 CERTIFICATION OF INDEPENDENT PRICE DETERMINATION. By signing this contract, the Contractor certifies that its prices in this contract have been arrived at independently, without consultation, communication, or agreement, for the purpose of restricting competition, as to any matter relating to such prices with any competitor. No attempt was made by the Contractor to induce any other person or firm to submit or not submit a proposal for the purpose of restricting competition.

16 CONTRACT. This contract between the Systems and the Contractor shall incorporate by reference the negotiated contract, the terms and conditions of the RFP issued by the Systems on March 27, 2006, the Contractor's proposal made in response to the RFP received by the Systems on April 21, 2006, and any written clarifications or changes made in accordance with the provisions herein. In the event of conflict between the documents, the rights of the Systems and the Contractor shall be determined by first examining this agreement, then examining any written clarifications or changes that follow the effective date of this contract, then the RFP, and finally the Contractor's response to the RFP.

17 PUBLICATION OF INFORMATION ABOUT THIS CONTRACT. News releases or other material pertaining to this contract shall not be made available to the public, the contractor's

clients or potential clients without prior written approval of the Systems.

18 AUTHORITY OF THE SYSTEMS. The Systems shall determine the quantity, quality, and acceptability of work under this contract. The Systems shall decide all questions regarding performance and fulfillment of the contract, including the obligations of the Contractor.

19 ASSIGNMENT. This contract may not be assigned by Contractor without the written consent of Systems. Further, the obligations of Contractor under this contract shall be considered personal obligations of Contractor, performable solely by Contractor and Contractor may not delegate its duties hereunder to any entity other than an employee of Contractor without the express written consent of Systems.

20 CONFLICT OF INTEREST. Contractor hereby certifies that Contractor is legally entitled to enter into the subject contract with the Commonwealth of Kentucky and certifies that Contractor is not and will not be violating any conflict of interest statute (KRS 121.056 or any other applicable statute) or principle by the performance of this contract. The Contractor shall not engage directly or indirectly in any financial or other transaction with a trustee or employee of Systems which would violate standards of the Executive Branch Ethics provisions, as set forth in KRS Chapter 11A.

21 LIABILITY, MALPRACTICE AND/OR ERRORS AND OMMISSIONS INSURANCE. The Contractor shall maintain malpractice and/or an Errors and Omissions Insurance Policy in the amount of at least \$2,000,000.00. Additionally, the Contractor shall maintain adequate business insurance to include an umbrella liability policy of at least \$2,000,000.00 total. Coverage under these policies must include protection from the fraudulent conduct and breach of fiduciary responsibility of the Contractor. If the Policy is "claims made form", the firm shall maintain coverage for a period of five years after the contract expires. Evidence of insurance shall be furnished at contract signing and upon request.

22 CONTROLLING LAW; JURISDICTION AND VENUE; WAIVER. All questions as to the execution, validity, interpretation, construction, and performance of this agreement shall be construed in accordance with the laws of the Commonwealth of Kentucky, without regard to conflict of laws principles thereof. Contractor hereby consents to the jurisdiction of the courts of the Commonwealth of Kentucky and further consents that venue shall lie in the Franklin Circuit Court located in Franklin County, Kentucky. To the extent that in any jurisdiction Contractor may now or hereafter be entitled to claim for itself or its assets immunity from suit, execution, attachment (before or after judgment) or other legal process, Contractor, to the extent it may effectively do so, irrevocably agrees not to claim, and it hereby waives, same.

23 CONTRACTOR PERSONNEL. The Systems may request replacement of any of the Contractor's personnel believed unable to carry out the responsibilities of this contract. The Systems shall approve replacement personnel. Such approval shall not be unreasonably withheld. Such approval shall in no way lessen the Contractor's responsibility for the proper selection, assignment, management, and discipline of the Contractor's employees.

24 CONTRACTOR'S TERMINATION AND TRANSITION DUTIES. If this contract is terminated with or without cause, not renewed, or if the Contractor is not the successful bidder at the next RFP process, the Contractor, upon the receipt of notice from the Systems, shall:

24.1 Cease work under this Contract and take all necessary or appropriate steps to limit disbursements and minimize costs, and furnish a report within thirty (30) days of the date of notice of termination, describing the status of all work under the Contract, including, without limitation, results accomplished, conclusions resulting there from, or any other matters the Systems may require.

24.2 Immediately cease using and return to the Systems any personal property, records, data, or materials, whether tangible or intangible, provided by the provided by the Systems to the Contractor, unless otherwise directed by the Systems.

24.3 Comply with the Systems instructions for the timely transfer of any active files and work product produced by the Contractor under this Contract.

24.4 Cooperate in good faith with the Systems, its employees, agents, and contractors during the transition period between the notification and the substitution of any replacement contractor.

24.5 Immediately return to the Systems any payments made by the Systems for services that were not rendered by the Contractor.

25 RELATIONSHIP OF THE PARTIES. It is expressly understood and agreed that the Contractor will act an as independent contractor in performance of this contract. No provision hereunder shall be intended to create an employer/employee relationship with respect to the Contractor's employees and the Systems, nor shall this contract be construed to create a partnership or joint venture with respect to the services and deliverables, or otherwise. Contractor shall be responsible for compliance with all laws, rules and regulations by its respective employees, including, but not limited to, employment of labor, hours of labor, health and safety, working conditions, worker's compensation insurance, and payment of wages.

26 BENEFIT OF MORE FAVORABLE TERMS. For so long as this Contract remains effective, the Constructor shall promptly advise the Systems of any fee agreement or arrangement between the Contractor and any of its clients that contains more favorable terms than those set forth in this Contract. The Systems shall automatically receive the benefit of any such more favorable terms at the Systems' option.

27 SEMINARS. In the event the Contractor conducts seminars, training sessions or similar events which are generally made available to the Contractor's clients, the Systems shall be invited to attend upon the same terms and conditions as such other clients.

28 INTEGRATION. This contract and the documents incorporated by reference represent the entire agreement between the parties and neither party is relying on any representation that may have been made which is not included in this contract and the documents incorporated by reference.

29 HEADINGS OR CAPTIONS. The paragraph headings or captions are for identification purposes only and do not limit or construe the contents of the paragraphs.

30 SUPERSEDES FORMER AGREEMENTS. This Agreement supersedes all prior Agreements between the Contractor and the Systems for the services provided in connection with this Agreement.

31 NOTICE OF MATERIAL CHANGES. Contractor shall notify the Executive Director and the Board of Trustees in writing within five (5) business days of any material changes in senior officers, significant legal actions instituted against Contractor, or any investigations, examinations, or other proceedings commenced by any governmental agency. Notices required in this Item shall be served on the Systems by registered or certified mail.

32 NOTICE: Any notice, advice or report to be given pursuant to this Contract shall be delivered or mailed to:

FOR THE SYSTEMS:
William P. Hanes
Executive Director
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, Kentucky 40601
E-mail: william.hanes@kyret.com
Phone: (502) 696-8455
Fax: (502) 696-8801

FOR CONTRACTOR:
Thomas Cavanaugh
Chief Executive Officer
Cavanaugh Macdonald, LLC
665 Molly Lane, Suite 150
Woodstock, Georgia 30189
Email: TomC@CavMacConsulting.com
Phone: (678) 388-1708
Fax: (678) 388-1730

33 SEVERABILITY: The provisions of this Contract shall be deemed severable, and the unenforceability of any one or more provisions shall not affect the enforceability of any of the other provisions. In addition, if any provision of this Contract, for any reason, is declared to be unenforceable, the parties shall substitute an enforceable provision that, to the maximum extent possible in accordance with applicable law, preserves the original intentions and economic positions of the parties.

34 WAIVER OF INFORMALITIES: Failure of the Systems at any time to require strict performance of any provision of this contract shall not constitute a waiver of that provision nor in any way limit the enforcement of the provision.

35 INVOICES. Contractor shall submit an invoice each month for services rendered to the Systems. The Systems will be permitted a reasonable period to verify that the invoiced services were rendered and pay the invoice. The Contractor shall not be entitled to any interest.

KENTUCKY RETIREMENT SYSTEMS

BY:

William P. Hanes
Executive Director
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, Kentucky 40601
On behalf of the Systems

CONTRACTOR

BY:

Thomas J. Cavanaugh
Chief Executive Officer
Cavanaugh Macdonald Consulting, LLC
665 Molly Lane, Suite 150
Woodstock, Georgia 30189
On behalf of Contractor

Approved as to Form and Legality:
KENTUCKY RETIREMENT SYSTEMS

BY:

J. Eric Wampler
General Counsel

EXHIBIT 85

KENTUCKY RETIREMENT SYSTEMS

ACTUARIAL SERVICES CONTRACT

THIS CONTRACT, by and between the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601, hereinafter referred to as "KRS" or "Systems", and Cavanaugh Macdonald Consulting, LLC, 200 Main Street, Suite 201H, Hilton Head Island, South Carolina 29926, hereinafter referred to as the "Actuary".

WHEREAS, The Systems by its Board of Trustees at a meeting held on the 21st day of February 2013 has, pursuant to authority granted in Kentucky Revised Statutes ("KRS") Chapter 61.645, selected the Actuary to provide actuarial services to the Systems in connection with the administration of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), State Police Retirement System (SPRS); and

WHEREAS, the Actuary is a reputable, qualified, and established actuarial firm, and has agreed to provide actuarial services to the Systems; and

WHEREAS, The Systems is responsible for administration of three retirement systems, including an insurance fund, and desires to avail itself of the services of the Actuary to fulfill its responsibility under Kentucky Revised Statutes Chapters 61.645, 61.670, and other provisions of law.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties contract as follows:

1. **DEFINITIONS.**

   a. "Actuary" means the legal entity known as Cavanaugh Macdonald Consulting, LLC, and its officers, employees and agents.

   b. "Consulting Actuaries" means the Primary Actuary and all Secondary Actuaries assigned to and providing services directly to KRS under this contract.

   c. "Contract" means the negotiated contract, the terms and conditions of the RFP, the Actuary's proposal made in response to the RFP, and any written clarifications or changes made in accordance with the provisions herein.

   d. "KRS" means the Kentucky Retirement Systems as it is defined in the Kentucky Revised Statutes.

   e. "Primary Actuary" means the lead and most senior actuary assigned to and providing services directly to KRS.

   f. "Secondary Actuary" means the less senior actuary(ies) that will support the Primary

Actuary in providing direct services to KRS.

2. **TERM OF CONTRACT**. This contract shall begin on July 1, 2013. The initial term of the contract shall be for a three (3) year period ending on June 30, 2016. KRS shall have the option to renew this contract, subject to mutual agreement, for three (3) additional one-year periods. Notice of renewal will be served upon the Actuary thirty (30) days prior to the expiration of the initial contract period or subsequent renewal date.

3. **DELIVERABLES**.

3.1 Actuary Assurances and Warranties: All services will be performed for KRS in accordance with, but not limited to, generally recognized and accepted principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries. The Actuary shall perform its services with the judgment, care, skill, prudence, and diligence which persons of prudence, discretion, and intelligence acting in a like capacity and familiar with such matters would use in performing like services relative to the conduct of the enterprise of like character and with like aims.

3.2 Reports and Presentations: The Actuary shall provide as many copies of the reports, including but not limited to those in paragraph 3.3, as are reasonably requested by KRS. Reports may include both written reports and oral presentations to legislative committees, the KRS Board of Trustees, KRS staff, or other relevant parties as requested from time to time.

3.3 The Actuary shall be responsible for the following deliverables as they are required by KRS and such other deliverables as may be mutually agreed upon in writing between the Actuary and KRS:

3.3.1 General Duties:

(i) Load and reconcile KRS data. KRS will furnish the Consulting Actuaries with all data and statistical information necessary to perform the specified contract services, provided the data is available in the RKS records and files. Data will be provided in a form agreed upon by KRS and the Consulting Actuaries.

(ii) Treat all member information as confidential. The Consulting Actuaries shall comply with Kentucky Revised Statute 61.661 regarding the confidentiality of member and annuitant information.

(iii) Seek written consent prior to public release of information resulting from the engagement. With respect to any publicity given to the actuarial services provided under the terms of the resulting contract, the Actuary shall identify KRS as the sponsoring agency and shall not release any information without prior approval of the KRS Executive Director or appointed designee. This information includes, but is not limited to, press releases, research, and reports.

(iv) Communicate directly to the KRS Executive Director or appointed designee. KRS expects the Consulting Actuaries to route all requests, reports and all other communication in connection with this contract through the Executive Director or appointed designee.

(v) Document discussion ideas, issues, and manage extended services. Share responsibility with KRS for documenting in writing all ideas and issues that arise in discussions and meetings. The Primary Actuary must review, approve, and sign all price quotations for extended services, all final reports, all correspondence regarding actuarial assumptions and other technical issues.

(vi) Perform all services within the scope of the contract under the direct supervision of a qualified actuary. The Consulting Actuaries must be regularly engaged in the business of providing actuarial services and meet the Minimum Qualifications outlined in Section I.B. of the RFP. The firm's choice of Consulting Actuaries must be employees of the firm. KRS reserves the right to reject the firm's choice of Consulting Actuaries and may terminate the contract if a consulting actuary, acceptable to the KRS Executive Director, cannot be made available by the firm.

3.3.2 Valuation Services:

(i) Perform annual actuarial valuations of the assets and liabilities of the System as required by Kentucky Revised Statute 61.565 and 61.670 for the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS) and the State Police Retirement System (SPRS) for each of the fiscal years ended June 30, 2013, June 30, 2014, and June 30, 2015. The results of the actuarial valuations will be presented in a report to the Board and will be certified by the Primary Actuary. Minimum report requirements and deadlines are specified in Appendix A.

(ii) Annual Actuarial Investigation: The Actuary will perform an annual actuarial investigation during the term of this Contract. The results of these investigations will be used with the results of other years' investigations to complete an actuarial experience study for the period July 1, 2008 through June 30, 2013. Under state law, completion of an experience study of the Systems is required at least once in every ten (10) years by Kentucky Revised Statutes 61.670. A summary of the annual actuarial investigation shall be contained in the annual actuarial valuation.

(iii) Comprehensive Annual Financial Report (CAFR). The Primary Actuary will annually prepare a letter and summary of the annual actuarial valuation for reproduction in the KRS CAFR. The letter and valuation summary shall be prepared in accordance with Governmental Accounting Standards Board (GASB) principles and reporting requirements.

(iv) Provide/Develop a simulation model for use by KRS. Develop, deliver and install a simulation model for use by KRS based on the most recent year's valuation results and current plan provisions. The model shall project actuarial and statutory contribution rates, asset and liability measures, and the unfunded actuarial accrued liability. The model will allow KRS to make projections based on changes to key variables such as investment return, amortization period, medical inflation rates, future Cost of Living Adjustments (COLA), and future payroll growth scenarios. The model shall be updated and provided to KRS within sixty (60) calendar days after completion of each annual valuation. The Consulting Actuaries shall provide the necessary training and, upon request, technical assistance to the System.

3.3.3 Consultation and Advisory Services:

(i) Provide actuarial consultation and advisory services. These services will be delivered in meetings and by telephone calls, written correspondence and reports. KRS expects these services may include public testimony to committees, boards, commissions, and legislators on any technical, policy, legal or administrative issues arising during the course of KRS operations. Either the Primary or a Secondary Actuary should be readily accessible to the KRS Executive Director or appointed designee by telephone within one (1) working day and will be available for meetings within ten (10) working days of a request. KRS expects the Primary Actuary to attend at a minimum the fourth quarter meeting of the KRS Board of Trustees during each year this contract is in effect to give presentations and/or answer questions regarding the annual actuarial valuation. KRS also expects the Primary Actuary to be available for educational discussions with the Board of Trustees and/or KRS employees. The Primary Actuary must have the ability to discuss actuarial theory, actuarial terminology and other matters in lay terms.

(ii) Prepare various actuarial operating tables and factors. From time to time, revision and review of these tables and factors may be required for operation of the system. These tables and factors include, but are not limited to payment option tables for retirees and beneficiaries, present value factors, service purchase factor tables, and present value calculations. The Primary or Secondary Actuary must be available on-site as requested to assist with implementation of any factors.

(iii) Prepare actuarial cost estimates of proposed legislation. The Consulting Actuaries shall provide timely actuarial cost analysis of proposed statutory amendments as requested by the KRS Executive Director or appointed designee. All actuarial cost analysis must be completed in accordance Kentucky Revised Statute 6.350. KRS expects the Consulting Actuaries to prepare an average of ten (10) to fifteen (15) estimates per contract year. The majority of these actuarial analysis requests will occur during the regular session of the Kentucky General Assembly and will require the actuary's response within five (5) working days or sooner.

(iv) Recommend possible improvements in KRS financing and benefit structure. Throughout the duration of the contract, the Primary Actuary will inform KRS of developments in the retirement industry and their effect on the financing and benefit structure of a retirement system. The Primary Actuary should keep the Executive Director or appointed designee apprised of current trends and advancements within the actuarial profession.

(v) Assist KRS staff in drafting new legislation or proposed changes to existing retirement laws affecting KRS. Furthermore, the Consulting Actuaries should assist KRS in developing strategies and recommend specific strategies for resolving any policy or administrative problems associated with implementing new legislation.

(vi) Assist in establishing actuarial specifications for KRS data files. From time to time KRS may ask the Consulting Actuaries to provide feedback on the content of the data files and make suggestions for modifications to ensure that the full range of data needed for costing proposed legislation and performing actuarial valuations, experience studies and asset/liability studies is maintained.

(vii) Provide advice on special benefit cases. KRS may occasionally request that the Consulting Actuaries review individual benefit applications and perform computations related to these special cases.

3.3.4 Extended Contract Services and Deliverables. The Consulting Actuaries will perform the services identified below on an as-needed basis.

(i) Conduct experience studies. When requested, conduct experience studies for KRS and make recommendations for changing actuarial assumptions and/or the actuarial cost method, as appropriate, for presentation to the Executive Director, Executive Director and Board of Trustees. The next experience study to be conducted shall cover the time period from July 1, 2008 through June 30, 2013. The results shall be presented to the KRS Board of Trustees in early 2014. Any assumption or actuarial cost method changes that are approved by the KRS Board of Trustees shall then be used in the June 30, 201~~5~~4 actuarial valuation. This cycle will be repeated every five (5) years. TC

(ii) Conduct asset/liability studies. Conduct or provide assistance with asset/liability studies and modeling.

(iii) Perform other services as requested. The Actuary may be requested to provide additional consulting services or develop reports, which are not specifically listed in this scope of services. These services and/or reports will be negotiated individually with the actuary on an as needed basis.

4. **FEES, HOURLY RATES AND EXPENSES**. In exchange for the services and deliverables provided to KRS by the Actuary, KRS will pay the Actuary the fees and hourly rates for services set forth in the Kentucky Retirement Systems Fee Proposal – Actuarial Consultant (copy attached and made a part of this contracts as if set forth herein) originally submitted by Cavanaugh Macdonald Consulting, LLC in response to KRS' RFP issued in April 2012, as updated by a letter dated February 11, 2013 (copy attached and made a part of this contracts as if set forth herein) from Cavanaugh Macdonald Consulting, LLC to KRS.

Travel time is hereby specifically excluded from being a chargeable service. All travel, lodging and subsistence expenses will be reimbursed at amounts and rates permitted under the Systems' Travel Policy and Procedures, attached hereto and made a part hereof, except for fees and costs detailed in Item 6 below. All requests for reimbursement must be accompanied by receipts for expenditures where applicable.

5. **EXTENDED SERVICE FEES**. Periodically, KRS may request services and/or deliverables from the Actuary in which a project fee is more suitable. In the event that a project is requested, KRS will provide the Actuary with the general scope of the project and allow the Actuary to submit a proposed project cost. If the proposed project cost is acceptable to KRS, services and deliverables related to the project will be billed to KRS on a monthly basis. Monthly billing shall equal the agreed upon project cost divided by the number of months anticipated for the project. KRS shall pay the monthly billing minus five (5) percent. KRS shall retain the five (5) percent until completion of the project. Upon completion of all project requirements, KRS shall assess the Actuary's performance and determine how much of the retained amount will be paid to the Actuary. The Actuary will be entitled to the full retained amount if all project and performance requirements were completed to KRS' satisfaction.

6. **TERMINATION OF CONTRACT**.

6.1 Termination for cause: KRS may terminate the contract at any time after fifteen (15) calendar days written notice if the Actuary fails to carry out its obligations under this Contract. KRS shall provide the Actuary with fifteen (15) calendar days written notice of conditions endangering performance. If after such notice the Actuary fails to remedy the conditions contained in the notice, KRS may do one or more of the following:

- exercise any remedy provided by law;
- terminate the Actuary's services; and
- seek monetary damages from the Actuary.

6.2 The Actuary shall not be considered to be in default under this contract, nor shall monetary damages be assessed, if performance is delayed or made impossible by an act of God, or such other event that is beyond the reasonable control of the

Actuary. In each such case, the delay or impossibility must be beyond the reasonable control and without the fault or negligence of the Actuary.

6.3 Should KRS obtain a money judgment against the Actuary as a result of a breach of this contract, the Actuary consents to such judgment being offset against monies owed the Actuary by KRS under this or any other agreement with KRS.

6.4 Amounts due to KRS as monetary damages may be deducted by KRS from any money payable to the Actuary pursuant to this or any other agreement. KRS shall notify the Actuary in writing of any claims for damages on or before the date KRS deducts such sums from money payable to the Actuary.

6.5 Should either party be in default of its obligations, the party not in default shall issue a written notice of default providing for an agreed time frame in which defaulting party shall have an opportunity to cure, provided that the cure is possible and feasible. If after opportunity to cure, the default remains, the party not in default may exercise any remedy provided by Kentucky law.

6.6 Notwithstanding any other provisions of contract, if funds anticipated for continued fulfillment of said contract are at any time not forthcoming or sufficient, either through the failure of KRS to receive appropriated funds, discontinuance, or material alteration of the program for which funds were provided, then KRS shall give written notice as soon as practical documenting the lack of funding, discontinuance, or program alteration. Unless otherwise agreed to by the parties, the contract shall become null and void on the last day for which appropriations were available.

6.7 Remedies of the Actuary in Event of Termination by KRS. In the event of termination of this Contract for any reason by KRS, KRS shall pay only those amounts, if any, due and owing to the Actuary for services actually rendered up to and including the date of termination of the Contract and for which KRS is obligated to pay pursuant to this Contract. Payment will be made only upon submission of invoices and proper proof of the Actuary's claim. This provision in no way limits the remedies available to KRS under this Contract in the event of termination. However, KRS shall not be liable for any of the following costs:

6.7.1 Payment of unemployment compensation to the Actuary's employees;

6.7.2 Payment of workers' compensation claims, which occur during the Contract or extend beyond the date on which the Contract terminates;

6.7.3 Any costs incurred by the Actuary in its performance of the Contract, including, but not limited to: startup costs, overhead or other costs associated with the performance of the Contract;

6.7.4 Any taxes that may be owed by the Actuary in connection with the performance of this Contract, including, but not limited to, sales taxes, excise taxes, use taxes, income taxes or property taxes.

6.8 Termination at will: KRS may terminate the contract without penalty on any day by giving written notice to the Actuary at least thirty (30) calendar days prior to the termination. The Actuary may terminate the contract without penalty on any given day by giving written notice to KRS at least one hundred eighty (180) days prior to the termination.

7. **EQUAL EMPLOYMENT OPPORTUNITIES**. The Actuary is prohibited from engaging in discriminatory employment practices forbidden by federal and state law, or executive orders pertaining to Equal Employment Opportunity.

8. **AUDIT AND EXAMINIATION OF RECORDS**. The Actuary agrees that the Auditor of the State of Kentucky, or any authorized representative of KRS, shall have access to, and the right to examine, audit, excerpt and transcribe any directly pertinent books, documents, papers, and records of the Actuary relative to services performed, orders, invoices or payments of this contract.

8.1 All records relating to this contract shall be retained by the Actuary for five (5) years following the date of final payment or completion of any required audit, whichever is earlier.

8.2 Compliance with this clause does not relieve the Actuary from retaining any records required by other laws or regulations of federal, state or local governmental units. The Actuary will not be eligible for additional payments from KRS, for expenses incurred, to comply with the foregoing audit requirements.

9. **CONTRACT CHANGES**. Changes in contractual provisions or services to be furnished under the contract may be made only in writing and must be approved mutually by the Actuary and KRS.

10. **INDEMNIFICATION AND LIABILITY RESTRICTIONS**.

10.1 The Actuary will indemnify KRS against liability for any suits, actions, or claims arising from or relating to performance of the Actuary under this contract.

10.2 KRS has no obligation to provide legal counsel or defense to the Actuary if a suit, claim, or action is brought against the Actuary or its subcontractors as a result of the Actuary's performance of its obligations under the contract. In addition, KRS has no obligation for the payment of any judgments or the settlement of any claims against the Actuary as a result of the Actuary's performance of its obligations under the contract. The Actuary shall immediately notify KRS of any claim made or suit filed against the Actuary resulting from the Actuary's obligations under the contract. The Actuary will cooperate, assist, and consult with KRS in the defense or investigation of any claim made or suit filed against KRS resulting from the Actuary's performance under the contract.

10.3 KRS will not indemnify the Actuary for any reason associated with the Actuary's performance under this Contract. KRS has not waived any right or entitlement to claim sovereign immunity under this Contract.

10.4 The Actuary agrees to indemnify and hold KRS, its Executive Director, Employees, Board of Trustees, harmless from any and all liabilities, damages, settlements, judgments, costs and expenses, including reasonable attorney fees of KRS staff or of the Kentucky Attorney General's Office, and the costs and expenses and attorney fees of other counsel KRS may retain, related to or arising from:

10.4.1 property damage, personal injury, death, loss costs, expense or other harm arising out of, resulting from, relating to or connected with any act or omission by the Actuary, its divisions, subsidiaries, partners, principals, employees, agents, elected or appointed officials, officers and directors in fulfilling this contract; or

10.4.2 claims for infringement of patents, trademarks, trade dress, trade secrets, or copyrights arising from this contract; or

10.4.3 any breach or any claimed breach of this contract by the Actuary or by any of its partners, principals, officers, directors, employees and agents.

11. **TAXES**. KRS is exempt from federal excise taxes, and no payment will be made for any taxes levied on the Actuary's wage payments. KRS is exempt from state and local sales and use taxes on the services supplied pursuant to this Contract.

12. **SECURITY, CONFIDENTIALITY, AND OWNERSHIP OF DATA.**

12.1 Access to Confidential Data. The Actuary's employees, agents and subcontractors may have access to confidential data maintained by KRS to the extent necessary to carry out its responsibilities under the Contract. The Actuary shall presume that all information received pursuant to this Contract is confidential unless otherwise designated by KRS. The Actuary shall provide to KRS a written description of its policies and procedures to safeguard confidential information. Policies of confidentiality shall address, as appropriate, information conveyed in verbal, written, and electronic formats. The Consulting Actuary shall remain the responsible authority in charge of all data collected, used, or disseminated by the Actuary in connection with the performance of the Contract. The Actuary shall provide adequate supervision and training to its agents, employees and subcontractors to ensure compliance with the terms of this Contract. The private or confidential data shall remain the property of KRS at all times.

12.2 No Dissemination of Confidential Data. No confidential data collected, maintained, or used in the course of performance of the Contract shall be disseminated except as authorized by law and with the written consent of KRS either during the period of the Contract or thereafter. Any data supplied to or created by the Actuary shall be considered the property of the Agency. The Actuary must return any and all data collected, maintained, created or used in the course of the performance of the Contract in whatever form it is maintained promptly at the request of KRS.

12.3 Subpoena. In the event that a subpoena or other legal process is served upon the Actuary for records containing confidential information, the Actuary shall promptly notify KRS and cooperate with KRS in any lawful effort to protect the confidential information.

12.4 Reporting of Unauthorized Disclosure. The Actuary shall immediately report to KRS any unauthorized disclosure of confidential information.

12.5 Survives Termination. The Actuary's obligation under this Contract shall survive termination of this Contract.

13. **RIGHTS IN PRODUCTS.** KRS retains all rights to the services and deliverables, and other results of the contract. These rights exclude any copyrighted materials by the Actuary that are utilized by KRS. The Actuary may not reproduce or otherwise use the products of this contract without the written consent of KRS.

14. **WARRANTY AGAINST CONTIGENT FEES.** The Actuary warrants that no person or selling agency has been employed or retained to solicit and secure this contract upon an agreement or understanding of commission, percentage, brokerage or contingency fee except bona fide employees maintained by the Actuary for the purpose of securing business. For breach or violation of this warranty, KRS shall have the right to immediately terminate this contract without liability other than for services already performed, or in KRS discretion, to deduct from the contract price or to otherwise recover, the full amount of such commission, percentage, brokerage or contingency.

15. **CERTIFICATION OF INDEPENDENT PRICE DETERMINATION.** By signing this contract, the Actuary certifies that its prices in this contract have been arrived at independently, without consultation, communication, or agreement, for the purpose of restricting competition, as to any matter relating to such prices with any competitor. No attempt was made by the Actuary to induce any other person or firm to submit or not submit a proposal for the purpose of restricting competition.

16. **CONTRACT.** This contract between KRS and the Actuary shall include the negotiated contract, the terms and conditions of the RFP, the Actuary's proposal made in response to the RFP, and any written clarifications or changes made in accordance with the provisions herein. In the event of conflict between the documents, the rights of KRS and

the Actuary shall be determined by first examining this agreement, then examining any written clarifications or changes that follow the effective date of this contract, then the RFP, and finally the Actuary's response to the RFP.

17. **RELEASE OF INFORMATION ABOUT THIS CONTRACT**. News releases or other material pertaining to this contract shall not be made available to the public, the actuary's clients or potential clients without prior written approval of KRS.

18. **AUTHORITY OF KRS**. KRS shall determine the quantity, quality, and acceptability of work under this contract. KRS shall decide all questions regarding performance and fulfillment of the contract, including the obligations of the Actuary.

19. **ASSIGNMENT**. The Actuary shall not assign the contract in whole or in part or any payment arising from the contract without prior written consent of KRS and subject to such conditions and provisions as KRS may deem necessary.

20. **PROHIBITION AGAINST GRATUITIES**. Kentucky law provides that it is a felony to offer, promise or give anything of value or benefit to an elected official, public official, public employee, candidate, or that person's immediate family member, with the intent to influence that person's acts, opinion, judgment or exercise of discretion with respect to that person's duties. In addition to any criminal and civil penalties, KRS may, by written notice to the Actuary, terminate this contract, if the Actuary violates this section.

21. **CONFLICT OF INTEREST.** The Actuary hereby certifies that the Actuary is legally entitled to enter into the subject contract with the Commonwealth of Kentucky and certifies that Contractor is not and will not be violating any conflict of interest statute (Kentucky Revised Statutes 121.056 or any other applicable statute) or principle by the performance of this contract. The Contractor shall not engage directly or indirectly in any financial or other transaction with a trustee or employee of Systems which would violate standards of the Executive Branch Ethics provisions, as set forth in Kentucky Revised Statutes Chapter 11A.

22. **PUBLICATION OF INFORMATION ABOUT THIS CONTRACT.** News releases or other material pertaining to this contract shall not be made available to the public, the contractor's clients or potential clients without prior written approval of the Systems.

23. **BENEFIT OF MORE FAVORABLE TERMS.** For so long as this Contract remains effective, the Constructor shall promptly advise the Systems of any fee agreement or arrangement between the Contractor and any of its clients that contains more favorable terms than those set forth in this Contract. The Systems shall automatically receive the benefit of any such more favorable terms at the Systems' option.

24. **SEMINARS.** In the event the Contractor conducts seminars, training sessions or similar events which are generally made available to the Contractor's clients, the Systems shall be invited to attend upon the same terms and conditions as such other clients.

25. **USE OF THIRD-PARTIES AND SUBCONTRACTORS**. KRS acknowledges that the Actuary may contract with third parties for the performance of any of the Actuary's obligations under this Contract. All subcontracts shall be subject to prior approval by KRS. The Actuary may enter into these contracts to complete the project provided that the Actuary remains responsible for all services performed under this Contract. All restrictions, obligations and responsibilities of the Actuary under this Contract shall also apply to the subcontractors. KRS shall have the right to request the removal of a subcontractor from the Contract for good cause.

26. **WORKERS' COMPENSATION AND UNEMPLOYMENT INSURANCE**. During the term of the contract, the Actuary shall provide and maintain for all employees of the Actuary engaged in work under this contract, workers' compensation and unemployment insurance as required by applicable law.

27. **LIABILITY, MALPRACTICE AND/OR ERRORS AND OMISSIONS INSURANCE**. The Actuary shall maintain malpractice and/or an Errors and Omissions Insurance Policy in the amount of at least $2,000,000. Additionally, the Actuary shall maintain adequate business insurance to include an umbrella liability policy of at least $2,000,000 total. Coverage under these policies must include protection from the fraudulent conduct and breach of fiduciary responsibility of the Actuary. Evidence of insurance shall be furnished at contract signing and upon request.

28. **CONTROLLING LAW, JURISDICTION AND VENUE, WAIVER.** All questions as to the execution, validity, interpretation, construction, and performance of this agreement shall be construed in accordance with the laws of the Commonwealth of Kentucky, without regard to conflict of laws principles thereof. Actuary hereby consents to the jurisdiction of the courts of the Commonwealth of Kentucky and further consents that venue shall lie in the Franklin Circuit Court located in Franklin County, Kentucky. To the extent that in any jurisdiction Actuary may now or hereafter be entitled to claim for itself or its assets immunity from suit, execution, attachment (before or after judgment) or other legal process, Actuary to the extent it may effectively do so, irrevocably agrees not to claim, and it hereby waives same.

29. **ACTUARY PERSONNEL**. KRS may request replacement of any of the Actuary's personnel believed unable to carry out the responsibilities of this contract. KRS shall approve replacement personnel. Such approval shall not be unreasonably withheld. Such approval shall in no way lessen the Actuary's responsibility for the proper selection, assignment, management, and discipline of the Actuary's employees.

30. **NOTICE OF MATERIAL CHANGES.** Actuary shall notify the KRS Executive Director in writing within five (5) business days of any material changes in senior officers, significant legal actions instituted against Actuary, or any investigations, examinations, or other proceedings commenced by any governmental agency. Notices required in this Item shall be served on the Systems by registered or certified mail.

31. **ACTUARY'S TERMINATION AND TRANSITION DUTIES**. If this contract is terminated with or without cause, not renewed, or if the Actuary is not the successful bidder at the next RFP process, the Actuary, upon the receipt of notice from KRS, shall:

31.1 Cease work under this Contract and take all necessary or appropriate steps to limit disbursements and minimize costs, and furnish a report within thirty (30) days of the date of notice of termination, describing the status of all work under the Contract, including, without limitation, results accomplished, conclusions resulting there from, or any other matters KRS may require.

31.2 Immediately cease using and return to KRS any personal property, records, data, or materials, whether tangible or intangible, provided by the provided by KRS to the Actuary, unless otherwise directed by KRS.

31.3 Comply with KRS instructions for the timely transfer of any active files and work product produced by the Actuary under this Contract.

31.4 Cooperate in good faith with KRS, its employees, agents, and contractors during the transition period between the notification and the substitution of any replacement contractor.

31.5 Immediately return to KRS any payments made by KRS for services that were not rendered by the Actuary.

32. **INDEPENDENT CONTRACTOR STATUS**. It is expressly understood and agreed that the Actuary will act an as independent contractor in performance of this contract. No provision hereunder shall be intended to create an employer/employee relationship with respect to the Actuary's employees and KRS. Nor shall this contract be construed to create a partnership or joint venture with respect to the services and deliverables, or otherwise.

33. **INTEGRATION**. This contract represents the entire agreement between the parties and neither party is relying on any representation that may have been made which is not included in this contract.

34. **HEADINGS OR CAPTIONS**. The paragraph headings or captions are for identification purposes only and do not limit or construe the contents of the paragraphs.

35. **SUPERSEDES FORMER AGREEMENTS**. This Agreement supersedes all prior Agreements between the Actuary and KRS for the services provided in connection with this Agreement.

36. **NOTICE:** Any notice, advice or report to be given pursuant to this Contract shall be delivered or mailed to:

FOR KRS:

William A. Thielen
Executive Director
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, Kentucky 40601
E-mail: bill.thielen@kyret.ky.gov
Phone: (502) 696-8444
Fax: (502) 696-8801

FOR ACTUARY:

Thomas J. Cavanaugh
Chief Executive Officer
Cavanaugh Macdonald, LLC
200 Main Street
Suite 201H
Hilton Head Island, South Carolina 29926
E-mail: tomc@cavmacconsulting.com
Phone: (843) 686-3088
Fax: (678) 388-1730

37. **SEVERABILITY.** If any provision of this Agreement is deemed invalid or unenforceable, the remainder shall be valid and enforceable.

38. **WAIVER OF INFORMALITIES.** Failure of KRS at any time to require strict performance of any provision of this contract shall not constitute a waiver of that provision nor in any way limit the enforcement of the provision.

39. **COUNTERPARTS**. This contract may be executed in any number of counterpart copies, each of which when fully executed shall be considered as an original.

40. **INVOICES**. Actuary shall submit an invoice each month for services rendered to KRS. KRS shall be permitted a reasonable period to verify that the invoiced services were rendered and pay the invoice. The Actuary shall not be entitled to any interest unless provided for under Kentucky law.

IN WITNESS, WHEREOF the parties have agreed to all provisions contained in this contract for actuarial services and have executed this contract on the date indicated below.

KENTUCKY RETIREMENT SYSTEMS

By: William A. Thielen
William A. Thielen
Executive Director

Date: 2-28-13

CAVANAUGH MACDONALD CONSULTING, LLC

By: TJC
Thomas J. Cavanaugh FSA, FCA, EA, MAAA
Chief Executive Officer

Date: 3/4/13

Reviewed as to Form and Legality:

Jennifer Jones
Interim General Counsel
Kentucky Retirement Systems