



**KENTUCKY RETIREMENT SYSTEMS
INVESTMENTS**



TO: Kentucky Retirement System Board of Trustees
FROM: David Peden, Chief Investment Officer
DATE: May 21, 2015
SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on May 5, 2015. The purpose of the meeting was to evaluate investment activities, program structure, management, controls, and performance results of the Pension and Insurance Funds, for the quarter ending March 31, 2015, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on February 3, 2015.

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

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

KRS Investment Staff and consultant PCA recommended a capital commitment of 20 million euro to Keyhaven Capital Partners IV, L.P. and 20 million euro to a co-investment entity that will invest along side the fund, both having a European private equity focus. The investment committee approved this investment. All Pension systems except for KERS Non-Hazardous and all five insurance systems will participate in this investment. The investment manager in the marketing and due diligence process used no placement agents.

KRS Investment Staff and consultant Albourne recommended a Real Return investment of one percent of the aggregate KRS portfolio, with an initial investment of \$100 million, to be managed by AMERRA Capital Management, LLC in their agricultural lending strategy. The investment

committee approved this investment. All five Pension systems and all five insurance systems will participate in this investment. The parent company of AMERRA did describe their marketing person as a placement agent in the placement agent disclosure form presented to the investment committee. KRS has asked the fund to not pay this individual a placement fee based on KRS' investment and the fund has agreed.

KRS Investment Staff and consultant Albourne recommended a capital commitment of \$50 million to a Real Return investment called MTP Energy Opportunities Fund II managed by Magnetar. The investment committee approved this investment. All five Pension systems and all five insurance systems will participate in this investment. The investment manager in the marketing and due diligence process used no placement agents.

Staff recommended hiring PRISMA Capital Partners on a trial basis for a Strategic Partnership to help to continue to build out the direct hedge fund portfolio. The investment committee approved this recommendation. There are no expenses or obligations to KRS associated with this arrangement.

Staff recommended acquiring a technological platform called Burgis Private I via BNY Mellon (KRS' Custodial Bank) that is used for improving the accounting, transparency, performance analysis, and data aggregation of the KRS Private Equity and other closed-end limited partnerships. The investment committee approved this recommendation. There is an annual fee associated with this software and service of \$150,000 that will be added to our quarterly BNY Mellon custodial fees. It should be noted that a formal RFP process was not conducted to choose this provider because staff had reviewed the technological capabilities of multiple providers over the course of a number years and had previously identified the Burgis software to be the system most beneficial to the KRS investment program. In addition, there are efficiencies gained via BNY Mellon since this is the technological platform they utilize and much of the data entry will be conducted by BNY Mellon at no cost to KRS dollar wise or in terms of staff time. The expense will not be part of the administrative budget, which has to be appropriated, and instead will be treated as a variable expense just as the BNY Mellon custodial fee is currently. The effect of this fee will be to reduce the gross and net performance of the aggregate KRS portfolios by 0.001% annually.

Staff discussed the engagement of CEM in an investment fee benchmarking study and the output and use of such a study. Staff discussed with the investment committee the fact that CEM was uniquely qualified to perform such a study. This was for informational purposes only and no action was taken.

Consultant RV Kuhns presented the results of the asset/liability studies for the five pension systems. Questions were encouraged and asked throughout the presentation. This was for informational purposes only and no action was taken.

Please see the next page for a summary of the Pension and Insurance performance information ending March 31, 2015.

Pension Funds Performance Overview								
Rates of Return (%) as of March 31, 2015								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	4.82	5.35	10.84	10.80	9.08	9.48	6.49	6.26
Fixed Income	4.80	5.33	4.66	3.49	5.92	4.88	5.28	5.08
Private Equity	8.77	8.77	14.80	14.80	13.96	14.28	9.51	10.67
Real Estate	8.04	11.46	9.28	11.38	11.56	12.86	6.18	6.11
Absolute Return	3.53	4.46	7.51	5.45	N/A		N/A	
Real Return	1.09	1.90	2.20	3.12	N/A		N/A	
Cash Equivalents	0.16	0.03	0.37	0.05	0.44	0.07	1.99	1.41
Total Fund	4.78	6.06	8.55	9.17	8.05	8.48	6.24	6.44

Insurance Funds Performance Overview								
Rates of Return (%) as of March 31, 2015								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	5.11	5.39	10.85	10.68	8.79	9.28	6.19	5.94
Fixed Income	3.37	5.33	4.00	3.49	5.63	5.39	5.30	5.10
Private Equity	13.35	13.35	15.95	15.95	14.82	14.74	8.92	10.08
Real Estate	8.77	11.46	8.62	11.38	14.55	12.86	N/A	
Absolute Return	3.58	4.46	7.54	5.45	N/A		N/A	
Real Return	1.14	2.27	1.89	3.25	N/A		N/A	
Cash Equivalents	0.20	0.03	0.31	0.05	0.29	0.07	1.81	1.41
Total Fund	4.77	6.66	8.03	9.21	7.40	8.77	5.62	6.06

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