KENTUCKY RETIREMENT SYSTEMS
Investment Division

DATE October 22, 2015

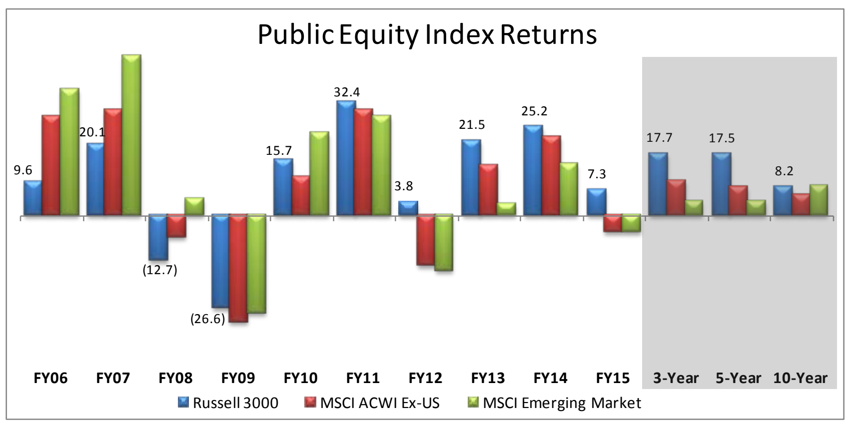
TO: Members of the Investment Committee

FROM: Staff and Consultant

Subject: Executive Summary of Public Equity Asset Class Review

Public equity markets were a tail of two sides of the coin for the 2015 fiscal year. U.S. markets performed well; the broad market provided a 7.3% return during the period as evidenced by the Russell 3000 Index. Non-U.S. markets struggled, unable to tread water during the period. Developed Non-U.S. markets were off -3.8% per the MSCI EAFE Index, while Emerging Markets fell -4.8% according to the MSCI EM Index.

Domestic equity markets were flat during the first 3-months of the fiscal year; however, international markets opened with steep declines, influenced by poor performance in Europe (-5.2% MSCI ACWI Ex-U.S.). Emerging markets held up a little better than their developed counterparts falling -3.4%; those countries more heavily reliant on commodity exports fell the most, influenced by eroding prices.



U.S equity markets gained strength during the second quarter of the fiscal year, with the broad market returning 5.2%; this was spurred by a positive revision to GDP combined with the USD being perceived as a source of safety, and strengthened dramatically versus the global basket of currencies, in conjunction with falling oil prices. Geopolitical and macro events weighed heavily on the international markets; Russia's invasion of the Crimea Region, concerns over contagion from a Greek default, a China slow down, and commodity market sell offs to name a few. These events only exacerbated the performance dispersion between the U.S. and the rest of the world; the MSCI ACWI Ex-U.S. fell another -3.8% during the quarter.

Starting the second half of the fiscal year, despite slower than desired growth, U.S. investors were met with increased volatility as the broad equity market performance was a bit of a roller coaster, settling up 1.8% for the quarter. One noticeable take away from the quarter's performance was that in general returns improved as one moved down the capitalization structure; large caps returned 0.95% per the S&P 500, while small caps earned 4.3% evidenced by the Russell 2000. One explanation is found in the geography of earnings a company receives, hence currency. Larger companies in general derive a greater portion of their earnings from overseas than do smaller companies that tend to be more domestically focused. Geopolitical fears and adverse currency effects can erode earnings causing larger companies to underperform their smaller counterparts. International markets performed well during the start of 2015, as a few positives began to emerge. Developed markets rose 3.6%, with emerging markets gaining 2.3%. Japan rose as it reported improved GDP growth, while Europe showed signs of stabilization and a modest recovery began to emerge. China's financial markets received a significant boost as their central bank continued its attempts to introduce liquidity into its markets through lowered rates and reserve requirements, in hopes that these steps would jolt economic activity.

During the final quarter of the fiscal year, the U.S. markets were relatively flat, with a tough June giving up prior gains. The final month was heavily influenced by increased concerns overseas as questions began to emerge regarding global demand, and concerns of the implications surrounding a potential Fed rate increase. However, despite the questionable sustainability of Europe's recovery, and the ever mounting evidence of China's slowing economy that had been the world's growth engine during the U.S. credit crisis, international markets were able to add approximately 0.7% (MSCI ACWI Ex-U.S.).

For the fiscal year ending June 30, 2015, large caps outperformed small caps within the U.S. markets (7.42% vs. 6.49%). Growth significantly outperformed value investing, as investors paid up for growth in a growth starved world with little regard for valuations (R3000 Growth 10.7% vs. R3000 Value 3.9%). Outside of U.S. borders, developed country markets outperformed emerging markets (although also negative - see opening paragraph), as the steep commodity selloff significantly pressured those economies dependent on their production, amidst a consumption slowdown occurred due to a lack of demand from developed nations.

KRS Portfolios:

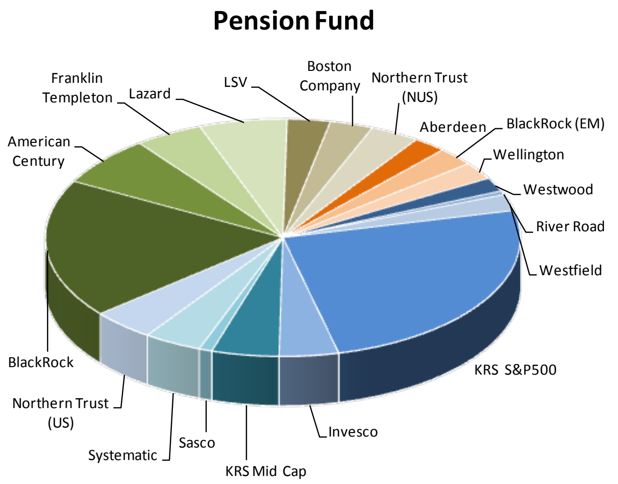
For the fiscal year ending June 30, 2015, both the Pension and Insurance KRS Total Portfolio Equity portfolios posted modest absolute results, while producing slight positive relative performance. The Pension portfolio posted a return of 0.7% versus 0.6% for the benchmark[i], while the Insurance portfolio grew 0.9% versus 0.7% for the benchmark[ii]. Relative performance was driven primarily by manager outperformance in the Non-U.S. Equity asset class, combined with an overweight position to U.S. Equities. The underweight position to Emerging Markets within the Insurance portfolio was also beneficial as they struggled during the period. Over the longer 5-year term, both funds have trailed their associated benchmarks; however, absolute returns have been strong, returning over 11%. Net performance is summarized in the following table:

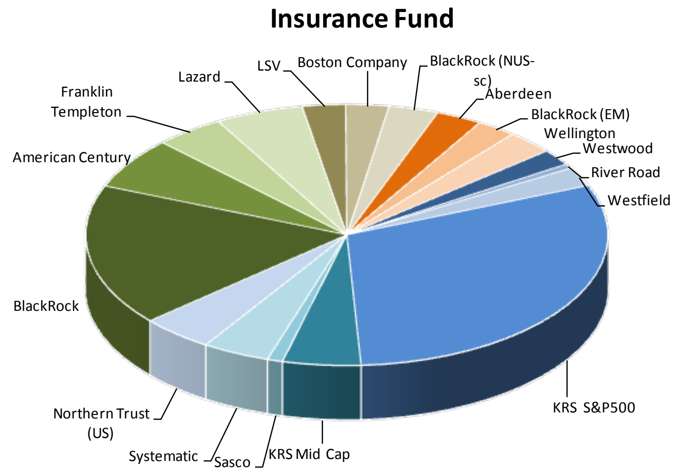
Public Equity Performance Review (Returns are Net)

		1 Year		3 Year		5 Year	
	% Fund	**KRS**	**Index**	**KRS**	**Index**	**KRS**	**Index**
Pension							
U.S. Equity	20.7%	6.0%	7.3%	17.2%	17.7%	16.9%	17.5%
Non-U.S Equity	20.0%	(4.0%)	(4.9%)	10.6%	9.9%	6.9%	8.4%
Emerging Markets#	3.1%	(6.7%)	(4.8%)	3.6%	4.1%	-	-
Total Equity	43.8%	0.7%	0.6%	13.3%	13.1%	11.7%	12.3%
Insurance							
U.S. Equity	23.5%	6.3%	7.3%	17.1%	17.7%	16.7%	17.4%
Non-U.S Equity	20.0%	(4.2%)	(4.9%)	10.4%	9.9%	6.3%	8.3%
Emerging Markets#	3.9%	(6.7%)	(4.8%)	3.6%	4.1%	-	-
Total Equity	47.4%	0.9%	0.7%	13.2%	13.0%	11.3%	12.2%

 # Emerging Markets dedicated allocation began June 30, 2011; thus, only the 1&3-year return are available. Prior EME performance is incorporated in Non-US trailing returns

As of June 30, 2015, the total public equity portfolios were valued at $5.03 billion and $2.00 billion for the Pension and Insurance Funds, respectively. The assets were distributed across 16 different asset managers as shown below (19 different mandates for the pension fund, and 18 for the insurance fund):





(Millions)	PENSION	INSURANCE
U.S. Equity		
Westwood	94.86	39.78
River Road	27.30	11.47
Westfield	112.23	47.07
Internally Managed S&P500	1,251.64	605.12
Invesco	202.89	-
Internally Managed Mid Cap	229.84	96.45
Sasco	45.08	18.97
Systematic	197.74	82.92
Northern Trust Global	215.30	90.06
	$2,376.88	**$991.84**
Non-U.S. Equity		
BlackRock, Inc	952.64	350.07
American Century	341.25	127.70
Franklin Templeton	233.75	85.46
Lazard	300.28	108.94
LSV	147.31	53.28
The Boston Company	147.36	53.43
Northern Trust Global - SC	168.52	-
BlackRock, Inc - SC	0.00	61.12
Transition/KRS Intl	5.10	1.61
	$2,296.21	**$841.61**
Emerging Markets		
Aberdeen Asset Mgmt	113.11	56.72
BlackRock, Inc	127.13	48.94
Wellington Management	120.23	58.54
	$360.47	**$164.20**
Total Public Equity	**$5,033.56**	**$1,997.65**

The most recent fiscal year was fairly eventful with regards to the KRS total public equity portfolio. Primary actionable activity focused on the Non-U.S. Equity portfolio, with research focused primarily on the U.S. Equity side. A fair amount of activity centered on rebalancing and meeting cash flow demands; most notably:

- The transition of the Non-U.S. Equity allocation into a new structure was completed and funded on July 1, 2014. The portfolio was positioned in a manner in which it is anchored by a large passive core mandate, flanked by greater conviction, higher concentration managers. Prior, more diversified managers were downsized.
    - Performance for FY15: KRS (3.99%) versus MSCI ACWI Ex-U.S. (4.85%)
- At the February 3, 2015 Investment Committee meeting, Staff and RVK jointly recommended the termination of Pyramis Global Advisors, an active Non-U.S. Equity manager, primarily due to continued staffing turnover at key decision making roles.
    - Transition of approximately $380 million in Non-U.S. Equity exposure was completed in March 2015; American Century Investments & Franklin Templeton being the recipients.
- Transitioned the Internal U.S. Mid Cap ETF portfolio from the Spyder MDY to the iShares IJH in June 2015. The gross performance of both ETFs is expected to be essentially the same; however, the transition cut the associated expense ratio in half (from 0.25% to 0.12%).
- Participated in a significant total fund rebalance that focused primarily on the Public Equity, Fixed Income, and Cash asset allocations. The pension fund generated over $230 million in funds from the U.S. Equity portfolio, which was redeployed into Non-U.S. Equities, Core Fixed Income, and $61 million in Cash. On the insurance fund side, approximately $60 million was raised from the U.S. Equity portfolio, combined with roughly $40 million from Cash, to be invested across the Non-U.S. and Emerging Market Equities, along with Core Fixed Income.
- Staff utilized both the U.S. and Non-U.S. portfolios for purposes of meeting cash flow needs. During the course of fiscal year ending 06/30/15, approximately $126 million was raised internally and from external managers, with almost half (approximately $62 million) to meet the benefit payments of the KERS systems (outside of the rebalance described in the previous bullet point).

Looking forward, staff expects to begin and continue several projects within the public equity portfolios:

- In response to the anticipated approval of a new asset allocation, staff will work to transition additional assets into the public equity space. Further, asset allocation decisions will necessitate a shift in invested dollars within the asset class.
- Having implemented a new structure within the Non-U.S. Equity allocation, and acknowledging a manager termination and the tilts created, additional scrutiny regarding the strategy mix will continue.
- Staff has begun and will continue to push towards a revamped U.S. Equity structure.
- Staff is continuing to evaluate its internal indexing capabilities to determine the department's ability to manage equity sub-asset classes in addition to the already managed U.S. large caps; primarily exploring U.S. mid caps, and smart beta indices.
- Staff will continue to evaluate the potential of introducing minimal/managed volatility strategies within the public equity space. This could take shape as a diversifier to the overall allocation, but could also become a more significant piece, potentially producing a more smoothed return profile.
- As a general concept, staff will be evaluating its use of passive versus active strategies and the most appropriate spaces within the context of public equity.
- Staff will continue, to work with the Chief Investment Officer, RVK, and other department directors to implement any necessary portfolio changes, rebalances, and cash needs required.

Manager Summaries:

Westwood Management

Westwood's U.S. All Cap Value strategy was funded for both the Pension and Insurance funds in June 2011. For the twelve-month period ending June 30, 2015, the strategy posted a net absolute return of 6.15%, outpacing the Russell 3000 Value Index's return of 3.86%. The relative outperformance was due primarily to allocation decisions and good stock selection within the materials sector, which contributed over 300 basis points. From an allocation perspective, the largest contribution came from an underweight to energy, the weakest performing sector during the fiscal year. The overweight to the consumer discretionary sector, in conjunction with an underweight to utilities, also contributed to the portfolio's success. Stock selection within the large and small cap spaces was beneficial. Since Inception, the portfolio has returned 12.44% annualized (net), versus a benchmark return of 13.37%.

Over the past 18-months, the firm has experienced net outflows due to client turnover of just over $700 million; however, it should be noted that no accounts were gained or lost regarding the strategy utilized by KRS.

There have been no changes to the ownership structure of the firm. There were no changes at the portfolio management team level.

River Road Asset Management

The River Road U.S. All Cap Dividend Value strategy was funded for both the Pension and Insurance funds in June 2011. The portfolio underperformed its benchmark, the Russell 3000 Value Index, for the 2015 fiscal year by 139 basis points (on a net basis). Allocation was the main driver of underperformance, detracting value in six of the ten sectors; the bulk of the underperformance came from the significant underweight to both the health care and financial sectors. Security selection detracted from overall performance, primarily within the utilities, consumer staples, energy, telecom, and financial sectors. Good security selection within the industrial and consumer discretionary sectors, combined with a slight underweight to the energy sector, served as a partial offset. Also, stock selection across market cap hampered performance, primarily within the large cap space. Since inception (07/01/11), annual returns have been a bit of a roller coaster ride; the portfolio has trailed its benchmark by 147 basis points (11.90% vs. 13.37% annualized).

The firm has experienced net inflows due to client gains of just over $2,800 million over the last 18 months.

The firm's ownership and management structure have remained stable since prior review. There were no significant organizational items to note for River Road outside of the completion of an ownership change mentioned in the prior annual review. The change was viewed as a positive event by staff and consultant, as 27.5% of the equity came back into the firm and was distributed among 10 employees including founders, portfolio managers, and senior staff, who subsequently signed 10-year employment contracts.

Westfield Capital Management

The Westfield Capital U.S. All Cap Dividend Growth strategy was funded for both the Pension and Insurance funds in June 2011. The portfolio produced a net return of 8.71% versus the Russell 3000 Growth Index's 10.69% during the 2015 fiscal year. Stock selection was the primary driver of this year's underperformance. The portfolio trailed in six of the ten economic sectors, with the Materials, Industrials, Consumer Staples, Consumer Discretionary, and Health Care sectors accounting for the majority of outperformance (roughly equally). Allocation decisions in aggregate helped to partially offset the underperformance from stock selection; however, the overweight to the healthcare sector is really what drove that outcome, contributing nearly 70 basis points of relative outperformance. Since Inception, the portfolio has provided 19 basis points of annualized relative outperformance (14.92% versus 14.73%).

The firm has experienced net outflows due to client turnover of just over $450 million over the last 18 months.

There have been no changes to the ownership or management structure of the firm in the past year, and the firm continues to be 100% employee owned. With that said, Westfield named two new partners in December 2014: Steve Wilner, Director of Operations, and Dee Silveira, Director of Information Technology. Westfield states that it may consider strategic opportunities to strengthen or supplement its investment or distribution capabilities, which could possibly result in a change of ownership or management structure; staff will need to continue to monitor the situation.

Internally Managed S&P 500 Index

The Internally Managed S&P 500 portfolios essentially performed in line with their underlying index for the 12-month period ending June 30, 2015. The Pension and Insurance funds posted respective returns of 7.42% and 7.43%, compared to the Index return of 7.42%; both portfolios essentially matching the S&P500.

Longer term, both portfolios have provided strong absolute returns, while providing mixed relative performance. Over the 3-year period the pension and insurance portfolios have trailed the index return of 17.31% by 11 and 6 basis points, respectively. For the 5-year period, both funds outperformed the 17.52% return of the benchmark; the pension and insurance funds posting 17.55% and 17.56%, respectively.

Invesco Advisors, Inc

Invesco has managed a core large cap U.S. equity mandate for the KRS Pension portfolio since July 1999. The Quantitative U.S. Core Equity portfolio underperformed its benchmark, the S&P 500 Index, for the twelve-month period ending June 30, 2015, by 296 basis points, returning 4.46%. The quantitative strategy struggled during the fiscal year as its predictive quality was anything but. Quantitative structures tend to perform better in trend environments and the heightened volatility of the fiscal year caused issues for the model. Further, the model ranks stocks amongst four broad categories: earning expectations, market sentiment, management quality, and value. Those stocks most highly rated by the model were market laggards during the fiscal year. In addition, the portfolio suffered from poor stock selection within the energy sector, combined with its overweight position to the sector which was one of the worst performers during the year. Over the mid-term time period (3-yr), the strategy has provided acceptable results, returning 17.85% versus the benchmark's 17.31%. Since inception (08/01/05) the portfolio has added 105 bps annually of relative outperformance (8.62% versus 7.57%).

Over the past 18-months, the strategy has experienced net outflows due to client turnover of just over $200 million, with one client citing performance concerns.

The firm's ownership and management structure have remained stable since prior year's review. There were no organizational items staff considered significant with regards to the management/operation of the strategy employed by KRS.

Sasco Capital

The Sacso Capital Mid Cap Value portfolio was funded for both the Insurance and Pension funds in June of 2012. The contrarian based portfolio significantly trailed the Russell Midcap Value Index, falling -8.76% compared to an index gain of 3.67%. The strategy was heavily influenced by top-down macro events that outweighed individual company fundamentals. The vast majority of underperformance came from sector allocation decisions. The significant overweight positioning to energy and materials accounted for approximately 850 basis points of underperformance, while the zero weight to healthcare only exacerbated the underperformance by another 300 basis points. Some comfort is gained that sector performance tends to mean revert over time, something that should be a benefit to the strategy. Since inception, the portfolio has returned 13.59% versus 19.13%; heavily influenced by the significant underperformance experienced in FY2015.

The strategy has experienced net outflows due to client turnover of just over $300 million, citing asset reallocation.

The firm's ownership and management structure have remained stable since being recommended to the Investment Committee in June 2012. There were no significant organizational items to note for Sasco.

Systematic Financial Management

The Systematic U.S. Mid Cap Value portfolio was funded for both the Insurance and Pension funds in June of 2012. The strategy underperformed the Russell Midcap Value Index for the 2015 fiscal year returning -

0.72% versus 3.67%. Relative underperformance was driven by stock selection and allocation decisions. Stock selection was primarily weak within the material, industrial, information technology, and consumer staples sector. As a general theme, the portfolio's underexposure to high-yielding stocks was a headwind for the strategy. From an allocation perspective the portfolio's overweight to energy detracted from performance. However, despite disappointing performance, both stock selection and allocation decisions have improved recently. The strategy has provided strong absolute returns since inception, but has trailed its benchmark, returning an annualized 16.04% versus 19.13%.

Over the past 18-months, the firm has experienced net outflows due to client turnover of just over $600 million, with most departing clients citing asset reallocation as the reasoning.

The firm's ownership and management structure have remained stable since being recommended to the Investment Committee in June 2012. The only change of note is the naming of Brian Kostka, Assistant PM, and Rick Plummer, Sr. Equity Analyst, as limited partners.

Internally Managed Midcap Index

The Internally Managed Russell Midcap portfolios were funded on August 1, 2014 in response to a manager termination. Over their short 11 month history, the portfolios have trailed the Russell Midcap Index by 12 basis points; returning 11.03% versus 11.15%.

Northern Trust Global Investments

The Northern Trust Global Investments (NTGI) Structured Small Cap portfolio outperformed its benchmark, the Russell 2000 Index, for the twelve-month period ending June 30, 2015 by 113 basis points, while providing a solid absolute return of 7.62%. Relative outperformance was almost entirely driven by stock selection, with allocation decisions having a small positive effect from a sector standpoint. Stock selection added the most relative value within the industrial, energy, and consumer staples sectors. Overweighting micro caps detracted from performance, as did not holding stocks that failed to pass the strategy's quality metrics. The strategy has continued to provide above benchmark results for all measured trailing periods. Since inception (10/01/99), the pension portfolio's annualized return has been 10.40% versus 8.49% from the index.

International small cap stocks slid -3.07% during the 2015 fiscal year, while the NTGI Broad International Small Cap portfolio (pension only) managed to hold up better, providing 37 basis points of downside protection. The strategy produced relative value at both the international developed and emerging market levels. Within the international developed small cap space, the portfolio's relative outperformance was primarily driven by a dividend tax differential versus the benchmark. Within the emerging market small cap space, the primary driver of outperformance came from sector allocation, and positive stock selection within the consumer staples sector. Since inception (12/01/08), the portfolio has returned 15.34%, versus the index return of 15.91%.

Over the past 18-months, neither the U.S. Equity Small Cap nor the Non-U.S. Equity Small Cap strategies have gained or lost any clients.

There were no significant organizational or management structure changes to report for the fiscal year.

Regarding the U.S. small cap team, Reed LeMar was named a PM/Research Analyst replacing Alex Ryder who was lost to an internal transfer. Robert Bergson remains the Lead Portfolio Manager, and has been since the strategy's inception in 1999.

There have been several staffing changes on the non-U.S. equity small cap team, with 10 PMs departing (4 of which were internal transfers), and five PMs & one APM being hired during the period. This is in the context of a 19 person team managing an index strategy. Despite the level of turnover, while acknowledging there is some cause for concern, staff takes some comfort in the fact that the strategy utilizes a team approach. Staff and consultant will continue to monitor the product to ensure these changes are not detrimental to performance.

The Boston Company Asset Management

The Pension and Insurance portfolios underperformed their primary benchmark, the Morgan Stanley Capital International All Country World Ex U.S. Index, for the twelve-month period ending June 30, 2015; with the strategy falling -6.61% versus -4.85%. The portfolio struggled as a structural bias continued to be a headwind; its deep value tilt could not keep pace in a market that has been heavily influenced by growth. The team cites the markets' willingness to pay a premium for bond proxies (high dividend yielders) as a general reason for structural underperformance. From a pure allocation perspective the portfolio's overweight to energy and materials served as a hindrance, as these were two of the weaker sectors for the period. Stock selection was weak from a country perspective, and to a lesser degree from that of a sector standpoint. Mid-term performance results have been mixed having struggled during 2010-2012 combined with strong performance in 2013; generating outperformance over the three-year period, but underperformance over the five year term. Since inception (05/01/05), the portfolio has returned 4.26% versus 5.06% for its benchmark.

The strategy has not experienced any significant activity regarding clients gained or lost over the past 18 months.

The firm's ownership and management structure have remained stable since prior review. There were no significant organizational items to note for the firm.

American Century Investments

The American Century Non-U.S. Equity Growth portfolio strategy was funded for both the Pension and Insurance funds in July 2014. The portfolios outperformed their primary benchmark, the Morgan Stanley Capital International All Country World Ex U.S. Index, for the twelve-month period ending June 30, 2015; providing 182 basis points of downside protection against the index return of -4.85%, having given up some of its outperformance during the 2Q15. From a sector standpoint, relative outperformance was primarily driven by allocation; the underweight to energy combined with the overweight to the consumer discretionary and information technology sectors benefited the portfolio. Stock selection detracted from performance specifically within the energy, consumer staples, and telecommunication sectors. From a regional standpoint, the portfolio benefited from both stock selection and country allocation decisions. Since inception (07/01/14), the portfolio has returned -3.03% versus its benchmark's return of -4.85%.

The firm has experienced net inflows due to client gains of just over $830 million over the last 18 months.

Since its hiring, the firm's ownership and management structure have remained stable. The firm has added a co-PM to the strategy along with three additional analysts. Jim Gendelman was hired to co-lead the strategy with Rajesh Gandhi. Mr. Gendelman replaces Alex Tudor who left the strategy prior to KRS hiring the firm, and has prior experience as a portfolio manager and analyst for both non-U.S. growth and global growth strategies. In addition, the Sr. Analyst covering energy and materials left the firm in March 2015, and was replaced in October 2015.

Franklin Templeton

The Franklin Templeton Non-U.S. Equity Growth portfolio was funded for both the Pension and Insurance funds in July 2014. The portfolios outperformed their primary benchmark, the Morgan Stanley Capital International All Country World Ex U.S. Index, for the twelve-month period ending June 30, 2015; falling -1.90% versus the index return of -4.85%. Outperformance was somewhat of a mixed bag. In terms of country based decisions, stock selection was a strong driver of outperformance, specifically within the emerging market region, along with Canada, the United Kingdom, France, and Germany. Country allocation decisions hampered performance primarily in the decision to underweight Japan. From a sector standpoint, the portfolio benefited from its underweight to the energy sector combined with its overweight to information technology. Security selection weighed on the portfolio's performance due to underwhelming results from the energy and industrial sectors. Since inception (07/01/14), as mentioned above, the portfolio has provided 295 basis points of downside protection.

The strategy has experienced net inflows due to client gains of just over $110 million over the last 18 months.

Since its hiring, the firm's ownership and management structure have remained stable. There have been no major staff changes of note within the strategy utilized by KRS. The Franklin Global Large Cap Team was formally created in January 2004, combining existing non-U.S. and U.S. investment teams. There has been no turnover in senior investment personnel since that date.

Lazard Asset Management

The Lazard Non-U.S. Equity Relative Value portfolio was funded for both the Pension and Insurance funds in July 2014. The portfolios outperformed their primary benchmark, the Morgan Stanley Capital International All Country World Ex U.S. Index, for the twelve-month period ending June 30, 2015; falling just -0.13% versus the index return of -4.85%. Outperformance was primarily provided through strong stock selection at both the sector and country levels. From a sector standpoint, the portfolio performed across all sectors with the exception of utilities which were essentially flat; the largest contributions came from solid stock selection within the financials, materials, energy, and health care spaces. From a country perspective, the portfolio benefitted from its stock selection in the United Kingdom, Australia, and the remaining Continental Europe. Net allocation decision effects were relatively modest both from a sector and country level perspective. Since inception (07/01/14), as mentioned above, the portfolio has provided 472 basis points of downside protection.

Over the past 18 months, the strategy gained 7 clients, while only losing one.

There have also been no ownership changes in the firm since it was hired. In addition, there have been no major staff changes of note within the strategy utilized by KRS. Lazard has had 21 new investment professionals join the firm in the past year, while having 9 investment professional departures (though none have been a part of the International Strategic Equity team, which is used by KRS).

LSV Asset Management

The LSV Non-U.S. Equity Value portfolio was funded for both the Pension and Insurance funds in July 2014. The portfolios outperformed their primary benchmark, the Morgan Stanley Capital International All Country World Ex U.S. Index, for the twelve-month period ending June 30, 2015, providing 142 basis points of downside protection versus an index return of -4.85%. The portfolio performed well despite operating in the midst of a style headwind (ie. growth being favored during the period). When viewed against a similar style-biased index (MSCI ACWI Ex-U.S. Value) the portfolio's outperformance was greater, providing approximately 500 basis points of downside protection. Outperformance was primarily provided through strong stock selection at the country level, specifically within Canada, Hong Kong, and the United Kingdom. The portfolio benefited from good stock selection, primarily within the consumer staples sector. From a pure allocation perspective the portfolio's underweight to energy and materials further bolstered outperformance; allocation from a country perspective was a negative. Since inception (07/01/14), the portfolio has returned -3.43% versus -4.85% for its benchmark.

Over the past 18-months, the strategy has gained two accounts totaling $200 million (KRS funding).

There have been no major staff changes of note within the strategy utilized by KRS. However, the ownership structure has changed slightly in the past year. LSV added Mike Wagner, Director of Taft-Hartley Sales & Services, to the partnership effective January 1, 2015. There are no other ownership changes planned; however, key employees will be considered for equity/partnership opportunities as appropriate.

BlackRock, Inc

The BlackRock, Inc. ACWI x-U.S. Index fund, which was funded on July 1, 2009, slightly outperformed the Morgan Stanley Capital International All Country World Index Ex-US Net Dividend (MSCI ACWI Ex-US ND), for the twelve month period ending June 30, 2015, posting a return of -5.13% versus -5.26%. The majority of the relative outperformance was due to tax advantage versus the benchmark, which is calculated using an average (and higher than KRS actual) tax withholding rate, and security lending. Longer-term, the portfolio has added incremental relative value over the index since its inception, adding 18 basis points annualized.

For the twelve-month period ending 06/30/15, the BlackRock International Small Cap Index (insurance only) fund outpaced the market, providing 25 basis points of downside protection, falling -2.82% versus -3.07%. The strategy consists of three combined small cap portfolios (EAFE SmCap, Canadian SmCap, and EM SmCap). Relative outperformance was driven by tax advantages over the benchmark and security lending income for the EAFE Small Cap and Canada Small Cap portfolios. Within the Emerging Market Small Cap portfolio, relative outperformance was driven by transaction cost advantages generated during rebalancing and tax advantages over the benchmark. Since inception (07/01/13), the portfolio has returned 11.89%, versus the index return of 10.55%.

The BlackRock, Inc. EM Index Fund slightly trailed its primary benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI Emerging Markets) Index, for the twelve-month period ending June 30, 2015 by 21 basis points. Relative performance was primarily driven by a tax advantage and security lending income. Since inception (07/01/13), the portfolio has returned 3.95% versus 4.14% annualized.

The ACWI Ex-U.S. strategy has experienced net inflows of roughly $225 million due to client gains over the past 18 months.

There were no changes to the firm's ownership or management structure during the fiscal year. However, there were a few noteworthy staffing changes. Ed Corallo, Managing Director and Head of Americas Index Equity, retired, and was replaced by Alan Mason, a 22-year veteran of BlackRock. During the third quarter of 2014, Dina Ting, Director responsible for International Emerging portfolio management, left the firm to pursue other opportunities. Matt Waldron, CFA, Director, formerly responsible for Index Allocation portfolio management within Beta Strategies, assumed Ms. Ting's responsibilities. Despite there being a few changes, staff takes comfort in those assuming responsibility, and the fact that this is a passively managed index strategy void of active security calls. Staff and consultant will continue to monitor the strategy.

Aberdeen Asset Management

The Aberdeen Asset Management portfolios underperformed their benchmark, the Morgan Stanley Capital International Emerging Markets Index (MSCI EM Index), for the twelve-month period ending June 2015, returning -8.34% vs. -4.77%. The strategy's relative underperformance was broadly based, as both allocation decisions, and to a lesser extent, stock selection detracted from performance. Allocation decisions detracted from performance, specifically speaking from a sector perspective; the biggest detractors being the slight overweight to the consumer discretionary and underweight to the information technology sectors. Allocation was the driving force for underperformance when speaking from a country perspective. The significant underweight to China hampered performance during the period costing the portfolio over 200 basis points on the fiscal year in relative terms. Stock selection was weak in terms of sectors; specifically in financials. From a country specific perspective, the portfolio benefited from stock selection, especially within India. The portfolio has struggled in the mid-term, underperforming on an annualized basis over the trailing 3-year period by 1.87%; however, the portfolio has outperformed the MSCI EM index by 4.89% on an annualized basis since inception (04/01/08).

The strategy over the last 18 months has experienced net outflows due to client turnover of approximately $420 million, with clients citing asset reallocation and plan changes as the primary reasons.

Effective June 2015, Hugh Young, Global Head of Equities took on a wider role within Aberdeen providing oversight for expanded and strengthened traditional asset classes, property and fixed income, as well as the active equity business. Devan Kaloo was promoted to succeed Mr. Young, now being in charge of the equity desk. As a publicly traded company, the ownership structure of Aberdeen is subject to change at any time. With that said, the only notable change came in the form of Capital Research and Management becoming a top 5 shareholder in the firm (owning roughly 7.0%). There were no significant changes during the year concerning the team managing the strategy currently employed by KRS.

The emerging market strategy utilized by KRS remains at an asset level that is a point of concern for both KRS and RVK, and has been for quite some time. Staff has already significantly reduced Aberdeen's exposure when it funded the BlackRock EM passive mandate, and will continue to reduce the exposure to the strategy. Staff and consultant will continue to evaluate the allocation.

Wellington Management Company

The Wellington Emerging Market Equity strategy underperformed its primary benchmark, the Morgan Stanley Capital International Emerging Markets (MSCI Emerging Markets) Index, for the twelve-month period ending June 2015, by 167 basis points. Relative underperformance was driven by poor macro calls which came through in negative stock selection, which in turn was partially offset by allocation decisions. Stock selection was particularly weak within the financials, materials, industrials, and energy sectors; as well, as within China and Brazil. From an allocation perspective, the portfolio benefitted from an underweight to materials and overweight to the health care and information technology sectors. In addition, the portfolio benefited from the underweight to Russia and overweight to Hong Kong. The 1-yr attribution contribution from the underweight to Russia is interesting, as the portfolio suffered early in the fiscal year from an overweight to Russia prior to the Crimea invasion. Since inception (04/01/08), the portfolio has trailed the MSCI EM index, returning 0.50% versus 1.03%.

Over the past 18-months, the strategy has experienced net outflows due to client turnover of roughly $1,500 million, citing the following reasoning: change in investment structure, performance, change in strategic asset allocation, and deciding to index internally. This amount of asset loss is both significant and concerning; the strategy maintains an AUM of just over $4,000 million. Staff and consultant will be monitoring the situation.

Brendan Swords, President, assumed the role of CEO on July 1, 2014 upon the retirement of Chairman and CEO, Perry Traquina. Mr. Tranquina remained as Chairman until December 31, 2014 when he withdrew from the partnership. Jean M. Hynes was named partner on July 1, 2014 in anticipation of Mr. Tranquina's planned withdraw. Ms. Hynes joined Wellington in 1991, and most recently served has a global industry analyst and PM of the Global Health Care Team. Currently, staff and consultant are not making any recommendations regarding the Wellington relationship; however, both will pay close attention to how the transition unfolds.

Conclusion:

In general, U.S. Equity investors were rewarded, and investments outside of the U.S. produced losses. The U.S. has been in recovery for some time, while Europe struggles to get a foothold, and emerging countries are left wanting. A global economy starved for growth is turning to the U.S. as its safe haven to pull the rest of the world along. It remains to be seen as to who influence whom. The KRS Total Public Equity portfolios posted modest returns just edging out the benchmark (Pension: 0.68% vs. 0.64%; Insurance: 0.93% vs. 0.70%). Relative performance was driven primarily by allocation; the slight overweight to U.S. equities for both funds, combined with a small underweight to emerging markets within the insurance portfolio proved to be beneficial. The U.S. Equity portfolio underperformed (6.0% vs. 7.3%) due to structural tilts to value and down market cap, combined with some strategy underperformance. The Non-U.S. Equity portfolio provided 86 basis points of downside protection, due to solid performance from the newly funded active concentrated MSCI ACWI Ex-U.S. mandates. The KRS Emerging Market portfolio struggled versus the index (-6.66% vs. -4.77%) as fundamental bottom-up mandates failed to account for how influential the macro events of the year could be on the portfolio. At the individual manager level, the fiscal year was rather uneventful from an organizational standpoint, with only a few firms experiencing any material staffing changes. From a performance standpoint, results were pretty disappointing, with only 6 of 14 actively managed strategies adding value over their respective indices during the year.

Staff and RVK will continue to monitor managers for either organizational or performance concerns and will promptly notify the committee if it is believed action should be taken.

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[i] Benchmark for Pension Total Equity portfolio was transitioned on July 1, 2011 to a blend of Russell 3000 (47.24%), MSCI ACWI Ex-US (46.08%) and MSCI Emerging Markets (6.68%). Prior to benchmark change, blend of S&P 500 (12%), S&P 1500 (40%), Russell 2000 (8%), MSCI World Ex-US (24%), MSCI AWCI Ex-US (8%), MSCI Emerging Market (4%), and MSCI AWCI Ex -US Small Cap (4%) was used.

[ii] Benchmark for Insurance Total Equity portfolio was transitioned on July 1, 2011 to a blend of Russell 3000 (45.45%), MSCI ACWI Ex-US (45.45%) and MSCI Emerging Markets (9.10%). Prior to benchmark change, blend of S&P 1500 (53.85%), MSCI World Ex-US (36.91%), MSCI AWCI Ex-US (4.62%), MSCI Emerging Market (4.62%) was utilized.