



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



To: KRS Board of Trustees
From: Richard Robben, Interim Executive Director of Investments
Date: February 15th 2018
Subject: Summary of Investment Committee Activity

New Investments

The Investment Committee approved 3 new investments at its last meeting on February 6th, 2018. They are detailed below.

1. ***New States Capital Partners Fund II.*** The fund is \$225MM US focused private equity vehicle. KRS will invest \$20MM to \$25MM based on available capacity. Because of the illiquid nature of this opportunity, the KERS and SPRS pension plans will not participate.
2. ***Strategic Value Situations Fund IV.*** The fund is a \$2.5 billion distressed-for-control private equity vehicle. KRS will invest \$65-\$70MM based on available capacity. Because of the illiquid nature of this opportunity, the KERS and SPRS pension plans will not participate.
3. ***ArrowMark Partners Regulatory Capital Relief Fund of One.*** KRS will invest 1% of plan assets, or approximately \$175MM. Based on the high quarterly income provided by the strategy, all plans will participate in this investment.

Terminated Investments

Based on recommendations by Wilshire, staff has recently processed redemption requests from the following hedge funds:

Anchorage – \$38 million

Blackrock Global Alpha Opportunities – \$40 million

Coatue – \$28 million

HBK – \$63 million

Karya – \$24 million

Tide Point - \$23 million

These redemptions are a result of our ongoing efforts to restructure our absolute return portfolio to ensure that it continues to meet our goal of providing a diversified, risk-reducing return stream at a reasonable fee.

Wilshire Projects

Asset Liability Study

Staff has been actively engaged with our new investment consultant, Wilshire, as they collect data and begin to assess the investment portfolios. Wilshire has been gathering data on the assets of the plans, and has worked with GRS to obtain each plans liability data. They have expressed a goal of presenting formal Asset Liability studies for our Pension plans by the end of April 2018.

Plan Benchmark Review

The Investment Committee heard a presentation from David Lindberg of Wilshire regarding their initial review of the performance benchmarks currently used by KRS. In general, Wilshire found no substantive issues with the benchmarks currently in place, but plans to provide a more detailed analysis as part of their ongoing review of each of our assets classes.

Implementation of new Asset Allocation Progress Report

Staff presented a report of their progress towards implementing the new asset allocation approved in July 2017. When the new allocation was approved, the Investment Committee decided to implement the changes over time, seeking to move approximately 4% from our equity allocation into fixed income credit per quarter. Staff executed the first 4% move at the end of September, 2017. The second 4% movement was originally scheduled for December, but was delayed as we were waiting on some analysis from Wilshire concerning the structure of our equity portfolio. This work was received in early February, but because of the recent market volatility, the committee decide to wait for 30 days before executing the next reduction.

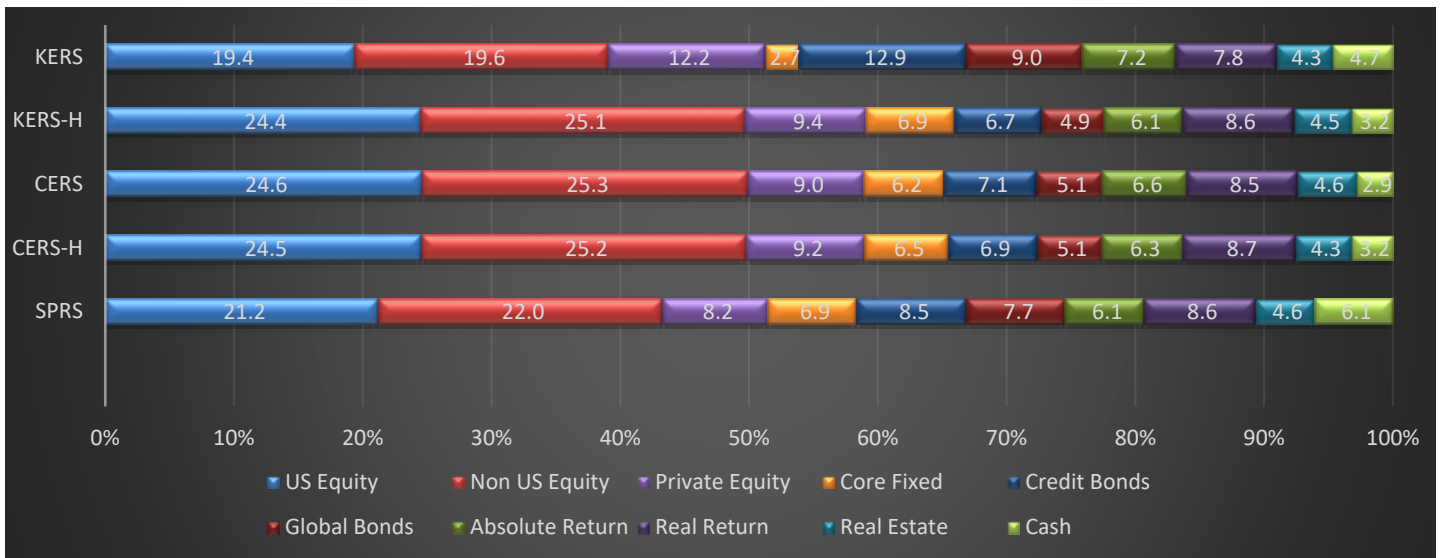
Investment Guideline Waivers and Changes

The Investment Committee granted 3 guideline waivers at the February 6th meeting. The first waiver relates to the requirement stated in our Investment Policy Statement that each of our external investment managers should be visited annually on-site by KRS staff. Due to the current shortage of investment staff, the Investment Committee has granted a waiver of this requirement. This waiver will be reviewed at each subsequent meeting until it is no longer required. The Committee also granted a waiver of the requirement to produce annual asset class reviews until such time as our new investment consultant can get up to speed and assist in these reviews. Lastly, the Committee granted a waiver of the requirement to rebalance assets within the Absolute Return, Real Estate, and Fixed Income asset classes. A summary of these waivers, and the approved changes to other IPS guidelines, is contained as Appendix A of this document.

Performance, Current Allocations, and Progress towards implementing the new Asset Allocation

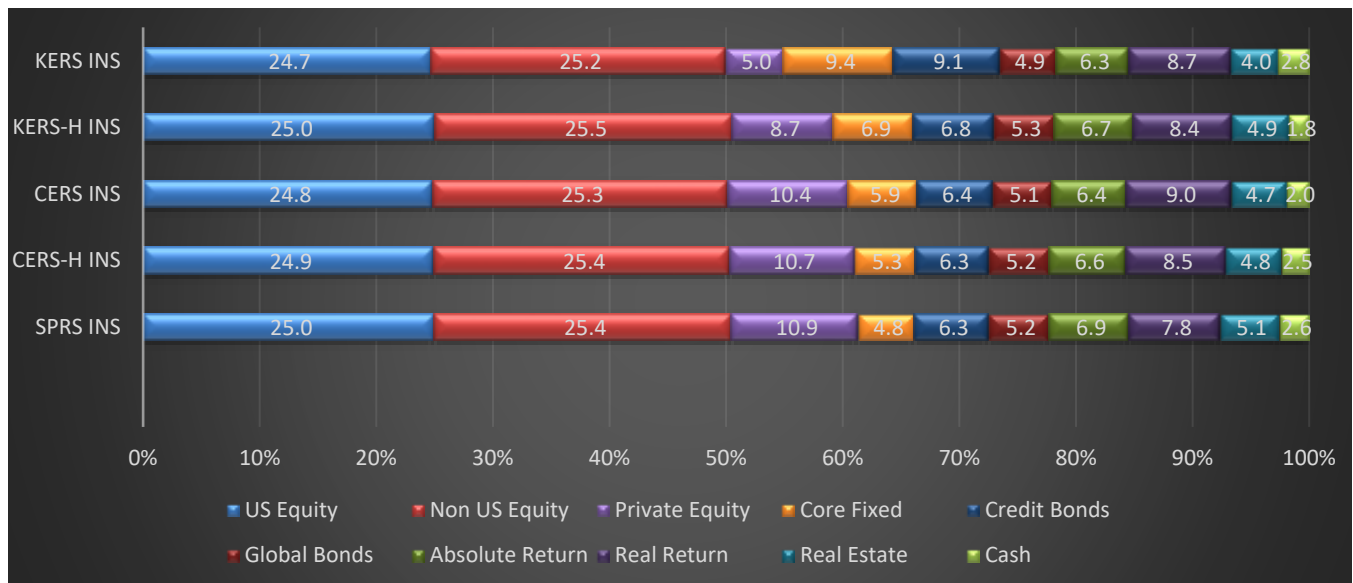
Both Pension and Insurance plans have posted positive performance for the current fiscal year. Through the end of December, 2017 the returns for the plans are as follows:

PENSION (Net of Fees)					
	Dec-17	FYTD	1Yr	3Yr	5Yr
Total Pension Fund	1.37%	7.29%	15.73%	7.65%	8.13%
Benchmark	1.37%	7.30%	15.76%	7.68%	8.44%
	0.00%	-0.01%	-0.03%	-0.03%	-0.31%
KERS	1.25%	6.47%	13.98%	6.88%	7.74%
Benchmark	1.24%	6.53%	14.09%	7.29%	8.10%
	0.01%	-0.06%	-0.11%	-0.41%	-0.36%
KERS-HAZ	1.38%	7.40%	15.97%	7.80%	8.20%
Benchmark	1.40%	7.60%	16.28%	7.70%	8.39%
	-0.02%	-0.20%	-0.31%	0.10%	-0.19%
CERS	1.39%	7.45%	16.10%	7.81%	8.21%
Benchmark	1.40%	7.60%	16.29%	7.67%	8.39%
	-0.01%	-0.15%	-0.19%	0.14%	-0.18%
CERS-HAZ	1.39%	7.42%	16.04%	7.84%	8.22%
Benchmark	1.40%	7.60%	16.29%	7.67%	8.39%
	-0.01%	-0.18%	-0.25%	0.17%	-0.17%
SPRS	1.25%	6.70%	14.54%	6.78%	7.60%
Benchmark	1.31%	6.90%	14.90%	7.26%	8.12%
	-0.06%	-0.20%	-0.36%	-0.48%	-0.52%



Insurance Plans

INSURANCE (Net of Fees)					
	Dec-17	FYTD	1Yr	3Yr	5Yr
Total Insurance Fund	1.41%	7.50%	16.10%	7.90%	8.06%
Benchmark	1.43%	7.56%	16.30%	8.06%	8.68%
	-0.02%	-0.06%	-0.20%	-0.16%	-0.62%
KERS-INS	1.22%	7.11%	15.48%	7.53%	7.72%
Benchmark	1.43%	7.63%	16.37%	7.77%	8.46%
	-0.21%	-0.52%	-0.89%	-0.24%	-0.74%
KERSH-INS	1.39%	7.45%	16.04%	7.83%	8.07%
Benchmark	1.43%	7.64%	16.40%	7.83%	8.50%
	-0.04%	-0.19%	-0.36%	0.00%	-0.43%
CERS-INS	1.44%	7.55%	16.17%	7.95%	8.12%
Benchmark	1.43%	7.65%	16.40%	7.87%	8.52%
	0.01%	-0.10%	-0.23%	0.08%	-0.40%
CERSH-INS	1.46%	7.59%	16.25%	8.02%	8.16%
Benchmark	1.43%	7.65%	16.40%	7.88%	8.53%
	0.03%	-0.06%	-0.15%	0.14%	-0.37%
SPRS-INS	1.46%	7.61%	16.28%	7.99%	8.14%
Benchmark	1.43%	7.65%	16.40%	7.90%	8.54%
	0.03%	-0.04%	-0.12%	0.09%	-0.40%



Appendix A

The following waivers were granted by the Investment Committee on February 6th, 2018:

Item	IPS Location	Current IPS Requirement Language	Request	Reason	Staff Note
1	Section 3: C	Monitoring and assessing service providers, including not less than annual onsite visits, to assure that they meet expectations and conform to policies and guidelines.	Waiver	Due to a shortage of Investment Staff, some managers have not had an on-site visit by staff within the last 12 months.	Staff is requesting a formal waiver from this requirement. The waiver will be reviewed and renewed at each subsequent Investment Committee meeting
2	Section VIII: Paragraph 3	Staff shall reallocate the assets when the actual asset class allocation deviates from the policy plus any tactical shift by a minimum of 1%, and a maximum of 15% of the allocation target (if target allocation is 20% then action required when +/- 3%).	Waiver	Due to current valuations within the real estate sector, staff has been unable to find new investments in this area. 2. Because of the ongoing restructuring of the Absolute Return portfolio, and the changing of Investment Consultants, staff has not been able to make any new investments in this area.	Staff is requesting a formal waiver from this requirement for the Real Estate, Absolute Return, and Fixed Income asset classes. The waiver will be reviewed and renewed at each subsequent Investment Committee meeting
3	Section VIII: Section X Pg. 27	On an annual basis, a comprehensive review of each asset class and underlying portfolios shall be conducted by the staff and presented to the Investment Committee. The review shall consist of an organizational, performance and compliance assessment.	Waiver	Annual Asset Class Reviews were last presented to the Investment Committee in September 2015 at the last Board Retreat. Due to the changes in board membership during 2016 and the changing of Investment Consultants in 2017, annual asset class reviews were not produced.	Staff is requesting a formal waiver from this requirement until the May 1st Investment Committee meeting.

The Investment Committee voted to remove the following guidelines from the Investment Policy Statement:

Item	IPS Location	Current IPS Requirement Language	Request	Reason	Staff Note
4	Section VIII: Section D	No more than 20 % of total net assets of the private equity portfolio may be invested in a single industry within a particular sector.	Removal	In reality, staff has no way to control the industries into which a private equity fund invests, and has no remedy for enforcing this restriction.	Staff is requesting that this guideline be removed from the IPS.
5	Section VIII: Section D	No more than 10% of total net assets of the private equity portfolio may be invested in any single equity or debt related assets.	Removal	In reality, staff has no way to control the industries into which a private equity fund invests, and has no remedy for enforcing this restriction.	Staff is requesting that this guideline be removed from the IPS.

The Investment Committee voted to modify the following Investment Policy guidelines as presented below:

Item	IPS Location	Current IPS Requirement Language	Request	Reason	Staff Note
6	Section 4: 3	Total assets assigned to the selected manager shall not exceed 25% of that firm's total assets under management and shall not exceed 25% of a firm's total assets under management in a commingled product. Separate accounts or funds of one are not included in this 25% limitation for commingled products	Modification	On-going monitoring of this requirement would require staff to know the total AUM of every external investment manager at all times.	1. Add "At Time of Purchase" to the guideline. 2. Remove the Separate Account or Fund of One exclusion
7	Section VIII: Section F Pg 20	No more than 50% of the total net assets of the Real Return portfolio may be invested in any one registered investment vehicle, mutual fund, or separately managed account	Modification	This requirement can be monitored when a new investment is made, but provides staff no remedy to enforce in an on-going fashion.	Add "At time of purchase" to the guideline
8	Section VIII: Section F Pg 21	No more than 20% of the total net assets of the Real Return portfolio may be invested in any single closed-end or open-end limited partnership or other unregistered investment vehicle.	Modification	This requirement can be monitored when a new investment is made, but provides staff no remedy to enforce in an on-going fashion.	Add "At time of purchase" to the guideline
9	Section VIII: Section H Pg. 24	At all times, at least 25.0% of the Absolute Return portfolio as a whole is to be available in quarterly or better liquidity vehicles	Modification	This requirement can be monitored when a new investment is made, but provides staff no remedy to enforce in an on-going fashion.	Remove "At all times" and replace with "At time of purchase"
10	Section VIII: Section H Pg. 24	At all times, no more than 50.0% of the Absolute Return portfolio as a whole is to be committed to vehicles that provide liquidity on a greater than annual basis.	Modification	This requirement can be monitored when a new investment is made, but provides staff no remedy to enforce in an on-going fashion.	Remove "At all times" and replace with "At time of purchase"