



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



To: KRS Investment Committee of the Board of Trustees
From: Richard Robben, Interim Executive Director of Investments
Date: June 7th, 2018
Subject: Report on Recent Investment Staff Activities

Investment Activity

New States Capital Partners Fund II (Private Equity)- The Investment Committee approved a \$25MM investment in the Fund at the February 6th, 2018 meeting, however due to the requirements of 2017 SB2, New States has declined to accept our investment.

Davidson Kempner LP (Absolute Return)- In March, we received noticed from DK requesting KRS to withdraw our ~\$70MM investment in the fund, citing the requirements of 2017 SB2 and recent litigation involving KRS as the reasons.

Equity Reduction (Public Equities) – At the beginning of April staff conducted another equity reduction trade, removing roughly \$365MM of exposure (Pension \$250MM, Insurance \$115MM).

Manulife Global Fixed Income (Core Fixed Income)- On April 9th, KRS sent an additional deposit of \$135MM to our existing Manulife Global Bond portfolio. These funds were the result of a reduction to our public equity exposure at the beginning of the month.

BNY Mellon Intermediate Credit Index CTF (Core Fixed Income)- On April 18th KRS made an additional deposit of \$288MM to the BNY Int Credit Index Fund. These funds were the result of a reduction to our public equity exposure at the beginning of the month.

Shenkman Capital (US Bank Loans) – On May 22nd staff made an additional deposit of \$40MM to Shenkman.

New Asset Allocations Approved

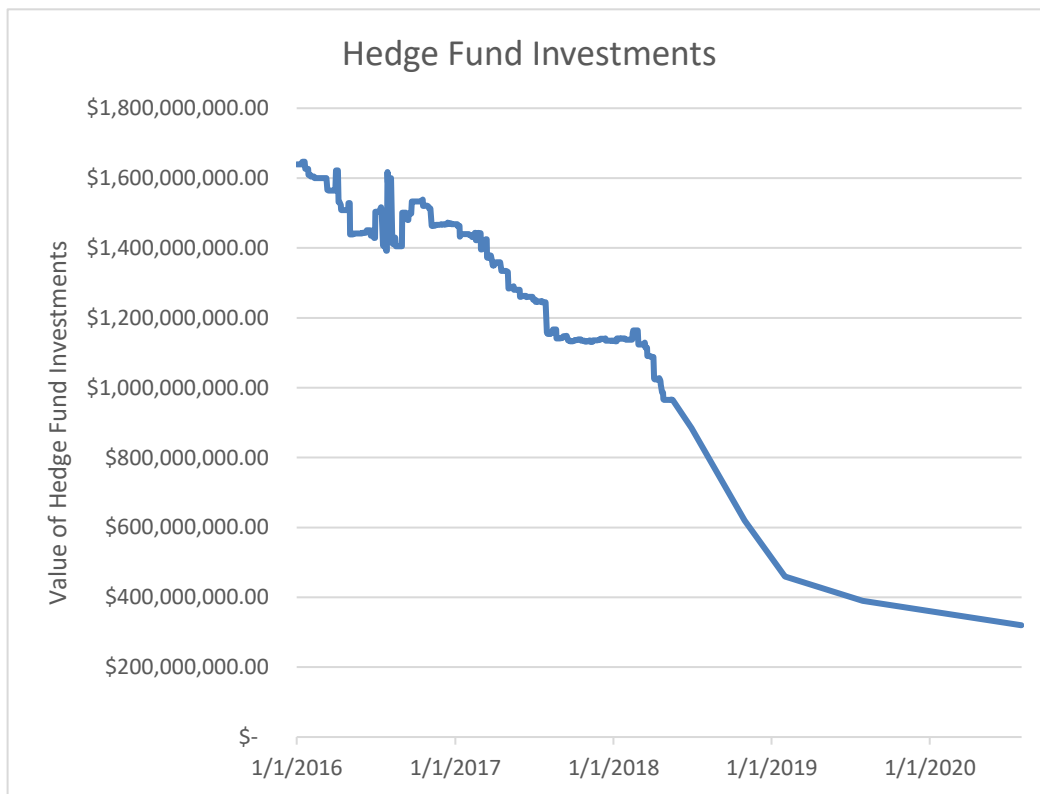
At the May 1st Investment Committee meeting our new general consultant, Wilshire Associates, presented their first asset liability study which contained a proposal for new asset allocations for all systems. While this proposal contained a recommendation to increase our equity exposure in the CERS, KERS-Hazardous, and all Insurance plans, it also suggested a substantial reduction to the equity positions in the KERS and SPRS plans because of their server underfunded status. No action was taken at the meeting because the committee wanted more time to study the recommendations, and asked Wilshire to rerun their

analysis for the KERS and SPRS plans to reflect the increased funding recently provided by the legislature. Wilshire was also asked to focus on increasing the probability of the KERS and SPRS plans hitting the assumed rate of return of 5.25% over a 10 year period, while decreasing the annual volatility that those plans are expected to experience. On June 7th Wilshire presented a new Asset Allocation for those plans, and the recommended allocations for all 10 plans were approved by the Committee. Those allocations are presented in Appendix A.

Continued Restructuring of Absolute Return Investments

Staff continued their work to review and restructure our Absolute Return portfolio. In Late 2016, the Investment Committee started a detailed review of the entire absolute return portfolio. In March 2017 KRS began to redeem some investments, and to transfer several investment previously held with our fund-of-funds vehicle to direct ownership by KRS. In October 2017 our new general investment consultant, Wilshire, began their review of the absolute return portfolio, and provided recommendations to staff in early 2018. In April, staff issued redemption notices to two more funds, and on May 7th 2018 KRS issued a full redemption notice to Prisma indicating our desire to fully liquidate our last fund-of-funds investment. Prisma provided KRS a schedule of liquidations on May 18th. They estimate that KRS will receive \$265,300,000 (48.7%) in October 2018, \$159,000,000 in January 2019 (29.2%), \$68,600,000 (12.6%) in July 2019, \$44,100,000 (8.1%) in July 2020, and the remainder in early 2021.

Overall hedge fund investments at KRS have been reduced from a high of \$1,646,000,000 in January 2016 down to \$965,325,000 as of May 2018. Of that total, roughly \$600,000,000 is currently in the redemption que, and should be realized over the next 24 months.



Investment Guideline Waivers

The Investment Committee granted 3 guideline waivers at the February 6th meeting and agreed to review each of these waivers at all subsequent meetings. Two of these waivers are still in effect:

1. Staff was granted a waiver of the requirement that each of our external investment managers should be visited annually on-site by KRS staff.
2. Staff was granted a waiver of the requirement to rebalance assets within the Absolute Return, Real Estate, and Fixed Income asset classes as the transition to our new asset allocation policy is ongoing.

Performance

PENSION (Net of Fees)					
	Mar-18	FYTD	1Yr	3Yr	5Yr
Total Pension Fund	-0.17%	7.72%	11.19%	7.02%	7.38%
Allocation Benchmark	-0.49%	7.21%	10.65%	6.87%	7.64%
	0.32%	0.51%	0.54%	0.15%	-0.26%
IPS Benchmark	-0.37%	6.09%			
	0.20%	1.63%			
KERS	-0.20%	6.80%	10.07%	6.31%	6.97%
Benchmark	-0.35%	6.44%	9.65%	6.54%	7.31%
	0.15%	0.36%	0.42%	-0.23%	-0.34%
KERS-HAZ	-0.17%	7.83%	11.34%	7.15%	7.45%
Benchmark	-0.53%	7.51%	11.01%	6.93%	7.60%
	0.36%	0.32%	0.33%	0.22%	-0.15%
CERS	-0.17%	7.90%	11.40%	7.16%	7.46%
Benchmark	-0.53%	7.51%	11.00%	6.90%	7.59%
	0.36%	0.39%	0.40%	0.26%	-0.13%
CERS-HAZ	-0.15%	7.88%	11.38%	7.19%	7.47%
Benchmark	-0.53%	7.51%	11.00%	6.90%	7.59%
	0.38%	0.37%	0.38%	0.29%	-0.12%
SPRS	-0.24%	6.95%	10.15%	6.11%	6.82%

Benchmark	-0.40%	6.82%	10.06%	6.50%	7.32%
	0.16%	0.13%	0.09%	-0.39%	-0.50%

Insurance Plan Performance

INSURANCE (Net of Fees)					
	Mar-18	FYTD	1Yr	3Yr	5Yr
Total Insurance Fund	-0.12%	8.02%	11.56%	7.29%	7.33%
Allocation Benchmark	-0.42%	7.60%	11.17%	7.20%	7.91%
	0.30%	0.42%	0.39%	0.09%	-0.58%
IPS Benchmark	-0.39%	6.11%			
	0.27%	1.91%			
KERS-INS	-0.43%	7.24%	10.64%	6.86%	6.91%
Benchmark	-0.42%	7.68%	11.05%	7.02%	7.70%
	-0.01%	-0.44%	-0.41%	-0.16%	-0.79%
KERSH-INS	-0.16%	7.91%	11.42%	7.20%	7.32%
Benchmark	-0.42%	7.69%	11.17%	7.06%	7.74%
	0.26%	0.22%	0.25%	0.14%	-0.42%
CERS-INS	-0.05%	8.14%	11.69%	7.34%	7.40%
Benchmark	-0.42%	7.69%	11.24%	7.10%	7.77%
	0.37%	0.45%	0.45%	0.24%	-0.37%
CERSH-INS	-0.03%	8.21%	11.79%	7.43%	7.40%
Benchmark	-0.42%	7.69%	11.24%	7.10%	7.77%
	0.39%	0.52%	0.55%	0.33%	-0.37%
SPRS-INS	-0.03%	8.25%	11.85%	7.41%	7.43%
Benchmark	-0.42%	7.69%	11.24%	7.11%	7.78%
	0.39%	0.56%	0.61%	0.30%	-0.35%