



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: T.J. Carlson, Chief Investment Officer

DATE: August 15, 2013

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on August 6th, 2013. 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 June 30, 2013, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on May 7th, 2013.

Erica Bradley presented the Quarterly Compliance report. The Management Update was given by the CIO which included a review of some of the standard quarterly reports. These reports included the: Monthly Performance Update; Investment Division Budget Report and the quarterly Manager Meeting and Related Expense Tracking Report. The Net of Fees Report; Internally Managed Portfolio Asset Report; Internally Managed Portfolio Transactions Report; Partnership Investments 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 then reviewed. Questions were encouraged and addressed throughout the reports.

Staff and consultant Albourne Partners ("Albourne") presented a recommendation for a portfolio of five diversified direct hedge fund managers in accordance with the manager slate process approved by the Board of Trustees on February 21st, 2013 and consistent with the due diligence, portfolio construction and manager recommendation process used by Staff for the Fund of Funds recommendation presented and approved in August 2011. This recommendation was made in compliance with the transactions policy and is pending final legal review and final due diligence.

KRS Investment Staff and Albourne recommended, and the Investment Committee approved, an initial investment of approximately 70 basis points of exposure for all KRS plans, or approximately

\$100 million (in total) using May 31st plan allocations, in an equal-weighted portfolio of the following hedge funds: Soroban Fund, Senator Global Opportunity Fund, Knighthead Domestic Fund, HBK Fund II, and MKP Opportunity Fund. No placement agents were used to source these investments.

David Peden, Director – Fixed Income, gave the Securities Lending Annual Review. Questions were encouraged and addressed throughout the reports.

Brian Carter, Analyst III and David Peden, Director – Fixed Income, gave the Cash Management and Fixed Income Annual Reviews. Questions were encouraged and addressed throughout the reports.

Staff recommended, and the Investment Committee approved, a new direct Repurchase Agreement Counterparty in CYS Mortgage REIT that Cash Management can use to invest a portion of our daily investable cash.

Elaine Stokes from Loomis Sayles gave an educational session on the recent activity in areas of fixed income, Federal Reserve actions and their impacts on the markets. She also discussed what their current expectation are for the near term.

Andrew Plevin, Craig Bardow and Trisha Feldman from BroadRiver Asset Management gave an educational session on a newly emerging institutional investment opportunity related to Life Settlements. No recommendation or action was taken as this was provided for educational purposes only.

Please see the next page for a summary of the Pension and Insurance performance information ending June 30, 2013.

Pension Funds Performance Overview								
Rates of Return (%) as of June 30, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	18.33	17.01	12.24	13.02	4.10	3.56	7.27	7.19
Fixed Income	3.08	0.24	5.76	4.16	5.62	5.19	4.91	4.77
Private Equity	11.12	19.10	12.42	18.44	4.89	10.57	11.24	9.15
Real Estate	12.03	12.17	13.79	13.53	N/A		N/A	
Absolute Return	12.30	8.16	N/A		N/A		N/A	
Real Return	-0.64	4.80	N/A		N/A		N/A	
Cash Equivalents	0.32	0.08	0.33	0.09	0.71	0.23	2.18	1.64
Total Fund	11.03	11.21	9.76	10.52	4.85	5.39	6.65	6.79

Insurance Funds Performance Overview								
Rates of Return (%) as of June 30, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	17.87	16.39	11.65	12.76	3.52	3.11	7.03	6.64
Fixed Income	2.86	0.24	5.86	4.92	5.25	4.58	5.67	5.27
Private Equity	11.19	19.10	13.96	19.46	6.63	9.45	9.25	8.71
Real Estate	10.44	12.17	14.74	13.53	N/A		N/A	
Absolute Return	12.20	8.16	N/A		N/A		N/A	
Real Return	-1.64	4.80	N/A		N/A		N/A	
Cash Equivalents	0.49	0.08	0.32	0.09	0.40	0.23	2.10	1.64
Total Fund	10.31	11.05	10.22	12.33	3.49	4.26	6.73	6.93

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