



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: T.J. Carlson, Chief Investment Officer

DATE: December 5, 2013

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held a Special Investment Committee meeting on November 4th, 2013. The purpose of the meeting was to consider an appointment of a Chief Investment Officer and to discuss pending litigation.

The Investment Committee held a Special Investment Committee meeting on November 20, 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 September 30, 2013, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on August 6, 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: draft Monthly Performance Update; Investment Division Budget Report and 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 then reviewed. Questions were encouraged and addressed throughout the reports.

The APA presented a draft report on its four (4) Audit Findings related to the Investment division. The findings were accepted and steps have been put in place to address those findings.

The CIO gave an update on the custodial transition from Northern Trust to BNY Mellon.

David Peden, Director – Fixed Income, gave an update on the private credit search. There were

several questions from committee members regarding the investment opportunity and the process and those were addressed.

Joe Gilbert, Director – Equity, gave an update on the Non-U.S. Equity structure review / manager search process currently underway.

Brent Aldridge, Director – Alternatives, Thomas Masthay, Senior Analyst II, Bill Murnighan, Investment Analyst II, and consultant Altius presented the private equity annual manager reviews. Questions were encouraged and addressed throughout the reports.

Staff presented two private equity recommendations to the investment committee. New Mountain Capital Partners IV LP was approved for up to a \$50 million investment and Levine Leichtman Capital Partners V LP was approved for up to a \$70 million investment. No placement agents were used to source either of these investments.

Chris Schelling, Director – Absolute and Real Return, presented changes to the investment policy statement regarding the Real Return asset class. A more full description of the real return asset class with guidelines were approved to be included in the investment policy statement. Trustee Cherry noticed that the beginning section of the investment policy statement that describes the KRS board structure also needed to be updated to match the changes that occurred in Senate Bill 2.

Staff presented three new real estate recommendations to the investment committee. DivcoWest Fund IV LP was approved for up to a \$30 million investment. Stockbridge Smartmarkets Fund, L.P. and Prologis North American Logistics Fund, L.P. were both approved for up to \$120 million investment each. No placement agents were used to source any of these real estate investments.

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

Pension Funds Performance Overview								
Rates of Return (%) as of September 30, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	19.49	18.20	10.84	11.19	8.31	8.16	7.51	7.48
Fixed Income	0.94	-1.00	4.98	3.57	6.45	5.63	5.05	4.86
Private Equity	13.42	26.26	12.90	16.28	5.59	13.38	10.35	9.22
Real Estate	10.77	11.08	11.87	13.85	N/A		N/A	
Absolute Return	9.72	5.75	N/A		N/A		N/A	
Real Return	-2.72		N/A		N/A		N/A	
Cash Equivalents	0.67	0.07	0.42	0.08	0.68	0.15	2.19	1.61
Total Fund	10.89	11.66	8.59	8.89	7.34	8.04	6.72	6.91

Insurance Funds Performance Overview								
Rates of Return (%) as of September 30, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	18.99	17.62	10.28	10.92	7.85	7.92	7.37	7.06
Fixed Income	0.91	-1.00	5.13	4.32	6.09	5.49	5.70	5.32
Private Equity	14.66	26.26	13.97	16.96	8.43	12.20	8.98	8.77
Real Estate	5.67	11.08	11.01	13.85	N/A		N/A	
Absolute Return	9.67	5.75	N/A		N/A		N/A	
Real Return	-3.34		N/A		N/A		N/A	
Cash Equivalents	0.48	0.07	0.33	0.08	0.29	0.15	2.00	1.61
Total Fund	10.13	11.53	8.39	9.87	6.66	7.72	6.77	7.00

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