



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: December 4, 2014

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on November 5, 2014. 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, 2014, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on August 5, 2014.

Erica Bradley presented the Quarterly Compliance Report. The Management Update was given by David Peden, CIO, which included a review of some of the standard quarterly reports. These reports included the: Monthly Performance Update, Investment Division Budget Report, 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 reviewed. Questions were encouraged and addressed throughout the reports.

KRS Investment Staff and consultant RV Kuhns presented a Real Asset investment recommendation to the investment committee. Nuveen Real Asset Income Fund presented to the committee and was approved by the investment committee for an initial investment of two percent of the Pension and Insurance Funds. At the time of the recommendation, two percent of both the Pension and Insurance Plans was roughly \$310 million. This investment will be structured as a separate account with Nuveen and no placement agent was used to source this investment. All five pension systems and insurance systems will participate in this investment.

KRS Investment Staff and consultant PCA recommended a capital commitment of \$60 million to BDCM Opportunity Fund IV, L.P. a debt focused limited partnership managed by Black Diamond

Capital Management. This investment was approved by the investment committee. All Pension systems except for KERS Non-Hazardous and all five insurance systems will participate in this investment. No placement agents were used to source this investment; however, Black Diamond does use the services of a third party marketing firm. This firm will not be paid based on KRS' investment.

KRS Investment Staff and consultant PCA recommended a capital commitment of \$40 million to Ares Special Situations Fund IV, L.P. a debt focused limited partnership managed by Ares Management, L.P. This investment was approved by the investment committee. All Pension systems except for KERS Non-Hazardous and all five insurance systems will participate in this investment. No placement agents were used to source this investment.

Brent Aldridge, Director of Private Equity and consultant PCA presented the private equity annual manager reviews. Questions were encouraged and addressed throughout the report.

Consultant ORG presented the Real Estate annual manager reviews. Questions were encouraged and addressed throughout the report.

Consultant ORG presented an educational on real estate co-investments and potential ways to structure a co-investment program. Questions were encouraged and addressed throughout the report.

Consultant RV Kuhns presented the Fixed Income annual manager reviews. Questions were encouraged and addressed throughout the report.

David Peden, CIO, presented recommended policy changes to the Investment Policy Statement and the Investment Transaction Procedures Policy. All recommended changes and amendments as discussed in the investment committee meeting were approved by the investment committee.

Erica Bradley, Compliance Officer, Brian Thomas, General Counsel, and David Peden, CIO, presented recommended changes to the Personal Trading Policy. After a lengthy discussion where several questions were asked, no actions were taken and additional information was requested by the investment committee.

Please see the next page for a summary of the Pension and Insurance performance information ending September 30, 2014.

Pension Funds Performance Overview								
Rates of Return (%) as of September 30, 2014								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	9.67	10.78	16.46	16.93	10.34	10.86	7.04	6.94
Fixed Income	4.85	4.39	4.91	3.23	6.03	4.68	5.07	4.84
Private Equity	21.48	21.48	14.44	14.44	16.21	18.14	10.33	10.52
Real Estate	8.44	11.74	9.25	11.38	11.75	8.97	N/A	
Absolute Return	9.06	7.73	7.51	4.37	N/A		N/A	
Real Return	5.71	3.23	4.53	4.15	N/A		N/A	
Cash Equivalents	0.21	0.04	0.37	0.05	0.51	0.08	2.08	1.51
Total Fund	9.22	9.50	11.06	11.43	9.25	9.25	6.60	6.71

Insurance Funds Performance Overview								
Rates of Return (%) as of September 30, 2014								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	9.80	10.84	16.18	16.79	10.02	10.53	6.74	6.59
Fixed Income	4.15	4.39	4.70	3.23	5.85	5.23	5.34	5.01
Private Equity	21.42	21.42	14.30	14.30	16.58	18.21	9.49	10.02
Real Estate	11.26	11.74	8.58	11.38	12.53	8.97	N/A	
Absolute Return	8.99	7.73	7.47	4.37	N/A		N/A	
Real Return	5.21	3.13	4.05	4.11	N/A		N/A	
Cash Equivalents	0.21	0.04	0.30	0.05	0.28	0.08	1.90	1.51
Total Fund	8.52	9.59	10.35	11.46	8.83	9.76	6.22	6.51

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