



---

## KENTUCKY RETIREMENT SYSTEMS INVESTMENTS

---



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: December 3, 2015

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on November 4, 2015. 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, 2015, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on August 25, 2015.

Erica presented the Quarterly Compliance Report. There was also a discussion on a corporate action involving Safeway and Albertsons grocery and a related security that was held in the S&P 500 account.

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 recommended terminating the relationship with PAAMCO and the Investment Committee approved that recommendation. PAAMCO is a fund of hedge fund provider KRS has utilized since the fall of 2011. This recommendation is all part of the original plan to utilize fund of hedge funds for a period of time before moving to direct hedge fund relationships. It will take twelve months or longer to completely unwind the fund of hedge fund portfolio.

Prisma Capital Partners gave an educational presentation on risk management and risk diligence as it pertains to managing a hedge fund portfolio. The presentation was for informational purposes only and no action was taken by the investment committee.

KRS Investment Staff, Prisma Capital Partners, and consultant Albourne recommended an initial investment of approximately \$40 million to Davidson Kempner Institutional Partners, L.P. All five pension systems and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents.

KRS Investment Staff and consultant RV Kuhns recommended an initial investment of 2% of KRS aggregate portfolio value to Marathon Asset Management to manage a multi-sector fixed income credit mandate. All five pension systems and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents.

KRS Investment Staff and consultant PCA recommended a commitment of \$50 million to Harvest Partners VII, LP. Pension systems KERS Hazardous, CERS, and CERS Hazardous and all five insurance systems will participate in this investment. The investment manager does use Credit Suisse has a third party marketer for the fund, but KRS had no contact with this entity and KRS' investment will have no impact on the compensation to Credit Suisse.

Staff and Consultant RV Kuhns presented the results of the asset allocation studies for the five pension systems and five insurance systems and recommended the new asset allocations be adopted. The recommended asset allocations for KERS Hazardous, CERS, and CERS Hazardous pension and all five insurance systems were approved by the investment committee as presented. The recommendations for KERS and SPRS pension systems were partially approved. The remaining recommended changes for KERS and SPRS will be taken back up in May 2016.

Staff presented recommended changes to the Investment Policy Statement, including benchmark changes, and those changes were approved by the Investment Committee.

Staff recommended changes to approved investment amounts with two managers, Prima Mortgage Investment Trust and Tortoise Capital Advisors. The Investment Committee approved an investment amount up to \$82,000,000 with Prima and up to a 1% of aggregate KRS portfolio value invested for Tortoise. These recommendations and approvals were to clean up a conflict between what was invested with these managers and what were the last known approved investment amounts. These conflicts were discovered in an audit conducted by the KRS' Compliance Officer. A third manager Harrison Street also had a conflict in invested amount, but that was corrected at the prior investment committee meeting.

Staff presented the recommended broker dealer list for the upcoming calendar year and the Investment Committee approved that list.

Staff and consultant RV Kuhns recommended terminating its relationship with Stone Harbor and the recommendation was approved by the Investment Committee. Stone Harbor managed an emerging market debt mandate for KRS.

Staff and consultant RV Kuhns recommended several changes to the non U.S. portion of the public equity asset class, including terminating its relationship with The Boston Company. The Boston Company managed a non-U.S. Equity mandate benchmarked to the MSCI ACWI ex U.S. Index for KRS. As part of the asset allocation decisions mentioned earlier, staff and consultant also recommended taking its dedicated emerging market equity exposure to zero. Staff and consultant also recommended changing the benchmark for the non U.S. equity portion of public equities to the MSCI ACWI ex U.S. IMI from the MSCI ACWI ex U.S. standard. Staff and consultant RV Kuhns also recommended new weightings for the remaining non U.S. equity managers in the KRS portfolio, including moving greater dollars away from passive management into active management over time. All of these recommendations were approved by the Investment Committee.

Staff and external legal counsel Reinhart gave an update on the legal due diligence process and investment manager contracting process. The presentation was for informational purposes only and no action was taken by the investment committee.

*Please see the next page for a summary of the Pension and Insurance performance information ending September 30, 2015.*

<b>Pension Funds Performance Overview</b>								
<b>Rates of Return (%) as of September 30, 2015</b>								
	<b>One Year</b>		<b>Three Years</b>		<b>Five Years</b>		<b>Ten Years</b>	
	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>
<b>Equity</b>	-6.53	-7.39	6.99	6.64	6.90	7.12	4.66	4.41
<b>Fixed Income</b>	2.24	2.33	2.67	1.89	4.40	3.48	4.93	4.73
<b>Private Equity</b>	11.71	11.71	15.46	15.46	14.33	17.54	8.33	10.57
<b>Real Estate</b>	8.83	13.39	9.34	12.06	10.56	13.33	6.24	5.86
<b>Absolute Return</b>	2.12	2.20	6.91	5.20	6.18	3.71	N/A	
<b>Real Return</b>	-8.30	-5.18	-1.90	0.76	N/A		N/A	
<b>Cash Equivalents</b>	0.18	0.02	0.35	0.04	0.33	0.06	1.84	1.26
<b>Total Fund</b>	-1.50	-0.64	6.06	6.70	6.62	7.03	5.18	5.48

<b>Insurance Funds Performance Overview</b>								
<b>Rates of Return (%) as of September 30, 2015</b>								
	<b>One Year</b>		<b>Three Years</b>		<b>Five Years</b>		<b>Ten Years</b>	
	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>
<b>Equity</b>	-6.28	-7.26	6.98	6.53	6.65	7.00	4.41	4.17
<b>Fixed Income</b>	1.10	2.33	1.99	1.89	4.08	3.93	4.91	4.71
<b>Private Equity</b>	16.77	16.77	17.58	17.58	15.98	17.95	9.33	9.95
<b>Real Estate</b>	8.91	13.39	8.59	12.06	10.64	13.33	N/A	
<b>Absolute Return</b>	2.20	2.20	6.90	5.20	6.18	3.71	N/A	
<b>Real Return</b>	-7.76	-4.73	-2.08	0.89	N/A		N/A	
<b>Cash Equivalents</b>	0.21	0.02	0.30	0.04	0.28	0.06	1.65	1.26
<b>Total Fund</b>	-1.77	-0.08	5.49	6.89	6.30	7.75	4.49	5.07

---

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