



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: December 1, 2016

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held two special investment committee meetings this quarter, in addition to its regularly scheduled meeting on November 2, 2016. The first special meeting occurred October 14, 2016. At the October 14th meeting Mark Lattis was sworn in as a KRS Board member. KRS Investment Staff provided an update on the securities lending program with Deutsche Bank. Karen Roggenkamp and Ann Case provided a presentation on historical and projected cash flows for each individual pension system. Joe Gilbert provided a presentation on the U.S. Public Equity Structure. Anthony Chiu was introduced as a new employee and he presented some information on the legacy Private Equity investments. All of the above discussions and presentations were for informational purposes only and no action was taken.

Also at the October 14th meeting Mr. Harris and Mr. Peden discussed Hedge Fund Allocations. A preliminary timeline to restructure the hedge fund allocations was presented to the committee to facilitate discussion. Mr. Farris moved and was seconded by Mr. Ramsey to have Mr. Peden and Mr. Ramsey work together to develop a schedule for the most efficient timeline and strategy in exiting the 10% allocation to absolute return/hedge funds. The motion passed unanimously. Mr. Bill Cook recused himself from any decision on the KRS Hedge Fund investments.

The purpose of the November 2, 2016 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, 2016, along with various other subjects. It was noted at the start of the meeting that Brent Aldridge, Director of Alternative Investments, had retired October 1 and that Terry Metcalf, a member of the Investment Operations Team, had left KRS for another opportunity.

Erica Bradley, Compliance Officer, presented the Quarterly Compliance Report. An investment policy that was previously suspended until November 2016 was discussed and it was approved by the Investment Committee to continue to suspend this policy until the entire Investment Policy Statement was discussed at a future meeting.

Rich Robben, Deputy CIO and Director of Fixed Income, presented the Broker Dealer Approval list. It was recommended to add Susquehanna Financial Group to the list and this list of Broker Dealers

was approved by the Investment Committee.

Rich Robben also gave an update on the wind down of the Securities Lending program. No action was taken by the Investment Committee.

Kamp Consulting provided a presentation on pension asset/liability modeling and benchmarking. This was for informational purposes only and no action was taken.

The Investment Team presented the following Asset Class Annual Reviews. Andy Kiehl, Director of Real Return and Real Estate, along with Mark White from Albourne presented the Real Return review. Andy Kiehl along with Ed Schwartz from ORG presented the Real Estate review. Anthony Chiu, Senior Investment Analyst in Private Markets, along with Tad Fergusson and Ahman Dirks from PCA presented the Private Equity review. Joe Gilbert along with Tony Johnson from RVK presented the Public Equity review. Rich Robben along with Tony Johnson from RVK presented the Fixed Income review.

Mr. Neil Ramsey provided a presentation regarding the strategy to eliminate the 10% allocation to absolute return. Mr. Ramsey outlined the criteria used to determine which hedge fund managers would be the next group of managers to be redeemed. That criteria included betas to the equity and high yield markets, manager fees, and size of firm. Using this criteria the managers that are slated for redemption fall mainly into the long/short equity, equity market neutral, and event investing strategies. This selection criteria also applies to the underlying hedge fund managers in the Prisma managed Daniel Boone portfolio. All hedge fund managers and strategies not immediately scheduled for redemption will undergo further evaluation seeking possible restructure opportunities and fee renegotiation. This was provided for informational purposes only and was a follow-up discussion to a motion approved at the October 14, 2016 Investment Committee Meeting.

At the November 17, 2016 meeting the Investment Committee discussed the asset allocation by each respective Pension and Insurance System. No action was taken on this subject. The Investment Committee received an educational presentation on the actuarial assumptions from Cavanaugh McDonald. The Investment Committee members received copies of proposed 2017 legislation that may affect KRS Investments, but no discussion occurred and no action was taken. There was also a Legislative discussion on HB 62 regarding the discount rate, but no action was taken. KRS Investment Staff recommended moving its Securities Lending program to BNY Mellon from Deutsche Bank. This recommendation was approved by the Investment Committee.

Please see the next page for a summary of the Pension and Insurance performance information ending September 30, 2016.