



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: T.J. Carlson, Chief Investment Officer

DATE: February 21, 2012

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on February 5, 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 December 31, 2012, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on November 7th, 2012.

A Private Equity commitment of Euro 50 million to Triton Fund IV L.P. was reviewed, discussed and approved by the Investment Committee.

A Private Equity commitment of up to \$55 million to HIG Capital Partners V, L.P. was reviewed, discussed and approved by the Investment Committee. Note: It was also discussed that there is a high likelihood KRS may not receive the full desired allocation and may only receive an allocation of approximately \$25 million due to the large over-subscription to the fund.

Tom Masthay and Chris Schelling gave an educational session on placement agents, their various corporate/structural options and conflict of interest considerations within each structure. They also reviewed their article on placement agents that was published in the nationally recognized Journal of Private Equity. At the request of the Investment Committee, this educational session will be repeated at the upcoming annual Board Retreat so that all Board members can receive the information.

Chris Schelling and Albourne (Real Return consultant) gave the annual review for the Real Return program. There were no changes recommended to the Real Return Policy or Managers.

Chris Schelling and Albourne (Absolute Return consultant) gave the annual review for the Absolute Return program. There were no changes recommended to the Absolute Return Policy or Managers. Staff asked the Committee for direction on how staff should proceed with filling out the direct

hedge fund manager program with the goal of being 50% direct within five years. Staff recommends a total of approximately 18 to 25 direct hedge funds for proper diversification of this program. The pros and cons of four “ramp up” options were discussed in detail as outlined next: bring 10 managers each to a special Investment Committee meeting once this year and once next year, or; over the next two years, bring 1 to 2 hedge fund managers to each of the next 8 to 12 quarterly meetings in addition to our regularly scheduled manager presentations, thereby lengthening an average meeting by 1 to 1 ½ hours, or; bring in five managers every six months at either a regular or special Investment Committee meeting, or finally: bring a slate of five managers to the regular Investment Committee meetings with due diligence support from Staff, Albourne and one of our Fund of Fund providers for review and approval by the Investment Committee. Given the three layers of due diligence being provided, individual managers would not be required to present to the Committee.

The Investment Committee directed Staff and Albourne to proceed under option four as described above.

Ann Case presented the Quarterly Compliance report. The Management Update was given by the CIO which included a review of the standard quarterly reports. These reports include the: Monthly Performance Update; Compliance 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; Securities Litigation Report; Investment Division Expense Report and the quarterly Meeting and Related Expense Tracking Database. The December Asset Allocation report, Securities Lending update, the Standard Quarterly and Potential Future Topics List, and an overview of the supplied articles of interest were also provided. Questions were encouraged and addressed throughout the reports.

Please see the next page for a summary of the Pension and Insurance performance information ending December 31, 2012.

Pension Funds Performance Overview								
Rates of Return (%) as of December 31, 2012								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	17.11	17.19	7.41	8.01	0.48	0.05	7.72	7.81
Fixed Income	10.24	5.53	8.27	6.71	6.34	6.13	5.63	5.55
Private Equity	13.78	35.30	13.84	12.20	3.60	5.25	11.78	8.18
Real Estate	10.18	10.94	12.75	10.61	N/A		N/A	
Absolute Return	7.06	3.32	N/A		N/A		N/A	
Real Return	9.55	4.79	N/A		N/A		N/A	
Cash Equivalents	0.30	0.07	0.50	0.09	1.10	0.45	2.24	1.69
Total Fund	12.88	13.57	8.25	8.06	2.92	3.27	7.11	7.27

Insurance Funds Performance Overview								
Rates of Return (%) as of December 31, 2012								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	16.81	17.15	6.81	7.62	-0.13	-0.30	7.48	7.17
Fixed Income	10.01	5.53	8.12	7.26	6.75	6.07	6.56	6.17
Private Equity	12.43	35.30	13.93	12.13	4.53	3.42	9.47	7.27
Real Estate	10.23	10.94	14.43	10.61	N/A		N/A	
Absolute Return	7.16	3.32	N/A		N/A		N/A	
Real Return	9.02	4.79	N/A		N/A		N/A	
Cash Equivalents	0.47	0.07	0.33	0.09	0.70	0.45	2.18	1.69
Total Fund	12.17	13.16	7.60	8.49	0.98	1.55	7.39	7.54

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