



**KENTUCKY RETIREMENT SYSTEMS
INVESTMENTS**



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Interim Chief Investment Officer

DATE: February 20, 2014

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on February 4, 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 December 31, 2013, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meetings held on November 4, 2013 and November 20, 2013.

KRS Investment Staff and consultant R.V. Kuhns presented a fixed income recommendation to the investment committee. It was approved by the investment committee to invest up to 1% of the portfolio or roughly \$125 million in a separate account managed by Cerberus Capital Management that will invest in a middle market direct lending strategy. No placement agent was used to source this investment.

KRS Investment Staff and consultant R.V. Kuhns reviewed a Non U.S. equity structure study and presented Non U.S. equity manager changes to the investment committee. Those changes included the recommendation to hire four new investment managers in the Non U.S. equity sector and the rebalancing of the existing KRS Non U.S. equity portfolio. The new investment managers approved by the investment committee are American Century Investments, Franklin Templeton, LSV Asset Management, and Lazard Asset Management. No placement agents were used to source these investments. The proposed sizing for the restructured Non-U.S. equity portfolio is below.

Manager	Current Intl LC Allocation		Target Intl LC Allocation	
Boston Co	957,537,475.81	33.459%	196,750,088.70	6.875%
Pyramis	942,894,458.06	32.947%	393,500,177.40	13.750%
American Century	-	0.000%	196,750,088.70	6.875%
Franklin Templeton	-	0.000%	196,750,088.70	6.875%
Lazard	-	0.000%	393,500,177.40	13.750%
LSV	-	0.000%	196,750,088.70	6.875%
BlackRock	961,387,538.14	33.594%	1,287,818,762.40	45.000%

KRS Investment Staff and consultant Albourne recommended an initial investment of approximately 40 basis points of exposure for all KRS plans, or approximately \$60 million in aggregate using November 30, 2013 plan allocations, in an equal-weighted portfolio of the following hedge funds: Luxor Capital Partners, Coatue Qualified Partners, and Pine River Fund. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source these investments.

Chris Schelling, Deputy CIO and Director of Absolute Return, and consultant Albourne presented the absolute return annual manager reviews and the real return annual manager reviews. Questions were encouraged and addressed throughout both reports.

KRS Investment Staff recommended a change in private equity consultant from Altius & Associates to Pension Consulting Alliance, Inc ('PCA'). The recommendation was approved by the KRS Investment Committee after a discussion with staff and a presentation by PCA regarding their capabilities and firm philosophy.

Brian Carter, Investment Analyst III, gave an update on the KRS Cash Investment program and its use of repurchase agreements. Jeff Kidwell from AVM, LP gave a presentation on the repurchase agreement market, specifically highlighting the difference between tri-party repo and bi-lateral repo. No recommendation or action was taken as this was provided for educational purposes only.

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

David Peden, Interim CIO, gave an update on the custodial transition from Northern Trust to BNY Mellon.

The KRS Investment Committee went into closed session to discuss pending litigation.

Please see the next page for a summary of the Pension and Insurance performance information ending December 31, 2013.

Pension Funds Performance Overview								
Rates of Return (%) as of December 31, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	23.73	22.38	9.96	10.09	14.97	15.17	6.94	6.82
Fixed Income	-0.03	-1.35	5.54	4.03	6.93	5.21	5.07	4.83
Private Equity	15.11	26.25	13.30	16.02	9.67	20.40	10.16	8.97
Real Estate	9.17	11.96	10.88	13.17	N/A		N/A	
Absolute Return	12.08	8.54	N/A		N/A		N/A	
Real Return	-4.37	2.33	N/A		N/A		N/A	
Cash Equivalents	0.64	0.05	0.41	0.07	0.66	0.10	2.16	1.59
Total Fund	12.70	13.33	8.12	8.34	11.25	11.96	6.40	6.49

Insurance Funds Performance Overview								
Rates of Return (%) as of December 31, 2013								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	23.59	21.90	9.62	10.05	14.55	14.85	6.78	6.45
Fixed Income	-0.18	-1.35	5.64	4.62	6.69	6.29	5.59	5.17
Private Equity	16.34	26.25	13.45	16.11	12.18	19.41	8.28	8.40
Real Estate	8.85	11.96	11.28	13.17	N/A		N/A	
Absolute Return	11.99	8.54	N/A		N/A		N/A	
Real Return	-4.92	2.30	N/A		N/A		N/A	
Cash Equivalents	0.27	0.05	0.33	0.07	0.29	0.10	1.98	1.59
Total Fund	12.33	13.23	7.23	8.46	11.90	13.18	6.09	6.24

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