



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: February 19, 2015

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on February 3, 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 December 31, 2014, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on November 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. New investment staff members were introduced and an update on the progress to fill vacant positions was given. Questions were encouraged and addressed throughout the reports.

Consultant RV Kuhns gave a brief update on what has occurred with other State clients of theirs that have gone through an investment performance audits. RV Kuhns also gave an update on the asset/liability study and the potential timeline for presenting results.

Staff discussed a potential fee benchmarking study and the output and use of such a study. At the time of the meeting a RFP was still being developed to procure such a service. This was for informational purposes only and no action was taken.

KRS Investment Staff and consultant RV Kuhns recommended hiring State Street Advisors for transition and temporary investment mandates when appropriate. These services are typically used when one investment manager is terminated prior to a permanent investment manager being identified to replace the terminated manager. The investment committee approved State Street Advisors for use in these situations.

KRS Investment Staff and consultant RV Kuhns recommended managing U.S. mid cap equity internally at KRS via fully replicating the S&P 400 index. This recommendation was approved by the investment committee.

Joe Gilbert, Director of Public Equity and consultant RV Kuhns recommended terminating its relationship with Pyramis Global Advisors who managed a non U.S. equity portfolio for KRS. The recommendation was due to excessive staff turnover at Pyramis. The recommendation was approved and the assets that Pyramis managed will be reallocated to existing KRS non-U.S. equity managers.

David Peden, Chief Investment Officer and consultant RV Kuhns recommended terminating its relationship with PIMCO who managed a Global Fixed Income portfolio for KRS. The recommendation was due to excessive staff turnover at PIMCO. The recommendation was approved and the assets that PIMCO managed will be reallocated to NISA Investment Advisors and Manulife Asset Management, both existing KRS fixed income managers. A search for a multi-sector fixed income manager will be conducted to add to the KRS fixed income roster and PIMCO will be allowed to compete for that mandate.

Consultant ORG presented policies and procedures for a real estate co-investment program. KRS staff and consultant ORG recommended a real estate co-investment program and it was approved by the KRS investment committee.

David Peden, CIO, presented an update on the Absolute Return program and discussed the idea of graduating hedge fund managers from the fund of funds to the KRS direct hedge fund program. This was for information purposes and no action was taken.

Erica Bradley, Compliance Officer, Brian Thomas, General Counsel, and David Peden, CIO, presented recommended changes to the Personal Trading Policy. Those changes were approved by the KRS investment committee with one modification to the recommended changes.

Please see the next page for a summary of the Pension and Insurance performance information ending December 31, 2014.

Pension Funds Performance Overview								
Rates of Return (%) as of December 31, 2014								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	3.10	3.79	14.23	14.18	9.53	9.86	5.96	5.76
Fixed Income	5.42	5.56	5.02	3.20	5.92	4.82	5.07	4.84
Private Equity	16.20	16.20	15.03	15.03	14.56	16.93	8.92	9.80
Real Estate	8.85	11.36	9.40	11.26	11.24	11.34	6.19	6.15
Absolute Return	4.84	4.72	7.95	5.46	N/A		N/A	
Real Return	3.20	2.93	2.62	3.34	N/A		N/A	
Cash Equivalents	0.17	0.03	0.37	0.05	0.46	0.07	2.04	1.46
Total Fund	5.14	6.02	10.11	10.91	8.41	8.67	5.83	6.03

Insurance Funds Performance Overview								
Rates of Return (%) as of December 31, 2014								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	3.35	3.85	14.17	14.04	9.20	9.55	5.76	5.50
Fixed Income	3.79	5.56	4.31	3.20	5.39	5.15	5.10	4.89
Private Equity	17.51	17.51	15.40	15.40	15.12	17.02	8.57	9.20
Real Estate	7.46	11.36	8.84	11.26	11.88	11.34	N/A	
Absolute Return	4.80	4.72	7.94	5.46	N/A		N/A	
Real Return	3.78	3.11	2.46	3.39	N/A		N/A	
Cash Equivalents	0.19	0.03	0.31	0.05	0.29	0.07	1.86	1.46
Total Fund	4.46	6.21	9.52	10.81	7.84	8.95	5.24	5.63

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