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## KENTUCKY RETIREMENT SYSTEMS INVESTMENTS

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TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: February 18, 2016

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on February 2, 2016. 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, 2015, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on November 4, 2015.

Erica Bradley, Compliance Officer, presented the Quarterly Compliance Report. It was noted that the asset allocations were in a state of transition in the month of December 2015 as the investment team moved assets to the January 1, 2016 asset allocation.

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, Prisma Capital Partners, and consultant Albourne recommended an initial investment of approximately \$20 million to DSAM+ and an initial \$35 million each to DB LiquidAlts H2O Force 10 and Myriad Asset Management. This recommendation was approved by the KRS Investment Committee. 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.

Prisma Capital Partners gave a review of the trial period of the strategic partnership between KRS and Prisma. KRS Staff also gave a review of this relationship and recommended the KRS Investment Committee continue the relationship on an official basis. This recommendation was approved by the Investment Committee. KRS Staff also recommended unwinding the fund of hedge funds managed by Blackstone and this recommendation was approved by the Investment Committee.

KRS Investment Staff and consultant ORG recommended an initial investment of approximately 50 million EURO to Patron Capital V, L.P. All five pension systems and all five insurance systems would receive allocations to this investment. The investment managers in the marketing and due diligence process used no placement agents. No action was taken on the recommendation and the investment was referred by the Investment Committee to full Board for consideration.

KRS Investment Staff and consultant PCA recommended a commitment of \$50 million to Green Equity Partners VII, L.P. Pension systems KERS Hazardous, CERS, and CERS Hazardous and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents. This investment recommendation was approved by the investment committee.

KRS Investment Staff and consultant PCA recommended a commitment of \$50 million to Vista Equity Partners VI, L.P. Pension systems KERS Hazardous, CERS, and CERS Hazardous and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents. This investment recommendation was approved by the investment committee.

Staff and Consultant RV Kuhns presented a recommendation for a new U.S. equity core position as the investment team moves to a core/satellite structure from a style box structure. The newly recommended core position is the Scientific Beta U.S. Multi-Beta Diversified Multi-Strategy Index and will replace the existing internally managed S&P 500 portfolio. The new strategy will also be internally managed by staff and is not an external money manager. The conversion from the S&P 500 to the Scientific Beta strategy will be in stages and the speed of conversion will be dictated by U.S. equity market conditions. This new strategy was approved by the investment committee.

Erica Bradley, Compliance Officer, presented the results of an Internal Performance Audit and a separate Internal Financial Review. This was for information purposes only and no action was taken.

Karen Roggenkamp, COO, and Ann Case, Deputy Controller, presented reporting on investment fees and expenses. Ann also reported a financial trend and cash flow analysis. This was for informational purposes only and no action was taken.

***Please see the next page for a summary of the Pension and Insurance performance information ending December 31, 2015.***

<b>Pension Funds Performance Overview</b>								
<b>Rates of Return (%) as of December 31, 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>	-2.94	-3.48	7.38	7.03	5.88	5.97	4.84	4.59
<b>Fixed Income</b>	0.50	0.43	1.94	1.51	4.49	3.60	4.85	4.63
<b>Private Equity</b>	11.15	11.15	14.13	14.13	13.44	14.26	8.55	9.69
<b>Real Estate</b>	8.89	13.86	8.97	12.39	10.07	12.95	6.01	5.73
<b>Absolute Return</b>	1.70	0.83	6.12	4.67	5.84	2.90	N/A	
<b>Real Return</b>	-5.96	-4.10	-2.45	0.34	N/A		N/A	
<b>Cash Equivalents</b>	0.21	0.03	0.34	0.04	0.32	0.05	1.75	1.17
<b>Total Fund</b>	-0.02	0.64	5.81	6.54	5.84	6.29	5.17	5.51

<b>Insurance Funds Performance Overview</b>								
<b>Rates of Return (%) as of December 31, 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>	-2.81	-3.36	7.47	6.95	5.76	5.99	4.57	4.36
<b>Fixed Income</b>	0.53	0.43	1.32	1.51	4.20	3.96	4.87	4.64
<b>Private Equity</b>	15.92	15.92	16.59	16.59	14.74	14.32	9.16	9.04
<b>Real Estate</b>	8.99	13.86	8.43	12.39	10.05	12.95	N/A	
<b>Absolute Return</b>	1.80	0.83	6.11	4.67	5.86	2.90	N/A	
<b>Real Return</b>	-6.13	-3.69	-2.52	0.53	N/A		N/A	
<b>Cash Equivalents</b>	0.21	0.03	0.22	0.04	0.28	0.05	1.55	1.17
<b>Total Fund</b>	-0.12	1.28	5.42	6.79	5.16	6.54	4.41	5.05

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