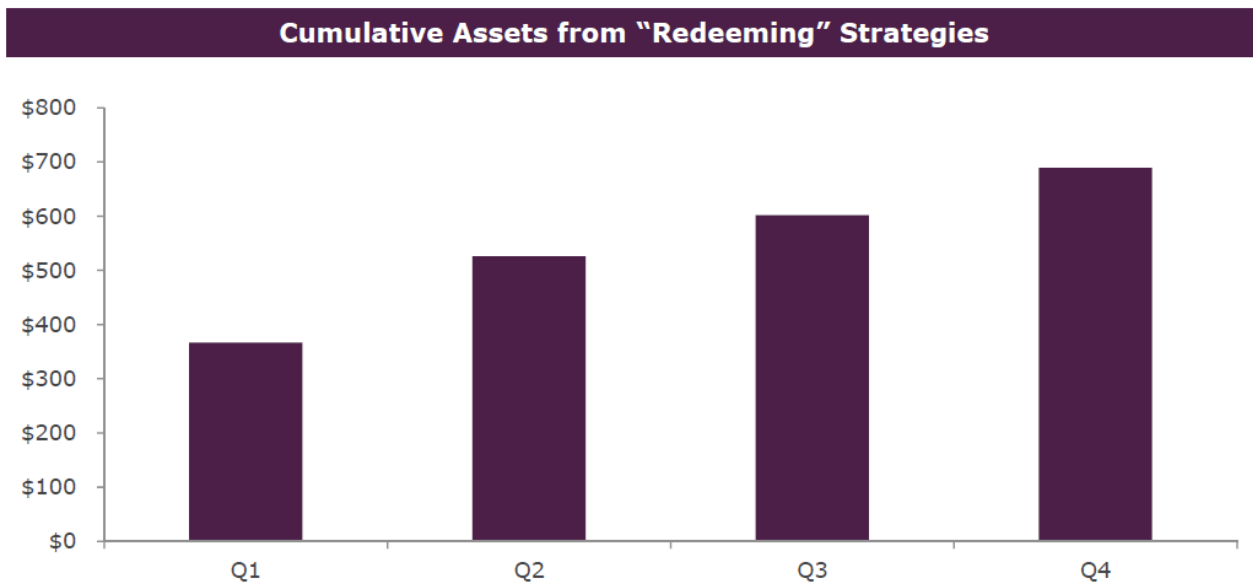


To: Investment Committee  
From: Richard Robben, Interim CIO / Director of Fixed Income  
Date: February 16th, 2017  
Subject: Investment Committee Quarterly Report

Since the last board of directors meeting in December, the Investment Committee has been very busy working on several initiatives that we would like to report on. The most important of those are as follows:

***Review of our Absolute Return portfolio and managers***

As you may recall, we announced towards the end of 2016 that we plan to cull approximately half of these mandates in order to streamline the portfolio, and to ensure that the mandates we keep are serving their intended purpose by providing an alpha stream that is uncorrelated with the rest of our portfolio and commensurate to the fees being paid. Staff has made significant progress on this initiative, as staff currently expects to see over \$500MM of redemptions returned to KRS by the end of Q22017, and an additional \$200MM+ by the end of 2017 when staff expects to have this task largely completed.



***Annual review of Asset Allocation and Investment Policy Statement***

At our January 20<sup>th</sup> meeting, Mr. Harris announced that he was appointing a sub-committee in regards to allocations and investment policies. Mr. Bill Cook and Mr. Neil Ramsey have been working with Investment staff and our general consultant RVK, Inc. to review and update our current asset allocation, and to review our Investment Policy Statement. The sub-committee reported at our February 7<sup>th</sup> meeting that they hope to have a recommendation on adjustments to each plans asset allocation by mid-March. The review of the Investment Policy Statement, which is being led by Mr. Cook, will be a somewhat longer task.

***Change in provider of Securities Lending services***

In early January, Investment Staff completed the transition of securities lending providers to BNY Mellon. All lending is now being done by BNY, and that revenue stream has been restored. The transition was completed with no issues or problems, and staff is pleased with BNY's service in this capacity.

*Performance*

## Kentucky Retirement Systems Quarterly Investment Update: 12/31/2016

Pension Plans	Market Value	Quarter to Date	Fiscal YTD	1 Year	3 Years	5 Years
<b>TOTAL FUND</b>	<b>\$11,069,638,711.35</b>	<b>1.13%</b>	<b>5.18%</b>	<b>7.71%</b>	<b>4.03%</b>	<b>7.37%</b>
<b>KY Ret. Blended Index</b>			<b>5.08%</b>	<b>7.81%</b>	<b>4.58%</b>	<b>8.03%</b>
<b>KERS</b>	<b>\$1,916,028,732</b>	<b>0.82%</b>	<b>4.37%</b>	<b>5.95%</b>	<b>3.79%</b>	<b>7.10%</b>
Performance Benchmark		0.85%	4.58%	7.75%	4.48%	8.01%
<b>KERS- H</b>	<b>\$553,434,161</b>	<b>1.12%</b>	<b>4.96%</b>	<b>7.84%</b>	<b>4.08%</b>	<b>7.45%</b>
Performance Benchmark		1.04%	5.17%	7.78%	4.24%	7.89%
<b>CERS</b>	<b>\$6,301,258,722</b>	<b>1.09%</b>	<b>5.14%</b>	<b>7.85%</b>	<b>3.91%</b>	<b>7.32%</b>
Performance Benchmark		1.06%	5.21%	7.84%	4.23%	7.88%
<b>CERS- H</b>	<b>\$2,075,365,784</b>	<b>1.13%</b>	<b>5.25%</b>	<b>8.12%</b>	<b>4.20%</b>	<b>7.53%</b>
Performance Benchmark		1.05%	5.19%	7.82%	4.23%	7.88%
<b>SPRS</b>	<b>\$223,551,312</b>	<b>1.16%</b>	<b>4.76%</b>	<b>6.67%</b>	<b>3.63%</b>	<b>7.18%</b>
Performance Benchmark		0.93%	4.85%	7.80%	4.21%	7.87%

Our Pension plans had a good quarter, gaining approximately 1.13% bringing their FYTD return to 5.18%. Pension plan allocations remain in-line with targets.



## Kentucky Retirement Systems Quarterly Investment Update: 12/31/2016

Individual Insurance Plans	Market Value	Quarter to Date	Fiscal YTD	1 Year	3 Years	5 Years
<b>TOTAL FUND</b>	<b>\$4,406,689,427</b>	<b>1.26%</b>	<b>5.29%</b>	<b>8.33%</b>	<b>4.16%</b>	<b>7.29%</b>
<b>KY Ins. Blended Index</b>		<b>1.03%</b>	<b>5.09%</b>	<b>8.02%</b>	<b>4.83%</b>	<b>8.09%</b>
<b>KERS INS</b>	<b>\$695,278,938</b>	<b>1.35%</b>	<b>5.47%</b>	<b>8.27%</b>	<b>3.88%</b>	<b>7.03%</b>
KY Ins. KERS Plan Index		1.17%	5.41%	8.28%	4.37%	7.86%
<b>KERS - H INS</b>	<b>\$453,809,722</b>	<b>1.31%</b>	<b>5.33%</b>	<b>8.27%</b>	<b>4.12%</b>	<b>7.30%</b>
KY Ins. KERS Haz Plan Index		1.10%	5.25%	8.15%	4.42%	7.89%
<b>CERS INS</b>	<b>\$1,993,356,699</b>	<b>1.23%</b>	<b>5.22%</b>	<b>8.27%</b>	<b>4.20%</b>	<b>7.32%</b>
KY Ins. CERS Plan Index		1.05%	5.15%	8.07%	4.46%	7.92%
<b>CERS - H INS</b>	<b>\$1,097,995,261</b>	<b>1.22%</b>	<b>5.21%</b>	<b>8.34%</b>	<b>4.24%</b>	<b>7.35%</b>
KY Ins. CERS Haz Plan Index		1.05%	5.14%	8.06%	4.47%	7.92%
<b>SPRS INS</b>	<b>\$166,248,806</b>	<b>1.21%</b>	<b>5.21%</b>	<b>8.25%</b>	<b>4.20%</b>	<b>7.32%</b>
KY Ins. SPRS Plan Index		1.05%	5.14%	8.06%	4.48%	7.93%

The Insurance plans experienced similar performance, posting an average Q4 2016 return of 1.26% bringing their FYTD return to 5.29%. The Insurance plans also remain allocated within targets:

