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## KENTUCKY RETIREMENT SYSTEMS INVESTMENTS

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TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Interim Chief Investment Officer

DATE: May 15, 2014

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on May 6, 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 March 31, 2014, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on February 4, 2014.

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, 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.

KRS staff made a recommendation to utilize bilateral repurchase agreements for its cash portfolio. Staff walked through the differences between tri-party repo and bilateral repo and the additional responsibilities staff will have with bilateral repo. The KRS Investment Committee approved the use of bilateral repurchase agreements for the cash portfolio.

Updates to the Approved Broker Dealer List were reviewed and approved by the Investment Committee.

KRS Investment Staff and consultant ORG presented three real estate recommendations to the investment committee. Greenfield Acquisition Partners Fund VII, L.P. presented to the committee and was approved by the investment committee for an initial investment of \$40 million. Lubert-Adler Real Estate Fund VII, L.P. presented to the investment committee and was approved for an initial investment of \$40 million. The third real estate recommendation was deferred by the investment committee for a later meeting. No placement agent was used to source these investments.

KRS Investment Staff and consultant Albourne recommended an initial investment of approximately \$20 million each to the following hedge funds: Jana Partners Qualified, L.P., Scopia PX, LLC, and LibreMax Partners, L.P. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source these investments.

Joe Gilbert, Director of Public Equity, and consultant RV Kuhns presented the public equity annual manager reviews. Questions were encouraged and addressed throughout both reports.

LSV Asset Management provided an educational presentation on low volatility equity strategies (also known as minimum variance strategies) to the KRS Investment Committee. After the presentation, staff gave examples of how such a strategy could be beneficial to the KRS portfolios.

RV Kuhns gave the investment committee an overview of the Asset Liability Study process. No action was taken.

Staff gave the investment committee an update on the status of Camelot Acquisition Partners LP. No action was taken.

Staff discussed with the investment committee equity execution and the issue of high frequency trading raised by the Michael Lewis book "Flash Boys".

Staff discussed with the investment committee upcoming changes to the benchmark regarding combining public equity with private equity target allocations in the benchmark. No action was taken. The recommended changes will be reflected in the recommended Investment Policy changes that will be presented at the August meeting.

Staff discussed with the investment committee completing a rebalancing transaction to bring different systems into alignment with their respective target allocations. No action was taken and further information was requested.

Staff discussed with the investment committee balancing transparency requirements with being protective of confidential information provided by our business partners. No action was taken.

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

<b>Pension Funds Performance Overview</b>								
<b>Rates of Return (%) as of March 31, 2014</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>	17.08	16.16	8.56	8.64	17.96	18.40	6.76	6.61
<b>Fixed Income</b>	1.70	0.51	5.94	4.39	7.13	5.27	4.95	4.67
<b>Private Equity</b>	21.84	21.84	15.90	15.90	14.48	23.75	9.89	9.75
<b>Real Estate</b>	8.18	12.90	9.58	12.53	N/A		N/A	
<b>Absolute Return</b>	11.08	7.68	7.24	2.74	N/A		N/A	
<b>Real Return</b>	-1.82	2.51	N/A		N/A		N/A	
<b>Cash Equivalents</b>	0.63	0.05	0.41	0.06	0.59	0.09	2.13	1.56
<b>Total Fund</b>	11.17	12.04	7.80	7.96	13.40	13.88	6.33	6.42

<b>Insurance Funds Performance Overview</b>								
<b>Rates of Return (%) as of March 31, 2014</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>	16.78	16.00	8.32	8.63	17.35	18.00	6.59	6.32
<b>Fixed Income</b>	1.37	0.51	5.75	4.58	6.21	5.56	5.27	4.85
<b>Private Equity</b>	20.59	20.59	14.13	14.13	16.46	23.63	8.64	9.17
<b>Real Estate</b>	7.52	12.90	8.94	12.53	N/A		N/A	
<b>Absolute Return</b>	10.97	7.68	7.15	2.74	N/A		N/A	
<b>Real Return</b>	-2.47	2.53	N/A		N/A		N/A	
<b>Cash Equivalents</b>	0.25	0.05	0.31	0.06	0.29	0.09	1.95	1.56
<b>Total Fund</b>	10.11	11.92	6.35	7.65	14.45	15.81	6.01	6.21

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