



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: May 19, 2016

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on May 3, 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 March 31, 2016, along with various other subjects.

The meeting began by voting Mary Helen Peter as the Acting Chair followed by Staff and the Investment Committee members welcoming the newest member of the Board of Trustee, Dave Eager, who was sworn in as a trustee. The Investment Committee then approved the minutes for the previous Investment Committee meeting held on February 2, 2015.

Erica Bradley, Compliance Officer, presented the Quarterly Compliance Report. It was noted that the ten year annualized return is below its benchmark. It was also noted that the policy regarding fixed income securities that settle trade date plus one day was not in compliance. The Investment Committee voted to suspend this policy until the November Investment Committee meeting where updated policies regarding fixed income liquidity will be presented.

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.

Staff and Consultant RV Kuhns presented a recommendation to increase the size of the mandate managed by River Road Asset Management to a 2.25% position of the aggregate portfolio. This mandate will be split between River Road's Dividend All Cap. strategy and Focused Absolute

Value strategy. The new strategy and target allocation were approved by the 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.

KRS Investment Staff, Prisma Capital Partners, and consultant Albourne recommended an initial investment of approximately \$20 million to Anchorage Capital Partners, \$30 million to BlackRock Global Alpha Opportunities fund, and \$25 million to Finisterre Global Opportunity fund. 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.

KRS Investment Staff recommended increasing the target allocation for the Prisma Daniel Boone portfolio to 5% of aggregate portfolio assets from its current target of 3.33%. 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. This recommendation was approved by the Investment Committee.

The Investment Committee listened to educational presentation on investing in Farmland. The topic specifically focused on how such a strategy could be implemented in Kentucky. This presentation was for educational and informational purposes only and was not a recommendation. Committee members did encourage staff to continue to research and work with appropriate consultants to review the opportunity further.

Erica Bradley, Compliance Officer, presented the results of an Alternative Due Diligence Audit and the attached comments from the Investment staff. This was for information purposes only and no action was taken.

Ann Case, Director of Investment Operations, 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.

Members of the Investment Committee made a motion to make Dave Eager the Chair of the Investment Committee and the motion was approved unanimously.

Please see the next page for a summary of the Pension and Insurance performance information ending March 31, 2016.

Pension Funds Performance Overview								
Rates of Return (%) as of March 31, 2016								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	-4.39	-5.59	5.47	4.93	5.09	4.98	4.20	3.91
Fixed Income	1.43	1.92	2.63	2.56	4.80	4.08	5.23	5.09
Private Equity	9.35	9.35	13.16	13.16	13.11	14.47	7.50	9.92
Real Estate	9.31	13.95	8.51	12.77	9.22	12.60	6.15	5.55
Absolute Return	-4.16	-4.96	3.30	2.23	4.12	1.48	N/A	
Real Return	-4.76	-3.12	-1.86	0.40	N/A		N/A	
Cash Equivalents	0.26	0.08	0.35	0.05	0.33	0.06	1.64	1.07
Total Fund	-1.00	-1.08	4.86	5.53	5.38	5.71	4.82	5.21

Insurance Funds Performance Overview								
Rates of Return (%) as of March 31, 2016								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	-4.00	-5.47	5.63	4.94	5.10	5.02	4.09	3.79
Fixed Income	1.46	1.92	2.01	2.56	4.37	4.19	5.36	5.21
Private Equity	13.53	13.53	15.77	15.77	13.85	14.42	8.86	9.22
Real Estate	9.06	13.95	8.44	12.77	8.93	12.60	N/A	
Absolute Return	-4.08	-4.96	3.31	2.23	4.10	1.48	N/A	
Real Return	-4.15	-2.68	-1.85	0.68	N/A		N/A	
Cash Equivalents	0.24	0.08	0.23	0.05	0.27	0.06	1.41	1.07
Total Fund	-0.88	-0.58	4.56	5.87	4.55	5.76	4.03	4.66

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