



**KENTUCKY RETIREMENT SYSTEMS  
INVESTMENTS**



TO: Kentucky Retirement System Board of Trustees  
FROM: David Peden, Chief Investment Officer  
DATE: September 10, 2015  
SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on August 25, 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 June 30, 2015, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on May 5, 2015.

Erica presented the Quarterly Compliance Report. A discussion was held regarding policy changes that will be forth coming at the November 2015 Investment Committee meeting specific to securities issued using the Reg. 144a. There was also a discussion on a corporate action involving Safeway and Albertsons grocery and a related security that was held in the S&P 500 account.

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 \$40 million to Tourbillon Global Master Fund and an initial \$20 million each to Glenview Capital Management LLC and QMS Diversified Global Macro. 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.

CEM Benchmarking presented a draft study analyzing the KRS investment cost effectiveness. The benchmarking report compares the KRS cost and return performance to CEM's pension database on a five year look back basis. CEM was also able to do some analysis on a twenty year basis since KRS has been reporting data to CEM for over twenty years. The presentation was for informational purposes only and no action was taken by the investment committee.

Consultant RV Kuhns presented the results of the asset/liability studies for the five insurance systems. Questions were encouraged and asked throughout the presentation. This was for informational purposes only and no action was taken.

Staff and Consultant RV Kuhns presented the results of the asset allocation studies for the five pension systems and five insurance systems. Questions were encouraged and asked throughout the presentation. No action was taken at this time and the topic will be discussed again in November.

Erica Bradley presented the results of an internal audit titled "General Manager Risks – Absolute Return, Real Return, and Real Estate Report". The report identified three instances where there was conflict between the dollar amount invested with a manager and the investment committee approved dollar amount. One of the managers was approved for the higher dollar amount at the August meeting bringing it back into compliance. The other two managers will be taken up at the November meeting. In addition, the Investment Committee requested some recommendations to be presented in November around the policy that addresses additional contributions to already approved managers. The audit also led to a discussion around the legal process involving our outside legal counsel and KRS' alternative investment managers. The investment committee requested additional information on that topic for November.

*Please see the next page for a summary of the Pension and Insurance performance information ending June 30, 2015.*

<b>Pension Funds Performance Overview</b>								
<b>Rates of Return (%) as of June 30, 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>	0.68	0.64	13.33	13.13	11.67	12.31	6.40	6.17
<b>Fixed Income</b>	1.44	1.61	3.70	2.33	5.02	3.85	4.88	4.60
<b>Private Equity</b>	9.61	9.61	14.33	14.33	13.83	19.44	8.74	10.73
<b>Real Estate</b>	7.85	12.40	9.30	11.60	11.42	13.44	6.03	6.00
<b>Absolute Return</b>	5.49	6.08	8.71	6.43	6.59	4.15	N/A	
<b>Real Return</b>	-3.98	-2.86	1.29	2.32	N/A		N/A	
<b>Cash Equivalents</b>	0.16	0.02	0.36	0.05	0.35	0.06	1.91	1.34
<b>Total Fund</b>	2.01	3.13	9.32	9.64	9.18	9.85	6.05	6.30

<b>Insurance Funds Performance Overview</b>								
<b>Rates of Return (%) as of June 30, 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>	0.93	0.70	13.22	12.98	11.34	12.18	6.08	5.88
<b>Fixed Income</b>	0.16	1.61	3.01	2.33	4.65	4.30	4.91	4.64
<b>Private Equity</b>	14.56	14.56	15.85	15.85	15.66	20.05	9.14	10.17
<b>Real Estate</b>	7.79	12.40	8.42	11.60	11.76	13.44	N/A	
<b>Absolute Return</b>	5.55	6.08	8.67	6.43	6.59	4.15	N/A	
<b>Real Return</b>	-3.90	-2.77	0.85	2.35	N/A		N/A	
<b>Cash Equivalents</b>	0.21	0.02	0.31	0.05	0.28	0.06	1.74	1.34
<b>Total Fund</b>	1.86	3.79	8.82	9.86	9.33	11.09	5.52	6.02

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