



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: September 15, 2016

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on August 23, 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 June 30, 2016, along with various other subjects.

The meeting began with the Executive Director giving an update on the August 22, 2016 injunctive relief ruling by Judge Shepherd. The Investment Committee then participated in a discussion on the state of the global fixed income markets that was led by Manulife Asset Management. Following the Manulife presentation, Janus Capital conducted an educational presentation on Tail Risk. Both presentations were for informational purposes only and no action was taken.

After the educational presentations roll call was taken and all new Board of Directors that were present were sworn in.

KRS Investment Staff and consultant PCA recommended a commitment of \$50 million to Kayne Anderson Energy Fund 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. The investment committee modified the recommendation and made the approval contingent upon certain criteria being agreed to by Kayne Anderson. Kayne Anderson agreed, in concept, to what the investment committee proposed, but communicated a counter offer that the KRS Chief Investment Officer finds attractive and those terms will be verbally communicated to the full board for modification to the original approved motion.

KRS Investment Staff and consultant ORG recommended an initial investment of approximately \$50 million to Mesa West Real Estate Income IV. All five pension systems and all five insurance systems will 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.

KRS Investment Staff, Prisma Capital Partners, and consultant Albourne recommended rebalancing

the direct hedge fund portfolio. A list of the managers in the direct hedge fund portfolio and the new recommended target allocations for each manager are attached to this memo. This recommendation was approved by the Investment Committee.

KRS Investment Staff and consultant Albourne recommended committing \$35 million to the Taurus Mining Finance Annex Fund for the Real Return asset class. This was an add-on to Taurus Mining Finance Fund I that KRS is committed to at \$65 million. No action was taken on this recommendation.

KRS Staff and consultant RVK gave an update on the U.S. Public Equity restructuring. The portfolio is being transitioned from a style box approach to a core satellite approach. This was for informational purposes only and no action was taken by the committee.

KRS Staff and consultant RVK recommended changing the existing International public equity small cap mandate, which is passively managed, to an enhanced index International public equity small cap mandate managed by Northern Trust. This is the same strategy KRS has successfully used for U.S. small cap for nineteen years. This recommendation was approved by the investment committee.

KRS General Counsel, Brian Thomas, gave an update on an ongoing legal matter associated with a former KRS investment program. This was for information purposes only.

Minutes from the May 3, 2016 Investment Committee were approved. It should be noted that Dave Eager and JT Fulkerson verbally confirmed that the minutes were accurate for the benefit of those new Investment Committee members who were not in attendance at the May 3 Investment Committee meeting.

Members of the Investment Committee made independent motions to make Dave Eager the Chair and Dave Harris the Vice Chair of the Investment Committee and both motions were approved unanimously.

Erica Bradley, Compliance Officer, presented the Quarterly Compliance Report. It was noted that the ten year annualized return is below its benchmark. 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 June 30, 2016.