

What's going on in the marketplace?

The basket of global stocks was positive during the month; however, this performance was really driven by U.S. equity markets. Outside of the U.S., equity markets fell as investors continued to worry about a slowdown in China among other geopolitical concerns causing some investors to seek safety in U.S. Treasuries. In general, U.S. bond yields declined during the month. Non-U.S. bonds fell during the period.

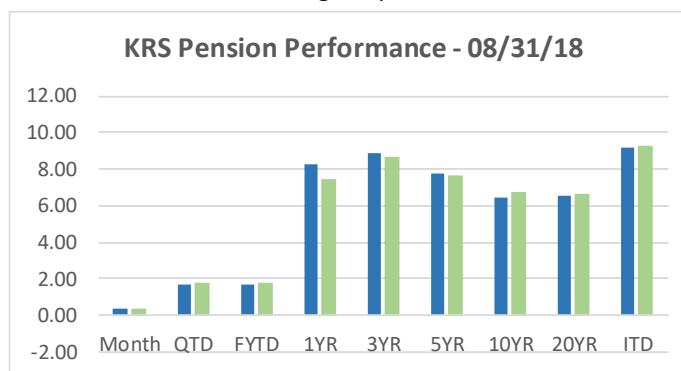
U.S. Equities

U.S. equity markets gained approximately 3.5% (Russell 3000) on the month. All market cap segments performed well with small caps leading with a return of 4.3% (Russell 2000). Large caps returned approximately 3.25% (S&P 500) during the period. The real discrepancy in performance came from the style factor, where growth significantly outperformed value by nearly 4% (R3000G 5.5%, R3000V 1.6%).

The KRS U.S. Equity portfolio underperformed the Russell 3000 by 64 bps during the month (2.9% vs 3.5%). The portfolio's relative performance was driven by both stock selection and allocation. From a stock selection perspective, the portfolio's growth mandate trailed the index by nearly 140 bps. The internal factor based portfolio also struggled against the large cap index returning 1.7% versus 3.3%, this points to allocation as value was a headwind during the period.

Non-U.S. Equities

Non-U.S. equities were weak during the period, declining approximately -1.9%. Developed markets outperformed their emerging market counterparts as currency weakness in those markets weighed heavy on performance. While growth outperformed value during the period, this relative style bias discrepancy in performance was not as pronounced as it was in the domestic markets.



The KRS Non-U.S. Equity portfolio provided 33 bps of downside protection during the period, falling -1.6% versus the market return of -1.9%. Relative outperformance was driven primarily by stock selection, with all four active large/mid cap managers outperforming the index on average providing nearly 70 basis points of downside protection. This was partially offset by weaker performance in the small cap space. Allocation decisions had little impact on relative performance.

Fixed Income

Fixed income market segments were positive in terms of performance during the month. The corporate high yield market rose three-quarters of a point, the core space as defined by the U.S. Aggregate gained 64 bps, intermediate credit was up 0.6%, and leveraged loans were up 40 bps during the period.

The specialty credit portion of the KRS portfolio returned 63 bps on the month, while the core fixed income piece of the portfolio gained 0.6%. Manager performance was mixed in terms of relative performance, with notable strong relative performance being provided by several high yield managers.

Alternative Assets

The diversifying strategy group was relatively flat during the month, falling roughly 13 bps. The Opportunistic and Absolute Return portion of the portfolio gained 14bps and 5 bps, respectively. The Real Estate portfolio was flat, while the Real Return portfolio fell approximately 0.3%. The Private Equity portion of the portfolio was also flat during the period.

Cash

The cash portfolio basically performed inline during the month (0.15% vs 0.17%). The cash allocation finished the period above target due to transitioning assets while moving towards the newly approved asset allocation.

NOTES:

- 1) Returns displayed are "net". For the purposes of this report, total fund return information is net of fees and expenses, with audited data beginning in July 2011. At the manager level returns are net of fees beginning with July 2011, and gross of fees for prior data.
- 2) Individual plan allocation and performance (pg.4).
- 3) Prior to January 1, 2014, the inception date for the Private Equity asset class was stated as 10/1/1990 for Pension Fund and 6/1/2001 for Insurance Fund. Prior to 07/01/02, the characteristics of the allocation, and the benchmark itself, were more closely aligned with Real Estate. As such, it is not appropriate to report this portion of the return stream within the Private Equity allocation, whose true inception date has been determined to be 07/01/02 based on funding the Systems' first private equity mandate. The portion of the original return streams that are no longer reported within the Private Equity allocation (Pension from 10/1/90 to 06/30/02; Insurance 06/01/01 to 06/30/02) are reported within the Fund Level performance figures.
- 4)

Private Equity Composite (Pension) Inception (07/01/02) to 06/30/11 60.00% S&P 1500 Composite Index 40.00% Barclays US Corporate High Yield Index 07/01/11 to 12/31/15 100.00% Russell 3000 Index + 4% (Qtr Lag) 01/01/16 to Present 100.00% Russell 3000 Index + 3% (Qtr Lag)	Private Equity Composite (Insurance) Inception (07/01/02) to 06/30/11 80.00% S&P 1500 Composite Index 20.00% Barclays US Corporate High Yield Index 07/01/11 to 12/31/15 100.00% Russell 3000 Index + 4% (Qtr Lag) 01/01/16 to Present 100.00% Russell 3000 Index + 3% (Qtr Lag)
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- 5) The Private Equity & Real Return Benchmarks, from one month returns up until five year returns, is equal to the performance of the associated KRS allocations. Given there is not appropriate benchmark to use for short term performance evaluation, this will allow greater focus on longer term returns, which is more appropriate given the long term nature of these investments.

<u>Pension Benchmark Composite 01/01/16 to 08/31/17</u> US Equity: Russell 3000 (25.6%) Non US Equity: MSCI AXCI Ex-US IMI (25.2%) Global Fixed Income: Barclays Universal Index (6.8%) Credit Fixed Income: Barclays US High Yield (7.2%) Real Estate: NCREIF ODCE (5.0%) Absolute Return: HFRI Diversified FOF (10.0%) Real Return: Allocation Specific (8.0%) Private Equity<5Yrs: Actual Performance Private Equity>5Yrs: Russell 3000 Index+3% (10.0%) Cash: Cit Grp 3-mos Treasury Bill (2.2%) <u>Pension Benchmark Composite 09/01/17 to 05/31/18 - Transition Period w/Sliding Targets</u> US Equity: Russell 3000 (23.6%) Non US Equity: MSCI AXCI Ex-US IMI (23.2%) Global Fixed Income: Barclays Universal Index (9.0%) Credit Fixed Income: Barclays US High Yield (9.0%) Real Estate: NCREIF ODCE (5.0%) Absolute Return: HFRI Diversified FOF (10.0%) Real Return<5Yrs: Actual Performance Real Return>5Yrs: CPI+3% (8%) Private Equity<5Yrs: Actual Performance Private Equity>5Yrs: Russell 3000 Index+3% (10.0%) Cash: Cit Grp 3-mos Treasury Bill (2.2%) <u>Pension Benchmark Composite 06/01/18 to Present</u> US Equity: Russell 3000 (17.0%) Non US Equity: MSCI AXCI Ex-US IMI (21.0%) Global Fixed Income: Barclays Universal Index (13.0%) Credit Fixed Income: Barclays US High Yield (12.4%) Real Estate: NCREIF ODCE (5.0%) Absolute Return: HFRI Diversified FOF (10.0%) Real Return<5Yrs: Actual Performance Real Return>5Yrs: CPI+3% (10.0%) Private Equity<5Yrs: Actual Performance Private Equity>5Yrs: Russell 3000 Index+3% (9.4%) Cash: Cit Grp 3-mos Treasury Bill (2.2%)	<u>Insurance Benchmark Composite 01/01/16 to 08/31/17</u> US Equity: Russell 3000 (26.5%) Non US Equity: MSCI AXCI Ex-US IMI (26.5%) Global Fixed Income: Barclays Universal Index (6.0%) Credit Fixed Income: Barclays US High Yield (6.0%) Real Estate: NCREIF ODCE (5.0%) Absolute Return: HFRI Diversified FOF (10.0%) Real Return: Allocation Specific (8.0%) Private Equity<5Yrs: Actual Performance Private Equity>5Yrs: Russell 3000 Index+3% (10.0%) Cash: Cit Grp 3-mos Treasury Bill (2.0%) <u>Insurance Benchmark Composite 09/01/17 to 05/31/18 - Transition Period w/Sliding Targets</u> US Equity: Russell 3000 (24.5%) Non US Equity: MSCI AXCI Ex-US IMI (24.5%) Global Fixed Income: Barclays Universal Index (8.0%) Credit Fixed Income: Barclays US High Yield (8.0%) Real Estate: NCREIF ODCE (5.0%) Absolute Return: HFRI Diversified FOF (10.0%) Real Return<5Yrs: Actual Performance Real Return>5Yrs: CPI+3% (8%) Private Equity<5Yrs: Actual Performance Private Equity>5Yrs: Russell 3000 Index+3% (10.0%) Cash: Cit Grp 3-mos Treasury Bill (2.0%) <u>Insurance Benchmark Composite 06/01/18 to Present</u> US Equity: Russell 3000 (17.9%) Non US Equity: MSCI AXCI Ex-US IMI (21.9%) Global Fixed Income: Barclays Universal Index (13.0%) Credit Fixed Income: Barclays US High Yield (11.0%) Real Estate: NCREIF ODCE (5.0%) Absolute Return: HFRI Diversified FOF (10.0%) Real Return<5Yrs: Actual Performance Real Return>5Yrs: CPI+3% (10.0%) Private Equity<5Yrs: Actual Performance Private Equity>5Yrs: Russell 3000 Index+3% (9.2%) Cash: Cit Grp 3-mos Treasury Bill (2.0%)
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**Fund composite benchmark is a roll-up of individual plans, which may differ from one another.

