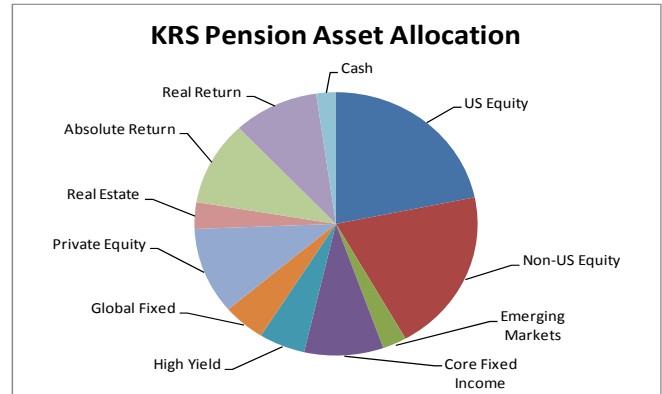


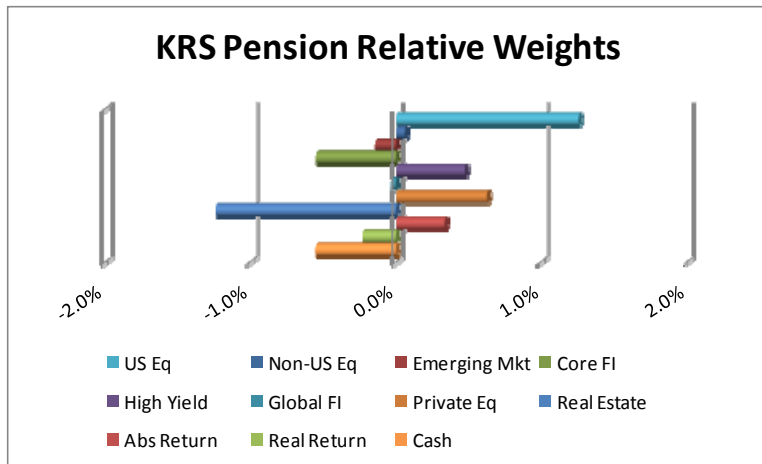
**What's going on in the marketplace?**

For July, from an economics standpoint the picture continued to be mixed, but overall had a slightly positive tone this month. Recent U.S. growth figures, as measured by GDP, came in at 1.7% for the Second Quarter reflective of positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, and residential investment, but were partially offset by negative contributions from federal government spending and increased imports. Inflation, as measured by CPI, increased by 0.2% for the month matching the consensus analyst expectations of an increase of 0.2%. The increase was again primarily driven by an increase in gasoline and food prices for the second month in a row. Housing data continued to provide an overall positive tail wind to the overall economy as the NAHB housing market index rose to levels not seen since 2006. Housing prices increased while and sales pulled back a bit in July signaling that higher mortgage rates may be starting to impact the market clearing price of housing. Employment figures, as measured by non-farm payrolls, increased by 162,000 versus the consensus expectation of 188,000. Employment gains in the private sector were driven primarily by retail trade, leisure and hospitality, and professional and business service; while manufacturing and healthcare remained flat for the month. Overall the unemployment rate declined a bit to 7.4%; however, the labor-force participation rate continued to hold steady at a less than historically healthy 63.4%. One final key economic area which pulled back after being positive for several months was a decrease in Consumer Confidence, which decreased by 1.1 to reach 80.3. Consensus analyst expectations were an increase to 81.5.



	July	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund	2.21	12.01	9.09	5.39	6.80
Benchmark	2.02	12.56	9.52	6.01	7.00

Global equity markets bounced back after retreating in the previous month. U.S., Non-U.S., and Emerging Market Equities all provided positive returns to the portfolio after providing overall mixed returns in the two previous months. Non-U.S.



Market Equities and Emerging Market Equities seem to have stabilized after finding negative momentum in previous months. In terms of the U.S. Market drivers, the themes have been relatively consistent for the previous two quarters; the overall picture has seen glimmers of improvement while the employment picture has remained hazy at best. For Non-U.S. Market equities, negative guidance in terms of economic conditions have come in pretty close to the consensus estimates and therefore seem to be priced into the market at this point. Emerging Market Equities returns have been volatile and inconsistent across markets, fuelled by the current concern of a slowing China and policymakers' ability to balance liquidity in the market, with the economy-wide flow through effects of a credit bubble in the real estate sector. Overall the Emerging Markets continue to face a risk on/risk off flow of investor funds.

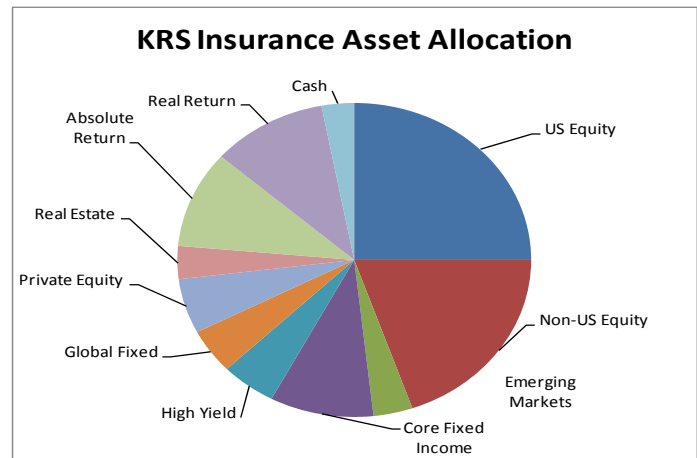
Fixed Income markets again were slightly positive for the month. The Barclays U.S. Aggregate Bond Index returned 0.14% while high-yield bonds, as represented by the Barclays US Corporate High Yield Index, returned 1.90%. During July, the shape of the U.S. Treasury Yield curve steepened slightly and overall shifted higher as yields increased across all maturities. The 10-Year Treasury Note ended at 2.60% and the 30-Year Treasury Bond Yield ended the month at 3.64%.

Fixed Income markets again were slightly positive for the month. The Barclays U.S. Aggregate Bond Index returned 0.14% while high-yield bonds, as represented by the Barclays US Corporate High Yield Index, returned 1.90%. During July, the shape of the U.S. Treasury Yield curve steepened slightly and overall shifted higher as yields increased across all maturities. The 10-Year Treasury Note ended at 2.60% and the 30-Year Treasury Bond Yield ended the month at 3.64%.

**What added value this month?**

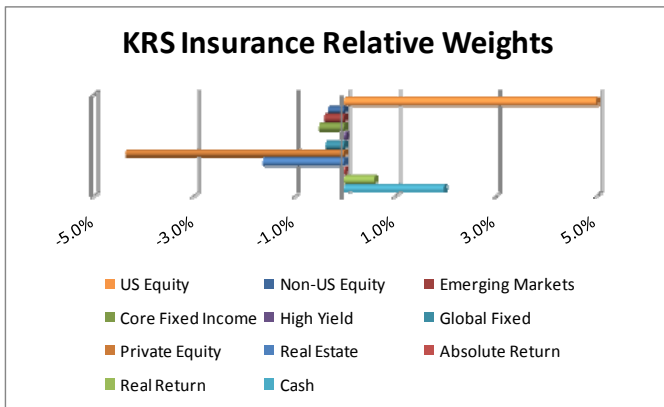
**PENSION** - From a manager selection perspective, the biggest contribution in terms of relative outperformance came from the Absolute Return portfolio. The allocation provided 66 basis points of downside protection over its benchmark return of -1.32%, with all three mandates outperforming. The U.S. Equity allocation added 29 basis points over its benchmark, returning 5.77% for the month. Relative strength for the month was supplied primarily Invesco, Systematic, and Westfield, returning 6.49%, 6.39%, and 7.19%, respectively.

From an allocation perspective, the biggest contributor for the month came in the form of an overweight to the U.S. Equity space, which happened to be the best performing asset classes for the month



	July	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund	2.30	11.37	9.14	4.17	6.30
Benchmark	2.01	12.37	10.73	4.99	7.01

**INSURANCE** - Like the pension fund, from a manager selection perspective, the biggest gains (in relative terms) to the portfolio over the benchmark came from the Absolute Return and U.S. Equity portfolios.



The fund also benefited from overweighting the U.S. Equity class. In addition, the overweight to the High Yield Fixed Income space was helpful as the class performed well during the period, as evidenced by the BC HY Corporate Index return of 1.90%.

**What detracted this month?**

benchmarked (0.80% vs. 1.10%). In addition, the Private Equity allocation hampered performance.

**PENSION** - The biggest detractor from a stock selection perspective was the Emerging Market portfolio, which gave up 30 basis points of relative performance versus its

From an allocation perspective, the biggest detractor came from the slight overweight to the Absolute Return allocation, the weakest performing asset class for the period.

**INSURANCE** - The biggest detractor for the month from a stock selection standpoint came from the Non-U.S. Equity portfolio, which returned 4.29% versus the MSCI ACWI-ex US return of 4.40%. Also, underperformance from the Private Equity and Real Return spaces served as a stumbling block.

The underweight to the Non-US Equity portfolio was the biggest allocation misstep during the month, as this was the second best performing asset class during the period.

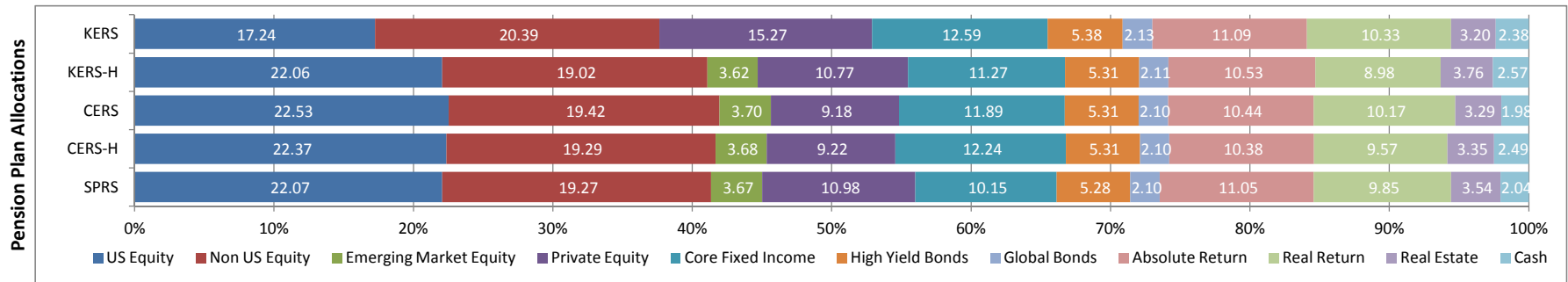
**NOTES:**

- 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 (detailed return sheets pgs.9-4), returns are net of fees beginning with July 2011, and gross of fees for prior data.
- 2) Individual plan allocation and performance will now be part of the performance report going forward (pg.5).





**KENTUCKY RETIREMENT SYSTEMS - PENSION & INSURANCE - PLAN PERFORMANCE & ALLOCATION**



**KRS - PENSION**

	07/31/13	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS</b>	<b>2.07</b>	<b>2.07</b>	<b>11.86</b>	<b>9.04</b>	<b>5.36</b>	<b>6.78</b>	<b>9.45</b>
KERS Plan Index	2.18	2.18	12.73	9.57	6.04	7.02	9.59
<b>KERS-H</b>	<b>2.26</b>	<b>2.26</b>	<b>12.06</b>	<b>9.10</b>	<b>5.40</b>	<b>6.80</b>	<b>9.45</b>
KHAZ Plan Index	2.11	2.11	12.66	9.55	6.03	7.01	9.59
<b>CERS</b>	<b>2.22</b>	<b>2.22</b>	<b>12.03</b>	<b>9.09</b>	<b>5.39</b>	<b>6.80</b>	<b>9.45</b>
CERS Plan Index	2.11	2.11	12.66	9.55	6.03	7.01	9.59
<b>CERS-H</b>	<b>2.27</b>	<b>2.27</b>	<b>12.08</b>	<b>9.11</b>	<b>5.40</b>	<b>6.80</b>	<b>9.46</b>
CHAZ Plan Index	2.11	2.11	12.66	9.55	6.03	7.01	9.59
<b>SPRS</b>	<b>2.33</b>	<b>2.33</b>	<b>12.15</b>	<b>9.13</b>	<b>5.42</b>	<b>6.81</b>	<b>9.46</b>
SPRS Plan Index	2.11	2.11	12.65	9.55	6.03	7.01	9.59

**KRS - INSURANCE**

	07/31/13	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS INS</b>	<b>2.15</b>	<b>2.15</b>	<b>11.21</b>	<b>9.08</b>	<b>4.14</b>	<b>6.29</b>	<b>7.48</b>
INS KERS Plan Index	2.11	2.11	12.49	10.77	5.01	7.02	7.87
<b>KERS-H INS</b>	<b>2.34</b>	<b>2.34</b>	<b>11.41</b>	<b>9.15</b>	<b>4.17</b>	<b>6.31</b>	<b>7.49</b>
INS KHAZ Plan Index	2.12	2.12	12.49	10.77	5.01	7.02	7.87
<b>CERS INS</b>	<b>2.33</b>	<b>2.33</b>	<b>11.40</b>	<b>9.15</b>	<b>4.17</b>	<b>6.31</b>	<b>7.49</b>
INS CERS Plan Index	2.12	2.12	12.49	10.77	5.01	7.02	7.87
<b>CERS-H INS</b>	<b>2.32</b>	<b>2.32</b>	<b>11.39</b>	<b>9.14</b>	<b>4.17</b>	<b>6.31</b>	<b>7.49</b>
INS CHAZ Plan Index	2.12	2.12	12.49	10.77	5.01	7.02	7.87
<b>SPRS INS</b>	<b>2.28</b>	<b>2.28</b>	<b>11.35</b>	<b>9.13</b>	<b>4.16</b>	<b>6.30</b>	<b>7.49</b>
INS SPRS Plan Index	2.12	2.12	12.49	10.77	5.01	7.02	7.87

