

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

Global equity markets rose during the month of June as Covid-19 infection rates in many countries showed signs of decline. This caused investors to hang their hopes on a recovery in economic growth. Unfortunately, a few states in the U.S. began to have an uptick in cases causing concern for reopening and ultimately slowed the U.S. market. In general, non-U.S. equity markets outperformed U.S. markets. Global bonds rose as central banks continued to give support.

### The KRS investment portfolio returned 1.0% versus the benchmark of 0.7%.

The portfolio benefitted from its relative outperformance in the Non-U.S. Equity and Core Fixed Income segments of the portfolio in combination with its significant underweight position to the Real Return space, which struggled during the period (-1.6%). However, the portfolio's relative outperformance was partially offset by weaker performance in the Specialty Credit and Real Estate portions of the portfolio.

### The fiscal year return stands at 1.2% versus a benchmark return of 0.5%

The portfolio benefitted from relative outperformance in the Real Estate and Non-U.S. Equity portfolios combined with an overweight to the Core Fixed Income allocation (the best performing asset class during the fiscal year). The portfolio's outperformance was partially hampered due to weaker security selection in both the Core Fixed Income and U.S. Equity allocations.

### U.S. Equities

U.S. markets gained nearly 2.3% during the month per the Russell 3000. All market cap segments produced positive returns. That said, small caps performed the best, followed by large caps, and then mid-caps (SC: 3.5% vs LC: 2.0% vs MC: 1.3%). Growth continued to outperform value as the market narrowed and investors willingness to pay a premium for growth in a difficult market environment increased (R3000G: 4.3% vs R3000V: -0.5%).

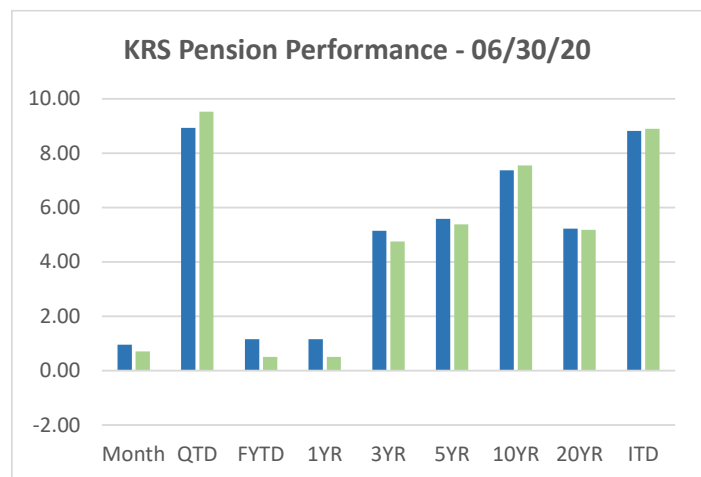
During the month, the KRS U.S. Equity portfolio trailed the Russell 3000 Index by 13bps. Relative performance amongst the individual mandates was mixed. However, weaker performance in the small cap, all cap growth, and internal factor based portfolio created a drag on the overall portfolio.

For the fiscal year, the KRS U.S. Equity portfolio returned 4.7%, trailing the 6.5% return of the Russell 3000. Stock selection was not an issue although the small cap portfolio underperformed its benchmark (most mandates outperformed their respective indices). Though stock selection in the internal factor based portfolio looks to be the culprit (-1.4%vs7.5%), relative performance was really a product of allocation as the strategy has more of a mid-cap and value bent compared with a large cap core benchmark. The dispersion between large and mid- caps (7.5%vs-6.7%) and growth and value (21.9%vs-9.4%) was dramatic during the period.

### Non-U.S. Equities

Non-U.S. equity markets gained 4.4% for the month per the MSCI ACWI-Ex US Index. Emerging markets (MSCI EM: 7.4%) held up better than their developed market counterparts (MSCI World Ex-US: 3.4%). Just as in the U.S., growth outpaced value, especially in the emerging markets where the spread between the two styles was about 4%.

The KRS Non-U.S. Equity portfolio gained 5.1% during the month, outpacing the benchmark by 71bps. KRS' external



MSCI ACWI Ex-US and MSCI EM individual mandates' relative returns split along style lines, as those with a growth bias outperformed and those with a value bias underperformed their respective core benchmarks.

For the fiscal year, the KRS Non-U.S. Equity portfolio fell -2.3%; however, it provided 271bps of downside protection (-2.0%vs-4.7%). Strong results from two of the four active MSCI ACWI Ex-U.S. mandates (both with a growth bias) have driven this relative outperformance, both outperforming by 15%.

**Fixed Income**

In a reversal from May, those segments of the market that are considered more risk-on outperformed those considered a place of safety. The leveraged loan market gained 1.1% and the high yield market added nearly 1.0%. The U.S. Corporate 1-3 Years Index and the U.S. aggregate market gained 81bps and 63bps, respectively. The Barclays Intermediate Aggregate Bond Index returned 0.4%.

The KRS Specialty Credit allocation returned 0.4%, trailing its benchmark that returned 1.1% during the month. Individual strategy relative performance was split; however, the distribution of relative returns was negatively skewed. The KRS Core Fixed Income portfolio performed well versus the Bloomberg Barclays Aggregate (1.2% vs 0.6%). Relative performance was positive impacted by the portfolio's short-term credit and intermediate investments, which gained 1.4% and 0.8%, respectively.

The KRS Specialty Credit allocation fell -1.4% for fiscal year versus the benchmark return of -1.0%. Relative underperformance was both in part to security selection from a couple individual mandates and from the leveraged loan portion of the portfolio as this was generally a weaker segment of the market. The Core Fixed Income portfolio returned 5.3% during the fiscal year compared to the 8.7% of the benchmark. Most individual mandates performed well in both absolute and relative terms; however, underperformance was driven by weakness in the U.S. Corporates 1-3 Years mandate.

**Alternative Assets**

The diversifying strategy group fell -0.5% during the month, with relative performance amongst the major portfolio segments mixed during the period. The Opportunistic and Absolute Return segments returned 2.6% and 1.1%, respectively. The Real Return and Real Estate portfolios lost ground, falling -1.6% and -1.3%, respectively. The Private Equity portion of the portfolio, reported on a lag was credited with a -6.9% return.

For the fiscal year, the Real Estate added 9.8%. While the Real Return, Absolute Return, and Opportunistic portfolios have all lost ground, returning -9.2%, -4.2%, and -2.8%, respectively. The Private Equity allocation returned 0.3% (reporting on a quarter lag).

**Cash**

The Cash portfolio added 1bp over the 3-month T-Bill; this brought the fiscal year return to 1.9% versus the 1.6% of the benchmark.

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**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) Private Equity Composite (Insurance)  
Inception (07/01/02) to 06/30/11 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)**

- 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.

Pension Benchmark Composite 01/01/16 to 08/31/17

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%)

Pension Benchmark Composite 09/01/17 to 05/31/18 -  
Transition Period w/Sliding Targets

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%)

Pension Benchmark Composite 06/01/18 to 07/31/18

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%)

Pension Benchmark Composite 07/31/18 to Present

**US Equity: Russell 3000 (18.2%)**  
**Non US Equity: MSCI AXCI Ex-US IMI (18.2%)**  
**Core Fixed Income: Barclays US Aggregate (14.8%)**  
**Specialty Credit/High Yield FI: Custom Benchmark (15.0%)**  
**Real Estate: NCREIF ODCE (5.0%)**  
**Absolute Return: HFRI Diversified FOF (3.0%)**

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)**

Insurance Benchmark Composite 01/01/16 to 08/31/17

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%)

Insurance Benchmark Composite 09/01/17 to 05/31/18 -  
Transition Period w/Sliding Targets

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%)

Insurance Benchmark Composite 06/01/18 to 07/31/18

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%)

Insurance Benchmark Composite 07/31/18 to Present

**US Equity: Russell 3000 (18.75%)**  
**Non US Equity: MSCI AXCI Ex-US IMI (18.75%)**  
**Core Fixed Income: Barclays US Aggregate (5.0%)**  
**Specialty Credit/High Yield FI: Custom Benchmark (13.5%)**  
**Real Estate: NCREIF ODCE (10.0%)**  
**Absolute Return: HFRI Diversified FOF (3.0%)**

**Real Return<5yrs: Actual Performance**  
**Real Return>5yrs: CPI+3% (15.0%)**  
**Private Equity<5Yrs: Actual Performance**  
**Private Equity>5Yrs: Russell 3000 Index+3% (9.4%)**  
**Cash: Cit Grp 3-mos Treasury Bill (1.4%)**

**Real Return<5yrs: Actual Performance**  
**Real Return>5yrs: CPI+3% (15.0%)**  
**Private Equity<5Yrs: Actual Performance**  
**Private Equity>5Yrs: Russell 3000 Index+3% (15.0%)**  
**Cash: Cit Grp 3-mos Treasury Bill (1.0%)**

\*\*Fund composite benchmark is a roll-up of individual plans, which may differ from one another.

