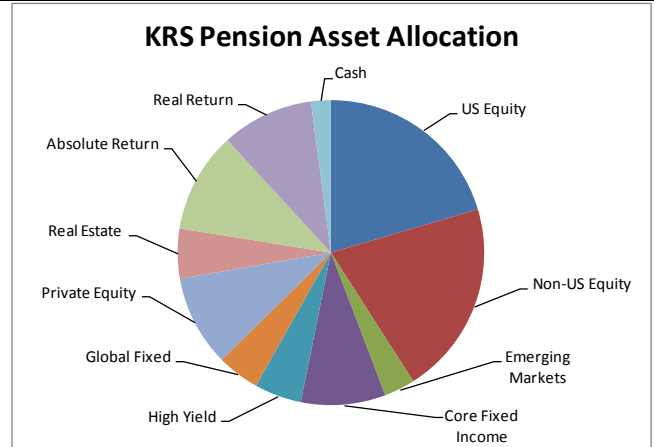


**What's going on in the marketplace?**

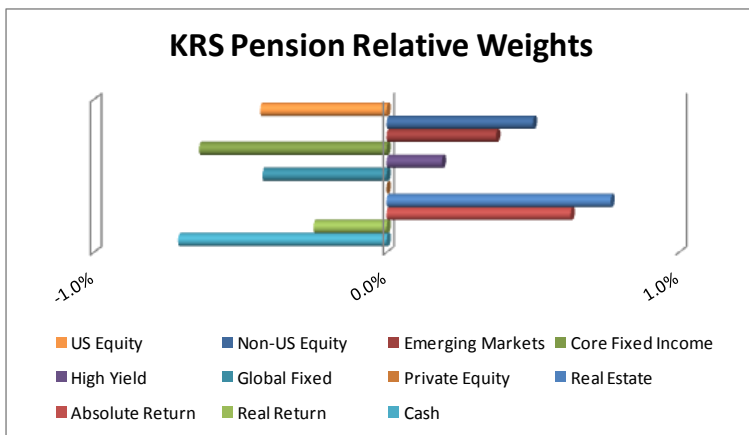
U.S. equities performed well in May, with the S&P 500 earning 1.29% for the month. Most of the growth was seen early in the month, with stocks reversing a portion of the earlier gains as they approached month-end. All major U.S. equity markets posted gains for May; performance was driven largely by unexpected positive corporate earnings news. Equities abroad did not fare as well; within foreign developed markets, equities fell -0.40% (MSCI EAFE Index). Much like the United States, developed international equities suffered severely at month-end. The cause for the decline can be attributed to concerns surrounding a Greek default. With more Greek debt payments coming in June, the ability for Greece to make payments becomes more doubtful, translating into market risk. Emerging Markets had an even more dramatic loss for the month, moving from a mid-month gain of roughly 1.00% to -3.99% for the month (MSCI Emerging Markets Index).



	May	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund	0.06	4.43	10.33	8.95	6.23
Benchmark	-0.20	5.51	10.79	9.60	6.45

Fixed Income markets showed relatively weak performance for the month of May, with the Barclays U.S. Aggregate Bond Index falling -0.24%. Poor Fixed Income performance was a common theme for major Fixed Income indices. U.S. Treasury rates declined slightly, but market performance as a whole was hindered due to the underperformance of spread-based and credit products.

**What added value this month?**



**PENSION** – From a manager selection standpoint the pension portfolio added value in every asset class but Real Return. The Emerging Markets portfolio was able to offer 128 basis points of downside protection against the MSCI Emerging Markets Index. The Non-U.S. Equity portfolio also provided some quality protection, outperforming the benchmark by 84 basis points. Within the Non-U.S. Equity portfolio, Franklin Templeton outperformed the MSCI ACWI ex-US Index by 258 basis points, making it the highest performer in its asset class. The Absolute Return, Real Estate, Fixed Income, and U.S. Equity portfolios all also outperformed from a relative perspective.

From an allocation standpoint, the portfolio benefited from an overweight to the Real Estate and Absolute Return portfolios, as well as an underweight to Real Return. In total, the pension portfolio earned 0.06% for the month of May, compared to the benchmark loss of -0.20%.

**INSURANCE** – From a manager selection standpoint, the insurance portfolio was able to add value in all but two asset classes: U.S. Equity and Real Return. Like in the pension portfolio, the emerging market portfolio was able to offer downside protection against its benchmark, outperforming by 139 basis points. Wellington carried the the allocation,

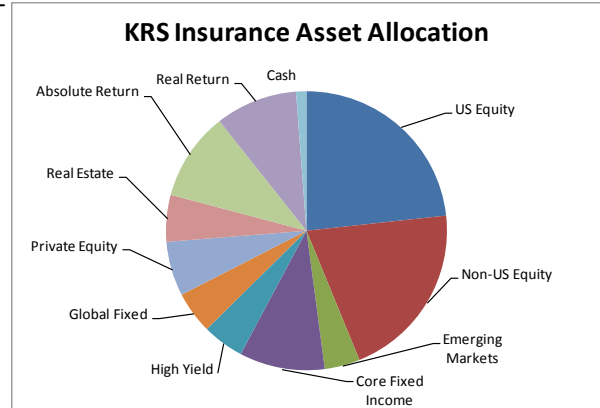
outperforming the MSCI Emerging Markets Index by 258 basis points for the month. Non-U.S. Equity was the second highest contributor from a relative standpoint, outperforming its benchmark by 78 basis points.

From an allocation standpoint, the insurance portfolio benefited from its underweight position in Real Return and its overweight to Real Estate and Absolute Return. In total, the insurance portfolio earned 0.06% for the month of May, compared to the benchmark return of -0.25%.

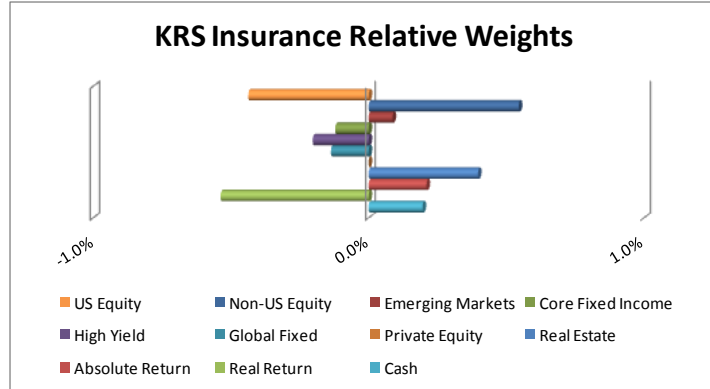
**What detracted this month?**

**PENSION** – From a manager selection standpoint, the biggest detractor from performance came from the Real Return portfolio, which fell -0.55% for the month, trailing its benchmark by 9 basis points. There were no other significant detractors from a manager selection standpoint, as all other asset classes showed relative outperformance.

From an allocation perspective, the pension portfolio suffered most from an overweight to the Emerging Markets portfolio, as indicated by the relatively poor performance of the MSCI Emerging Markets Index. An under allocation to U.S. Equities and Fixed Income, as well as over allocations to Non U.S. Equities were also detractors of performance.



	May	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund	0.06	4.37	9.91	8.80	5.68
Benchmark	-0.25	6.11	10.96	10.52	6.13



**INSURANCE** – From a manager selection standpoint, the U.S. Equity and Real Return portfolios detracted the most value, although both of these asset classes were relatively flat with their benchmarks (underperforming by 3 and 8 basis points respectively).

The net allocation effect was more favorable for the insurance portfolio than the pension; this is because portfolio actual allocation is tighter to the target allocation with respect to the pension fund. The insurance portfolio was still negatively impacted due to

its under allocation to U.S. Equities and Fixed Income, as well as its over allocation to Non U.S. Equities.

**NOTES:**

- 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.4-5), returns are net of fees beginning with July 2011, and gross of fees for prior data.
- Individual plan allocation and performance (pg.6).

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.

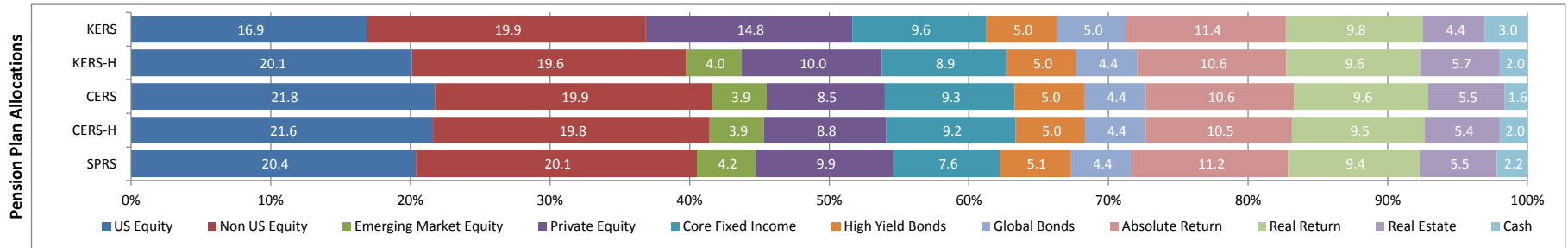
4) Private Equity Composite (Pension)	Private Equity Composite (Insurance)
Inception (07/01/02) to 06/30/11	Inception (07/01/02) to 06/30/11
60.00% S&P 1500 Composite Index	80.00% S&P 1500 Composite Index
40.00% Barclays US Corporate High Yield Index	20.00% Barclays US Corporate High Yield Index
<b>07/01/11 to Present</b>	<b>07/01/11 to Present</b>
<b>100.00% Russell 3000 Index + 4% (Qtr Lag)</b>	<b>100.00% Russell 3000 Index + 4% (Qtr Lag)</b>

5) The Private Equity Benchmark, from one month returns up until five year returns, is equal to the performance of the KRS Private Equity allocation. 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 private equity investments.





KENTUCKY RETIREMENT SYSTEMS - PENSION & INSURANCE - PLAN PERFORMANCE & ALLOCATION - 05/31/15



KRS - PENSION

	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS</b>	<b>0.10</b>	<b>2.74</b>	<b>4.45</b>	<b>10.34</b>	<b>8.96</b>	<b>6.23</b>	<b>9.40</b>
KY Ret. KERS Plan Index	-0.19	3.05	4.83	10.55	9.47	6.39	9.52
<b>KERS- H</b>	<b>0.03</b>	<b>2.50</b>	<b>4.30</b>	<b>10.30</b>	<b>8.94</b>	<b>6.22</b>	<b>9.39</b>
KY Ret. KERS Haz Plan Index	-0.31	3.01	4.82	10.67	9.53	6.42	9.53
<b>CERS</b>	<b>0.06</b>	<b>2.65</b>	<b>4.44</b>	<b>10.33</b>	<b>8.95</b>	<b>6.23</b>	<b>9.39</b>
KY Ret. CERS Plan Index	-0.29	3.03	4.82	10.68	9.54	6.42	9.53
<b>CERS- H</b>	<b>0.05</b>	<b>2.67</b>	<b>4.46</b>	<b>10.31</b>	<b>8.95</b>	<b>6.23</b>	<b>9.39</b>
KY Ret. CERS Haz Plan Index	-0.29	3.03	4.82	10.68	9.54	6.42	9.53
<b>SPRS</b>	<b>0.04</b>	<b>2.54</b>	<b>4.31</b>	<b>10.31</b>	<b>8.95</b>	<b>6.23</b>	<b>9.39</b>
KY Ret. SPRS Plan Index	-0.30	2.98	4.79	10.64	9.52	6.41	9.53

KRS - INSURANCE

	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS INS</b>	<b>0.07</b>	<b>2.43</b>	<b>4.05</b>	<b>9.64</b>	<b>8.64</b>	<b>5.61</b>	<b>7.50</b>
KY Ins. KERS Plan Index	-0.24	3.33	5.11	10.74	10.39	6.07	7.93
<b>KERS - H INS</b>	<b>0.06</b>	<b>2.70</b>	<b>4.36</b>	<b>9.99</b>	<b>8.84</b>	<b>5.71</b>	<b>7.54</b>
KY Ins. KERS Haz Plan Index	-0.26	3.37	5.14	10.76	10.41	6.08	7.94
<b>CERS INS</b>	<b>0.05</b>	<b>2.77</b>	<b>4.46</b>	<b>9.98</b>	<b>8.84</b>	<b>5.70</b>	<b>7.54</b>
KY Ins. CERS Plan Index	-0.27	3.40	5.18	10.77	10.41	6.08	7.94
<b>CERS - H INS</b>	<b>0.05</b>	<b>2.75</b>	<b>4.45</b>	<b>9.96</b>	<b>8.83</b>	<b>5.70</b>	<b>7.53</b>
KY Ins. CERS Haz Plan Index	-0.27	3.40	5.19	10.77	10.41	6.08	7.94
<b>SPRS INS</b>	<b>0.05</b>	<b>2.67</b>	<b>4.34</b>	<b>9.94</b>	<b>8.82</b>	<b>5.69</b>	<b>7.53</b>
KY Ins. SPRS Plan Index	-0.28	3.42	5.22	10.78	10.42	6.08	7.94

