

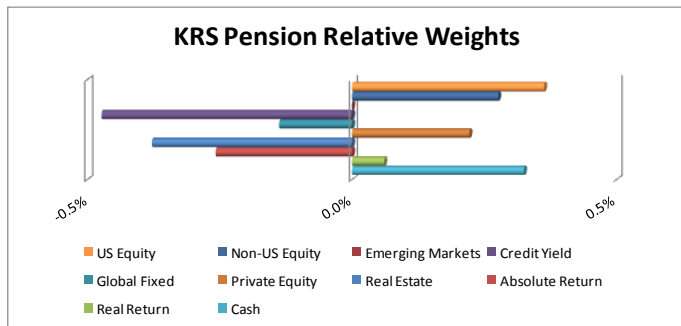
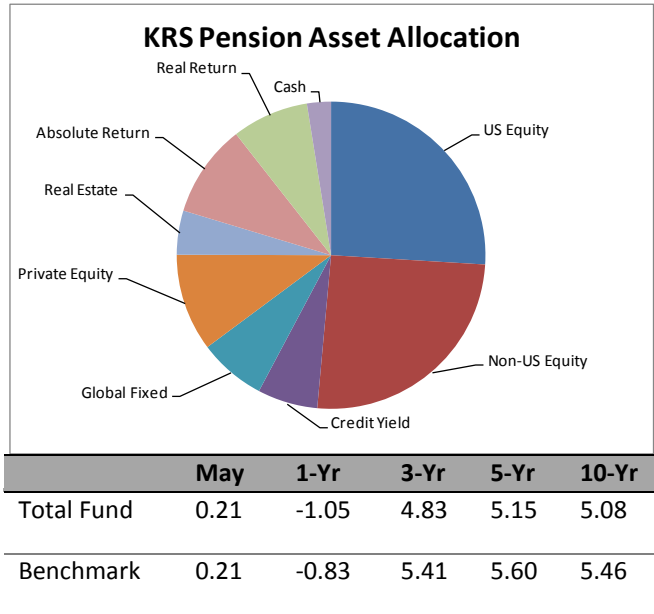
What's going on in the marketplace?

All major indices were positive in the U.S., driven primarily by unexpected positive corporate earnings along with improving technical factors. Much like April, stocks were fairly volatile for the month, dropping between 1 and 2 percent mid-month only to rally for a positive month-end. For domestic equities, midcap stocks were the most favorable, with the S&P 400 Midcap index returning 2.31%. Small caps were the second highest performers (2.25%, Russell 2000 Index), followed by large caps (1.80%, S&P 500 Index).

Markets internationally did not fare as well as those domestically, primarily in the emerging market space. Domestic international markets offered the most protection in the international space, falling -0.78% (MSCI EAFE Index). The ACWI Ex US Index was down -1.59% for the month, and emerging markets fell -3.71% (MSCI Emerging Market Index).

The negative performance was driven primarily by uncertainty regarding Brittan's exit from the European Union.

Broad fixed income markets were relatively flat in May, with the Barclays U.S. Aggregate Bond Index posting a 0.03% gain. High yield bonds fared better for the month, continuing their gains in 2016 and returning 0.62% in May (Barclays U.S. Corporate High Yield Index).



its benchmark by 0.15% for the month.

From an allocation standpoint, the pension portfolio benefited from an overweight to U.S. Equity due to the strong performance of the overall domestic equity market. U.S. Equity was the only asset class that offered significant allocation contribution. In total, the pension portfolio returned 0.21 % in May, flat with the benchmark return of 0.21%.

INSURANCE –The insurance portfolio had positive contribution from manager selection in all asset classes other than Real Return. The Non U.S. Equity portfolio had the highest manager contribution, outperforming its benchmark by 24 basis points. Fixed Income was the second highest contributor from a manager selection standpoint, outperforming its benchmark by 10 basis points.

What added value this month?

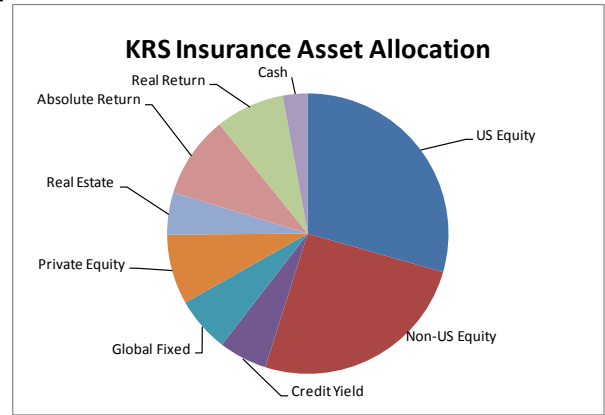
PENSION – From a manager selection standpoint, the pension portfolio was able to add relative value in the Non U.S. Equity, Fixed Income, and Absolute Return portfolios. The largest manager contribution came from Non U.S. Equity, which outperformed its benchmark by 30 basis points. Within the Non U.S. Equity portfolio, Franklin Templeton was able to stay positive amongst a negative benchmark, returning 0.10% and offering significant downside protection. The Absolute Return portfolio also offered significant manager contribution, outperforming

From an allocation standpoint, the insurance portfolio benefited from an overweight to U.S. Equity as well as an underweight to Non U.S. Equity. This is due to the fact that domestic equity markets fared better than the overall insurance portfolio, while international equity markets fared worse than the overall insurance portfolio. The Insurance portfolio returned 0.35% in May compared to the benchmark return of 0.28%.

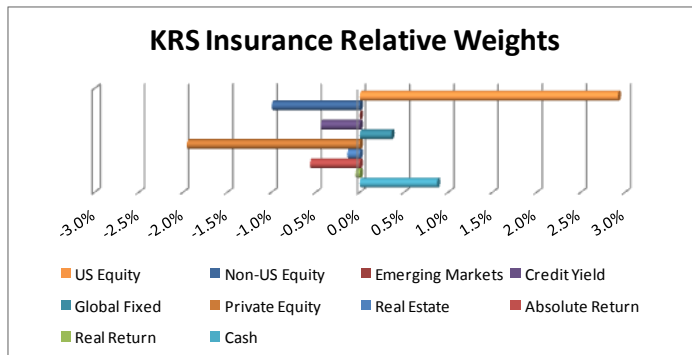
What detracted this month?

PENSION – The largest detractors from a manager selection standpoint came from the U.S. Equity and Real Return portfolios. Real Return was the largest detractor of performance, underperforming the benchmark by 71 basis points. The U.S. Equity portfolio also underperformed the benchmark, returning 1.72% versus the benchmark return of 1.79%. These were the only asset classes that significantly detracted from performance from a manager selection standpoint.

From an allocation perspective the only significant detractor from performance came from an overweight to Non U.S. Equity. This was due to the poor performance of international equity markets when compared to the overall pension portfolio. All other asset classes were either positive contributors, or did not significantly detract from fund performance.



	May	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund	0.35	-0.82	4.66	4.44	4.31
Benchmark	0.28	-0.30	5.79	5.68	4.92



INSURANCE – From a manager selection standpoint, the only detractor from performance came from the Real Return portfolio, which underperformed its benchmark by 56 basis points. The PIMCO All- Asset portfolio contributed most to the Real Return underperformance, returning -2.18% versus the benchmark return of -0.57%. All other asset classes had positive manager contribution.

There were no significant detractors from performance from an allocation standpoint. Most asset classes were very close to their weight targets for the month end, causing negative allocation contributions to be too small to significantly detract from portfolio performance.

NOTES:

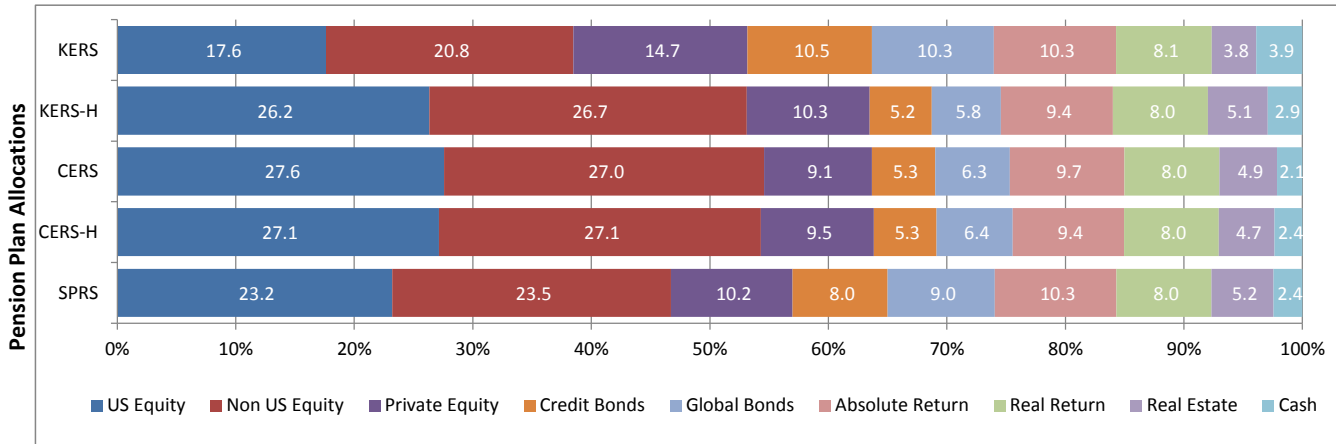
- Returns displayed are “net”. For the purposes of this report, total fund return information is net of fees and expenses, with audited data beginning in July 2011. At the manager level (detailed return sheets pgs.4-5), returns are net of fees beginning with July 2011, and gross of fees for prior data.
- Individual plan allocation and performance (pg.6).
- 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.

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|---|--|
| <p>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)</p> | <p>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)</p> |
| <p>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.</p> | |
| <p>6) <u>Pension Benchmark Composite 01/01/14 to 12/31/15</u>
 US Equity: Russell 3000 (20.5%)
 Non US Equity: MSCI AXCI Ex-US (20.0%)
 Emerging Market: MSCI Emerging Markets (2.9%)
 Fixed Income: Barclays Universal Index (19.3%)
 Real Estate: NCREIF ODCE (4.5%)
 Absolute Return: HFRI Diversified FOF (10.0%)
 Real Return: Allocation Specific (10.0%)
 Private Equity<5Yrs: Actual Performance
 Private Equity>5Yrs: Russell 3000 Index+4% (10.0%)
 Cash: Cit Grp 3-mos Treasury Bill (2.8%)</p> <p><u>Pension Benchmark Composite 01/01/16 to Present</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%)</p> | <p><u>Insurance Benchmark Composite 01/01/14 to 12/31/15</u>
 US Equity: Russell 3000 (20.0%)
 Non US Equity: MSCI AXCI Ex-US (20.0%)
 Emerging Market: MSCI Emerging Markets (4.0%)
 Fixed Income: Barclays Universal Index (20.0%)
 Real Estate: NCREIF ODCE (5.0%)
 Absolute Return: HFRI Diversified FOF (10.0%)
 Real Return: Allocation Specific (10.0%)
 Private Equity<5Yrs: Actual Performance
 Private Equity>5Yrs: Russell 3000 Index+4% (10.0%)
 Cash: Cit Grp 3-mos Treasury Bill (1.0%)</p> <p><u>Insurance Benchmark Composite 01/01/16 to Present</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%)</p> |

KRS - PENSION

	Market Value	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
KERS	\$ 1,948,636,163.30	0.16	-1.33	-1.57	4.30	4.82	4.92	9.00
KY Ret. KERS Plan Index		0.17	0.53	0.24	5.56	5.70	5.51	9.22
KERS- H	\$ 528,202,820.88	0.20	-0.30	-0.87	4.75	5.09	5.05	9.05
KY Ret. KERS Haz Plan Index		0.19	-0.61	-1.20	5.17	5.46	5.39	9.18
CERS	\$ 6,129,953,754.73	0.22	-0.77	-1.42	4.47	4.93	4.97	9.02
KY Ret. CERS Plan Index		0.21	-0.67	-1.36	5.12	5.43	5.38	9.17
CERS- H	\$ 2,005,112,999.25	0.22	-0.33	-1.00	4.78	5.11	5.06	9.05
KY Ret. CERS Haz Plan Index		0.21	-0.66	-1.32	5.13	5.44	5.38	9.18
SPRS	\$ 209,883,072.40	0.20	-1.59	-2.22	4.33	4.84	4.93	9.00
KY Ret. SPRS Plan Index		0.20	-0.44	-1.03	5.20	5.48	5.40	9.18



KRS - INSURANCE

	Market Value	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
KERS INS	\$ 656,723,533.94	0.39	-0.38	-1.35	4.22	4.18	4.18	7.18
KY Ins. KERS Plan Index		0.33	-0.56	-1.44	5.17	5.31	4.74	7.60
KERS - H INS	\$ 436,316,913.21	0.37	-0.16	-1.02	4.66	4.44	4.31	7.23
KY Ins. KERS Haz Plan Index		0.30	-0.33	-1.10	5.31	5.40	4.78	7.61
CERS INS	\$ 1,900,504,392.34	0.33	0.00	-0.80	4.73	4.48	4.33	7.24
KY Ins. CERS Plan Index		0.29	-0.17	-0.84	5.42	5.46	4.81	7.62
CERS - H INS	\$ 1,051,942,435.20	0.33	0.13	-0.64	4.77	4.51	4.34	7.24
KY Ins. CERS Haz Plan Index		0.28	-0.16	-0.82	5.42	5.47	4.82	7.62
SPRS INS	\$ 160,540,773.73	0.31	0.06	-0.69	4.74	4.49	4.33	7.24
KY Ins. SPRS Plan Index		0.28	-0.12	-0.75	5.45	5.48	4.82	7.63

