

What's going on in the marketplace?

In general, global stocks were positive during the month partially reversing October's tumble. The markets remained volatile during the period due to economic slowing in Europe and China, concerns surrounding trade policy, and continued uncertainty surrounding Brexit. In response to the equity markets' volatility, some investors moved towards quality and safer assets, many seeking refuge in the fixed income markets, particularly U.S. Treasuries.

U.S. Equities

U.S. equity markets partially bounced back during the month, the Russell 3000 Index gained 2.0%. Mid-caps led the way returning just over 3%, followed by large and then small caps which returned 2.0% and 1.6%, respectively. Value outpaced growth for the second straight month, evidenced by the Russell 3000 style indices (R3000V 2.9%, R3000G 1.1%).

The KRS U.S. Equity portfolio outperformed the Russell 3000 by 12 bps during the month (2.1% vs 2.0%). The portfolio's relative performance was driven by both stock selection and allocation. From a stock selection perspective, the relative performance of the individual strategies were mixed, with the internal mid cap and internal factor based mandates outpacing their respective benchmarks. From an allocation perspective, the value tilt and slightly overweight mid cap positioning was a tailwind during the period.

Non-U.S. Equities

While positive, Non-U.S. equities were weaker than the U.S. markets, returning 0.85% during the month. Emerging markets outperformed their developed market counterparts. Non-U.S. markets also favored value during the period.

The KRS Non-U.S. Equity portfolio trailed the index by 47 basis points during the month (0.4% vs 0.5%). Stock selection was difficult as three of the four active large cap managers underperformed their associated index, leaving the remaining manager and small cap mandate as the lone outperformers. Allocation decisions had little impact on relative performance.

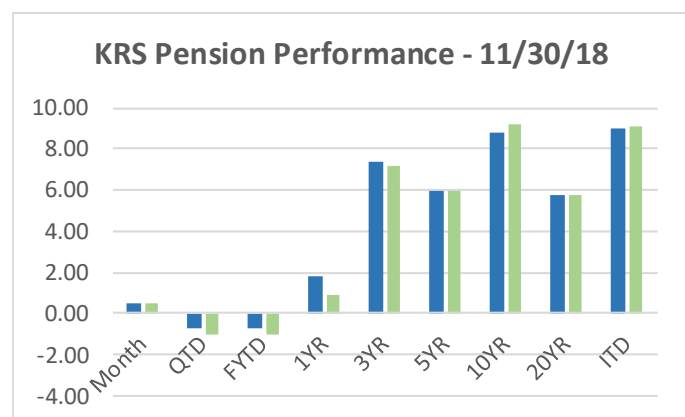
Fixed Income

Fixed income market segments were mixed. In general, those spaces seen as "safer" tended to do well, while those higher yielding segments struggled. The U.S. Aggregate gained 60 bps, while the corporate high yield and leveraged loan areas fell approximately -90 bps.

The core portion of the KRS portfolio gained 15 bps during the period, while the specialty credit piece fell -0.1%. Relative performance within the core portfolio was difficult, while additive in the specialty credit portfolio, especially within the leveraged loan mandates.

Alternative Assets

The diversifying strategy group was relatively flat during the period losing just -4 bps. The Opportunistic, Real Return, and Real Estate portions of the portfolio returned 0.8%, 0.3%, and 0.0%, respectively. The Absolute Return portion of the portfolio declined -1.1%. The Private Equity portion of the portfolio was also relatively flat gaining 5 bps during the month.



Cash

The cash portfolio performed inline during the month (0.2% vs 0.2%). The cash allocation finished the period above target in part due to the continued transitioning of assets to 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)

<p>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>
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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.

<p><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%)</p>	<p><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%)</p>
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**Fund composite benchmark is a roll-up of individual plans, which may differ from one another.

