

What's going on in the marketplace?

The volatility spike that occurred during the end of the third quarter, and continued into the beginning of the fourth subsided during the month of November, as the geopolitical landscaped calmed at least for the time being.

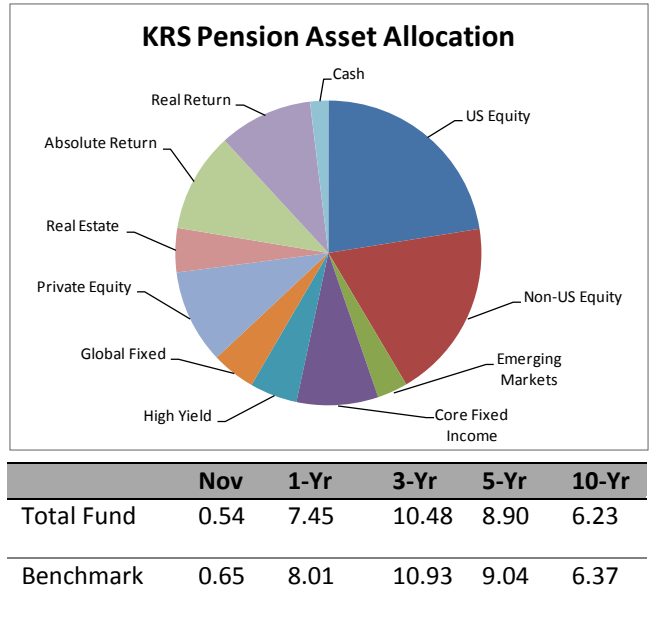
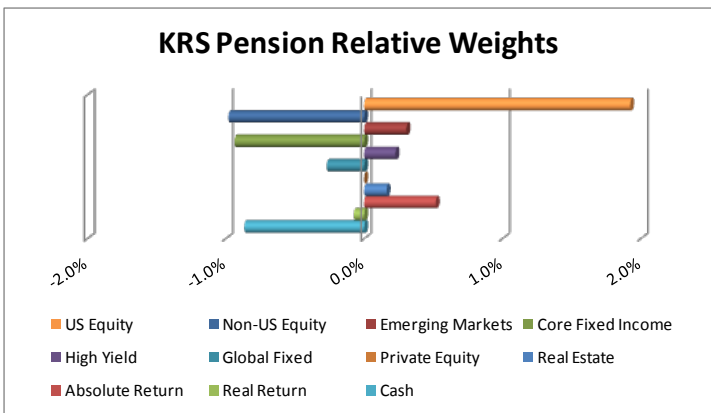
US equities continued their climb in November, and with that came record highs for the major large cap indices. While the US market has increased for a number of reasons, liquidity being one, there appears to be some real backers to the strength. Consumer confidence, and ultimately spending, should increase as the recent fall in oil prices is viewed as a net positive for the US. However, those who are heavily invested in the energy sector got hit hard.

Non-US markets within the developed world were also positive during the month spurred on by policy maker decisions. The European Central Bank declared it would begin buying asset-backed securities in an effort to bolster its economy, while China announced the lowering of its benchmark interest rate. Further, a looming sales-tax increase in Japan was delayed, providing comfort to consumers.

In the near-term, though the domestic economy seems to have gained traction, volatility could still creep in as investors gage the health of developed country economies across the globe. Emerging market economies will continue their volatility as they are highly dependent on the economic success of the developed world.

What added value this month?

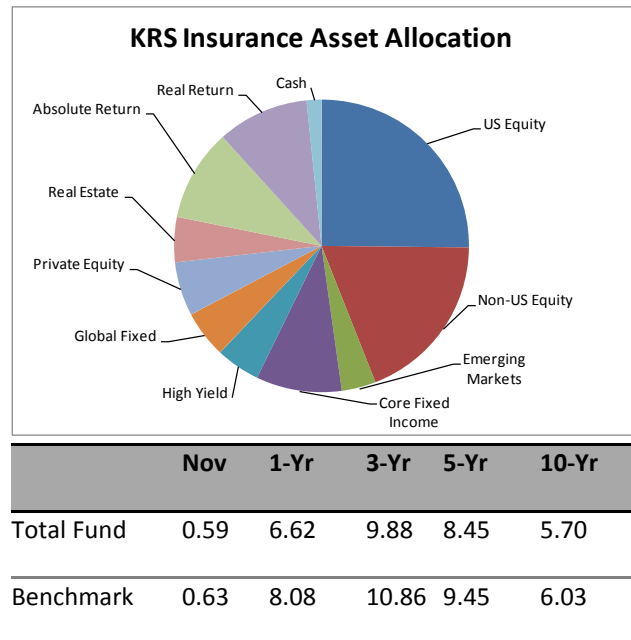
PENSION – From a manager selection standpoint, the portfolio was only able to add value over the benchmark in two asset classes. The Emerging Market portfolio provided 21 basis points of downside protection over the MSCI EM Index return of -1.05%. The primary source for this relative outperformance was provided by the Aberdeen portfolio which was able to hold its ground (0.01%) in a weak market. The Non-US equity portfolio slightly outperformed its index, the MSCI ACWI Ex-US, 0.76% vs 0.74%. Manager performance within the asset class was somewhat mixed; with the ration of those outperforming versus underperforming at roughly 2-to-1. The majority of outperformance was provided by Pyramis, Franklin Templeton, Lazard, and American Century, which returned 1.43%, 1.11%, 1.03%, and 0.91%.



From an allocation perspective, the pension fund most benefited from being roughly 2% overweight US equities, the strongest performing asset class for the period. In addition, the nearly 1% underweight to Cash benefited the portfolio as the asset class flat on the month.

INSURANCE – From a manager selection point of view, the portfolio was really only benefitted by the downside protection of EM portfolio. Like the pension, Aberdeen drove the relative outperformance, adding 106 basis points over the index. To a much lesser degree, the Cash portfolio’s 0.02% outperformance was additive.

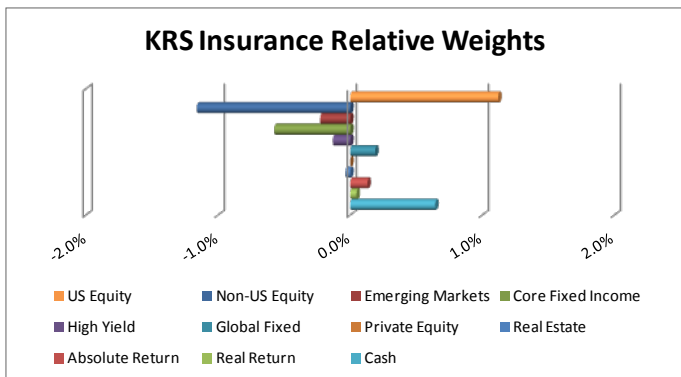
Like the pension fund, the insurance portfolio benefited from its overweight position to US Equities, the best performing asset class. As of month end, 25.2% of the portfolio was invested in US equities versus the 24.1% of the benchmark portfolio (target). In addition, the portfolio was aided by the slight underweight to Emerging Markets (3.8% vs 4.0%), the weakest performer.



What detracted this month?

PENSION – Several asset classes struggled from a manager selection standpoint. The Fixed Income portfolio returned 0.14% versus 0.54%; relative weakness primarily came from the EMD allocation (Shenkman -0.81% vs 0.09%). The US Equity portfolio allocation underperformed its index by 18 basis points (2.24% vs. 2.42%), which primarily was due to the underperformance experienced within the midcap allocation. Additionally, the Absolute Return and Real Return portfolios were sources of relative weakness. The Absolute Return portfolio trailed its benchmark by 17 basis points with several managers struggling during the month, and the Real Return portfolio was bested by 0.12%, experiencing weakness in the PIMCO All Asset and Magnetar portfolios.

From an allocation perspective, the 0.50% overweight detracted as this was the second weakest performing asset class during the month. Performance was further hindered, by an overweight to the EM portfolio, the weakest performing asset class.



INSURANCE – Just like the pension fund, the insurance fund suffered from relative underperformance from the Fixed Income, US Equity, Absolute Return, and Real Return portfolios. Each asset class that struggled, did so for the same reasons of the pension fund.

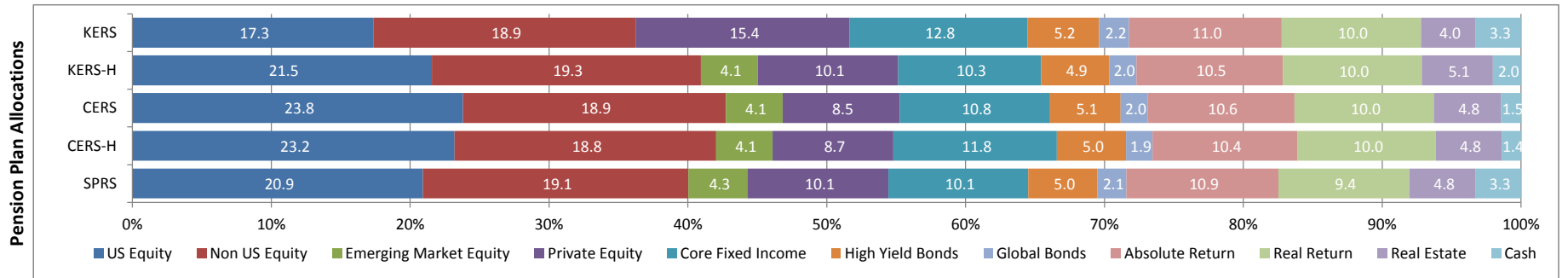
The overweight to Cash hampered performance as this asset class was flat on the month. In addition, the 40 basis point underweight to Non-US equities detracted from performance as this was the second best performer during the period.

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.

- 2) 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.
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|--|---|
| <p>4) Private Equity Composite (Pension)</p> <p>Inception (07/01/02) to 06/30/11</p> <p>60.00% S&P 1500 Composite Index</p> <p>40.00% Barclays US Corporate High Yield Index</p> <p>07/01/11 to Present</p> <p>100.00% Russell 3000 Index + 4% (Qtr Lag)</p> | <p>Private Equity Composite (Insurance)</p> <p>Inception (07/01/02) to 06/30/11</p> <p>80.00% S&P 1500 Composite Index</p> <p>20.00% Barclays US Corporate High Yield Index</p> <p>07/01/11 to Present</p> <p>100.00% Russell 3000 Index + 4% (Qtr Lag)</p> |
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- 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 - 11/30/14



KRS - PENSION

	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
KERS	0.50	0.24	8.36	10.57	8.95	6.26	9.47
KERS Plan Index	0.50	0.01	7.46	10.78	8.95	6.33	9.57
KERS-H	0.50	(0.22)	7.27	10.45	8.88	6.22	9.46
KHAZ Plan Index	0.53	0.01	7.66	10.91	9.03	6.37	9.59
CERS	0.55	(0.13)	7.20	10.45	8.88	6.22	9.46
CERS Plan Index	0.57	0.07	7.74	10.93	9.04	6.37	9.59
CERS-H	0.55	(0.12)	7.19	10.44	8.87	6.22	9.46
CHAZ Plan Index	0.56	0.06	7.73	10.93	9.04	6.37	9.59
SPRS	0.49	(0.12)	7.30	10.48	8.90	6.23	9.46
SPRS Plan Index	0.52	(0.01)	7.61	10.89	9.01	6.36	9.58

KRS - INSURANCE

	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
KERS INS	0.59	(0.13)	6.51	9.70	8.34	5.65	7.54
INS KERS Plan Index	0.66	0.29	7.88	10.87	9.45	6.03	7.97
KERS-H INS	0.60	(0.09)	6.71	9.97	8.50	5.72	7.57
INS KHAZ Plan Index	0.65	0.28	7.88	10.87	9.45	6.03	7.97
CERS INS	0.59	(0.10)	6.65	9.93	8.48	5.71	7.57
INS CERS Plan Index	0.63	0.26	7.86	10.87	9.45	6.03	7.97
CERS-H INS	0.58	(0.11)	6.65	9.91	8.47	5.71	7.57
INS CHAZ Plan Index	0.63	0.26	7.86	10.87	9.45	6.03	7.97
SPRS INS	0.55	(0.14)	6.69	9.92	8.47	5.71	7.57
INS SPRS Plan Index	0.62	0.25	7.84	10.86	9.45	6.03	7.96

