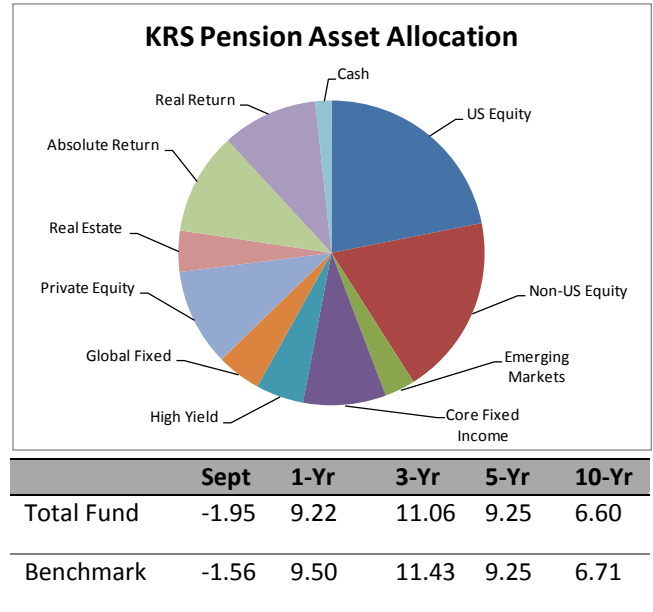
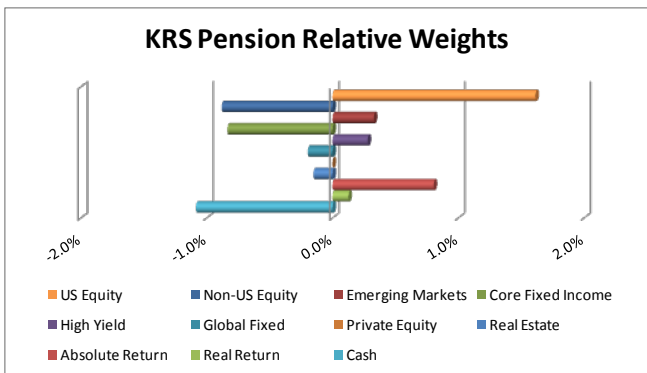


**What's going on in the marketplace?**

During the third quarter volatility really increased within the financial markets. A battle essentially was waged between geopolitical turmoil, the soon end of quantitative easing (round 3), and high equity valuations, versus earnings growth teamed up with a moderately healthy US economy. The scenario presented a mixed bag in terms of performance for equity investors. US equity markets were essentially flat on the quarter though the increased volatility pushed many to less risky securities. Larger cap names actually did pretty well during the quarter earning near 1.0%, while their smaller cap counterparts fell over -7%. Non-US equities were not able to hold the line as their US counterparts; developed nations fell over -5% (MSCI ACWI-Ex US) and emerging markets dropped -3.36% (MSCI EM), bolstered by strength during the first 2 months of the quarter. There appears to be a decoupling of major economies.



The US equity market experienced a correction that began in early-mid September but really accelerated in late September and into early October. During the "correction" the markets dropped roughly -7%; however, this is normal in bull markets (and many would argue healthy), with most expecting 10+% corrections from time to time. Despite the overall pullback in global equities, the US economy still is showing a stable foundation; domestic industrial activity is good, retail is mixed, and rail, auto, and housing data suggest a little more staying power. US Leading Economic Indicators are still holding up fairly well; however, they are no longer accelerating. The US appears to be in the mid to later portion of its long slow cyclical expansion.



These positive indicators were overshadowed by investors concerns over slowing European economies, and the realization that China will not be able to maintain its recent growth rates. What had become the world's recent growth engine based on domestic infrastructure has been built out; a transition into a more consumer driven economy will now have to take place. In addition to these challenges, other factors can swing the markets such as geopolitical headlines surrounding Ukraine and the Middle East, potential Scottish independence, and fears of Ebola breaking containment. It should be noted that despite all these issues weighing heavily

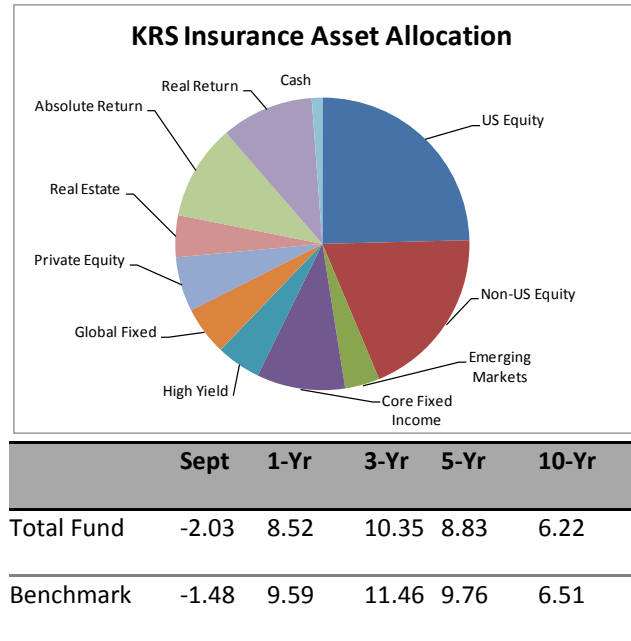
on global equity markets, actual local investment within the markets held up fairly well. The strengthening USD versus several world currencies magnified the losses felt by USD based investors.

Overall, at the moment the US economy sits as the global driver of growth. Investors will be remain mindful earnings growth limitations in Europe and Asia, as well as geopolitical conflicts, and other fear creators.

**What added value this month?**

**PENSION** – From a manager selection standpoint, the portfolio struggled, having only 2 asset classes outperform on a relative basis. The Non-US equity portfolio added 28 basis points of downside protection over the MSCI ACWI Ex-US index return of -4.81% for the month. The newly funded American Century and Lazard portfolios were the primary contributors of outperformance, adding 230 and 105 basis points over the benchmark, respectively. The Emerging Market portfolio was only slightly better than the MSCI EM index providing an 8 basis point cushion in a sharply negative market; which fell -7.39%. Both active mandates within the space held up slightly better than the index; the Wellington portfolio providing the most downside aversion of 25 basis points.

From an allocation perspective, the pension fund benefited from being nearly 1% underweight Non-US equities, which was the second worst performing asset class for September. The 0.8% overweight to Absolute Return strategies helped the fund as this was one of the few areas that were positive returning during a tough month.



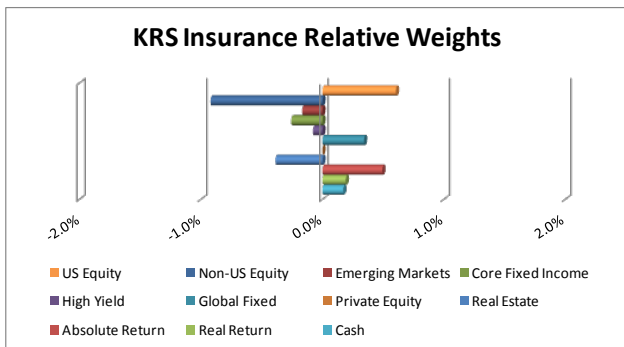
**INSURANCE** – Like the pension fund, from a manager selection point of view, the only real contribution to the portfolio came from the downside protection afforded by the Non-US and Emerging Market equity portfolios, which buffered 26 and 10 basis points, respectively.

Attribution was benefited from the portfolio’s underweight position to Non-US and Emerging Market equities, which were the weakest performers during the month, evidenced by the respective index returns of -4.81% and -7.39%. The overweight to the Absolute Return portfolio bolstered performance.

**What detracted this month?**

**PENSION** – Several asset classes struggled from a manager selection standpoint. The Fixed Income portfolio fell -1.45%, while the Barclays Universal index fell -0.79%; underperformance was broad based, led by the Pimco portfolio (-39bps relative to its benchmark), as well as a couple high yield and global portfolios adding pressure. The US Equity portfolio trailed the Russell 3000 by 58 basis points (-2.66% versus -2.08%). Relative underperformance occurred basically across the gamment of active management with the exception of the River Road All Cap and NTGI Small Cap portfolios. Further, the pension fund suffered from underperformance in the Real Return, Absolute Return, and Real Estate portfolios.

From an allocation perspective, there were two main points of detraction. The slight overweight to Emerging Market equities was the single biggest hinderence to performance, as this was the weakest performing asset classes; the EM market tumbled over -7% during the period. The underweight position to cash hurt the overall portfolio, as this was one of the few save havens to be found during the month.



**INSURANCE** – Just like the pension fund, the insurance fund suffered from relative underperformance from the Fixed Income and US Equity portfolios. To a lesser degree, the Absolute Return, Real Return, and Real Estate portfolios stumbled in terms of relative performance.

The underallocation to the Real Estate and Fixed Income portfolios hampered performance, as these were among the better performing asset classes for September. The slight overweight to cash also was beneficial.

**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 (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.
- 4)

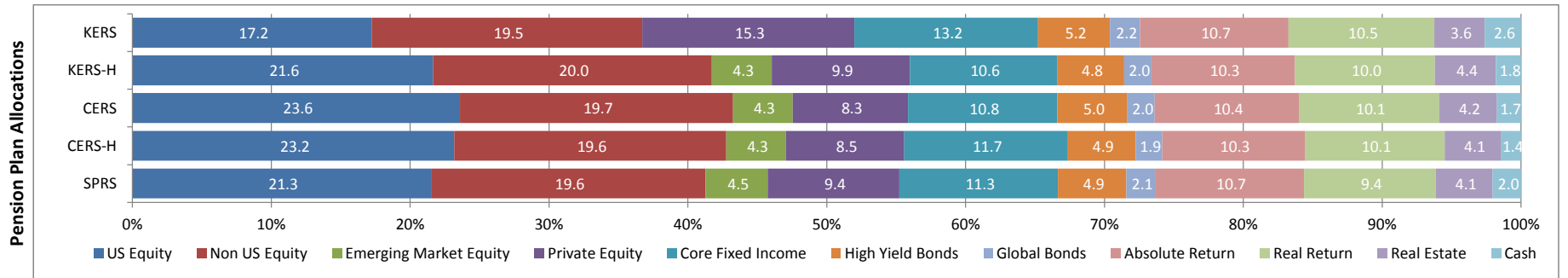
Private Equity Composite (Pension) Inception (07/01/02) to 06/30/11 60.00% S&P 1500 Composite Index 40.00% Barclays US Corporate High Yield Index <b>07/01/11 to Present</b> <b>100.00% Russell 3000 Index + 4% (Qtr Lag)</b>	Private Equity Composite (Insurance) Inception (07/01/02) to 06/30/11 80.00% S&P 1500 Composite Index 20.00% Barclays US Corporate High Yield Index <b>07/01/11 to Present</b> <b>100.00% Russell 3000 Index + 4% (Qtr Lag)</b>
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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 FUND - NET RETURNS - 9/30/14

Structure	Benchmark	Inception	Market Value	% of Total	Month	QTD	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD										
<b>TOTAL FUND</b>	<b>KY Ret. Blended Index</b>	<b>4/1/1984</b>	<b>11,563,984,667.02</b>	<b>100.00</b>	<b>-1.95</b>	<b>-1.56</b>	<b>-1.41</b>	<b>-0.82</b>	<b>9.22</b>	<b>9.50</b>	<b>11.06</b>	<b>9.25</b>	<b>9.25</b>	<b>6.60</b>	<b>6.71</b>	<b>8.41</b>	<b>8.48</b>	<b>9.46</b>	<b>9.60</b>				
<b>US PUBLIC</b>	<b>KY Domestic Equity Blend</b>	<b>4/1/1984</b>	<b>2,527,601,658.09</b>	<b>21.86</b>	<b>-2.66</b>	<b>-2.08</b>	<b>-0.87</b>	<b>0.01</b>	<b>-0.87</b>	<b>0.01</b>	<b>15.73</b>	<b>17.76</b>	<b>22.31</b>	<b>23.08</b>	<b>15.20</b>	<b>15.84</b>	<b>8.39</b>	<b>8.54</b>	<b>10.01</b>	<b>9.93</b>	<b>11.44</b>	<b>11.41</b>	
INTERNAL MID CAP GROWTH	Russell Midcap Growth Index	8/1/2014	210,413,233.83	1.82	-4.53	-3.34																	
INVESCO	S&P 500 - Total Return Index	8/1/2005	226,566,594.61	1.96	-2.51	-1.40	1.19	1.13	1.19	1.13	21.70	19.73	24.81	22.99	16.03	15.70					8.98	7.50	
NTGI STRUCTURED	Russell 2000 Index	10/1/1999	215,306,665.07	1.86	-5.91	-6.05	-6.76	-7.36	-6.76	-7.36	5.54	3.93	22.54	21.26	16.26	14.29	9.41	8.19			9.89	7.93	
RIVER ROAD	Russell 3000 Value Index	7/1/2011	32,315,730.17	0.28	-2.20	-2.43	-0.35	-0.87	-0.35	-0.87	13.46	17.66	19.25	23.67							13.86	15.04	
S&P 500 INDEX	KY Ret. S&P Blend	7/1/2001	1,367,367,881.07	11.82	-1.40	-1.40	1.12	1.13	1.12	1.13	19.59	19.73	22.85	22.99	15.96	16.02	8.47	8.46			6.26	6.22	
SASCO CAPITAL	Russell Midcap Value Index	7/1/2012	49,708,581.04	0.43	-5.20	-3.80	-5.64	-2.64	-5.64	-2.64	16.05	17.46									20.31	22.81	
SYSTEMATIC	Russell Midcap Value Index	7/1/2012	198,304,924.80	1.71	-4.90	-3.80	-4.39	-2.64	-4.39	-2.64	11.04	17.46									19.92	22.81	
TRANSITION ACCOUNT			14,907.01	0.00																			
WESTFIELD CAPITAL	Russell 3000 Growth Index	7/1/2011	122,704,391.64	1.06	-2.60	-1.75	-0.82	0.88	-0.82	0.88	17.25	17.87	25.00	22.41							15.36	15.10	
WESTWOOD MGMT	Russell 3000 Value Index	7/1/2011	104,898,751.78	0.91	-3.19	-2.43	-1.92	-0.87	-1.92	-0.87	15.35	17.66	22.20	23.67							12.75	15.04	
<b>EQUITY NON US</b>	<b>KY Ret.Int'l Eq. Blended Index</b>	<b>7/1/2000</b>	<b>2,209,579,700.43</b>	<b>19.11</b>	<b>-4.53</b>	<b>-4.81</b>	<b>-5.44</b>	<b>-5.19</b>	<b>-5.44</b>	<b>-5.19</b>	<b>4.11</b>	<b>5.22</b>	<b>11.41</b>	<b>12.29</b>	<b>5.67</b>	<b>6.58</b>	<b>6.55</b>	<b>6.85</b>			<b>2.59</b>	<b>3.27</b>	
AMERICAN CENTURY	KY MSCI ACWI ex-US Index	7/1/2014	142,710,125.86	1.23	-2.51	-4.81	-3.23	-5.19	-3.23	-5.19											-3.23	-5.19	
BLACKROCK ACWI EX	MSCI All Country World Ex United States Net Index	7/1/2009	925,327,007.96	8.00	-4.85	-4.84	-5.30	-5.27	-5.30	-5.27	4.93	4.77	11.97	11.79	6.22	6.03					9.60	9.42	
BOSTON CO NON-US VALUE	KY MSCI Blended Index	5/1/2005	137,644,230.00	1.19	-4.64	-4.81	-5.77	-5.19	-5.77	-5.19	4.22	5.22	11.05	12.22	4.38	6.19					4.71	5.43	
FRANKLIN TEMPLETON	KY MSCI ACWI ex-US Index	7/1/2014	138,745,656.68	1.20	-5.23	-4.81	-6.88	-5.19	-6.88	-5.19											-6.88	-5.19	
LAZARD ASSET MANAGEMENT	KY MSCI ACWI ex-US Index	7/1/2014	281,634,879.55	2.44	-3.76	-4.81	-5.30	-5.19	-5.30	-5.19											-5.30	-5.19	
LSV ASSET MANAGEMENT	KY MSCI ACWI ex-US Index	7/1/2014	140,177,904.82	1.21	-4.78	-4.81	-6.07	-5.19	-6.07	-5.19											-6.07	-5.19	
NON-US TRANSITION ACCOUNT			106,160.08	0.00																			
NTGI INTL SM CAP	MSCI AC World ex USA Small Cap Net Index	12/1/2008	159,595,429.65	1.38	-5.65	-5.68	-6.77	-6.80	-6.77	-6.80	4.73	4.56	12.71	12.50	8.04	8.33					16.62	17.34	
PYRAMIS NON-US GROWTH	KY MSCI Blended Index	8/1/2001	283,638,305.83	2.45	-4.09	-4.81	-5.19	-5.19	-5.19	-5.19	3.57	5.22	12.24	12.22	6.85	6.19	6.81	6.37			6.67	5.93	
<b>EQ EMERGING MKTS</b>	<b>MSCI Emerging Markets Index</b>	<b>7/1/2011</b>	<b>373,089,141.23</b>	<b>3.23</b>	<b>-7.31</b>	<b>-7.39</b>	<b>-3.70</b>	<b>-3.36</b>	<b>-3.70</b>	<b>-3.36</b>	<b>4.40</b>	<b>4.66</b>	<b>8.65</b>	<b>7.56</b>							<b>1.43</b>	<b>-1.10</b>	
ABERDEEN	MSCI Emerging Markets Index	4/1/2008	118,878,910.32	1.03	-7.36	-7.39	-3.66	-3.36	-3.66	-3.36	3.40	4.66	8.79	7.56	8.84	4.76					7.44	1.38	
BLACKROCK EMERG MKTS	MSCI Emerging Markets Net Dividend Index	7/1/2013	129,512,547.99	1.12	-7.43	-7.41	-3.55	-3.50	-3.55	-3.50	4.13	4.30									7.99	8.17	
WELLINGTON	MSCI Emerging Markets Index	4/1/2008	124,697,682.92	1.08	-7.14	-7.39	-3.90	-3.36	-3.90	-3.36	4.80	4.66	7.25	7.56	3.09	4.76					0.97	1.38	
<b>PUBLIC EQUITY</b>	<b>Global Equity Blended Index</b>	<b>4/1/1984</b>	<b>5,110,270,499.75</b>	<b>44.19</b>	<b>-3.83</b>	<b>-3.80</b>	<b>-3.10</b>	<b>-2.66</b>	<b>-3.10</b>	<b>-2.66</b>	<b>9.67</b>	<b>10.78</b>	<b>16.46</b>	<b>16.93</b>	<b>10.34</b>	<b>10.86</b>	<b>7.04</b>	<b>6.94</b>	<b>9.24</b>	<b>9.01</b>	<b>10.93</b>	<b>10.79</b>	
<b>FIXED INCOME</b>	<b>KY Ret.Fixed Blended Index</b>	<b>4/1/1984</b>	<b>2,143,481,831.92</b>	<b>18.54</b>	<b>-1.45</b>	<b>-0.79</b>	<b>-0.87</b>	<b>-0.03</b>	<b>-0.87</b>	<b>-0.03</b>	<b>4.85</b>	<b>4.39</b>	<b>4.91</b>	<b>3.23</b>	<b>6.03</b>	<b>4.68</b>	<b>5.07</b>	<b>4.84</b>	<b>6.37</b>	<b>6.30</b>	<b>7.94</b>	<b>7.67</b>	
CERBERUS		10/1/2014	41,930,000.00	0.36																			
COLUMBIA	Barclays U.S. Corporate High Yield	11/1/2011	155,591,976.48	1.35	-2.19	-2.09	-1.87	-1.87	-1.87	-1.87	6.78	7.20									9.15	9.22	
LOOMIS	Barclays U.S. Corporate High Yield	11/1/2011	152,762,284.39	1.32	-2.31	-2.09	-1.85	-1.87	-1.85	-1.87	9.34	7.20									11.40	9.22	
MANULIFE ASSET MGMT	Barclays Multiverse Index	12/1/2011	116,227,441.61	1.01	-1.17	-2.83	-0.85	-3.19	-0.85	-3.19	5.06	1.40									5.93	1.74	
NISA	Barclays U.S. Aggregate Bond Index	2/1/2009	543,317,574.01	4.70	-0.64	-0.68	0.23	0.17	0.23	0.17	4.14	3.96	2.46	2.43	4.25	4.12					4.97	4.81	
PIMCO	PIMCO Blended Index	11/1/2009	782,628,109.48	6.77	-1.97	-1.67	-1.67	-1.48	-1.67	-1.48	2.23	2.71	2.78	2.46							4.08	4.32	
SHENKMAN CAP	Shenkman Blended Index	10/1/2010	114,970,557.24	0.99	-0.97	-0.60	-0.61	-0.47	-0.61	-0.47	5.64	6.25	7.81	9.25							6.08	7.28	
STONE HARBOR	JP Morgan Emerging Markets Bond Index GD	12/1/2010	114,315,800.80	0.99	-2.71	-1.81	-2.26	-0.59	-2.26	-0.59	6.04	9.67	6.19	7.95							5.33	6.75	
WATERFALL	Opportunistic FI Blended Index	2/1/2010	121,738,087.91	1.05	0.72	-1.23	2.81	-1.01	2.81	-1.01	14.22	5.02	11.85	7.23							14.64	6.37	
<b>REAL RETURN</b>	<b>PENSION REAL RETURN CUSTOM BM</b>	<b>7/1/2011</b>	<b>1,170,338,053.50</b>	<b>10.12</b>	<b>-2.26</b>	<b>-1.72</b>	<b>-1.62</b>	<b>-1.19</b>	<b>-1.62</b>	<b>-1.19</b>	<b>5.71</b>	<b>3.23</b>	<b>4.53</b>	<b>4.15</b>							<b>5.56</b>	<b>4.14</b>	
AMERRA AGR FUND II		12/1/2012	33,661,336.09	0.29	2.27		2.27		2.27		7.57										3.30		
INTERNAL TIPS	Barclays U.S. Treasury: US TIPS Index	5/1/2002	291,764,635.47	2.52	-2.26	-2.50	-1.81	-2.04	-1.81	-2.04	1.87	1.59	1.43	4.70	4.48	4.69	4.63				5.87	5.81	
MAGNETAR MTP		7/1/2013	85,230,336.00	0.74	1.83		2.06		2.06		9.81										9.64		
PIMCO ALL ASSET	Barclays U.S. Treasury Inflation Notes: 1-10 Year	12/1/2011	365,945,756.69	3.16	-3.48	-1.79	-2.88	-1.99	-2.88	-1.99	5.22	0.61									7.09	0.32	
TORTOISE CAPITAL	Alerian MLP Index	8/1/2009	101,095,934.82	0.87	-2.02	-1.56	-0.10	2.73	-0.10	2.73	36.88	25.80	29.50	22.95	28.17	23.58					27.41	23.07	
TPF II		10/1/2008	14,863,258.00	0.13	-0.41		-0.41		-0.41		-10.04		-4.92	-2.16							-4.62		
WEAVER TIPS	Barclays U.S. Treasury: US TIPS Index	7/1/2001	277,776,796.43	2.40	-2.53	-2.50	-1.88	-2.04	-1.88	-2.04	2.07	1.59	1.59	1.34	4.85	4.48	4.84	4.63			5.99	5.87	
<b>ABSOLUTE RETURN</b>	<b>HFRI Fund of Funds Diversified Index - 1 Month Arrears</b>	<b>4/1/2010</b>	<b>1,248,586,971.54</b>	<b>10.80</b>	<b>0.44</b>	<b>0.86</b>	<b>0.74</b>	<b>1.41</b>	<b>0.74</b>	<b>1.41</b>	<b>9.06</b>	<b>7.73</b>	<b>7.51</b>	<b>4.37</b>							<b>5.66</b>	<b>3.60</b>	
BAAM		9/1/2011	380,800,190.00	3.29	0.81		1.42		1.42		10.45										8.57		
HBK II		12/1/2013	15,810,898.00	0.14	-0.54		0.65														5.41		
JANA PARTNERS		9/1/2014	15,276,535.00	0.13																			
KNIGHTHEAD		1/1/2014	15,967,811.00	0.14	-1.55		-0.22														6.45		
LIBREMAX CAPITAL		8/1/2014	15,299,225.00	0.13	0.18																1.99		
LUXOR CAPITAL		4/1/2014	14,803,855.00	0.13	2.94																-1.31		
MKP OPPORTUNITY		11/1/2013	14,572,910.09	0.13	-0.14		-1.99														-2.85		
PAAMCO		9/1/2011	381,930,716.00	3.30	0.08		0.00		0.00		10.29		8.36										



**KENTUCKY RETIREMENT SYSTEMS - PENSION & INSURANCE - PLAN PERFORMANCE & ALLOCATION - 9/30/14**



**KRS - PENSION**

	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS</b>	<b>(1.48)</b>	<b>(1.06)</b>	<b>9.76</b>	<b>11.17</b>	<b>9.31</b>	<b>6.63</b>	<b>9.48</b>
KERS Plan Index	(1.37)	(0.90)	9.44	11.42	9.24	6.71	9.60
<b>KERS-H</b>	<b>(2.00)</b>	<b>(1.47)</b>	<b>9.25</b>	<b>11.07</b>	<b>9.25</b>	<b>6.60</b>	<b>9.47</b>
KHAZ Plan Index	(1.76)	(1.07)	9.46	11.49	9.28	6.73	9.60
<b>CERS</b>	<b>(2.08)</b>	<b>(1.51)</b>	<b>9.07</b>	<b>11.02</b>	<b>9.23</b>	<b>6.59</b>	<b>9.46</b>
CERS Plan Index	(1.82)	(1.09)	9.44	11.48	9.28	6.73	9.60
<b>CERS-H</b>	<b>(2.05)</b>	<b>(1.47)</b>	<b>9.08</b>	<b>11.02</b>	<b>9.22</b>	<b>6.59</b>	<b>9.46</b>
CHAZ Plan Index	(1.81)	(1.09)	9.45	11.49	9.28	6.73	9.60
<b>SPRS</b>	<b>(2.01)</b>	<b>(1.48)</b>	<b>9.12</b>	<b>11.06</b>	<b>9.25</b>	<b>6.60</b>	<b>9.46</b>
SPRS Plan Index	(1.75)	(1.07)	9.42	11.47	9.27	6.72	9.60

**KRS - INSURANCE**

	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS INS</b>	<b>(2.08)</b>	<b>(1.48)</b>	<b>8.19</b>	<b>10.17</b>	<b>8.72</b>	<b>6.17</b>	<b>7.54</b>
INS KERS Plan Index	(1.88)	(1.07)	9.37	11.44	9.74	6.51	7.96
<b>KERS-H INS</b>	<b>(2.04)</b>	<b>(1.45)</b>	<b>8.69</b>	<b>10.43</b>	<b>8.88</b>	<b>6.24</b>	<b>7.56</b>
INS KHAZ Plan Index	(1.86)	(1.06)	9.39	11.45	9.75	6.51	7.96
<b>CERS INS</b>	<b>(2.03)</b>	<b>(1.46)</b>	<b>8.58</b>	<b>10.40</b>	<b>8.86</b>	<b>6.23</b>	<b>7.56</b>
INS CERS Plan Index	(1.83)	(1.05)	9.41	11.46	9.75	6.51	7.96
<b>CERS-H INS</b>	<b>(2.02)</b>	<b>(1.45)</b>	<b>8.57</b>	<b>10.39</b>	<b>8.85</b>	<b>6.23</b>	<b>7.56</b>
INS CHAZ Plan Index	(1.83)	(1.04)	9.41	11.46	9.76	6.51	7.96
<b>SPRS INS</b>	<b>(1.98)</b>	<b>(1.43)</b>	<b>8.63</b>	<b>10.41</b>	<b>8.87</b>	<b>6.24</b>	<b>7.56</b>
INS SPRS Plan Index	(1.79)	(1.02)	9.43	11.47	9.76	6.51	7.96

