

What’s going on in the marketplace?

Global equity markets fell during the month of September based primarily on the potential of a second wave of Covid-19 erupting in Europe. In addition, the global economic outlook became challenged as signs of slowing growth emerged. In the U.S. specifically, congress failed to pass an additional stimulus package creating even more volatility. As a result, U.S. stocks trailed the international markets. Global bond markets declined slightly but fared much better than their equity counterparts.

The KRS investment portfolio returned -0.3% versus the benchmark of -0.7%.

The portfolio benefitted from relative outperformance provided by several asset classes, especially within the Specialty Credit, U.S. Equity, Real Estate, and Absolute Return segments of the portfolio. Further, the significant underweight to the Real Return bucket was beneficial, as the asset class was weaker than the overall portfolio benchmark. Offsetting some of this relative outperformance was the overweight position to public equities as these were the weakest performing asset classes during the month.

The fiscal year return to date now stands at 4.9% versus a benchmark return of 4.7%

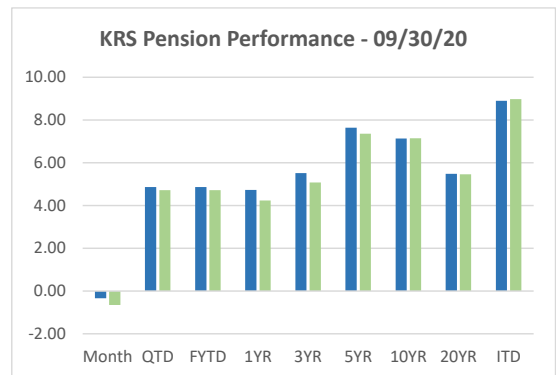
In general, the portfolio has benefitted from its overweight to the public equity markets, as these have been the strongest performing asset classes for the period. Further, strong absolute performance within the private equity and leveraged loan portions of the portfolio have been beneficial.

U.S. Equities

U.S. markets fell -3.6% during the month per the Russell 3000. All market cap segments lost ground. That said, mid- and small caps held up better than large caps (MC & SC: -3.3% vs LC: -3.8%). Value provided roughly 2% downside protection over growth (R3000V: -2.6% vs R3000G: -4.6%).

During the month, the KRS U.S. Equity portfolio provided 42 bps of downside protection, returning -3.2% versus the Russell 3000 Index return of -3.6%. Stock selection was mixed but beneficial as several mandates outpaced their respective indices. Reversing a long running trend, the portfolio’s slight value tilt was beneficial. The smaller market cap positioning was slightly additive.

For the quarter, the portfolio returned 8.5% versus the benchmark return of 9.2%. Stock selection was been mixed. Relative underperformance can be primarily explained through allocation, as the portfolio has a slight value tilt along with being slightly smaller than the index in terms of market cap. Growth outperformed value by roughly 7.5% (12.9% vs 5.4%) during the period, while large caps outperformed their small cap counterparts by 4% (8.9% vs 4.9%).



Non-U.S. Equities

Non-U.S. equity markets declined -2.5% for the month per the MSCI ACWI-Ex US Index. Emerging markets (MSCI EM: -1.6%) held up better than their developed market counterparts (MSCI World Ex-US: -2.8%). Unlike in the U.S., growth continued to outpace value in the international markets.

The KRS Non-U.S. Equity portfolio fell -2.4% during the month, trailing the benchmark by 10 bps. KRS’ external MSCI ACWI Ex-US and MSCI EM individual mandates were mixed in terms of relative performance versus their respective benchmarks; however, those that trailed did so to a greater degree than those that outperformed. The value tilt hampered relative performance.

During the quarter, the KRS Non-U.S. Equity portfolio has returned 7.3%, outpacing the index by 47 bps. Strong results from two of the four active MSCI ACWI Ex-U.S. mandates have driven this relative outperformance, as the growth oriented mandates have provided significant outperformance.

Fixed Income

The month was relatively calm in the overall fixed income markets. Those segments considered safer in nature were flat during the period, while those parts of the fixed income markets with higher credit risk were more volatile in terms of the returns produced. The high yield market fell just over -1.0%, while the leveraged loan segment of the market provided 63 bps of positive performance.

The KRS Specialty Credit allocation returned 95 bps, outpacing its benchmark that lost 20 bps during the month. Individual strategy relative performance was pretty evening split; however, those that outperformed their respective indices did so to a greater degree than those that underperformed their respective indices, especially within the leveraged loan portfolio. The KRS Core Fixed Income portfolio was flat, edging out the Bloomberg Barclays Aggregate (0.03% vs -0.05%). Relative performance amongst the individual mandates was mixed.

The KRS Specialty Credit allocation has returned 4.3% during the first quarter of the fiscal year just behind its benchmark return of 4.4%. Individual strategy relative performance has been mixed. The liquidity portion of the credit allocation has returned 1.1% during the quarter, with the intermediate portion of the core portfolio driving the bulk of performance.

Alternative Assets

The diversifying strategy group fell -0.1% during the month, with two of the four major portfolio segments losing ground during the period. The Opportunistic portfolio returned 2.5%, and the Absolute Return portfolio gained 1.3%. The Real Estate portfolio fell just -9 bps and the Real Return portfolio lost -1.4%. The Private Equity portion of the portfolio returned 7.8% on the month.

For the first quarter of the new fiscal year, the Private Equity, Opportunistic, Real Return, and Absolute Return allocations returned 7.3%, 6.8%, 2.3%, and 2.1%, respectively. The only negative performance fiscal year to date comes from the Real Estate portfolio, which has lost -28 bps.

Cash

The Cash portfolio performed in line with the 3-month T-Bill, returning 1bp. This brought the fiscal year return to 3bps.

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)

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
07/01/11 to 12/31/15	07/01/11 to 12/31/15
100.00% Russell 3000 Index + 4% (Qtr Lag)	100.00% Russell 3000 Index + 4% (Qtr Lag)
01/01/16 to Present	01/01/16 to Present
100.00% Russell 3000 Index + 3% (Qtr Lag)	100.00% Russell 3000 Index + 3% (Qtr Lag)
- 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.

Pension Benchmark Composite 01/01/16 to 08/31/17

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%)

Pension Benchmark Composite 09/01/17 to 05/31/18 -
Transition Period w/Sliding Targets

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%)

Pension Benchmark Composite 06/01/18 to 07/31/18

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%)

Pension Benchmark Composite 07/31/18 to Present

US Equity: Russell 3000 (18.2%)
Non US Equity: MSCI AXCI Ex-US IMI (18.2%)
Core Fixed Income: Barclays US Aggregate (14.8%)
Specialty Credit/High Yield FI: Custom Benchmark (15.0%)
Real Estate: NCREIF ODCE (5.0%)
Absolute Return: HFRI Diversified FOF (3.0%)
Real Return<5yrs: Actual Performance
Real Return>5yrs: CPI+3% (15.0%)
Private Equity<5Yrs: Actual Performance
Private Equity>5Yrs: Russell 3000 Index+3% (9.4%)
Cash: Cit Grp 3-mos Treasury Bill (1.4%)

Insurance Benchmark Composite 01/01/16 to 08/31/17

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%)

Insurance Benchmark Composite 09/01/17 to 05/31/18 -
Transition Period w/Sliding Targets

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%)

Insurance Benchmark Composite 06/01/18 to 07/31/18

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%)

Insurance Benchmark Composite 07/31/18 to Present

US Equity: Russell 3000 (18.75%)
Non US Equity: MSCI AXCI Ex-US IMI (18.75%)
Core Fixed Income: Barclays US Aggregate (5.0%)
Specialty Credit/High Yield FI: Custom Benchmark (13.5%)
Real Estate: NCREIF ODCE (10.0%)
Absolute Return: HFRI Diversified FOF (3.0%)
Real Return<5yrs: Actual Performance
Real Return>5yrs: CPI+3% (15.0%)
Private Equity<5Yrs: Actual Performance
Private Equity>5Yrs: Russell 3000 Index+3% (15.0%)
Cash: Cit Grp 3-mos Treasury Bill (1.0%)

**Fund composite benchmark is a roll-up of individual plans, which may differ from one another.

