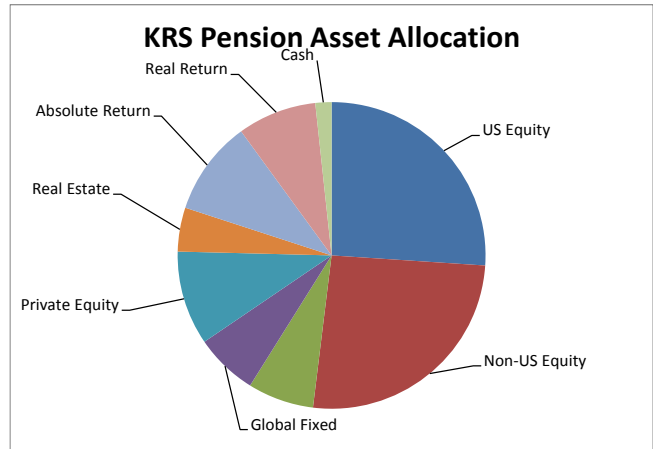


**What’s going on in the marketplace?**

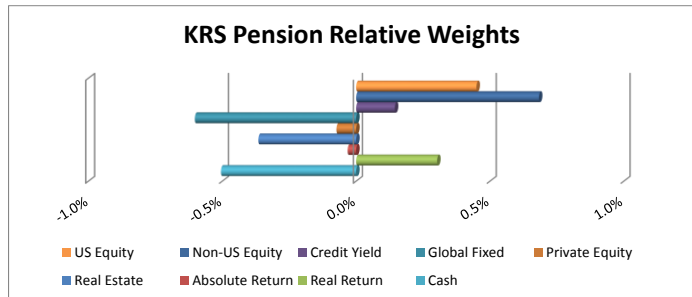
Markets were somewhat quiet in September, primarily in the United States. Large cap U.S. equities were flat for the month, returning 0.02% per the S&P 500 index. Mid-Caps were the worst performers in September, dropping -0.47% (S&P 400 Midcap Index). Small caps were the best domestic performers, returning 1.11% (Russell 2000 Index). The strong small cap performance, along with high relative returns in emerging market stocks and high yield bonds, are evidence of the continuing higher risk appetite shown by investors.

International stocks performed well in September, continuing their trajectory from prior months. Emerging market stocks led the pack, returning 1.32% (MSCI Emerging Market Index). Developed international stocks also showed strong performance, returning 1.27% (MSCI EAFE Index). In total, the MSCI ACWI ex USA Index returned 1.28% in September.

Bond markets were fairly quiet on the aggregate level, with the Barclays U.S. Agg having a flat return of -0.06%. High Yield bonds continue to show strong returns, posting a 0.67% return for the month.



	Sep	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund	0.94	8.69	5.35	7.96	5.02
Benchmark	0.87	8.75	5.58	8.26	5.40



**What added value this month?**

**PENSION** – From a manager selection standpoint the pension portfolio was able to add relative value in all asset classes other than U.S. Equity. The Non U.S. Equity portfolio had the greatest contribution from manager selection, outperforming its benchmark by 28 basis points. Within the Non U.S. Equity portfolio, American Century was the best performer, returning 1.22% higher than its benchmark. Fixed Income had the second highest contribution, outperforming by 10 basis points for the month. The Real Estate, Absolute Return, and Real Return portfolios also added value relative to their respective benchmarks for the month.

From an allocation standpoint the pension portfolio benefited from an overweight to Non U.S. Equity and Real Return due to the strong benchmark performance in these asset classes. The pension portfolio also benefited from an underweight to the Fixed Income and Absolute Return portfolios due to the relatively weak benchmark performances in these areas. In total, the pension portfolio returned 0.94% in September, outperforming the benchmark return of 0.87%.

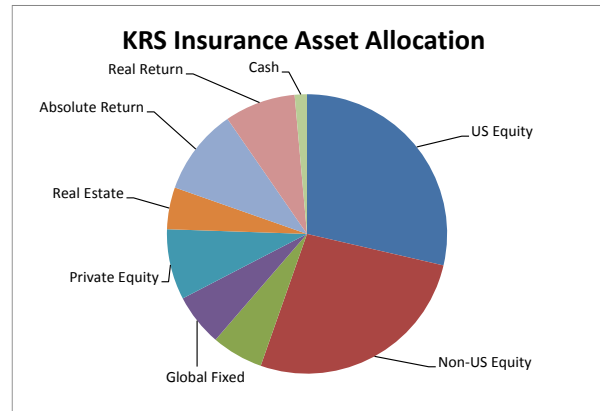
**INSURANCE** –The insurance portfolio roughly followed the same themes as the pension portfolio in September. The Non U.S. Equity portfolio offered the greatest manager contribution to total portfolio return, returning 1.70% versus a benchmark return of 1.45%. Other contributors include Fixed Income, Real Estate, Absolute Return, and Real Return.

From an allocation standpoint, the insurance portfolio benefited from an overweight to Non U.S. Equity and Real Return due their relatively strong benchmark performance. There were no other allocation themes that added significant value to the insurance fund for the month. In total, the Insurance portfolio returned 0.85% in September compared to the benchmark return of 0.82%.

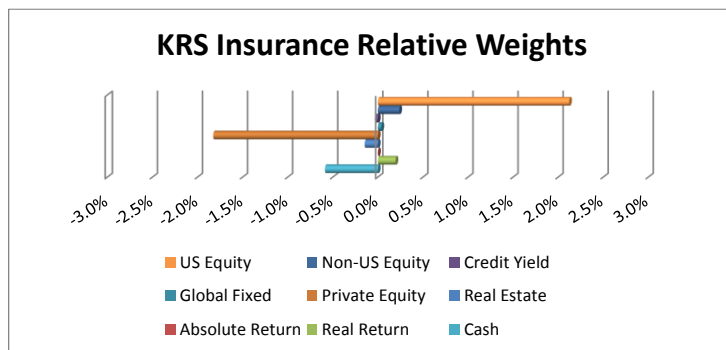
**What detracted this month?**

**PENSION** – From a manager selection standpoint, the U.S. Equity portfolio was the only detractor of value. Within the U.S. Equity portfolio River Road DAV was the largest detractor, falling short of its benchmark by 155 basis points. All other portfolios within the pension fund added value due to manager selection.

From an allocation standpoint, an overweight to the U.S. Equity portfolio was the only detractor of value. U.S. Equities returned only 0.16% for the month, falling short of the benchmark return of 0.87%. All other portfolios added value due to a positive allocation effect.



	Sep	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund	0.85	9.32	5.23	7.61	4.26
Benchmark	0.82	8.99	5.80	8.39	4.79



**INSURANCE** – Like in the pension portfolio, the U.S. Equity portfolio struggled add value, falling short by 19 basis points for the month. All other asset classes were able to add relative outperformance for the month of September.

From an allocation standpoint, an overweight to the U.S. Equity portfolio was the only detractor of value. U.S. Equities returned only 0.16% for the month, falling short of the benchmark return of 0.82%. The insurance portfolio also suffered from an underweight to Real Return due to its strong benchmark 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.
- |                                    |                                      |
|------------------------------------|--------------------------------------|
| 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  
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)**

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)**

- 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.

6) Pension Benchmark Composite 01/01/14 to 12/31/15  
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%)

Insurance Benchmark Composite 01/01/14 to 12/31/15  
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%)

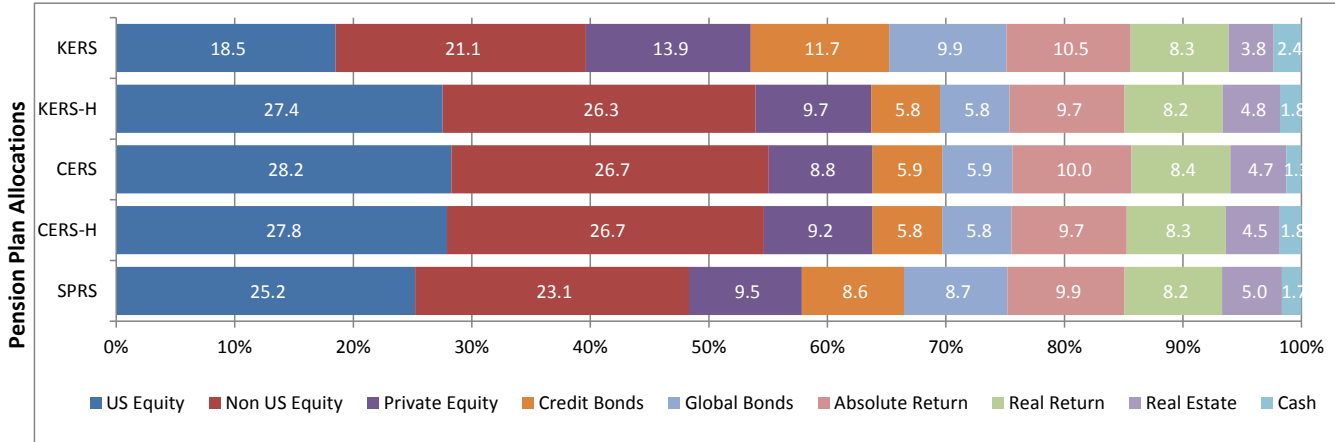
Pension Benchmark Composite 01/01/16 to Present  
US Equity: Russell 3000 (25.6%)  
Non US Equity: MSCI AXCI Ex-US IMI (25.2%)  
Global Fixed Income: Barclays Universal Index (6.8%)  
Credit Fixed Income: Barclays US High Yield (7.2%)  
Real Estate: NCREIF ODCE (5.0%)  
Absolute Return: HFRI Diversified 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%)

Insurance Benchmark Composite 01/01/16 to Present  
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%)

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

**KRS - PENSION**

	Market Value	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS</b>	<b>\$ 1,937,304,233.66</b>	<b>0.98</b>	<b>3.69</b>	<b>7.32</b>	<b>5.37</b>	<b>7.93</b>	<b>5.01</b>	<b>9.08</b>
KY Ret. KERS Plan Index		0.89	3.64	8.50	5.59	8.27	5.41	9.22
<b>KERS- H</b>	<b>\$ 545,716,283.40</b>	<b>0.94</b>	<b>3.84</b>	<b>8.81</b>	<b>5.38</b>	<b>7.97</b>	<b>5.03</b>	<b>9.09</b>
KY Ret. KERS Haz Plan Index		0.88	4.03	8.58	5.26	8.10	5.33	9.20
<b>CERS</b>	<b>\$ 6,290,484,104.40</b>	<b>0.93</b>	<b>4.11</b>	<b>9.03</b>	<b>5.34</b>	<b>7.96</b>	<b>5.02</b>	<b>9.09</b>
KY Ret. CERS Plan Index		0.86	4.06	8.71	5.25	8.10	5.32	9.20
<b>CERS- H</b>	<b>\$ 2,064,895,560.54</b>	<b>0.93</b>	<b>4.08</b>	<b>9.05</b>	<b>5.38</b>	<b>7.98</b>	<b>5.03</b>	<b>9.09</b>
KY Ret. CERS Haz Plan Index		0.87	4.05	8.67	5.25	8.10	5.32	9.20
<b>SPRS</b>	<b>\$ 216,992,834.56</b>	<b>0.91</b>	<b>3.57</b>	<b>7.57</b>	<b>4.80</b>	<b>7.64</b>	<b>4.87</b>	<b>9.04</b>
KY Ret. SPRS Plan Index		0.83	3.83	8.74	5.28	8.11	5.33	9.20



**KRS - INSURANCE**

	Market Value	Month	FYTD	1 YR	3 YR	5 YR	10 YR	ITD
<b>KERS INS</b>	<b>\$ 684,298,436.67</b>	<b>0.78</b>	<b>4.10</b>	<b>9.37</b>	<b>4.89</b>	<b>7.36</b>	<b>4.14</b>	<b>7.24</b>
KY Ins. KERS Plan Index		0.74	4.14	9.34	5.33	8.13	4.67	7.64
<b>KERS - H INS</b>	<b>\$ 451,029,430.45</b>	<b>0.83</b>	<b>3.97</b>	<b>9.26</b>	<b>5.22</b>	<b>7.61</b>	<b>4.27</b>	<b>7.29</b>
KY Ins. KERS Haz Plan Index		0.78	4.06	9.16	5.40	8.18	4.69	7.65
<b>CERS INS</b>	<b>\$ 1,972,298,117.91</b>	<b>0.86</b>	<b>3.96</b>	<b>9.30</b>	<b>5.30</b>	<b>7.66</b>	<b>4.29</b>	<b>7.29</b>
KY Ins. CERS Plan Index		0.81	4.00	9.04	5.46	8.22	4.71	7.66
<b>CERS - H INS</b>	<b>\$ 1,089,530,248.32</b>	<b>0.87</b>	<b>3.95</b>	<b>9.34</b>	<b>5.34</b>	<b>7.69</b>	<b>4.30</b>	<b>7.30</b>
KY Ins. CERS Haz Plan Index		0.81	4.00	9.03	5.46	8.22	4.71	7.66
<b>SPRS INS</b>	<b>\$ 165,383,591.88</b>	<b>0.88</b>	<b>3.96</b>	<b>9.25</b>	<b>5.30</b>	<b>7.66</b>	<b>4.29</b>	<b>7.29</b>
KY Ins. SPRS Plan Index		0.81	4.00	9.02	5.48	8.23	4.72	7.66

