Investment Market Commentary FYTD 2014:

Investment returns have been driven by the U.S. public equity market over the past couple of years. Investors really haven't seen these types of returns or the duration of the rally since the late 1990s. In addition, the recent IPO market has been robust thus allowing private companies to offer shares to the public. Investors are waiting to see if this robust equity market is reflective of the broader economy or if the equity market has gotten ahead of itself. Investors are also waiting to see if the expectations for 2014 GDP are on target. Market participants have given a pass to interim period lackluster GDP numbers and payroll numbers laying blame on the unusually cold weather across the country. Job growth has improved recently, but is expected to be stronger if the economy is really picking up steam. All-in-all, if we don't see some really robust economic numbers in the second quarter of 2014, the equity markets may sell off.

China's growth is slowing, but no one knows to what extent. The uncertainty is introducing volatility into the emerging markets and decreasing investor confidence. Emerging economies tend to be commodity driven and China is consuming fewer resources as their construction boom slows. There are also varying degrees of social and economic turmoil in various emerging economies such as Venezuela, Argentina, Brazil, and Turkey due to election cycles and slowing economies, but all eyes are on the Ukraine and Russia situation.

The European economies are no longer deteriorating, but have not made the turn and started positively contributing to world GDP growth. There still are some deflationary pressures on asset values and Europe still needs to clean up many bad loans on the books of the European banks.

The Federal Reserve continues to taper its bond buying program. After the initial negative reaction of the fixed income markets to this announcement, which sent yields on the 10 yr Treasury bond higher and mortgage rates higher, there has been muted impact since. Treasury yields really haven't risen since the taper actually began with yields on the 10 year and 30 year having been range bound. The Fed's message to the markets at the last Federal Open Market Committee meeting is that it intends to keep rates on cash instruments low until the end of 2015. As a result, high yield fixed income has continued to do tremendously well as market participants search for yield. Inflation sensitive assets have struggled due to extremely low growth in the Consumer Price Index.

Absolute Return strategies are doing well as an overall portfolio diversifier because for the first time post financial crisis, not every asset is either going up or down together. Portfolio managers in these strategies are able to add value by picking correct sectors, strategies, and individual company names.

Commercial real estate, or what institutional investors refer to as core real estate is priced at fair value. It's hard to imagine an economic scenario that allows

commercial real estate to continue to go up in value in the short run. The better value in the real estate markets are properties where owners and property managers can rehab and add value through structural investments in or repurposing existing properties making them more valuable to tenants or potential purchasers.

Private equity realization of returns has been stronger with the IPO markets being robust for the past six to nine months. As firms seek to utilize the robust IPO market or sell companies to strategic buyers investors are starting to see quality returns. Along the same lines, guidance from the Fed with respect to historically low short term interest rates has allowed underlying portfolio companies to clean up their balance sheets making them more valuable on a cash flow basis and to potential buyers.

KRS Investment Portfolio FYTD 2014

The composite KRS Pension portfolio has performed very well on an absolute basis (+9.93%) and relative to its benchmark (+0.62%) for the fiscal year through February 2014. All asset classes have positive performance fiscal year to date for the Pension plan on an absolute return basis. The strong performing equity markets have provided a positive tailwind performance wise to the pension plan with the KRS public equity portfolio returning 16.47% fiscal year to date. Other positive contributors to performance were private equity 8.18%, absolute return 5.60%, fixed income 4.33%, real return 3.54%, and real estate 2.5%. Relative to each sector's benchmark the positive contributors were public equity (+0.37%), fixed income (+1.29%), real return (+1.88%), and absolute return (+2.60%). The negative performance relative to benchmark came from real estate (-4.57). This performance variance in the KRS real estate portfolio is due to the conservative debt/credit nature of the portfolio's investments, the early stages of capital deployment, and the allocation decisions of the real estate portfolio within the transition to a larger real asset mandate. The KRS investment team looks forward to finishing the fiscal year strong and locking in another good annual return for current and future retirees.