

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

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GARY L. HARBIN, CPA
Executive Secretary
(502) 848-8500

Serving Kentucky Teachers Since 1940

Quarterly Meeting of the
KTRS Board of Trustees

AGENDA

December 21, 2015, 9:30 a.m.

Meeting Called to Order
Roll Call

1. Reports for Consent

1.1. Consideration/Approval of Minutes

- 1.1.1. Quarterly Meeting of the Board of Trustees held September 21, 2015
- 1.1.2. Special Meeting of the Board of Trustees held November 23, 2015
- 1.1.3. Special Meeting of the Board of Trustees held December 9, 2015
- 1.1.4. Special Meeting of the Insurance Committee held September 21, 2015
- 1.1.5. Special Meeting of the Nominating Committee held September 21, 2015
- 1.1.6. Special Meeting of the Governance and Audit Committee held November 2, 2015
- 1.1.7. Special Meeting of the Personnel Committee held November 23, 2015

1.2. Applications for Retirement and Annuity

- 1.3. Survivor Benefits
- 1.4. Life Insurance Benefits
- 1.5. Refunds
- 1.6. Interim Financial Statements

2. Report of the Investment Committee

3. Report of the Scholarship Committee

4. Report of the Legislative Committee

5. Executive Secretary's Observations and Comments

General Discussion

Adjournment

The meeting will take place in the Board Room at the office of the
Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY.

TO: Board of Trustees of the
Kentucky Teachers' Retirement System

FROM: Gary L. Harbin, CPA

DATE: December 21, 2015

SUBJECT: Reports for Consent

1.1. Consideration/Approval of Minutes

1.1.1. Quarterly Meeting of the Board of Trustees held September 21, 2015

1.1.2. Special Meeting of the Board of Trustees held November 23, 2015

1.1.3. Special Meeting of the Board of Trustees held December 9, 2015

1.1.4. Special Meeting of the Insurance Committee held September 21, 2015

1.1.5. Special Meeting of the Nominating Committee held September 21, 2015

1.1.6. Special Meeting of the Governance and Audit Committee held November 2, 2015

1.1.7. Special Meeting of the Personnel Committee held November 23, 2015

1.2. Applications for Retirement and Annuity

The lists of members who retired in September, October and November 2015 will be available for examination at the meeting. Attached is a summary of the particular payments and a comparison to the same period last year. Initial retirements for the period included 370 retirees with monthly payments totaling \$1,058,688.97. During the same period last year, there were 383 retirements with monthly payments totaling \$1,038,804.00.

Recommendation: The Board is requested to approve the initial payments listed in the report.

1.3. Survivor Benefits

The list of persons qualifying for survivor benefit payments for the quarter July 1, 2015 through September 30, 2015 will be available for examination at the meeting. During the period, there were 7 survivor benefits with a total monthly payment of \$4,803.57.

Recommendation: The Board is requested to approve the survivor benefit payments for the period July 1, 2015 through September 30, 2015 as listed in the report.

1.4. Life Insurance Benefits

The list of payments of life insurance benefits due to death of active and retired teachers for the period July 1, 2015 through September 30, 2015 will be available for examination at the meeting. There were 21 payments to the estates or beneficiaries of active teachers and 260 payments to the estates or beneficiaries of retired teachers for total payments of \$1,342,000. During the same quarter in 2014, there were 221 payments in the amount of \$1,087,000.

Recommendation: The Board is requested to approve the payment of life insurance benefits as listed in the report.

1.5. Refunds

The report of refunds for the quarter ended September 30, 2015 is attached. There were 1,110 refunds for the quarter July 1, 2015 through September 30, 2015, and the amount refunded was \$10,676,750.14. The refunds are for the following categories:

| | | |
|---------------------|-----------|----------------------|
| Regular withdrawals | 1,054 | \$ 9,878,348.72 |
| Deaths | <u>56</u> | <u>\$ 798,401.42</u> |
| Totals | 1,110 | \$10,676,750.14 |

During the same quarter in 2014 there were 788 refunds totaling \$9,586,828.38.

Recommendation: The Board is requested to approve the payment of refunds as listed in the report.

1.6. Interim Financial Statements

Attached are the Interim Financial Statements for the quarter ended September 30, 2015.

Recommendation: The Interim Financial Statements are provided for informational purposes only and require no action by the Board.

Kentucky Teachers' Retirement System
Initial Applications for Retirement and Annuity
2015

| | September | October | November | Total | Same Period 2014 |
|---|-----------------------------------|-----------------------------------|----------------------------------|-------------------------------------|-------------------------------------|
| Handicapped Child | <i>0</i> \$0.00 | <i>0</i> \$0.00 | <i>0</i> \$0.00 | <i>0</i> \$0.00 | <i>2</i> \$400.00 |
| Disability Retirement | <i>9</i> \$21,671.40 | <i>14</i> \$34,167.15 | <i>7</i> \$25,530.03 | <i>30</i> \$81,368.58 | <i>45</i> \$122,808.94 |
| Service Retirement | <i>162</i> \$468,653.44 | <i>111</i> \$331,070.84 | <i>65</i> \$168,225.15 | <i>338</i> \$967,949.43 | <i>333</i> \$909,249.44 |
| Beneficiary of Member Eligible to Retire | <i>0</i> \$0.00 | <i>1</i> \$3,219.78 | <i>1</i> \$6,151.18 | <i>2</i> \$9,370.96 | <i>3</i> \$6,345.62 |
| TOTALS | <i>171</i> \$490,324.84 | <i>126</i> \$368,457.77 | <i>73</i> \$199,906.36 | <i>370</i> \$1,058,688.97 | <i>383</i> \$1,038,804.00 |

Reports for Consent
Member Account Refunds
For the period July 2015 - September 2015

| Active Refunds | Count | Net Refund | Taxes Withheld | Rollovers | Total |
|-----------------------|--------------|-------------------|-----------------------|------------------|---------------------|
| July | 236 | 1,163,678.00 | 290,914.77 | 818,415.10 | 2,273,007.87 |
| August | 457 | 2,076,471.16 | 518,965.18 | 1,331,714.34 | 3,927,150.68 |
| September | 361 | 1,857,945.56 | 464,281.57 | 1,355,963.04 | 3,678,190.17 |
| Total | 1,054 | | | | 9,878,348.72 |

| Deceased Refunds | Count | Net Refund | Taxes Withheld | Rollovers | Total |
|-------------------------|--------------|-------------------|-----------------------|------------------|-------------------|
| July | 35 | 391,673.24 | 76,168.51 | 222,243.88 | 708,085.63 |
| August | 14 | 12,741.02 | 2,214.13 | 62,613.47 | 77,568.62 |
| September | 7 | 8,597.73 | 2,149.44 | 0.00 | 12,747.17 |
| Total | 56 | | | | 798,401.42 |

| Total Refunds | Count | Net Refund | Taxes Withheld | Rollovers | Total |
|----------------------|--------------|-------------------|-----------------------|------------------|----------------------|
| July | 271 | 1,555,351.24 | 367,083.28 | 1,040,658.98 | 2,981,093.50 |
| August | 471 | 2,089,212.18 | 521,179.31 | 1,394,327.81 | 4,004,719.30 |
| September | 368 | 1,866,543.29 | 466,431.01 | 1,355,963.04 | 3,690,937.34 |
| Total | 1,110 | | | | 10,676,750.14 |

TEACHERS' RETIREMENT SYSTEM

OF THE STATE OF KENTUCKY



INTERIM FINANCIAL STATEMENTS

QUARTER ENDED SEPTEMBER 30, 2015
(UNAUDITED)

20151221 Quarterly Board of Trustees Meeting - Reports for Consent

| | Defined Benefit Plan | | Health Insurance Plans | | Life Insurance Plan | | Other Funds | | TOTAL | |
|---|----------------------|-------------------|------------------------|----------------|---------------------|---------------|-------------|------------|-------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| ASSETS | | | | | | | | | | |
| Cash | \$ 134,987,558 | \$ 57,186,284 | \$ 26,074,482 | \$ 862,382 | \$ 147,680 | \$ 113,843 | \$ 50,246 | \$ 36,488 | \$ 161,259,966 | \$ 58,198,997 |
| Receivables | | | | | | | | | | |
| State of Kentucky | 26,885,159 | 22,888,756 | 2,580,839 | 2,536,624 | 61,789 | 45,199 | | | 29,527,787 | 25,470,579 |
| Investment Income | 40,683,260 | 44,270,436 | 1,289,669 | 1,198,390 | 999,217 | 944,639 | 2,434 | 2,146 | 42,974,580 | 46,415,611 |
| Investment Sales Receivable | 96,535,521 | 110,440,002 | 748,660 | 248,996 | | | | | 97,284,181 | 110,688,998 |
| Installment Account Receivable | 468,755 | 557,420 | | | | | | | 468,755 | 557,420 |
| Other Receivables | 96,208 | 75,743 | 28,785 | | | | | | 124,993 | 75,743 |
| Due from Other Funds | 4,248,808 | 1,177,057 | | | | | | | 4,248,808 | 1,177,057 |
| Total Receivables | 168,917,711 | 179,409,414 | 4,647,953 | 3,984,010 | 1,061,006 | 989,838 | 2,434 | 2,146 | 174,629,104 | 184,385,408 |
| Investments at Book Value | | | | | | | | | | |
| Short Term Investments | 623,249,066 | 766,188,461 | 22,290,496 | 75,943,875 | 3,076,225 | 4,962,292 | 422,444 | 466,024 | 649,038,231 | 847,560,652 |
| Bonds and Mortgages | 2,737,363,647 | 2,986,695,589 | 41,689,630 | 28,620,100 | 80,891,040 | 79,309,559 | 199,485 | 199,485 | 2,860,143,802 | 3,094,824,733 |
| Stocks | 8,137,893,655 | 7,844,775,177 | 277,006,391 | 247,004,971 | | | 185,574 | 160,512 | 8,415,085,620 | 8,091,940,660 |
| Alternative Investments | 695,850,781 | 546,596,279 | 10,659,970 | 4,814,517 | | | | | 706,510,751 | 551,410,796 |
| Real Estate | 758,397,918 | 721,922,480 | 7,656,108 | 416,750 | | | | | 766,054,026 | 722,339,230 |
| Additional Categories | 1,292,834,056 | 1,195,400,637 | 136,597,613 | 105,861,053 | | | | | 1,429,431,669 | 1,301,261,690 |
| Total Investments | 14,245,589,123 | 14,061,578,623 | 495,900,208 | 462,661,266 | 83,967,265 | 84,271,851 | 807,503 | 826,021 | 14,826,264,099 | 14,609,337,761 |
| Capital Assets (net of accumulated depreciation) | 14,906,438 | 11,495,190 | | | | | | | 14,906,438 | 11,495,190 |
| Total Assets | 14,564,400,830 | 14,309,669,511 | 526,622,643 | 467,507,658 | 85,175,951 | 85,375,532 | 860,183 | 864,655 | 15,177,059,607 | 14,863,417,356 |
| LIABILITIES | | | | | | | | | | |
| Liabilities | | | | | | | | | | |
| Contributions Not Posted | 23,732,493 | 36,031,251 | 19,636,579 | 7,714,469 | | | | | 43,369,072 | 43,745,720 |
| Insurance Claims Payable | | | | 120,992 | | | | | 0 | 120,992 |
| Investment Purchases Payable | 26,890,898 | 128,985,495 | 961,625 | 7,929,360 | | | | | 27,852,523 | 136,914,855 |
| Investment Fees Payable | 10,975,711 | 8,271,638 | 328,327 | 186,757 | | | | | 11,304,038 | 8,458,395 |
| Due to Other Funds | | | 4,222,896 | 1,145,785 | 25,306 | 29,606 | 606 | 1,665 | 4,248,808 | 1,177,056 |
| Revenues Collected in Advance | | | 4,899,365 | 3,661,335 | | | | | 4,899,365 | 3,661,335 |
| Total Liabilities | 61,599,102 | 173,288,384 | 30,048,792 | 20,758,698 | 25,306 | 29,606 | 606 | 1,665 | 91,673,806 | 194,078,353 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | \$ 14,502,801,728 | \$ 14,136,381,127 | \$ 496,573,851 | \$ 446,748,960 | \$ 85,150,645 | \$ 85,345,926 | \$ 859,577 | \$ 862,990 | \$ 15,085,385,801 | \$ 14,669,339,003 |

Statements of Changes in Plan Net Assets
For the Three Months Ended September 30, 2015 and 2014
(Book Basis - Unadjusted)

| | Defined Benefit Plan | | Medical Insurance Plan | | Life Insurance Plan | | Other Funds | | TOTAL | |
|-------------------------------------|----------------------|---------------------|------------------------|---------------------|---------------------|------------------|-----------------|-----------------|----------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| ADDITIONS | | | | | | | | | | |
| Contributions | | | | | | | | | | |
| Employer- State Paid | \$ 101,832,347 | \$ 62,233,412 | \$ 2,746,717 | \$ 6,676,540 | \$ 123,781 | \$ 73,134 | \$ - | \$ - | \$ 104,702,845 | \$ 68,983,086 |
| Employer- LSD, Other | 32,488,043 | 19,157,906 | 1,926,335 | 2,914,607 | | 9,132 | | | 34,414,378 | 22,081,645 |
| Member- Active | 41,268,183 | 23,937,071 | 8,470,862 | 13,290,869 | | | | | 49,739,045 | 37,227,940 |
| Member- Retired | | | 14,303,982 | 15,005,957 | | | | | 14,303,982 | 15,005,957 |
| Recovery Income | | | 5,048,928 | 4,965,045 | | | | | 5,048,928 | 4,965,045 |
| Total Contribution | 175,588,573 | 105,328,389 | 32,496,824 | 42,853,018 | 123,781 | 82,266 | 0 | 0 | 208,209,178 | 148,263,673 |
| Investment Income (at book value) | | | | | | | | | | |
| Net Gain/(Loss) on Investment Sales | 81,841,057 | 180,099,187 | (1,124,971) | 163,442 | (6,200) | 4,353 | | | 80,709,886 | 180,266,982 |
| Interest | 47,388,112 | 64,892,883 | 1,947,621 | 1,626,784 | 828,368 | 854,370 | 98 | 71 | 50,164,199 | 67,374,108 |
| Dividends | 47,558,367 | 40,910,790 | | | | | 1,236 | 983 | 47,559,603 | 40,911,773 |
| Rental Income, Net | 7,579,363 | 6,678,175 | | | | | | | 7,579,363 | 6,678,175 |
| Securities Lending, Net | 591,563 | 599,225 | | | 117 | | 82 | 23 | 591,762 | 599,248 |
| Gross Investment Income | 184,958,462 | 293,180,260 | 822,650 | 1,790,226 | 822,285 | 858,723 | 1,416 | 1,077 | 186,604,813 | 295,830,286 |
| Less Investment Expense | (12,735,208) | (8,881,482) | (564,861) | (199,961) | | | | | (13,300,069) | (9,081,443) |
| Net Investment Income | 172,223,254 | 284,298,778 | 257,789 | 1,590,265 | 822,285 | 858,723 | 1,416 | 1,077 | 173,304,744 | 286,748,843 |
| Total Additions | 347,811,827 | 389,627,167 | 32,754,613 | 44,443,283 | 946,066 | 940,989 | 1,416 | 1,077 | 381,513,922 | 435,012,516 |
| DEDUCTIONS | | | | | | | | | | |
| Benefits | 456,323,921 | 433,846,066 | | | 1,332,000 | 1,087,000 | 19,679 | 19,937 | 457,675,600 | 434,953,003 |
| Refunds of Contributions | 10,966,823 | 9,770,456 | | | | | | | 10,966,823 | 9,770,456 |
| Under 65 Insurance Expenses | | | 32,792,220 | 33,635,631 | | | | | 32,792,220 | 33,635,631 |
| Over 65 Insurance Expenses | | | 35,141,722 | 26,855,564 | | | | | 35,141,722 | 26,855,564 |
| Administrative Expense | 2,938,658 | 3,667,343 | 880,016 | 279,863 | | | | | 3,818,674 | 3,947,206 |
| Total Deductions | 470,229,402 | 447,283,865 | 68,813,958 | 60,771,058 | 1,332,000 | 1,087,000 | 19,679 | 19,937 | 540,395,039 | 509,161,860 |
| Net Increase (Decrease) | (122,417,575) | (57,656,698) | (36,059,345) | (16,327,775) | (385,934) | (146,011) | (18,263) | (18,860) | (158,881,117) | (74,149,344) |
| NET ASSETS HELD IN TRUST | | | | | | | | | | |
| FOR PENSION BENEFITS | | | | | | | | | | |
| Beginning of year | 14,625,219,303 | 14,194,037,825 | 532,633,196 | 463,076,735 | 85,536,579 | 85,491,937 | 877,840 | 881,850 | 15,244,266,918 | 14,743,488,347 |
| Ending of period | \$ 14,502,801,728 | \$ 14,136,381,127 | \$ 496,573,851 | \$ 446,748,960 | \$ 85,150,645 | \$ 85,345,926 | \$ 859,577 | \$ 862,990 | \$ 15,085,385,801 | \$ 14,669,339,003 |

TO: Board of Trustees of the
Kentucky Teachers' Retirement System

FROM: Gary L. Harbin, CPA

DATE: December 21, 2015

SUBJECT: Report of the Investment Committee

1. Investment Committee Meeting and Actions: The investments approved at the November 12, 2015 Investment Committee meeting are as follows: \$30 million from the Retirement Annuity Trust Fund to the JP Morgan Global Maritime Investment Fund II; \$50 million from the Retirement Annuity Trust Fund and \$10 million from the Medical Insurance Trust Fund to the Oaktree European Principal Fund IV.

The Committee also received a report from staff regarding securities lending. Additionally, outside managers Galliard Capital Management and GE Asset Management reported to the Committee on their respective portfolios.

2. Purchases and Disposals: The Report of the Investment Committee for the quarter ended September 30, 2015 is presented for review and approval. During this quarter, there were 1,583 purchases amounting to \$2,082,553,976.97 and 2,058 disposals amounting to \$2,205,537,940.12. The disposals consisted of 1,410 sales, 605 principal payments and 43 redemptions. While the KTRS investment office initiates each of these transactions, the custodian of securities is responsible for handling and securing each stock, bond or other type of investment. At the end of the quarter, the System's invested securities had a book value of \$14,341,447,107.98 and a market value of \$16,575,877,682.57.

3. Staff's comments on the economic and market conditions: Global stock markets were down sharply in the quarter ended September 30, 2015. Domestically, the S&P 1500 Index was down 6.7% for the quarter while the System's international benchmark, the MSCI ACWX ex US Index was down 12.1%. There were several factors, both domestic and international, that contributed to the decline.


Internationally, Japan saw negative economic growth despite very accommodative monetary policy while Chinese growth continues to slow as they shift from a manufacturing based economy to a service based economy. Additionally, the Chinese central bank devalued their currency unexpectedly and mismanaged their stock markets during some stressful periods. Europe got past the Greek crisis, and growth is improving due to very easy monetary policies. Commodity dependent Emerging Markets are seeing poor economic growth, as commodity prices have plunged.

Domestically, the S&P 1500 moved to new highs early in the year, and stayed in that range until August. What the indices masked is that as the year progressed, more stocks were weakening and the market was being held up by a relatively few leaders that became fairly expensive. The strong dollar, decreasing oil related capital expenditures, constrained consumer finances and limited government spending have crimped earnings expectations. All the market needed was an excuse to correct, and the Chinese devaluation provided that. The Fed did not raise rates in September and then botched the announcement of that decision. This uncertainty provided the excuse for a retest of the August lows during September as investors questioned whether the US will succumb to the weaker international environment.

4. Performance: Financial markets were mixed for the quarter ended September 30, 2015. The System's total assets returned -5.7% for the quarter. The System's domestic stocks declined 8.0%, underperforming the S&P 1500 Stock Index which returned -6.7%. The System's international stocks returned -13.0%, underperforming the MSCI All Country ex US Index which declined 12.10%. The System's bonds earned a return of 1.2%, matching the Barclays Government Credit Index. Alternatives and Real Estate provided solid returns for the quarter with both asset classes up over 3%.

Recommendation: The Executive Secretary recommends that the Board accept and ratify the Report of the Investment Committee.

Respectfully submitted to the Board of Trustees and members of the Teachers' Retirement System as a report of the work of the Investment Committee for the First Quarter of Fiscal Year 2015-2016.

 Chairman

 Vice-
Chairman

INVESTMENT REPORT
QUARTER ENDED SEPTEMBER 30, 2015

INVESTMENT ACTIVITY:

PURCHASES:

| | | |
|--------------|-------------------------|---------------------------|
| 409 | Short-Term Pool | \$ 797,834,171.32 |
| 71 | Fixed Income Securities | 517,551,541.56 |
| 916 | Equity Securities | 632,746,277.64 |
| 13 | Real Estate | 18,871,014.32 |
| 56 | Alternative Investments | 39,652,271.94 |
| 118 | Additional Categories | 75,898,700.19 |
| <u>1,583</u> | Total Purchases | <u>\$2,082,553,976.97</u> |

DISPOSALS:

| | | |
|--------------|-----------------------------------|---------------------------|
| 285 | Short-Term Pool | \$ 803,270,250.85 |
| 55 | Fixed Income Securities | 519,941,146.80 |
| 374 | Principal Paydowns | 19,806,004.76 |
| 38 | Redemptions/Maturities | 51,558,241.61 |
| 704 | Equity Securities | 611,857,195.03 |
| 12 | Real Estate | 11,475,152.69 |
| 86 | Alternative Investments | 24,439,048.45 |
| 268 | Additional Categories | 143,569,275.51 |
| 231 | Additional Principal Paydowns | 18,035,367.89 |
| 5 | Additional Redemptions/Maturities | 1,586,256.53 |
| <u>2,058</u> | Total Disposals | <u>\$2,205,537,940.12</u> |

VALUE OF PORTFOLIO:

PAR \$14.3 BILLION

BOOK \$14.3 BILLION

MARKET \$16.6 BILLION

INVESTMENT HIGHLIGHTS

STOCK SECTOR PERFORMANCE Quarter Ending September 30, 2015

| <u>Strongest Sectors</u> | <u>Return</u> | <u>Sample Stock</u> |
|--------------------------|---------------|---------------------|
| 1. Utilities | 5.4% | Duke Energy |
| 2. Consumer Staples | -0.2% | Wal-Mart |

| <u>Weakest Sectors</u> | <u>Return</u> | <u>Sample Stock</u> |
|------------------------|---------------|-----------------------|
| 1. Energy | -18.1% | Exxon Mobil Corp |
| 2. Materials | -16.9% | Freeport-McMoRan Inc. |
| 3. Healthcare | -10.6% | United Healthcare |

| Approximate Returns: | <u>S&P 500</u> | <u>Barclays Govt/Corp. Index</u> | <u>ACWI Ex. US</u> |
|----------------------|--------------------|--------------------------------------|--------------------|
| Oct. 1 - Dec. 31 | 4.9 | 1.8 | -3.8 |
| Jan. 1 - Mar. 31 | 1.0 | 1.8 | 3.6 |
| Apr. 1 - June 30 | 0.3 | -2.1 | 0.7 |
| July 1 - Sept. 30 | -6.4 | 1.2 | -12.1 |

S&P 500 INDEX/US TREASURY RATES

| <u>Date</u> | <u>S&P 500</u> | <u>% Increase</u> | <u>Cumulative % Increase</u> | <u>10 Yr.</u> | <u>30 Yr.</u> |
|---------------|--------------------|-------------------|----------------------------------|---------------|---------------|
| Oct. 1, 2014 | 1,972.29 | 0 | 0 | 2.39 | 3.09 |
| Jan. 1, 2015 | 1,994.99 | 1 | 1 | 2.17 | 2.75 |
| Apr. 1, 2015 | 2,059.69 | 3 | 4 | 1.92 | 2.54 |
| July 1, 2015 | 2,077.42 | 1 | 5 | 2.42 | 3.20 |
| Sept. 1, 2015 | 1,913.85 | -8 | -3 | 2.15 | 2.91 |
| Oct. 1, 2015 | 1,923.82 | 1 | -2 | 2.04 | 2.85 |

INVESTMENT PERFORMANCE
TOTAL RETURN (%)
for periods ending September 30, 2015

| | Market Value Millions \$ | Quarter Ending 9/30/2015 | One Year* | Three Years* | Five Years* | Ten Years* | Fifteen Years* | Twenty Years* |
|--|-----------------------------|--------------------------------|--------------|-----------------|----------------|---------------|-------------------|------------------|
| Total Plan Policy Index** | 16,575.9 | -5.7 | -0.5 | 8.4 | 8.9 | 6.1 | 5.2 | 7.1 |
| | | -5.4 | -1.6 | 7.4 | 8.2 | - | - | - |
| <u>Stocks</u> | | | | | | | | |
| Total Stocks | 10,118.6 | -9.5 | -3.1 | 10.7 | 10.9 | 6.0 | 4.1 | 8.0 |
| Large Cap Stocks | 6,109.4 | -8.0 | -0.5 | 13.2 | 13.6 | - | - | - |
| S & P 500 Index | | -6.4 | -0.6 | 12.4 | 13.3 | 6.8 | 4.0 | 8.1 |
| Mid Cap Stocks | 640.5 | -7.2 | 3.1 | 15.0 | 13.7 | - | - | - |
| S & P 400 Index | | -3.5 | 1.4 | 13.1 | 12.9 | - | - | - |
| Small Cap Stocks | 381.4 | -9.6 | 4.5 | 13.7 | 14.9 | - | - | - |
| S & P 600 Index | | -9.3 | 3.8 | 13.0 | 14.0 | - | - | - |
| Domestic Stocks | 7,131.3 | -8.0 | 0.1 | 13.5 | 13.7 | 7.2 | 4.9 | 8.6 |
| S & P Blended Index*** | | -6.7 | -0.3 | 12.5 | 13.3 | 6.9 | 4.0 | 8.2 |
| International Stocks | 2,987.3 | -13.0 | -10.4 | 4.1 | 3.5 | 4.1 | - | - |
| MSCI AC World (Ex US) | | -12.1 | -11.8 | 2.8 | 2.3 | 3.5 | - | - |
| <u>Fixed Income</u> | | | | | | | | |
| Fixed Income | 3,026.7 | 1.2 | 3.0 | 2.2 | 3.9 | 5.5 | 6.0 | 6.1 |
| Barclays Gov/Credit Index | | 1.2 | 2.7 | 1.6 | 3.1 | 4.6 | 5.4 | 5.6 |
| Triple Net Lease Real Estate | 383.0 | 2.0 | 7.9 | 7.5 | 7.6 | 8.3 | 8.5 | 8.9 |
| CPI + 2% | | 0.4 | 2.0 | 2.9 | 3.7 | 3.8 | 4.1 | 4.2 |
| Core Real Estate | 263.1 | 3.3 | 14.2 | 12.9 | 13.5 | - | - | - |
| NCREIF ODCE | | 3.7 | 14.9 | 13.5 | 14.0 | - | - | - |
| Non-Core Real Estate | 195.3 | 4.8 | 21.7 | 23.7 | - | - | - | - |
| NCREIF Property Index | | 3.1 | 13.5 | 11.9 | - | - | - | - |
| Cash (Unallocated) | 399.0 | 0.0 | 0.1 | 0.1 | 0.1 | 1.7 | 1.9 | 2.9 |
| 90 day Treasury Bill | | 0.0 | 0.0 | 0.1 | 0.1 | 1.3 | 1.6 | 2.5 |
| <u>Alternative Investments</u> | | | | | | | | |
| Timberland Investments | 207.2 | 0.4 | 16.4 | 7.3 | 6.3 | - | - | - |
| NCREIF Timberland Index | | 0.8 | 9.3 | 9.8 | 6.3 | - | - | - |
| Private Equity Investments**** | 663.7 | 3.6 | 8.6 | 14.1 | 13.2 | - | - | - |
| <u>Additional Categories</u> | | | | | | | | |
| Special Situations Fund | 69.3 | 0.5 | -5.3 | 10.2 | 6.3 | - | - | - |
| High Yield Bond | 278.9 | -5.7 | -3.6 | 3.1 | 5.9 | - | - | - |
| KTRS Credit Fund | 256.2 | -5.7 | -8.1 | 7.6 | - | - | - | - |
| Oaktree Opportunites Fund IX, LP | 47.3 | -1.4 | -4.5 | - | - | - | - | - |
| Oaktree Opportunites Fund X, LP | 1.9 | 0.0 | - | - | - | - | - | - |
| AG Select Partners Advantage Fund LP | 4.0 | -1.2 | -13.3 | - | - | - | - | - |
| B of A Merrill Lynch High Yield Master II | | -4.9 | -3.6 | 3.5 | 5.9 | - | - | - |
| Shenkman Capital Management | 210.6 | -1.3 | 0.8 | - | - | - | - | - |
| Highbridge Principle Strategies III | 44.8 | 2.6 | 10.7 | - | - | - | - | - |
| Golub Capital Pearls 11 | 128.7 | 1.6 | 6.2 | - | - | - | - | - |
| Oaktree European Dislocation Fund, LP | 18.2 | 7.2 | 7.2 | - | - | - | - | - |
| Marathon Eur Credit Opp Fund II | 68.9 | 1.8 | 8.1 | - | - | - | - | - |
| S & P LSTA Leverage Loan Index | | -1.4 | 0.9 | - | - | - | - | - |
| Babson Capital European Loan Fund | 101.6 | 0.3 | - | - | - | - | - | - |
| CS Institutional WELLL, no USD, hedged to EUR (USD version) | | 0.9 | - | - | - | - | - | - |
| <u>Non-US Dollar Fixed Income</u> | | | | | | | | |
| Rogge Global International Fixed Income | 88.9 | -0.6 | -6.9 | -3.9 | - | - | - | - |
| Barclays Global Aggregate ex USD 25% EUR 25% JPY Index | | -0.6 | -6.7 | -3.7 | - | - | - | - |

*Annualized

** Prior to 7/1/2008 KTRS did not benchmark overall fund performance.

*** Total Domestic Equity is benchmarked to a S & P Blended Index. Total domestic equity was benchmarked to the S & P 500 through the fiscal year ending 6/30/2007. As of 7/1/2007 total domestic equity is benchmarked to the S & P 1500 Index since the System's domestic stock mix is most comparable to this index.

**** For a period of 5 years, the private equity investments will be benchmarked against their own returns. The primary reason for this is that these investments have a minimum investment horizon of ten years and there is no market benchmark that would be expected to track these types of assets in their early years. Beginning five years after the first capital call, investments in this class shall be benchmarked versus the S & P 500 plus 3%, which is the System's long-term expected return for this asset class.

20151221 Quarterly Board of Trustees Meeting - Report of the Investment Committee

| | | |
|------------------------------|---------------------|-----------------------------|
| TOTAL BV INVESTED AT 6/30/15 | | \$ 14,464,431,071.13 |
| <u>July Activity</u> | | |
| | Purchases | 734,928,216.78 |
| | Disposals | (633,867,332.83) |
| | Paydowns | (13,160,713.68) |
| | Redemptions | (23,601,226.54) |
| | Short-Term Pool Net | <u>85,977,671.35</u> |
| | | 150,276,615.08 |
| <u>August Activity</u> | | |
| | Purchases | 274,586,942.66 |
| | Disposals | (300,401,180.20) |
| | Paydowns | (13,295,872.51) |
| | Redemptions | (11,271,376.97) |
| | Short-Term Pool Net | <u>(57,456,436.07)</u> |
| | | (107,837,923.09) |
| <u>September Activity</u> | | |
| | Purchases | 274,998,745.21 |
| | Disposals | (376,807,404.45) |
| | Paydowns | (11,384,786.46) |
| | Redemptions | (18,271,894.63) |
| | Short-Term Pool Net | <u>(33,957,314.81)</u> |
| | | (165,422,655.14) |
| TOTAL BV INVESTED AT 9/30/15 | | <u>\$ 14,341,447,107.98</u> |

* KTRS recognizes investment transactions on the date they occur. Transaction settlements, generally, occur days following transactions. The interim period between transaction date and settlement date represents a "pending period". At the time this statement was produced, \$69,635,200.76 in net transactions had occurred but had not settled. The statement does not include either expected cash receipts or disbursements associated with these pending trades. Upon settlement of these pending transactions, the net effect would be as follows:

| | |
|----------------------|---------------------------|
| Total Short Term | 638,216,011 |
| + Pending Receivable | <u>69,635,201</u> |
| Net | <u><u>707,851,212</u></u> |

INVESTMENT ACTIVITY
July 1, 2015 -- September 30, 2015

Total Book Value Invested @ 6/30/15 \$ 14,464,431,071.13

Purchases:

| | | | |
|-------|-------------------------|-------------------|---------------------|
| 409 | Cash Equivalents | \$ 797,834,171.32 | |
| 71 | Fixed Income Securities | 517,551,541.56 | |
| 916 | Equity Securities | 632,746,277.64 | |
| 13 | Real Estate | 18,871,014.32 | |
| 56 | Alternative Investments | 39,652,271.94 | |
| 118 | Additional Categories | 75,898,700.19 | |
| <hr/> | | | |
| 1583 | Total Purchases | | \$ 2,082,553,976.97 |

Disposals:

| | | | |
|-------|-------------------------------------|-------------------|---------------------|
| 285 | Cash Equivalents | \$ 803,270,250.85 | |
| 55 | Fixed Income Securities | 519,941,146.80 | |
| 374 | Principal Paydowns | 19,806,004.76 | |
| 38 | Redemptions / Maturities | 51,558,241.61 | |
| 704 | Equity Securities | 611,857,195.03 | |
| 12 | Real Estate | 11,475,152.69 | |
| 86 | Alternative Investments | 24,439,048.45 | |
| 268 | Additional Categories | 143,569,275.51 | |
| 231 | Additional Principal Paydowns | 18,035,367.89 | |
| 5 | Additional Redemptions / Maturities | 1,586,256.53 | |
| <hr/> | | | |
| 2058 | Total Disposals | | \$ 2,205,537,940.12 |

Total Book Value Invested @ 9/30/15 \$ 14,341,447,107.98

Total Par Value Invested @ 9/30/15 \$ 14,316,955,209.61

Total Market Value Invested @ 9/30/15 \$ 16,575,877,682.57

* KTRS recognizes investment transactions on the date they occur. Transaction settlements, generally, occur days following transactions. The interim period between transaction date and settlement date represents a "pending period". At the time this statement was produced, \$ 69,635,200.76 in net transactions had occurred but had not settled. The statement does not include either expected cash receipts or disbursements associated with these pending trades. Upon settlement of these pending transactions, the net effect would be as follows:

| | |
|----------------------|--------------------|
| Total Short Term | 638,216,011 |
| + Pending Receivable | 69,635,201 |
| Net | <u>707,851,212</u> |

TO: Board of Trustees of the
Kentucky Teachers' Retirement System

FROM: Gary L. Harbin, CPA

DATE: December 21, 2015

SUBJECT: Scholarship Committee

The Scholarship Committee will meet on Monday, December 21, 2015 prior to the Board meeting to consider scholarship awards for 2016-2017.

Background: Ms. Losey was a retired teacher from Northern Kentucky who taught for 30 years in the Campbell County school district. Ms. Losey passed away in 1997, but during her retired years she was most appreciative of the benefits she received from KTRS and left more than \$400,000 to KTRS in her Will. The Board of Trustees used these funds to establish a scholarship fund in Ms. Losey's name.

In the past, the Board awarded a \$2,000 scholarship to each of the eight public universities in Kentucky (for a total of \$16,000 per year). The universities select the recipient who is to be a student majoring in education who:

1. Is a graduate of a Kentucky public high school;
2. Is a junior or senior in college majoring in education;
3. Is a full-time student;
4. Maintains a GPA of 2.8 on a 4.0 scale

Additionally, the Board has also awarded a \$2,000 scholarship for tuition, books and fees to a Campbell County High School senior who intends to major in education in a Kentucky public university. This student must have an average GPA in high school of 2.8 on a 4.0 scale.

The Committee will also receive a report from investment staff concerning funds available for scholarship awards.

The Committee will make a report and recommendations to the Board concerning scholarships at the Board meeting.

Recommendation: This report is for the information of the Board.

TO: Board of Trustees of the
Kentucky Teachers' Retirement System

FROM: Gary L. Harbin, CPA

DATE: December 21, 2015

SUBJECT: Report of the Legislative Committee

The Legislative Committee will have a special meeting on December 21, 2015, prior to the regular quarterly meeting of the Board. The Committee will present a report to the Board during the regular quarterly meeting.

TO: Board of Trustees of the
Kentucky Teachers' Retirement System

FROM: Gary L. Harbin, CPA

DATE: December 21, 2015

SUBJECT: Executive Secretary's Observations and Comments

1. Pathway Project: Sagitec has been working on-site at KTRS since September 6, 2011. To date, more than 95% of the overall project has been completed. Work has been proceeding according to schedule and within budget.

The final major component of the Pathway System is the member portal, which went into production on September 1, 2015. The member portal is being released to members in stages over the next several months. The member portal gives KTRS active and retired members access to their retirement account information via the internet.

KTRS and Sagitec are making final adjustments to the Pathway System in the "warranty" phase of the project through May 1, 2016. In the spring, KTRS staff will begin taking over the full operation of the Pathway System.

Staff will be available after the meeting to answer any questions regarding the project.

2. 2015 Award For Administration from the Public Pension Coordinating Council: The Public Pension Coordinating Council awarded the Certificate of Achievement to KTRS for 2015 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of investment, disclosure, actuarial valuation, financial reporting and benefits. These principles are widely acknowledged to be marks of excellence for retirement systems and represent the highest standards of excellence in the public pension industry.

Unfortunately, this year, for the fourth consecutive year, KTRS was not awarded the Public Pension Coordinating Council Certificate of Achievement for funding. Failure to qualify for the award reflects the state's continued underfunding of KTRS's retirement annuity plan.

The Public Pension Coordinating Council is a confederation of the National Council on Teacher Retirement, the National Association of State Retirement System Administrators, and the National Conference on Public Employee Retirement Systems.

3. Certificate of Achievement for Excellence in Financial Reporting: On July 21, 2015, KTRS received notice that, for the 27th consecutive year, it received an Award for Financial Reporting Achievement for its Comprehensive Annual Financial Report (CAFR). This award, presented by the Government Finance Officers Association of the United States and Canada, is given to those governmental units and retirement systems that achieve the highest standards in government

accounting and finance reporting. This Certificate highlights the standards used in providing transparent information that is comparable to that information presented by other public plans.

4. 2016 Board of Trustees Meeting Dates: Dates for the Board of Trustees meetings for 2016 are listed below. The meetings will begin at 12:30 p.m., Eastern Time and will be held in the KTRS Board Room.

Monday, March 21
 Monday, June 20
 Monday, September 19
 Monday, December 19

The annual Trustee Workshop is tentatively scheduled for Monday, November 21, 2016.

5. Executive Secretary's Meetings: The Executive Secretary has had meetings with several groups recently and will report to the Board concerning the following:

| | |
|--------------------|---|
| September 25, 2015 | Attended KTRS Funding Work Group meeting |
| September 28, 2015 | Attended Public Pension Oversight Board meeting |
| September 28, 2015 | Conference call with Pubic Sector Healthcare Roundtable |
| September 28, 2015 | Dinner with Public Pension Capital |
| September 29, 2015 | Attended Public Pension Capital board meeting |
| September 30, 2015 | Presented Orientation Training to new Trustee |
| September 30, 2015 | Meeting with Dr. Robert Wagoner, KRTA |
| October 9, 2015 | Meeting with Curt Scott, Todd Investment Advisors |
| October 12, 2015 | Meeting with Mary Ann Blankenship, Brent McKim and Tim Mulloy |
| October 16, 2015 | Attended KTRS Funding Work Group meeting |
| October 21, 2015 | Meeting with Mountjoy Chilton Medley |
| October 23, 2015 | PSHCR Conference Call |
| October 26, 2015 | Attended Public Pension Oversight Board meeting |
| October 27, 2015 | Attended UnitedHealthcare event with Dr. Reed Tuckson |
| October 28, 2015 | Attended Interim Joint Committee on State Government meeting |
| October 29, 2015 | Meeting with Treasurer Todd Hollenbach and Tim Mulloy |
| November 4, 2015 | Attended Ft. Washington Advisory Committee conference call |
| November 4, 2015 | Meeting with KRTA representatives |
| November 5, 2015 | Attended Ft. Washington Advisory Committee conference call |
| November 6, 2015 | Presentation to KY Counseling Association |
| November 6, 2015 | Attended Ft. Washington Advisory Committee conference call |
| November 9, 2015 | Presentation to KRTA Legislative Committee |

| | |
|-------------------|---|
| November 11, 2015 | Meeting with Mountjoy Chilton Medley |
| November 12, 2015 | Meeting with Treasurer-elect Allison Ball |
| November 13, 2015 | Meeting with constituency group members |
| November 16, 2015 | Attended KTRS Funding Work Group meeting |
| December 1, 2015 | Attended KTRS Funding Work Group meeting |
| December 2, 2015 | Meeting with Commissioner Stephen Pruitt |
| December 2, 2015 | Meeting with investment manager |
| December 10, 2015 | Meeting with constituency group members |

Executive Secretary's Recommendation: The Executive Secretary's report is for the information of the Board and requires no action.



Public Pension Coordinating Council

***Recognition Award for Administration
2015***

Presented to

Kentucky Teachers' Retirement System

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Teachers' Retirement System
of the State of Kentucky**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO