

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

BOARD OF TRUSTEES

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Serving Kentucky Teachers Since 1940

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

Regular Quarterly Meeting

Board of Trustees

A G E N D A

June 20, 2016, 12:30 p.m.

Board Called to Order

Roll Call

1. Reports for Consent

- 1.1. Consideration/Approval of Minutes
 - 1.1.1. Quarterly Meeting held on March 21, 2016

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. Standard Annual Board Actions

- 2.1. Report of Results of Trustee Election
- 2.2. Election of 2016-2017 Board Chair and Vice Chair
- 2.3. 2016-2017 Committee Appointments
- 2.4. Board Appointment of Investment Committee
- 2.5. Resolution Regarding Purchases or Sales of Investment Instruments
- 2.6. Transfer of Interest
- 2.7. Transfer of Reserve Funds
- 2.8. 2016-2017 Administrative Expense Fund Budget
- 2.9. IRC Section 415(b) Limit
- 2.10. Personnel Matters

3. Report of the Investment Committee

4. Report of the Insurance Committee

5. Report of the Governance and Audit Committee

6. Report of the Legislative Committee

7. Executive Secretary's Observations and Comments

General Discussion

Adjournment

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

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Reports for Consent

1.1. Consideration/Approval of Minutes

1.1.1. Regular Quarterly Meeting of the Board of Trustees held on March 21, 2016

1.2. Applications for Retirement and Annuity

The lists of members who retired in March, April and May 2016 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 162 retirees with monthly payments totaling \$383,533.95. During the same period last year, there were 125 retirements with monthly payments totaling \$293,290.78.

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 January 1 through March 31, 2016 will be available for examination at the meeting. During the period, there were 12 survivor benefits with a total monthly payment of \$5,373.78.

Recommendation: The Board is requested to approve the survivor benefit payments for the period January 1 through March 31, 2016 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 January 1 through March 31, 2016 will be available for examination at the meeting. There were 15 payments to the estates or beneficiaries of active teachers and 193 payments to the estates or beneficiaries of retired teachers for total payments of \$995,000. During the same quarter in 2015, there were 108 payments in the amount of \$537,000.

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 March 31, 2016 is attached. There were 653 refunds for the quarter January 1 through March 31, 2016, and the amount refunded was \$6,037,494.14. The refunds are for the following categories:

Regular withdrawals	631	\$5,462,924.12
Deaths	<u>22</u>	<u>\$ 574,570.02</u>
Totals	653	\$6,037,494.14

During the same quarter in 2015 there were 682 refunds totaling \$4,501,595.80.

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 March 31, 2016.

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
2016

	March	April	May	Total	Same Period 2015
<i>Status 19</i> Handicapped Child	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>0</i> \$0.00
<i>Status 21</i> Disability Retirement	<i>11</i> \$25,354.35	<i>15</i> \$46,199.81	<i>10</i> \$23,734.14	<i>36</i> \$95,288.30	<i>27</i> \$75,684.89
<i>Status 23</i> Service Retirement	<i>39</i> \$99,673.27	<i>40</i> \$96,618.03	<i>43</i> \$79,025.98	<i>122</i> \$275,317.28	<i>96</i> \$207,827.55
<i>Status 25</i> Beneficiary of Member Eligible to Retire	<i>0</i> \$0.00	<i>3</i> \$10,385.89	<i>1</i> \$2,542.48	<i>4</i> \$12,928.37	<i>2</i> \$9,778.34
TOTALS	<i>50</i> \$125,027.62	<i>58</i> \$153,203.73	<i>54</i> \$105,302.60	<i>162</i> \$383,533.95	<i>125</i> \$293,290.78

Reports for Consent
Member Account Refunds
For the period January 2016 - March 2016

Active Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
January	139	742,826.95	185,706.68	462,784.56	1,391,318.19
February	177	867,994.77	217,790.20	968,053.11	2,053,838.08
March	316	1,075,761.87	268,397.89	673,608.09	2,017,767.85
Total	631				5,462,924.12

Deceased Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
January	6	133,713.91	33,407.17	0.00	169,121.08
February	3	17,685.34	2,374.24	0.00	20,059.58
March	13	107,004.39	11,753.49	256,631.48	385,389.36
Total	22				574,570.02

Total Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
January	145	876,540.86	219,113.85	462,784.56	1,560,439.27
February	180	885,680.11	220,164.44	968,053.11	2,073,897.66
March	329	1,182,766.26	280,151.38	930,239.57	2,403,157.21
Total	653				6,037,494.14

TEACHERS' RETIREMENT SYSTEM

OF THE STATE OF KENTUCKY



INTERIM FINANCIAL STATEMENTS

QUARTER ENDED MARCH 31, 2016
(UNAUDITED)

Statements of Changes in Plan Net Assets
For the Nine Months Ended March 31, 2016 and 2015
 (Book Basis - Unadjusted)

	Defined Benefit Plan		Medical Insurance Plan		Life Insurance Plan		Other Funds		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
ADDITIONS										
Contributions										
Employer- State Paid	\$ 341,549,015	\$ 298,059,513	\$ 32,663,057	\$ 38,670,375	\$ 603,760	\$ 480,170	\$ -	\$ -	\$ 374,815,832	\$ 337,210,058
Employer- LSD, Other	83,431,258	61,351,057	57,043,173	38,020,452	101,335	61,901	-	-	140,575,766	99,433,410
Member- Active	189,562,762	182,617,817	77,375,998	54,730,189					266,938,760	237,348,006
Member- Retired			60,708,465	43,483,783					60,708,465	43,483,783
Recovery Income			17,952,519	6,453,938					17,952,519	6,453,938
Total Contribution	614,543,036	542,028,387	245,743,212	181,358,736	705,095	542,071	-	-	860,991,343	723,929,194
Investment Income (at book value)										
Net Gain/(Loss) on Investment Sales	191,771,463	618,114,076	(7,347,566)	59,625	13,050	6,820	-	-	184,436,947	618,180,520
Interest	130,094,773	190,536,559	5,144,130	4,832,691	2,340,345	2,376,742	5,022	4,710	137,584,269	197,750,702
Dividends	151,098,185	161,810,570	695,050	-			3,770	3,161	151,797,005	161,813,732
Rental Income, Net	20,293,479	21,224,948							20,293,479	21,224,948
Securities Lending, Net	1,573,220	1,263,175			2,414	-	276	69	1,575,910	1,263,244
Gross Investment Income	494,831,120	992,949,329	(1,508,387)	4,892,316	2,355,809	2,383,562	9,068	7,940	495,687,610	1,000,233,147
Less Investment Expense	(32,560,275)	(28,873,913)	(1,320,275)	(806,971)					(33,880,550)	(29,680,884)
Net Investment Income	462,270,845	964,075,416	(2,828,662)	4,085,345	2,355,809	2,383,562	9,068	7,940	461,807,060	970,552,263
Total Additions	1,076,813,881	1,506,103,803	242,914,551	185,444,082	3,060,904	2,925,632	9,068	7,940	1,322,798,403	1,694,481,457
DEDUCTIONS										
Benefits	1,373,316,880	1,305,133,334			3,465,489	2,625,000	75,617	76,551	1,376,857,985	1,307,834,885
Refunds of Contributions	24,476,693	19,200,083							24,476,693	19,200,083
Under 65 Insurance Expenses			96,174,528	88,041,988					96,174,528	88,041,988
Over 65 Insurance Expenses			108,420,286	72,963,332					108,420,286	72,963,332
Administrative Expense	11,734,648	12,377,712	3,336,358	767,900			-	-	15,071,006	13,145,612
Total Deductions	1,409,528,221	1,336,711,129	207,931,172	161,773,220	3,465,489	2,625,000	75,617	76,551	1,621,000,499	1,501,185,900
Net Increase (Decrease)	(332,714,341)	169,392,674	34,983,379	23,670,862	(404,585)	300,632	(66,548)	(68,611)	(298,202,096)	193,295,557
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS										
Beginning of year	14,625,219,303	14,194,038,825	532,633,196	463,076,735	85,536,579	85,491,937	877,840	880,850	15,244,266,918	14,743,488,347
Ending of period	\$ 14,292,504,962	\$ 14,363,431,499	\$ 567,616,575	\$ 486,747,597	\$ 85,131,994	\$ 85,792,569	\$ 811,292	\$ 812,239	\$ 14,946,064,822	\$ 14,936,783,904

Statements of Plan Net Assets
as of March 31, 2016 and 2015
 (Book Basis - Unadjusted)

		Defined Benefit Plan		Health Insurance Plans		Life Insurance Plan		Other Funds		TOTAL	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
ASSETS											
Cash		\$ 95,129,320	\$ 136,701,525	\$ 64,004,182	\$ 52,804,385	\$ 70,199	\$ 76,348	\$ 16,933	\$ 3,584	\$ 159,220,633	\$ 189,585,843
Receivables											
	State of Kentucky	26,885,159	8,119,116	2,580,839	1,642,864	61,789	4,499			29,527,787	9,766,478
	Investment Income	40,683,260	43,981,783	1,289,669	1,246,615	999,217	972,686	2,434	2,146	42,974,580	46,203,230
	Investment Sales Receivable	38,258,306	14,797,392	1,920,260	290,705	-	-			40,178,565	15,088,097
	Installment Account Receivable	443,344	1,685,573							443,344	1,685,573
	Other Receivables	96,208	75,743	(38,128)	(38,128)					58,080	37,615
	Due from Other Funds	-	1,177,057							-	1,177,057
	Total Receivables	106,366,277	69,836,664	5,752,639	3,142,055	1,061,006	977,185	2,434	2,146	113,182,356	73,958,050
Investments at Book Value											
	Short Term Investments	434,469,362	615,233,598	13,881,034	14,527,867	738,566	2,043,337	406,866	448,177	449,495,828	632,252,979
	Bonds and Mortgages	2,614,353,652	2,846,463,087	58,645,255	40,103,200	83,262,223	82,725,305	199,485	199,485	2,756,460,615	2,969,491,077
	Stocks	8,235,293,452	8,098,689,603	287,010,754	267,005,381			185,574	160,512	8,522,489,780	8,365,855,496
	Alternative Investments	757,566,489	574,249,767	17,161,970	7,209,752					774,728,459	581,459,519
	Real Estate	801,504,770	737,394,462	19,265,229	1,258,593					820,769,999	738,653,055
	Additional Categories	1,310,557,432	1,330,708,290	137,368,918	118,283,659					1,447,926,350	1,448,991,949
	Total Investments	14,153,745,157	14,202,738,807	533,333,160	448,388,452	84,000,789	84,768,642	791,925	808,174	14,771,871,031	14,736,704,075
	Capital Assets	14,906,438	11,495,190							14,906,438	11,495,190
	(net of accumulated depreciation)										
	Total Assets	14,370,147,192	14,420,772,186	603,089,981	504,334,893	85,131,994	85,822,176	811,292	813,904	15,059,180,458	15,011,743,158
LIABILITIES											
Liabilities											
	Contributions Not Posted	19,522,742	38,625,658	28,282,717	11,137,092					47,805,459	49,762,750
	Treasurer's Unredeemed Checks										-
	Insurance Claims Payable				71,000					-	71,000
	Unearned Insurance Premium Receipts									-	-
	Investment Purchases Payable	47,143,777	10,443,391	1,957,449	1,346,599			-	-	49,101,226	11,789,990
	Investment Fees Payable	10,975,711	8,271,638	328,327	186,757			-	-	11,304,038	8,458,395
	Due to Other Funds			-	1,145,785	-	29,606	-	1,665	-	1,177,057
	Revenues Collected in Advance	-	-	4,904,913	3,700,062					4,904,913	3,700,062
	Total Liabilities	77,642,230	57,340,687	35,473,406	17,587,296	-	29,606	-	1,665	113,115,636	74,959,254
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		\$ 14,292,504,962	\$ 14,363,431,499	\$ 567,616,575	\$ 486,747,597	\$ 85,131,994	\$ 85,792,569	\$ 811,292	\$ 812,239	\$ 14,946,064,822	\$ 14,936,783,904

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Report of Results of Trustee Election

In accordance with KRS 161.260, the results of the election of one active teacher trustee, as certified by the Department of Education, will be announced at the meeting of the Board.

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Election of 2016-2017 Board Chair and Vice Chair

KRS 161.340 provides that the Board of Trustees shall elect from its membership a chair and a vice chair on an annual basis. Additionally, 102 KAR 2:010, Section 1 provides that the election will be conducted at the last meeting of the fiscal year (the fourth quarter meeting) for the succeeding fiscal year.

KRS 161.340 was amended by HB 300 (2012 Regular Session of the General Assembly) to limit a trustee to no more than 4 consecutive years serving as chair or vice chair of the board. The amendment was effective on April 11, 2012 and expressly includes years of service as chair or vice chair served prior to the effective date of the law.

Recommendation: The Executive Secretary recommends that the Board take action and elect a chair and vice chair consistent with KRS 161.340 and 102 KAR 2:010.

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: 2016-2017 Committee Appointments

The Chair of the Board identifies standing committees that are to report and make recommendations to the full Board. The Chair also appoints members of the Board to the Committees for terms that correspond to the term of the Chair. The Chair will make committee appointments for the coming year and will notify those appointed. The following Committees are currently in effect, with membership as follows:

Administrative Appeals

Hollis Gritton, Chair
Ron Sanders, Vice Chair
Mary Adams
Alison Wright, Alternate

Governance & Audit

Quin Sutton, Chair
Ron Sanders, Vice Chair
Jay Morgan
Mary Adams, Alternate

Insurance

Charles Harman, Chair
Arthur Green, Vice Chair
Quin Sutton
Jay Morgan, Alternate

Investments

Ron Sanders, Chair
Arthur Green, Vice Chair
Hollis Gritton
Jay Morgan
Alison Wright
Quin Sutton, Alternate
Mary Adams, Alternate

Legislative

Arthur Green, Chair
Quin Sutton, Vice Chair
Jay Morgan
Ron Sanders, Alternate

Nominating

Alison Wright, Chair
Jay Morgan, Vice Chair
Arthur Green
Hollis Gritton, Alternate

Personnel

Jay Morgan, Chair
Mary Adams, Vice Chair
Hollis Gritton
Ron Sanders
Alison Wright
Charles Harman, Alternate

Scholarship

Mary Adams, Chair
Alison Wright, Vice Chair
Charles Harman
Hollis Gritton
Arthur Green, Alternate

Special Committee on

Benefits and Funding

Jay Morgan, Chair
Arthur Green, Vice Chair
Ron Sanders
Quin Sutton, Alternate

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Board Appointment of Investment Committee and Appointment of Non-voting Members

KRS 161.430 provides that the Board may appoint an Investment Committee to "...act for the board in all matters of investment, subject to approval of the board of trustees..." At its meeting on December 15, 2008, the Board took action and adopted certain recommendations concerning the KTRS investment program, which were promoted by a coalition of constituency groups including KEA, KEA-R, KRTA, 3KTS (comprised of KASA, KASS, KSBA), JCTA, and endorsed by the Governor, and members of the Governor's Public Pension Working Group. The Board delegated authority to the Investment Committee to take action and implement the recommendations adopted by the Board.

Recommendation: Consistent with the action of the Board on December 15, 2008, the Executive Secretary recommends that the Board take the following action at this meeting:

1. The Chair will announce his recommendations for five members and two alternates to serve on the Investment Committee at the meeting. The Board will be asked to consider the recommendations and appoint the Investment Committee for the period from July 1, 2016 through June 30, 2017.

Recommendations:

- The Board should appoint five members to serve on the Investment Committee for the period from July 1, 2016 through June 30, 2017.
- The Board should appoint two members to serve as alternates on the Investment Committee for the period from July 1, 2016 through June 30, 2017.

2. In 2009, the Investment Committee took action to appoint two highly respected, nationally recognized, investment experts to serve as non-voting members of the Investment Committee. This action was taken consistent with the direction of the Board on December 15, 2008 to implement the recommendations concerning the TRS investment program. In June 2009, the Board ratified the action of the Investment Committee and both investment experts served on the Investment Committee during the current fiscal year. I have spoken to the Chair of the Board and he recommends that the Board ratify the appointment of Bevis Longstreth and George Philip to serve on the Investment Committee for the period from July 1, 2016 through June 30, 2017.

Recommendation:

- The Board should ratify the appointment of Bevis Longstreth and George Philip to serve on the Investment Committee for the period from July 1, 2016 through June 30, 2017.

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Resolution Regarding Purchases or Sales of Investment Instruments

The laws and regulations governing the administration of TRS specifically authorize the Board to delegate authority to the Executive Secretary and Chief Investment Officer to execute purchases and sales of investment instruments on behalf of the Board.

KRS 161.430 reads in pertinent part as follows:

“No investment or disbursement of funds shall be made unless authorized by the board of trustees, except that the board, in order to ensure timely market transactions, shall establish investment guidelines, by administrative regulation, and may permit its staff...to execute purchases and sales of investment instruments within those guidelines without prior board approval.”

102 KAR 1:175, Section 1.1(c) reads as follows:

“To ensure a timely market transaction, the executive secretary and the chief investment officer may make a purchase or sale of an investment instrument without prior board approval if the action conforms to the provisions established in this administrative regulation.”

From time to time, TRS staff must present proof that they are authorized to execute purchases and sales of investment instruments on behalf of the Board. Historically, the Board has adopted a resolution for this purpose which is copied into the minutes of the Board meeting. Staff then presents a copy of the resolution to interested parties when necessary to execute purchases or sales of investment instruments on behalf of the Board.

Recommendation: The Executive Secretary recommends that the Board adopt the following resolution to confirm the authority granted to the Executive Secretary and the Chief Investment Officer to execute purchases or sales of investment instruments on behalf of the Board.

“BE IT RESOLVED, by the Board of Trustees of the Teachers’ Retirement System of the State of Kentucky, that the Executive Secretary or Chief Investment Officer, be and hereby are authorized and empowered to execute purchases or sales of all investment instruments in the name of, or belonging to, the Teachers’ Retirement System of the State of Kentucky, or in its nominee name “KENTRES”, in any capacity.”

**THE TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY**
Frankfort, Kentucky 40601

Certification by Robert B. Barnes:

I, Robert B. Barnes, Deputy Executive Secretary Operations and General Counsel of the Teachers' Retirement System of the State of Kentucky, do hereby certify that the following is a true and complete copy of a resolution duly adopted by the Board of Trustees of the Teachers' Retirement System of the State of Kentucky at a meeting held on June 20, 2016:

"BE IT RESOLVED, by the Board of Trustees of the Teachers' Retirement System of the State of Kentucky, that the Executive Secretary or Chief Investment Officer, be and hereby are authorized and empowered to execute purchases or sales of all investment instruments in the name of, or belonging to, the Teachers' Retirement System of the State of Kentucky, or in its nominee name "KENTRES", in any capacity."

I also certify that Gary Harbin is the Executive Secretary and Tom Siderewicz is the Chief Investment Officer of the Teachers' Retirement System of the State of Kentucky.

Signed and dated on this 20th day of June, 2016.

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

Robert B. Barnes
Deputy Executive Secretary Operations and
General Counsel

CERTIFICATE OF ACKNOWLEDGMENT OF NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY
COUNTY OF FRANKLIN

This document was acknowledged before me on June 20, 2016 by Robert B. Barnes.

[Notary Seal]:

(Signature of Notary Public)
Notary Public for the Commonwealth of Kentucky

My commission expires: _____

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Transfer of Interest

KRS 161.440 requires that a transfer of interest be made from the Guarantee Fund to other funds, except the Expense Fund and Medical Insurance Fund. The Executive Secretary requests authority from the Board to make the required transfer of funds as of July 1, 2016.

Recommendation: The Executive Secretary recommends that the Board issue a directive as follows:

“In accordance with KRS 161.440, the Executive Secretary is authorized and directed to credit the required interest on average monthly balances to (1) Teachers’ Savings Fund, (2) State Accumulation Fund, and (3) Allowance Reserve Fund, such credits to be transferred from the Guarantee Fund and credited on July 1, 2016.”

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Transfer of Reserve Funds

KRS 161.420 requires TRS to transfer an amount equal to the accounts of members retiring on July 1, along with an equal amount from the State Accumulation Fund, to the Allowance Reserve Fund each year. In addition, sufficient sums must be transferred during the year at the time of retirement of individual teachers.

Recommendation: The Executive Secretary recommends that the board issue a directive authorizing the transfer of reserve funds and requests that the authorization cover the transfer of accounts of teachers who will retire during the 2016-2017 fiscal year as follows:

“The Executive Secretary is directed to determine the aggregate amount of the accumulated accounts of teachers retiring during 2016-2017 and to transfer from the Teachers’ Savings Fund to the Allowance Reserve Fund a sum equal to that amount; and further, to transfer a matching amount from the State Accumulation fund to the Allowance Reserve Fund, both of which transfers are authorized by KRS 161.420(2), and (3).”

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: 2016-2017 Administrative Expense Fund Budget

Administrative Expense Fund Budget. The state budget makes no appropriations to TRS for administrative expenses; however, the biennial budget adopted by the Legislature does set amounts that the retirement system may expend for administration during a two-year period. The allowable budget of \$12,934,000 was approved by the Legislature for the 2016-2017 fiscal year. The amount approved was \$478,000 less than the proposed budget recommended to the Legislature by the Board.

A copy of the proposed 2016-2017 administrative budget is attached. The proposed budget reflects additional anticipated staff costs as TRS takes over the administration and maintenance of the Pathway system.

Also attached are additional materials comparing TRS's administrative expenses with those of other retirement systems and a schedule of actual administrative expenses during the current fiscal year through April 30, 2016.

Recommendation: The Executive Secretary recommends that the Board approve the proposed 2016-2017 Administrative Expense Fund Budget as presented.

Teachers' Retirement System Kentucky Administrative Budget

	Budget 2015-16	Proposed Budget 2016-17
PERSONNEL COSTS		
Salaries & Wages	\$ 6,979,100	\$ 7,266,700
FICA/Medicare	240,100	196,200
Retirement	1,117,600	1,429,100
Health/Life Insurance	751,600	797,500
SUB TOTAL PERSONNEL	9,088,400	9,689,500
Worker's Compensation	10,200	15,700
Unemployment Compensation	4,200	4,400
Employee Training	44,900	47,100
Legal Services	152,300	232,300
Auditing	75,000	70,800
Medical Review	120,100	120,100
Consulting Services	150,000	220,000
Actuarial	340,000	361,000
Communications Specialist	120,000	120,000
Investigative Services	24,000	24,000
Janitorial Services	36,200	40,000
Other	21,700	21,700
TOTAL PERSONNEL COSTS	10,187,000	10,966,600
OPERATING EXPENSES		
Natural Gas	46,400	24,700
Electricity	66,300	72,900
Water & Sewage	20,800	21,800
Meeting Room Rentals	8,800	8,800
Copy Machine Rental	15,900	16,700
Motorpool Rental	5,700	5,700
Maintenance-Building & Grounds	152,100	77,100
Equipment Maintenance	26,000	26,000
Computer Maintenance	35,600	35,600
Postage & Postage Meters	534,900	434,900
Printing to State Agency	43,500	3,500
Printing Outside State	195,400	195,400
Insurance	190,000	199,500
Other	10,100	10,100
Telephone	43,200	43,200
Computer Services	78,000	78,000

**Teachers' Retirement System Kentucky
Administrative Budget**

Office Supplies	54,200	58,500
Information Technology Supplies	24,500	24,500
Furniture under \$5000	14,100	14,100
Computer Software	87,700	337,700
Storage	6,900	6,900
Banking Services	33,400	-
Travel-In State	33,600	33,600
Travel-Out-of-State	45,000	45,000
Subscriptions & Dues	44,000	44,000
Other	10,100	10,100
Computers (PC) Under \$5,000	<u>59,700</u>	<u>43,200</u>
TOTAL OPERATING EXPENSES	1,885,900	1,871,500
CAPITAL OUTLAY		
Furniture/Office Equipment	34,900	34,900
Computers over \$5,000	<u>91,000</u>	<u>61,000</u>
TOTAL CAPITAL OUTLAY	<u>125,900</u>	<u>95,900</u>
TOTAL EXPENDITURES	<u><u>\$ 12,198,800</u></u>	<u><u>\$ 12,934,000</u></u>

TEACHERS RETIREMENT SYSTEM KENTUCKY
ADMINISTRATIVE EXPENSES ANALYSIS

Our actual expenses vs. Budget	Assets End of Year	Actual Expenses	Basis Points	Budgeted Expenses	% Expended	Amount returned to Pension Fund at year end
<i>Through Current Year 4/30/16</i>		9,548,507		10,163,833.00	93.95%	
Fiscal Year 6/30/15	18,766,823,240	10,440,118	0.0556%	12,196,600.00	85.60%	2,020,284.36
Fiscal Year 6/30/14	18,720,359,574	9,078,009	0.0485%	12,030,300.00	75.46%	3,814,011.56
Fiscal Year 6/30/13	16,613,402,131	9,677,241	0.0582%	12,030,300.00	80.44%	5,179,859.68
Fiscal Year 6/30/12	15,229,062,321	8,987,875	0.0590%	12,030,300.00	74.71%	3,208,685.47
Fiscal Year 6/30/11	15,514,921,656	8,530,724	0.0550%	11,428,700.00	74.64%	3,104,778.23
Fiscal Year 6/30/10	12,786,733,551	8,830,054	0.0691%	10,851,000.00	81.38%	2,187,712.93
Fiscal Year 6/30/09	11,830,163,585	8,165,757	0.0690%	10,102,600.00	80.83%	2,118,883.81
Fiscal Year 6/30/08	14,340,732,528	7,551,936	0.0527%	9,453,500.00	79.89%	2,044,217.34
Fiscal Year 6/30/07	15,633,802,824	7,351,846	0.0470%	9,075,400.00	81.01%	1,877,948.70
Fiscal Year 6/30/06	13,983,541,499	6,839,859	0.0489%	8,613,500.00	79.41%	1,902,090.55
Fiscal Year 6/30/05	13,667,841,114	6,652,673	0.0487%	8,147,900.00	81.65%	1,751,527.21

Our expenses compared to similar size systems	Assets End of Year	Actual Expenses	Basis Points
Indiana Public Employees 6/30/15	13,907,666,000	22,861,000	0.1644%
Georgia Employees 6/30/15	16,957,923,000	15,616,000	0.0921%
Louisiana Teachers 6/30/15	17,900,035,458	14,259,428	0.0797%
Kentucky Teachers 6/30/15	18,720,359,574	9,078,009	0.0485%
Kansas Public Employees 6/30/15	16,693,679,763	11,265,990	0.0675%
Kentucky Retirement System 6/30/15	11,646,481,000	31,020,000	0.2663%
New Mexico Public Employees 6/30/15	14,255,528,544	9,885,765	0.0693%
Ohio Teachers Retirement System 6/30/15	74,827,115,000	63,752,000	0.0852%

Teachers' Retirement System Kentucky

Administrative Expense Fund - Actual to Budgeted Expense Comparison

For the Ten Months Ended April 30, 2016 (Unaudited)

	ACTUAL Y T D	BUDGET Y T D	VARIANCE
Regular Salaries & Wages	\$ 5,468,041.51	\$ 5,815,916.70	\$ 347,875.19
Employers FICA	138,481.41	200,083.30	61,601.89
Employers Retirement Credit	1,248,519.58	931,333.30	(317,186.28)
Employer Health Insurance	643,314.75	623,333.30	(19,981.45)
Employer Life Insurance	942.00	3,000.00	2,058.00
Worker's Compensation	13,855.05	8,500.00	(5,355.05)
Unemployment Compensation	13.29	3,500.00	3,486.71
Employee Training	49,137.44	37,416.70	(11,720.74)
Employee Uniforms	495.82	833.30	337.48
Legal Services	55,751.86	126,916.70	71,164.84
Auditing Service	77,200.00	62,500.00	(14,700.00)
Medical & Dental Services	70,450.00	100,083.30	29,633.30
Consulting Services	101,336.00	225,000.00	123,664.00
Misc. Services	25,435.73	36,250.00	10,814.27
Court Reporting	-	1,000.00	1,000.00
Actuarial Services	341,495.59	283,333.30	(58,162.29)
Janitorial Services	32,500.00	30,166.70	(2,333.30)
Natural Gas	11,666.09	38,666.70	27,000.61
Electricity	53,669.37	55,250.00	1,580.63
Water & Sewage	7,211.08	17,333.30	10,122.22
Rent of Non-St Owned Build/Land	3,965.64	3,500.00	(465.64)
Rent of State Owned Build/Land	1,467.47	3,833.30	2,365.83
Rent of Equipment	-	416.70	416.70
Copy Machine Rental	9,198.11	12,833.30	3,635.19
State Carpool Rental	2,923.20	4,750.00	1,826.80
Maintenance-Buildings & Grounds	59,240.66	126,750.00	67,509.34
Maintenance of Equipment	6,654.90	14,500.00	7,845.10
Computer Maintenance	10,195.15	29,666.70	19,471.55
Postage & Postage Meters	370,035.61	440,333.30	70,297.69
Other Parcel Delivery Services	1,162.08	5,416.70	4,254.62
Printing Pd to State Agency	1,420.00	36,250.00	34,830.00
Printing Pd to Vendor	160,810.34	162,833.30	2,022.96
Insurance Premium	182,819.88	158,333.30	(24,486.58)
Garbage Collection	1,236.87	2,500.00	1,263.13
Service Not Otherwise Classified	2,381.64	5,916.70	3,535.06
Telephone Paid to Vendor	17,312.51	36,000.00	18,687.49
Dept Tech Serv Computer Charges	97,924.18	67,916.70	(30,007.48)
Comp Modem-Line Chg	995.00	3,333.30	2,338.30
Computer Equip Under \$5000	22,163.19	44,333.30	22,170.11
MARS Charges	20,700.00	14,166.70	(6,533.30)

Office Supplies	39,839.28	44,000.00	4,160.72
Motor Vehicle Supplies & Parts	104.64	1,000.00	895.36
Building Material & Supplies	15.34	2,583.30	2,567.96
Motor Fuel & Lube	1,233.68	1,750.00	516.32
Furn/Fixtures/Equip Under \$5000	14,612.63	11,750.00	(2,862.63)
Books for Dept Use	519.01	1,166.70	647.69
Computer Software	74,216.30	73,083.30	(1,133.00)
Banking Service & Fees	290.00	27,833.30	27,543.30
Storage	5,713.84	5,750.00	36.16
In-State Travel	20,082.83	27,000.00	6,917.17
Out-of-State Travel	13,955.74	37,500.00	23,544.26
Travel Non-State Employees	2,090.35	1,000.00	(1,090.35)
Dues & Subscriptions	59,337.98	36,666.70	(22,671.28)
Other	4,372.18	8,416.70	4,044.52
Furniture/Fixture/Equip Over \$5000	-	29,083.30	29,083.30
Telephone/Telecom Equipment	-	5,416.70	5,416.70
Computer Equip Over \$5000	-	75,833.30	75,833.30
	<u>\$ 9,548,506.80</u>	<u>\$ 10,163,833.20</u>	<u>\$ 615,326.40</u>

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: IRC Section 415(b) Limit

KRS 161.611 authorizes a supplemental retirement benefit plan for the sole purpose of enabling TRS to apply the same formula for determining benefits payable to all members of the retirement system whose benefits under the retirement system are limited by Section 415 of the Internal Revenue Code. This plan requires annual transfers from employer contributions to fund the limited benefit.

Recommendation: The Executive Secretary requests authorization to make necessary transfers from employer contributions sufficient to provide the benefits authorized in KRS 161.611 for fiscal year 2016-2017.

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Personnel Matters: Employee annual salary increments

KRS 161.340(2) provides that the board shall employ all personnel required to transact the business of the retirement system. The law also provides that "...the power over and the control for determining and maintaining an adequate complement of employees in the system shall be under the exclusive jurisdiction of the Board of Trustees...."

The personnel system established by the Board for employees of the retirement plan is in many respects very different than the personnel system for other state employees. The Board has established a different system because it is the Board's duty to attract and retain qualified employees in order to satisfy the mission of the retirement plan. The Board's personnel system has helped TRS maintain high employee job satisfaction and very low levels of employee turnover. TRS has also departed from many of the standards established in the state's personnel system. For example, TRS transitioned to a 40-hour work week (compared to the state's 37.5-hour work week) because the 40-hour week was a better fit for TRS's strategic objectives.

Although the TRS personnel system is separate and distinct from the state system, the Board remains mindful of the state system. The TRS Employee Compensation Plan provides that all employees eligible for annual salary increments shall receive increments equal to the percent funding available for state employees that is provided in the budget approved by the General Assembly. In the 2016 Regular Session of the General Assembly a budget was passed that provides for no state employee annual increments.

The Executive Secretary requests authorization from the Board of Trustees to approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2016-2017.

All eligible TRS employees are included in this authorization except for the Executive Secretary. Personnel Committee members will conduct the performance evaluation of the Executive Secretary at a meeting to be scheduled by the chair of the Personnel Committee. The Committee will report its recommendations to the Board at a meeting most closely following the evaluation. If the Board chooses to provide an increment for the Executive Secretary, the Board must determine the increase and authorize the Chair to implement the increment.

Recommendation: The Executive Secretary recommends that the Board of Trustees approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2016-2017.

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Report of the Investment Committee

1. Investment Committee Meeting and Actions: The investments approved at the May 24, 2016 Investment Committee meeting are as follows: \$50 million from the Retirement Annuity Trust Fund and \$10 million from the Medical Insurance Trust Fund to Carlyle Property Investors, L.P. \$75 million from the Retirement Annuity Trust Fund and \$10 million from the Medical Insurance Trust Fund to Highbridge Principal Strategies Specialty Loan Fund 2016 – L, L.P. Additionally, outside managers Fort Washington Investment Advisors and Fort Washington Capital Partners Group reported to the Committee on their respective portfolios.

2. Purchases and Disposals: The Report of the Investment Committee for the quarter ended March 31, 2016 is presented for review and approval. During this quarter, there were 2,237 purchases amounting to \$2,733,748,738.02 and 2,423 disposals amounting to \$2,825,553,467.44. The disposals consisted of 2,015 sales, 369 principal payments and 39 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 \$14,244,870,625.56 and a market value of \$16,759,336,769.40.

3. Staff's comments on the economic and market conditions: Global stock markets were volatile during the quarter ended March 31, 2016 after being up sharply in the previous quarter. Domestically, the S&P 1500 Index ended the quarter up 1.6%, while the System's international benchmark, the MSCI ACWI ex US Index was down .3%. There were several factors, both domestic and international, that contributed to the performance.

Internationally, the euro and yen strengthened despite relatively looser monetary policy, contributing to underperformance of developed international markets. Local currency appreciation has the dual effect of hurting the competitiveness of export prices, a negative for the equity markets, while helping returns of foreign investors who hold local equities on an unhedged basis. The net benefit/loss is determined by the nature of trade within each economy and the reaction of equity investors to the currency move. In Europe, negative interest rates continue to put banks under pressure and financials were one of the worst performing sectors in Q1. Banks compose 13.5% of the MSCI ACWI ex US Index. In Japan, equity valuations continued lower after the sell-off, moving from a trailing P/E of 21 at the start of the year to 18.8 at quarter-end. A weaker U.S. dollar and stronger commodity prices fueled a rally in emerging market equities in Q1.

Domestically, the U.S. equity market has effectively been range bound since late 2014. The market fell sharply to start the year amid risk-off sentiment and global growth concerns, but retraced losses in March. The return of risk-on sentiment and a dovish Fed helped stabilize equity markets. The timing of rate hikes continues to add uncertainty; however, market expectations of such a rise have been pushed back once again. Weak corporate earnings may be a headwind for equity markets in the short-term. For Q1, the recent consensus estimate of year over year earnings decline was -9.1%. If a decline does occur, it will mark four consecutive quarters of earnings contraction. With the effect of monetary easing diminishing, investors may find it more difficult to overlook another poor earnings season. However, low expectations for earnings growth provide the possibility for positive earnings surprise which might have the effect of changing sentiment.

4. Performance: Financial markets were mixed for the quarter ended March 31, 2016. The System's total assets returned .1% for the quarter. The System's domestic stocks declined .5%, underperforming the S&P 1500 Stock Index which returned 1.6%. The System's international stocks declined 2.3%, underperforming the MSCI All Country ex US Index which declined .3%. Alternatives and additional categories were down slightly. The System's bonds gained 3.3%, and Real Estate provided strong returns for the quarter.

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

INVESTMENT REPORT
QUARTER ENDED March 31, 2016

INVESTMENT ACTIVITY:

PURCHASES:

412	Cash Equivalents	\$1,043,033,636.14
87	Fixed Income Securities	711,245,345.90
1,297	Equity Securities	684,504,864.94
15	Real Estate	20,621,642.76
59	Alternative Investments	57,954,978.72
367	Additional Categories	<u>216,388,269.56</u>
2,237	Total Purchases	<u>\$2,733,748,738.02</u>

DISPOSALS:

307	Short-Term Pool	\$1,083,645,926.09
99	Fixed Income Securities	738,468,427.39
369	Principal Paydowns	39,348,951.79
33	Redemptions/Maturities	42,032,684.07
1,391	Equity Securities	702,850,481.89
22	Real Estate	16,959,493.71
77	Alternative Investments	28,119,335.16
119	Additional Categories	<u>171,547,643.63</u>
0	Additional Principal Paydowns	---
6	Additional Redemptions/Maturities	<u>2,580,523.71</u>
2,423	Total Disposals	<u>\$2,825,553,467.44</u>

VALUE OF PORTFOLIO:

PAR \$14.3 BILLION

BOOK \$14.2 BILLION

MARKET \$17.0 BILLION

INVESTMENT HIGHLIGHTS

STOCK SECTOR PERFORMANCE

Quarter Ending March 31, 2016

<u>Strongest Sectors</u>	<u>Return</u>	<u>Sample Stock</u>
1. Telecom Services	16.4%	AT&T
2. Utilities	15.6%	Exelon Corp.
<u>Weakest Sectors</u>	<u>Return</u>	<u>Sample Stock</u>
1. Health Care	-5.3%	Celegene
2. Financials	-4.2%	American Express
3. Consumer Disc.	2.0%	Carnival Corp.

Approximate Returns:	<u>S&P 500</u>	<u>Barclays Govt/Corp. Index</u>	<u>ACWI Ex. US</u>
Apr. 1 - June 30	0.3	-2.1	0.7
July 1 - Sept. 30	-6.4	1.2	-12.1
Oct. 1 - Dec. 31	7.0	-0.6	3.4
Jan. 1 - Mar. 31	1.3	3.0	-0.2

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>
Apr. 1, 2015	2,059.69	0	0	1.92	2.54
July 1, 2015	2,077.42	1	1	2.42	3.20
Sept. 1, 2015	1,913.85	-8	-7	2.15	2.91
Oct. 1, 2015	1,923.82	1	-5	2.04	2.85
Jan. 1, 2016	2,043.94	6	1	2.27	3.02
Apr. 1, 2016	2,059.74	1	2	1.77	2.60

INVESTMENT PERFORMANCE
TOTAL RETURN (%)
for periods ending March 31, 2016

	Market Value Millions \$	Quarter Ending 3/31/2016	One Year*	Three Years*	Five Years*	Ten Years*	Fifteen Years*	Twenty Years*
Total Plan Policy Index**	16,759.3	0.1 1.6	-1.8 -0.7	7.0 6.6	7.5 7.2	6.0 -	5.8 -	6.9 -
<u>Stocks</u>								
Total Stocks	10,494.9	-1.1	-4.6	8.5	8.5	5.8	5.5	7.7
Large Cap Stocks S & P 500 Index	6,207.1	-0.9 1.4	-2.5 1.8	11.4 11.8	11.2 11.6	- 7.0	- 6.0	- 8.0
Mid Cap Stocks S & P 400 Index	653.0	2.2 3.8	-3.3 -3.6	10.7 9.5	10.1 9.5	- -	- -	- -
Small Cap Stocks S & P 600 Index	386.6	1.0 2.7	-4.6 -3.2	10.6 10.4	10.7 10.4	- -	- -	- -
Domestic Stocks S & P Blended Index***	7,246.7	-0.5 1.6	-2.7 1.2	11.3 11.6	11.1 11.4	7.0 7.1	6.3 6.1	8.3 8.0
International Stocks MSCI AC World (Ex US)	3,248.2	-2.3 -0.3	-8.9 -8.8	2.1 0.8	2.0 0.8	3.0 2.4	- -	- -
<u>Fixed Income</u>								
Fixed Income Barclays Govt/Credit Index	2,931.4	3.3 3.5	2.6 1.8	2.8 2.4	4.7 4.0	5.8 4.9	5.7 5.0	6.1 5.6
Triple Net Lease Real Estate CPI + 2%	389.6	2.5 0.5	9.4 2.9	8.0 2.8	8.1 3.3	8.2 3.8	8.6 4.0	8.8 4.1
Core Real Estate NCREIF ODCE	284.8	3.2 2.2	15.4 13.7	14.5 13.6	14.0 13.3	- -	- -	- -
Non-Core Real Estate NCREIF Property Index	242.4	4.2 2.2	21.2 11.8	19.5 11.9	- -	- -	- -	- -
Cash (Unallocated) 90 day Treasury Bill	216.4	0.1 0.1	0.2 0.1	0.1 0.1	0.1 0.1	1.4 1.1	1.7 1.4	1.7 2.3
<u>Alternative Investments</u>								
Timberland Investments NCREIF Timberland Index	199.3	0.0 -0.3	2.5 2.9	5.4 7.7	5.1 6.6	- -	- -	- -
Private Equity Investments****	714.3	-0.5	7.2	12.6	12.3	-	-	-
<u>Additional Categories</u>								
Special Situations Fund	61.6	0.0	-14.1	4.5	2.5	-	-	-
High Yield Bond	302.9	2.3	-4.2	1.5	4.7	-	-	-
KTRS Credit Fund	229.4	-6.2	-14.0	0.4	-	-	-	-
Oaktree Opportunites Fund IX, LP	46.8	-1.4	-7.6	0.9	-	-	-	-
Oaktree Opportunites Fund X, LP	3.4	-5.9	-	-	-	-	-	-
AG Select Partners Advantage Fund LP	2.1	-9.5	-28.9	-	-	-	-	-
B of A Merrill Lynch High Yield Master II		3.3	-4.0	1.8	4.7	-	-	-
Shenkman Capital Management	156.0	1.6	-0.9	1.9	-	-	-	-
Highbridge Principle Strategies III	44.7	1.0	6.9	-	-	-	-	-
Golub Capital Pearis 11	126.2	1.3	6.0	-	-	-	-	-
Oaktree European Dislocation Fund, LP	7.6	1.4	7.5	-	-	-	-	-
Marathon Eur Credit Opp Fund II	60.1	0.0	4.1	-	-	-	-	-
Oaktree European Capital Solutions	2.4	0.0	-	-	-	-	-	-
Marathon Eur Credit Opp Fund III	33.8	-	-	-	-	-	-	-
S & P LSTA Leverage Loan Index		1.6	-1.3	1.9	-	-	-	-
Babson Capital European Loan Fund	100.7	0.8	3.8	-	-	-	-	-
CS Institutional WELLI, no USD, hedged to EUR (USD version)		1.1	3.8	-	-	-	-	-
Columbia High Yield Bond Fund	101.1	-	-	-	-	-	-	-
B of A Merrill Lynch High Yield Constrained Index		-	-	-	-	-	-	-
Rogge Global International Fixed Income	7.4	2.7	0.1	-2.2	-	-	-	-

*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.

Kentucky Teachers' Retirement System

Quarterly Investment Update

For the period ended March 31, 2016

FINAL	Fiscal						
(\$ in millions)	QTD	Y-T-D	1-Year ⁽²⁾	3-Years ⁽²⁾	5-Years ⁽²⁾	10-Years ⁽²⁾	20-Years ⁽²⁾
Total Fund							
KTRS	0.1%	-2.3%	-1.8%	7.0%	7.5%	6.0%	6.9%
Policy Index ⁽¹⁾	1.6%	-0.8%	-0.7%	6.6%	7.2%	-	-
Equities							
Domestic Equities	-0.5%	-3.2%	-2.7%	11.3%	11.1%	7.0%	8.3%
S & P Blended Index ⁽³⁾	1.6%	1.0%	1.2%	11.6%	11.4%	7.1%	8.0%
International Equities ⁽⁴⁾	-2.3%	-10.3%	-8.9%	2.1%	2.0%	3.0%	-
MSCI EAFE	-2.9%	-8.6%	-7.9%	2.7%	2.8%	2.3%	-
MSCI AC World (Ex US)	-0.3%	-9.4%	-8.8%	0.8%	0.8%	2.4%	-
Total Equities	-1.1%	-5.4%	-4.6%	8.5%	8.5%	5.8%	7.7%
Fixed Income							
Total Fixed Income	3.3%	4.1%	2.6%	2.8%	4.7%	5.8%	6.1%
Barclays Govt/Credit Index	3.5%	3.9%	1.8%	2.4%	4.0%	4.9%	5.6%
Real Estate							
Non-Core Real Estate	4.2%	15.1%	21.2%	19.5%	-	-	-
NCREIF Index	2.2%	8.4%	11.8%	11.9%	-	-	-
Core Real Estate	3.2%	11.8%	15.4%	14.5%	14.0%	-	-
NCREIF ODCE	2.2%	9.5%	13.7%	13.6%	13.3%	-	-
Triple Net Lease	2.5%	7.3%	9.4%	8.0%	8.1%	8.2%	8.8%
CPI plus 2%	0.5%	1.7%	2.9%	2.8%	3.3%	3.8%	4.1%
Alternative Investments							
Private Equity ⁽⁵⁾	-0.5%	4.2%	7.2%	12.6%	12.3%	-	-
Timberland	0.0%	0.7%	2.5%	5.4%	5.1%	-	-
NCREIF Timberland Index	-0.3%	2.4%	2.9%	7.7%	6.6%	-	-
Additional Categories							
Additional Categories	-0.1%	-4.2%	-3.6%	2.7%	4.8%	-	-
B of A Merrill Lynch High Yield Master II	3.3%	-3.9%	-4.0%	1.8%	4.7%	-	-

⁽¹⁾ Prior to July 1, 2008, KTRS did not benchmark overall fund performance. Effective July 1, 2008, the Board of Trustees approved a Policy Index which represents the returns of appropriate benchmarks for the various asset classes weighted by the mid-point of the strategic range for the current fiscal year.

⁽²⁾ Annualized

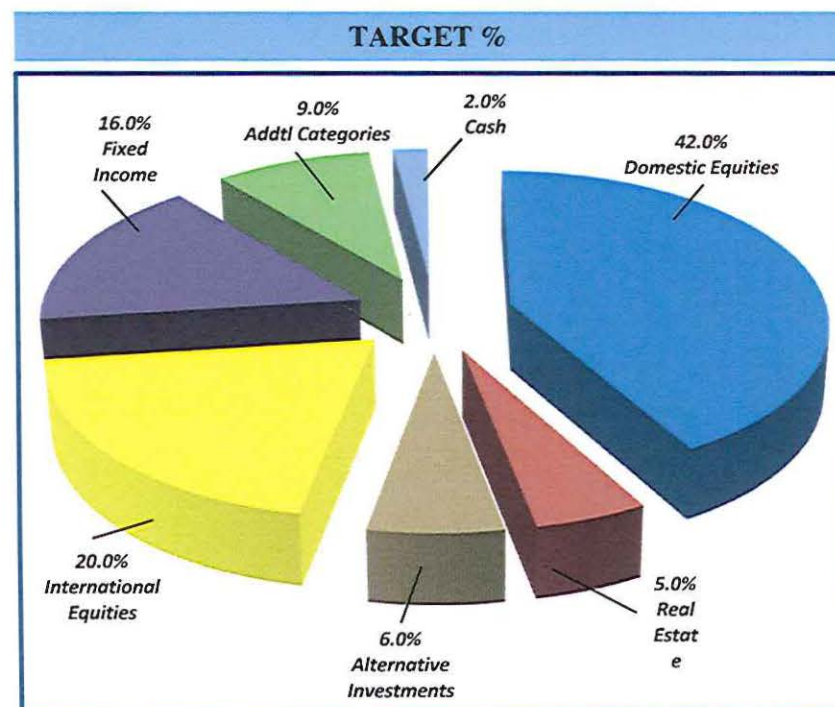
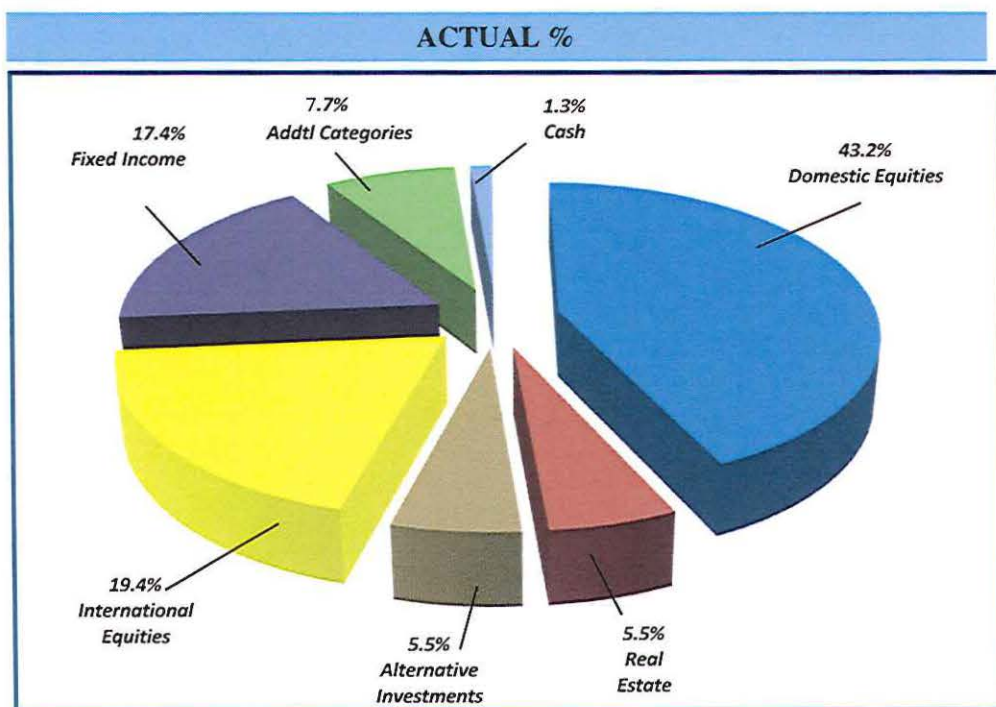
⁽³⁾ Total Domestic Equity is benchmarked to a S&P Blended Index. Total domestic equity was benchmarked to the S&P 500 through the fiscal year ending 6/30/2007. As of 7/1/2007, domestic equity is benchmarked to the S&P 1500 Index since the System's domestic stock mix is most comparable to this index.

⁽⁴⁾ As of 03/31/16 18.4% of Total International Equities were invested in emerging markets.

⁽⁵⁾ For a period of five years 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.

Kentucky Teachers' Retirement System
Quarterly Investment Update
For the period ended March 31, 2016

(\$ in millions)	\$'s	Actual %	Target %	Strategic Ranges
Domestic Equities	\$7,246.7	43.2%	42.0%	35.0 - 49.0%
Real Estate	916.8	5.5%	5.0%	3.0 - 7.0%
Alternative Inv.	913.6	5.5%	6.0%	3.0 - 9.0%
International Equities	3,248.2	19.4%	20.0%	17.0 - 23.0%
Fixed Income	2,931.4	17.4%	16.0%	13.0 - 19.0%
Addtl Categories	1,286.2	7.7%	9.0%	6.0 - 12.0%
Cash	\$216.4	1.3%	2.0%	1.0 - 3.0%
Total	\$16,759.3	100.0%	100.0%	



TOTAL BV INVESTED AT 12/31/15 \$ 14,336,675,354.98

January Activity

Purchases	800,082,427.10	
Disposals	(686,581,155.94)	
Paydowns	(19,023,738.45)	
Redemptions	(17,932,831.55)	
Short-Term Pool Net	<u>(58,903,077.96)</u>	17,641,623.20

February Activity

Purchases	397,006,976.35	
Disposals	(570,835,305.27)	
Paydowns	(15,333,635.46)	
Redemptions	(9,020,500.00)	
Short-Term Pool Net	<u>19,083,633.66</u>	(179,098,830.72)

March Activity

Purchases	513,728,289.96	
Disposals	(419,696,852.57)	
Paydowns	(4,991,577.88)	
Redemptions	(17,659,876.23)	
Short-Term Pool Net	<u>(1,727,505.18)</u>	69,652,478.10

TOTAL BV INVESTED AT 3/31/16 \$ 14,244,870,625.56

* 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, \$(8,885,471.13) 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	442,332,607
- Pending Payable	<u>(8,885,471)</u>
Net	<u><u>433,447,136</u></u>

INVESTMENT ACTIVITY

January 1, 2016 -- March 31, 2016

Total Book Value Invested @ 1/1/16 \$ 14,336,675,354.98

Purchases:

412	Cash Equivalents	\$ 1,043,033,636.14	
87	Fixed Income Securities	711,245,345.90	
1297	Equity Securities	684,504,864.94	
15	Real Estate	20,621,642.76	
59	Alternative Investments	57,954,978.72	
367	Additional Categories	216,388,269.56	
2237	Total Purchases		\$ 2,733,748,738.02

Disposals:

307	Cash Equivalents	\$ 1,083,645,926.09	
99	Fixed Income Securities	738,468,427.39	
369	Principal Paydowns	39,348,951.79	
33	Redemptions / Maturities	42,032,684.07	
1391	Equity Securities	702,850,481.89	
22	Real Estate	16,959,493.71	
77	Alternative Investments	28,119,335.16	
119	Additional Categories	171,547,643.63	
0	Additional Principal Paydowns	-	
6	Additional Redemptions / Maturities	2,580,523.71	
2423	Total Disposals		\$ 2,825,553,467.44

Total Book Value Invested @ 3/31/16 \$ 14,244,870,625.56

Total Par Value Invested @ 3/31/16 \$ 14,260,125,665.42

Total Market Value Invested @ 3/31/16 \$ 16,759,336,769.40

* 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, \$(8,885,471.13) 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	442,332,607
- Pending Payable	(8,885,471)
Net	<u><u>433,447,136</u></u>

TO: Board of Trustees
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Report of the Insurance Committee

The Insurance Committee will have a special meeting on June 20, 2016, 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
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Report of the Governance and Audit Committee

The Governance and Audit Committee will have a special meeting on June 20, 2016, 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
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Report of the Legislative Committee

The Legislative Committee will have a special meeting on June 20, 2016, 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
Teachers' Retirement System Kentucky

FROM: Gary L. Harbin, CPA

DATE: June 20, 2016

SUBJECT: Executive Secretary's Observations and Comments

1. Number of Retirements: The number of retirements for June/July this year was 405 less than the number for the same period last year. The number of retirements this year was in line with the average (1,253) for the last 15 years. The chart below lists the number of retirements during June/July over the past fifteen years.

<u>School Year Ended</u>	<u>Number of Retirees</u>
2016	1,294
2015	1,699
2014	1,267
2013	1,310
2012	1,405
2011	1,159
2010	1,203
2009	1,010
2008	1,353
2007	979
2006	1,098
2005	1,100
2004	1,363
2003	1,022
2002	1,471
2001	1,361

2. Executive Secretary serving as President of Public Sector Healthcare Roundtable: Gary Harbin is serving as the President of the Public Sector Healthcare Roundtable through 2016. The Roundtable is a national coalition of public sector health care purchasers that has been formed to insure that the interests of the public sector are properly represented during the formulation and debate of federal health care reform initiatives. The Roundtable is governed by a Board of Directors and is managed by a governmental affairs firm based in Alexandria, VA.

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

March 30, 2016	Meeting with Todd Asset Management
March 31, 2016	Attended Public Sector Health Care Roundtable Board of Directors meeting
April 15, 2016	Meeting with Executive Director, Kentucky Retired Teachers Association
April 19, 2016	Attended reception for retiring KEA Executive Director
April 20, 2016	Meeting with investment manager

April 21, 2016	Conference call with external auditor
April 22, 2016	Meeting with investment manager and consultant
April 26, 2016	Presentation to Kentucky Retired Teachers Association annual convention
April 27, 2016	Presentation to West Kentucky Education Cooperative
May 4, 2016	Meeting with communications consultant
May 18, 2016	Meeting with Donna Early and Bill Thielen
May 25, 2016	Meeting with investment manager
June 7, 2016	Attended Know Your RX Coalition Board Meeting

4. Pathway System: Sagitec has been working on-site at TRS since September 6, 2011. To date, more than 99% of the overall project has been completed. The Pathway Project will finish according to schedule and under budget. Attached is an analysis of the capital budget for the Pathway System from July 2011 through April 2016. The Board authorized \$19.65 million for the project and, through completion of the project in July 2016, TRS will have expended \$16.66 million. In short, TRS will be finishing the project with a remaining capital budget balance of \$2.99 million.

The warranty phase of the project ended on May 1, 2016. During the warranty phase, Sagitec and TRS worked to identify and implement improvements to the Pathway System. A final punch list of improvements was identified and should be completed by the end of July 2016.

On June 1, 2016, Sagitec completed formal training of TRS staff on the operation of the Pathway System. Since completing the training, TRS staff has begun directly working on enhancements to Pathway and day-to-day operations. In addition, Sagitec is providing on-site maintenance and support services and continuing to assist TRS staff with operating the Pathway System. As TRS staff becomes more proficient in operating the system, fewer services will be required from Sagitec.

TRS has also partnered with Sagitec to develop an application to ease access to account information from mobile devices like smart phones and tablets. The mobile application is scheduled to go into production at the end of the month. Thereafter, the application will be tested by a group of active and retired teachers. After addressing any concerns of the test group, the application will be rolled out to all members in July or August.

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

5. Next Meeting: The next Quarterly Meeting of the Board will be September 19, 2016.

Teachers' Retirement System of Kentucky
 Capital Project Analysis
 July 2011 through April 2016

Total Pathway Project Budget		\$	19,650,000
Amount Expended since inception:			
Sagitec			12,881,896
L R Wechsler			1,593,348
Other			
Equipment & Hardware	819,798		
Software & Licensing	254,265		
Consulting/Miscellaneous	<u>217,227</u>		
Subtotal Other			<u>1,291,290</u>
Amount Expended as of April 30, 2016			15,766,534
Holdback due upon final acceptance - July 2016			<u>890,528</u>
Total Expended			<u>16,657,062</u>
Remaining Balance		\$	<u><u>2,992,938</u></u>

Expected Annual Pathway Costs:

	Sagitec	
	Estimate	License Fee
FY 2016-2017	\$ 496,080	\$ 257,500
FY 2017-2018	300,000	265,200
FY 2018-2019	150,000	273,200