



TEACHERS' RETIREMENT SYSTEM of the State of Kentucky

BOARD OF TRUSTEES

ALISON WRIGHT
Chair, Georgetown

HOLLIS GRITTON
Vice Chair, Union

WILLIAM ALVERSON
Paris

JOHN BOARDMAN
Lexington

FRANK COLLECCHIA
Louisville

BRENDA MCGOWN
Bowling Green

LYNN PATTERSON, Ed.D.
Murray

LAURA SCHNEIDER
Walton

JOSH UNDERWOOD
Tollesboro

ALLISON BALL
State Treasurer

KEVIN BROWN
Interim Education Commissioner

GARY L. HARBIN, CPA
Executive Secretary

Regular Quarterly Meeting
TRS Board of Trustees

A G E N D A

June 15, 2020, 12:30 p.m. ET

- Board Called to Order
- Roll Call
- 1. **Reports for Consent**
 - 1.1. **Consideration/Approval of Minutes**
 - 1.1.1. Quarterly Meeting, Board of Trustees, March 16, 2020
 - 1.1.2. Special Meeting, Insurance Committee, May 4, 2020
 - 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. **Deferred Action from Quarterly Board of Trustees Meeting, March 16, 2020**
 - 2.1. **Consideration/Approval of Minutes**
 - 2.1.1. Quarterly Meeting, Board of Trustees, December 16, 2019
 - 2.1.2. Special Meeting, Appeals Committee, December 16, 2019
 - 2.1.3. Special Meeting, Legislative Committee, December 16, 2019
 - 2.1.4. Special Meeting, Scholarship Committee, December 16, 2019
 - 2.1.5. Special Meeting, Appeals Committee, February 20, 2020
 - 2.2. **Applications for Retirement and Annuity**
 - 2.3. **Survivor Benefits**
 - 2.4. **Life Insurance Benefits**
 - 2.5. **Refunds**
 - 2.6. **Interim Financial Statements**
 - 2.7. **Report of the Investment Committee**
- 3. **Standard Annual Board Actions**
 - 3.1. **Report of Results of Trustee Election**
 - 3.2. **Election of 2020-2021 Board Chair and Vice Chair**
 - 3.3. **2020-2021 Committee Appointments**
 - 3.4. **Board Appointment of Investment Committee**
 - 3.5. **Resolution Regarding Purchases or Sales of Investment Instruments**
 - 3.6. **Transfer of Interest**
 - 3.7. **Transfer of Reserve Funds**
 - 3.8. **2020-2021 Administrative Expense Fund Budget**
 - 3.9. **Internal Revenue Code Section 415(b) Limit**
 - 3.10. **Personnel Matters**
- 4. **Report of the Investment Committee**
- 5. **Report of the Legislative Committee**
- 6. **Report of the Governance and Audit Committee**
- 7. **Report of the Insurance Committee**
- 8. **Executive Secretary's Observations and Comments**
 - General Discussion
 - Adjournment

The meeting will be conducted by live video teleconference.
Information on accessing the meeting will be provided on TRS's website at:
<https://trs.ky.gov/administration>

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Reports for Consent

1.1. Consideration/Approval of Minutes

- 1.1.1. Regular Quarterly Meeting of the Board of Trustees, March 16, 2020
- 1.1.2. Insurance Committee Special Meeting, May 4, 2020

1.2. Applications for Retirement and Annuity

The list of members who retired in March, April and May 2020 is included in the board materials. Initial retirements for the period included 137 retirees with monthly payments totaling \$282,172.49. During the same period last year, there were 130 retirements with monthly payments totaling \$263,639.25. A summary of the particular payments and a comparison to the same period last year follows.

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, 2020, is included in the board materials. During the period, there were two survivor benefits with a total monthly payment of \$965.56.

Recommendation: The board is requested to approve the survivor benefit payments for the period January 1 through March 31, 2020, 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, 2020, is included in the board materials. There were eight payments to the estates or beneficiaries of active teachers and 316 payments to the estates or beneficiaries of retired teachers for total payments of \$1,596,000. During the same quarter in 2019, there were 304 payments in the amount of \$1,487,000.

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, 2020, is attached. There were 546 refunds for the quarter January 1 through March 31, 2020, and the amount refunded was \$6,464,559.66. The refunds are for the following categories:

Regular withdrawals	527	\$6,138,536.42
Deaths	<u>19</u>	<u>\$ 326,023.24</u>
Totals	546	\$6,464,559.66

During the same quarter in 2019 there were 752 refunds totaling \$6,699,807.10.

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, 2020.

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

Teachers' Retirement System of Kentucky
Initial Applications for Retirement and Annuity
2020

	March	April	May	Total	Same Period 2019
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
Disability Retirement	<i>8</i> \$22,337.99	<i>5</i> \$11,547.39	<i>5</i> \$13,363.28	<i>18</i> \$47,248.66	<i>16</i> \$45,619.85
Service Retirement	<i>48</i> \$109,002.95	<i>33</i> \$66,053.89	<i>37</i> \$57,148.67	<i>118</i> \$232,205.51	<i>112</i> \$212,028.96
Beneficiary of Member Eligible to Retire	<i>1</i> \$2,718.32	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>1</i> \$2,718.32	<i>2</i> \$5,990.44
TOTALS	<i>57</i> \$134,059.26	<i>38</i> \$77,601.28	<i>42</i> \$70,511.95	<i>137</i> \$282,172.49	<i>130</i> \$263,639.25

Reports for Consent
Member Account Refunds
For the period January 2020 - March 2020

Active Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
January	170	1,080,300.79	269,613.55	1,111,256.40	2,461,170.74
February	161	657,093.74	162,481.66	739,335.18	1,558,910.58
March	197	904,273.86	225,445.98	988,735.26	2,118,455.10
Total	527				6,138,536.42

Deceased Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
January	6	55,938.03	13,984.51	129,943.90	199,866.44
February	8	31,634.94	1,458.90	609.07	33,702.91
March	5	71,327.78	17,829.21	3,296.90	92,453.89
Total	19				326,023.24

Total Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
January	176	1,136,238.82	283,598.06	1,241,200.30	2,661,037.18
February	169	688,728.68	163,940.56	739,944.25	1,592,613.49
March	202	975,601.64	243,275.19	992,032.16	2,210,908.99
Total	546				6,464,559.66

TEACHERS' RETIREMENT SYSTEM

OF THE STATE OF KENTUCKY



INTERIM FINANCIAL STATEMENTS

QUARTER ENDED MARCH 31, 2020
(FAIR VALUE - UNAUDITED)

Statements of Plan Net Assets
as of March 31, 2020 and 2019
(Fair Value - Unaudited)

	Retirement Annuity Trust		Health Insurance Trust		Life Insurance Trust		Other Funds		TOTAL	
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
ASSETS										
Cash	\$ 120,645,436	\$ 137,089,956	\$ 40,571,787	\$ 44,381,745	\$ 173,630	\$ -	\$ 74,506	\$ 27,846	\$ 161,465,359	\$ 181,499,547
Receivables										
Contributions	38,277,522	30,237,329	22,738,889	18,012,814	19,353	13,374			61,035,764	48,263,517
State of Kentucky	-	1,759,771	826,203	10,277,791	120,308	35,965			946,511	12,073,527
Investment Income	51,446,307	44,151,888	2,420,395	2,061,568	325,174	732,657	3,345	3,043	54,195,221	46,949,156
Investment Sales Receivable	155,067,476	27,087,137	5,801,049	1,242,292	36,323	3,143,096			160,904,848	31,472,525
Installment Account Receivable	121,620	234,230							121,620	234,230
Other Receivables	26,255	21,011	27,664,213	28,678,138					27,690,468	28,699,149
Due from Other Funds	-	1,779,623							-	1,779,623
Total Receivables	244,939,180	105,270,989	59,450,749	60,272,603	501,158	3,925,092	3,345	3,043	304,894,432	169,471,727
Investments at Market Value										
Short Term Investments	490,356,421	504,443,905	24,423,317	66,607,080	7,619,575	5,369,746	338,326	352,111	522,737,639	576,772,842
Bonds and Mortgages	2,764,126,095	3,011,015,945	118,472,676	107,148,853	13,894,187	25,283,091	316,758	257,180	2,896,809,716	3,143,705,069
Stocks	10,561,734,719	12,166,942,639	749,505,956	683,887,454	49,832,855	46,704,926	292,286	323,209	11,361,365,816	12,897,858,228
Alternative Investments	1,572,914,884	1,352,317,650	122,926,274	96,397,598	425,831				1,696,266,989	1,448,715,248
Real Estate	1,233,109,511	1,215,653,890	83,353,436	73,691,554	2,375,546	2,077,513			1,318,838,493	1,291,422,957
Additional Categories	1,450,724,798	1,403,026,369	246,957,707	198,880,831	2,142,992	1,312,751			1,699,825,497	1,603,219,951
Total Investments	18,072,966,428	19,653,400,398	1,345,639,366	1,226,613,370	76,290,986	80,748,027	947,370	932,500	19,495,844,150	20,961,694,295
Capital Assets (net of accumulated depreciation)	14,087,302	16,324,647							14,087,302	16,324,647
Total Assets	18,452,638,346	19,912,085,990	1,445,661,902	1,331,267,718	76,965,774	84,673,119	1,025,221	963,389	19,976,291,243	21,328,990,216
LIABILITIES										
Liabilities										
Accrued Expenses and Other Liabilities	3,825,035	1,189,081	5,920,066	3,246,245					9,745,101	4,435,326
Contributions Not Posted	16,422,429	46,658,311	-	-					16,422,429	46,658,311
Investment Purchases Payable	153,140,568	52,408,776	7,705,115	4,865,300	57,953	231	-	-	160,903,636	57,274,307
Investment Fees Payable	14,728,037	14,103,336	1,304,530	1,046,539	19,654	7,605	-	-	16,052,221	15,157,480
Due to Other Funds	-	-	-	1,747,561	-	30,979	-	1,083	-	1,779,623
Revenues Collected in Advance	-	-	-	1,749,168					-	1,749,168
Total Liabilities	188,116,069	114,359,504	14,929,711	12,654,813	77,607	38,815	-	1,083	203,123,387	127,054,215
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 18,264,522,277	\$ 19,797,726,486	\$ 1,430,732,191	\$ 1,318,612,905	\$ 76,888,167	\$ 84,634,304	\$ 1,025,221	\$ 962,306	\$ 19,773,167,856	\$ 21,201,936,001

Statements of Changes in Plan Net Assets
For the Nine Months Ended March 31, 2020 and 2019
(Fair Value - Unaudited)

	Retirement Annuity Trust		Health Insurance Trust		Life Insurance Trust		Other Funds		TOTAL	
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
ADDITIONS										
Contributions										
Employer- State Paid	\$ 773,289,401	\$ 747,305,123	\$ 86,588,082	\$ 59,184,219	\$ 1,070,426	\$ 756,094	\$ -	\$ -	\$ 860,947,909	\$ 807,245,436
Employer- LSD, Other	54,487,779	52,293,992	78,089,127	71,876,023	192,541	147,527	-	-	132,769,447	124,317,542
Member- Active	234,342,716	216,519,525	96,264,481	88,363,366					330,607,197	304,882,891
Member- Retired			44,430,388	44,397,087					44,430,388	44,397,087
Recovery Income			71,888,081	63,588,552					71,888,081	63,588,552
Total Contribution	1,062,119,896	1,016,118,640	377,260,159	327,409,247	1,262,967	903,621	-	-	1,440,643,022	1,344,431,508
Investment Income/(Loss)										
Net Appreciation/(Depreciation) in										
Fair Value of Investments	(1,789,442,792)	55,943,287	(140,520,405)	26,784,101	(7,091,093)	1,520,720	5,835	20,462	(1,937,048,455)	84,268,570
Interest	119,172,664	124,849,759	6,788,084	5,249,505	646,806	1,062,174	11,090	14,315	126,618,644	131,175,753
Dividends	184,358,021	247,206,775	5,255,894	5,025,749	516,227	457,592	5,061	4,423	190,135,203	252,694,539
Rental Income, Net	20,454,209	21,482,964							20,454,209	21,482,964
Securities Lending, Net	1,591,994	2,124,051			13,800	23,583	213	451	1,606,007	2,148,085
Gross Investment Income	(1,463,865,904)	451,606,836	(128,476,427)	37,059,355	(5,914,260)	3,064,069	22,199	39,651	(1,598,234,392)	491,769,911
Less Investment Expense	(46,725,798)	(45,933,144)	(4,026,548)	(3,908,285)	(148,819)	(118,642)	(11,873)	(12,260)	(50,913,038)	(49,972,331)
Net Investment Income	(1,510,591,702)	405,673,692	(132,502,975)	33,151,070	(6,063,079)	2,945,427	10,326	27,391	(1,649,147,430)	441,797,580
Total Additions	(448,471,806)	1,421,792,332	244,757,184	360,560,317	(4,800,112)	3,849,048	10,326	27,391	(208,504,408)	1,786,229,088
DEDUCTIONS										
Benefits	1,625,670,278	1,570,763,997			4,070,000	3,677,000	185,133	187,403	1,629,925,411	1,574,628,400
Refunds of Contributions	24,703,675	26,687,777							24,703,675	26,687,777
Under 65 Insurance Expenses			80,838,083	86,086,761					80,838,083	86,086,761
Over 65 Insurance Expenses			147,206,966	146,141,459					147,206,966	146,141,459
Administrative Expense	8,541,869	8,247,168	-	-	-	-	-	-	8,541,869	8,247,168
Total Deductions	1,658,915,822	1,605,698,942	228,045,049	232,228,220	4,070,000	3,677,000	185,133	187,403	1,891,216,004	1,841,791,565
Net Increase (Decrease)	(2,107,387,628)	(183,906,610)	16,712,135	128,332,097	(8,870,112)	172,048	(174,807)	(160,012)	(2,099,720,412)	(55,562,477)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS										
Beginning of year	20,371,909,905	19,981,633,096	1,414,020,056	1,190,280,808	85,758,279	84,462,256	1,200,028	1,122,318	21,872,888,268	21,257,498,478
Ending of period	\$ 18,264,522,277	\$ 19,797,726,486	\$ 1,430,732,191	\$ 1,318,612,905	\$ 76,888,167	\$ 84,634,304	\$ 1,025,221	\$ 962,306	\$ 19,773,167,856	\$ 21,201,936,001

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Deferred Action from Quarterly Board of Trustees Meeting, March 16, 2020

2.1. Consideration/Approval of Minutes

- 2.1.1. Quarterly Meeting, Board of Trustees, December 16, 2019
- 2.1.2. Special Meeting, Appeals Committee, December 16, 2019
- 2.1.3. Special Meeting, Legislative Committee, December 16, 2019
- 2.1.4. Special Meeting, Scholarship Committee, December 16, 2019
- 2.1.5. Special Meeting, Appeals Committee, February 20, 2020

2.2. Applications for Retirement and Annuity

The list of members who retired in December 2019, January and February 2020 is included in the board materials. Initial retirements for the period included 293 retirees with monthly payments totaling \$850,744.70. A summary of the particular payments and a comparison to the same period last year follows.

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

During the same period last year, there were 322 retirements with monthly payments totaling \$868,938.06.

2.3. Survivor Benefits

The list of persons qualifying for survivor benefit payments for the quarter October 1, 2019, through December 31, 2019, is included in the board materials. During the period, there were 14 survivor benefits with a total monthly payment of \$5,271.38.

Recommendation: The board is requested to approve the survivor benefit payments for the period October 1, 2019, through December 31, 2019, as listed in the report.

2.4. Life Insurance Benefits

The list of payments of life insurance benefits due to death of active and retired teachers for the period October 1, 2019, through December 31, 2019, is included in the board materials. There were 7 payments to the estates or beneficiaries of active teachers and 235 payments to the estates or beneficiaries of retired teachers for total payments of 1,189,000.

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

During the same quarter in 2018, there were 219 payments in the amount of \$1,080,000.

2.5. Refunds

The report of refunds for the quarter ended December 31, 2019, is attached. There were 1,007 refunds for the quarter October 1, 2019, through December 31, 2019, and the amount refunded was \$7,568,722.21. The refunds are for the following categories:

Regular withdrawals	986	\$7,344,174.60
Deaths	<u>21</u>	<u>\$ 224,547.61</u>
Totals	1,007	\$7,568,722.21

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

During the same quarter in 2018 there were 819 refunds totaling \$7,259,975.44.

2.6. Interim Financial Statements

Attached are the Interim Financial Statements for the quarter ended December 31, 2019.

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

Teachers' Retirement System of Kentucky
Initial Applications for Retirement and Annuity
2019-2020

	December	January	February	Total	Same Period 2019
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
Disability Retirement	<i>6</i> \$18,300.51	<i>11</i> \$33,626.12	<i>11</i> \$30,910.32	<i>28</i> \$82,836.95	<i>32</i> \$84,272.50
Service Retirement	<i>58</i> \$132,527.31	<i>156</i> \$505,832.57	<i>49</i> \$123,942.77	<i>263</i> \$762,302.65	<i>289</i> \$783,823.23
Beneficiary of Member Eligible to Retire	<i>0</i> \$0.00	<i>1</i> \$3,533.57	<i>1</i> \$2,071.53	<i>2</i> \$5,605.10	<i>1</i> \$842.33
TOTALS	<i>64</i> \$150,827.82	<i>168</i> \$542,992.26	<i>61</i> \$156,924.62	<i>293</i> \$850,744.70	<i>322</i> \$868,938.06

Reports for Consent
Member Account Refunds
For the period October 2019 - December 2019

Active Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
October	490	1,664,439.68	415,454.93	1,156,474.97	3,236,369.58
November	190	664,672.81	155,859.35	615,679.23	1,436,211.39
December	309	1,057,655.17	264,100.04	1,349,838.42	2,671,593.63
Total	986				7,344,174.60

Deceased Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
October	9	12,822.94	3,049.69	160,310.38	176,183.01
November	7	10,602.54	2,645.03	0.00	13,247.57
December	5	32,415.68	2,701.35	0.00	35,117.03
Total	21				224,547.61

Total Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
October	499	1,677,262.62	418,504.62	1,316,785.35	3,412,552.59
November	197	675,275.35	158,504.38	615,679.23	1,449,458.96
December	314	1,090,070.85	266,801.39	1,349,838.42	2,706,710.66
Total	1,007				7,568,722.21

TEACHERS' RETIREMENT SYSTEM

OF THE STATE OF KENTUCKY



INTERIM FINANCIAL STATEMENTS

QUARTER ENDED DECEMBER 31, 2019
(FAIR VALUE - UNAUDITED)

Statements of Changes in Plan Net Assets
For the Six Months Ended December 31, 2019 and 2018
(Fair Value - Unaudited)

	Retirement Annuity Trust		Health Insurance Trust		Life Insurance Trust		Other Funds		TOTAL	
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
ADDITIONS										
Contributions										
Employer- State Paid	\$ 500,231,315	\$ 483,593,931	\$ 80,158,400	\$ 38,593,656	\$ 641,626	\$ 451,397	\$ -	\$ -	\$ 581,031,341	\$ 522,638,984
Employer- LSD, Other	36,049,675	33,886,636	47,946,377	44,575,963	123,123	92,484	-	-	84,119,175	78,555,083
Member- Active	143,704,977	134,872,932	59,033,333	54,759,438					202,738,310	189,632,370
Member- Retired			29,187,534	29,563,138					29,187,534	29,563,138
Recovery Income			41,352,906	37,933,920					41,352,906	37,933,920
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total Contribution	679,985,967	652,353,499	257,678,550	205,426,115	764,749	543,881	-	-	938,429,266	858,323,495
Investment Income/(Loss)										
Net Appreciation/(Depreciation) in										
Fair Value of Investments	1,316,627,665	(1,554,571,127)	85,950,560	(55,503,684)	4,605,096	(4,211,085)	33,620	(24,438)	1,407,216,941	(1,614,310,334)
Interest	85,672,415	80,867,432	5,242,016	3,187,261	444,008	827,790	9,455	12,032	91,367,894	84,894,515
Dividends	130,276,887	197,165,139	3,624,097	3,199,936	338,502	309,763	3,413	2,904	134,242,899	200,677,742
Rental Income, Net	13,261,676	14,134,700							13,261,676	14,134,700
Securities Lending, Net	1,109,221	1,502,520			11,205	11,627	152	248	1,120,578	1,514,395
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Gross Investment Income	1,546,947,864	(1,260,901,336)	94,816,673	(49,116,487)	5,398,811	(3,061,905)	46,640	(9,254)	1,647,209,988	(1,313,088,982)
Less Investment Expense	(30,366,472)	(30,311,606)	(2,456,102)	(2,522,958)	(37,716)	(70,886)	-	(8,173)	(32,860,290)	(32,913,623)
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Net Investment Income	1,516,581,392	(1,291,212,942)	92,360,571	(51,639,445)	5,361,095	(3,132,791)	46,640	(17,427)	1,614,349,698	(1,346,002,605)
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total Additions	2,196,567,359	(638,859,443)	350,039,121	153,786,670	6,125,844	(2,588,910)	46,640	(17,427)	2,552,778,964	(487,679,110)
DEDUCTIONS										
Benefits	1,083,355,482	1,046,559,653			2,504,000	2,205,000	113,089	108,912	1,085,972,571	1,048,873,565
Refunds of Contributions	17,737,693	19,789,877							17,737,693	19,789,877
Under 65 Insurance Expenses			54,744,528	58,162,858					54,744,528	58,162,858
Over 65 Insurance Expenses			99,401,557	102,476,881					99,401,557	102,476,881
Administrative Expense	6,380,501	5,252,770	-	-	-	-	-	-	6,380,501	5,252,770
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Total Deductions	1,107,473,676	1,071,602,300	154,146,085	160,639,739	2,504,000	2,205,000	113,089	108,912	1,264,236,850	1,234,555,951
Net Increase (Decrease)	1,089,093,683	(1,710,461,743)	195,893,036	(6,853,069)	3,621,844	(4,793,910)	(66,449)	(126,339)	1,288,542,114	(1,722,235,061)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS										
Beginning of year	20,371,909,905	19,981,633,096	1,414,020,056	1,190,280,808	85,758,279	84,462,256	1,200,028	1,122,318	21,872,888,268	21,257,498,478
Ending of period	\$ 21,461,003,588	\$ 18,271,171,353	\$ 1,609,913,092	\$ 1,183,427,739	\$ 89,380,123	\$ 79,668,346	\$ 1,133,579	\$ 995,979	\$ 23,161,430,382	\$ 19,535,263,417
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Statements of Plan Net Assets
as of December 31, 2019 and 2018
(Fair Value - Unaudited)

	Retirement Annuity Trust		Health Insurance Trust		Life Insurance Trust		Other Funds		TOTAL	
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
ASSETS										
Cash	\$ 132,561,038	\$ 116,415,748	\$ 38,023,016	\$ 36,107,012	\$ 483,276	\$ 220,355	\$ 129,270	\$ 87,061	\$ 171,196,600	\$ 152,830,176
Receivables										
Contributions	38,277,522	30,237,329	22,738,889	18,012,814	19,353	13,374			61,035,764	48,263,517
State of Kentucky	-	6,573,046	826,203	10,277,791	120,308	35,965			946,511	16,886,802
Investment Income	51,446,307	44,151,888	2,420,395	2,061,568	325,174	732,657	3,345	3,043	54,195,221	46,949,156
Investment Sales Receivable	4,330,185	4,358,358	650,009	674,832	-	180			4,980,194	5,033,370
Installment Account Receivable	139,028	282,711							139,028	282,711
Other Receivables	23,036	20,189	27,667,098	28,495,588					27,690,134	28,515,777
Due from Other Funds	-	1,779,623							-	1,779,623
Total Receivables	94,216,078	87,403,144	54,302,594	59,522,593	464,835	782,176	3,345	3,043	148,986,852	147,710,956
Investments at Market Value										
Short Term Investments	473,259,511	446,108,561	42,217,027	42,385,151	15,071,506	3,987,055	364,135	371,469	530,912,179	492,852,236
Bonds and Mortgages	3,162,527,767	2,980,348,426	108,243,520	100,220,141	16,996,073	30,901,430	270,632	248,946	3,288,037,992	3,111,718,943
Stocks	13,541,188,440	10,777,210,819	946,593,298	600,121,020	52,509,604	41,614,549	366,197	286,543	14,540,657,539	11,419,232,931
Alternative Investments	1,448,639,203	1,369,268,640	114,609,286	97,847,485	258,563				1,563,507,052	1,467,116,125
Real Estate	1,221,073,281	1,191,999,695	81,122,112	69,921,922	2,295,804	874,222			1,304,491,197	1,262,795,839
Additional Categories	1,431,873,028	1,359,125,009	232,923,213	186,853,983	1,320,116	1,332,100			1,666,116,357	1,547,311,092
Total Investments	21,278,561,230	18,124,061,150	1,525,708,456	1,097,349,702	88,451,666	78,709,356	1,000,964	906,958	22,893,722,316	19,301,027,166
Capital Assets (net of accumulated depreciation)	14,087,302	16,324,647							14,087,302	16,324,647
Total Assets	21,519,425,648	18,344,204,689	1,618,034,066	1,192,979,307	89,399,777	79,711,887	1,133,579	997,062	23,227,993,070	19,617,892,945
LIABILITIES										
Liabilities										
Accrued Expenses and Other Liabilities	3,825,035	1,189,081	5,920,066	3,246,245					9,745,101	4,435,326
Contributions Not Posted	27,215,409	46,629,538	-	-					27,215,409	46,629,538
Investment Purchases Payable	12,653,579	11,111,381	896,378	1,762,055	-	4,957	-	-	13,549,957	12,878,393
Investment Fees Payable	14,728,037	14,103,336	1,304,530	1,046,539	19,654	7,605	-	-	16,052,221	15,157,480
Due to Other Funds	-	-	-	1,747,561	-	30,979	-	1,083	-	1,779,623
Revenues Collected in Advance	-	-	-	1,749,168					-	1,749,168
Total Liabilities	58,422,060	73,033,336	8,120,974	9,551,568	19,654	43,541	-	1,083	66,562,688	82,629,528
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 21,461,003,588	\$ 18,271,171,353	\$ 1,609,913,092	\$ 1,183,427,739	\$ 89,380,123	\$ 79,668,346	\$ 1,133,579	\$ 995,979	\$ 23,161,430,382	\$ 19,535,263,417

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: March 16, 2020

SUBJECT: Report of the Investment Committee

1. Investment Committee Meeting and Actions: The committee approved an investment at the February 20, 2020, meeting as follows: Increase the commitment to up to \$250 million from the TRS Retirement Annuity Trust to Molpus Timber Co. The commitment includes an investment in Project Magnolia, wherein TRS will own 58% of approximately 67,000 acres at a cost of \$70 million. The investment is subject to completion of fee negotiations, due diligence and legal review. Additionally, Todd Asset Management and TA Reality Associates reported to the committee on their respective portfolios.

2. Purchases and Disposals: During this quarter, 2,085 purchases amounted to \$3,024,249,239.85 and 2,238 disposals amounted to \$3,001,729,576.21. The disposals consisted of 1,891 sales, 312 principal payments and 35 redemptions. While the TRS 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~~ TRS's invested securities had a book value of \$15,686,500,223.64 and a market value of \$21,278,872,116.94.

3. Staff's Comments on Economic and Market Conditions: The fourth quarter of 2019 was a strong period for global equity markets, with U.S., developed non-U.S., and emerging market indexes each substantially adding to gains realized earlier in the year. Emerging markets led with returns of 11.8%, while U.S. markets added 9.1% to calendar-year returns. Credit markets also finished in positive territory, as supportive financial conditions and a general risk-on market sentiment drove spreads to tighten across the quality spectrum.

Full calendar-year gains for the S&P 500 Index finished at 31.5%, though performance did not appear to derive meaningfully from earnings growth. Rather, valuations, defined by the 12-month forward price-to-earnings (P/E) ratio, climbed throughout 2019. Forward P/E ratios began the year roughly in line with their 10-year average of 14.9, but finished at 18.3, while year-over-year earnings growth estimates were roughly flat. This marked the 18th time since 1930 that the index has surpassed 30% in a calendar year, indicating that, on average, these high-return environments have occurred approximately once every five years.

Falling discount rates drove valuations and performance for U.S. equities during the first half of the year but increases in the fourth quarter appeared tied more directly to optimism around international trade. Bilateral negotiations between the United States and China resulted in an announced "Phase One" trade agreement, including a partial rollback of tariffs that deescalated trade tensions to a degree. Markets reacted positively to speculation around the prospects of this agreement throughout the quarter.

The rotation to value seen in September was reversed across all market caps in the fourth quarter, although both value and growth saw high single- to low double-digit returns. Additionally, high beta stocks reversed their underperformance from the third quarter, with the S&P 500 High Beta Index returning 13.5% in the fourth quarter. High momentum stocks generally outperformed low-volatility stocks in the quarter as well.

Developed international markets delivered strong absolute returns in the fourth quarter, but they still lagged both domestic and emerging markets. Yet again, value stocks underperformed growth, while small-cap stocks outperformed their larger counterparts for the quarter. By country, returns for the quarter were positive almost across the board, with only Belgium ending in slightly negative territory. While the Purchasing Managers Index in Europe showed improvement over the last few months, investor attention was more focused on the continued growth struggles in Germany. Additionally, Japan reported gross domestic product growth of just 0.2% in the third quarter, which was below estimates. In response to current trends, the European Central Bank and the Bank of Japan left rates unchanged.

After a solid first three quarters supported by declining rates, the Bloomberg U.S. Gov/Credit Index finished the year more subdued, returning -0.01% for the final quarter. While yields on the short end continued to decline, those with maturities of three years and longer rose, creating a steeper U.S. Treasury curve. This was a negative outcome for longer-dated bonds, which had previously benefitted from past declines. The Bloomberg U.S. Government Long Duration Index fell sharply, returning -4.1% for the quarter while the index still ended the year in positive territory with a 14.7% return.

Corporate credit fared better than the broader index for the quarter, as strong economic data signaled optimism for the sector. Spreads tightened over the quarter, and the Bloomberg U.S. Corporate Index returned 1.2% to add to an already-impressive annual return of 14.5%. With more risk-on sentiment, high yield also finished on a high note, with the Bloomberg U.S. High Yield Index returning 2.6% for the quarter. However, the late resurgence in CCC-rated paper was not enough to overcome a weak energy sector, which had dragged on performance throughout the year, and higher-rated debt continued to outperform.

Core private real estate returned 1.5% during the quarter, as reported by the NCREIF-ODCE Index, with the total return comprised of 1% income and 0.5% price appreciation. While the income component stayed in line with historical levels, price appreciation experienced a modest increase of 0.2% compared to the relatively flat third quarter return.

4. Performance: Investment performance was strong for the quarter ending December 31, 2019. The Retirement Annuity Trust Fund's portfolio appreciated 6.92% for the quarter, outperforming the Policy Index, which increased 6.06%. TRS's domestic equities gained 10.51%, outgaining the S&P 1500 Stock index, which increased 8.92% for the quarter. TRS's international stocks returned 11.53%, outperforming the MSCI All Country ex U.S. index that had a return of 8.99% for the quarter. Alternatives and real estate were positive contributors as private equity gained 1.87% while real estate returned 1.38%. TRS's fixed income returned -0.18%, as the Bloomberg Barclays Gov/Credit Bond index returned -0.01% for the quarter.

Recommendation: The executive secretary recommends that the board accept and ratify the Report of the Investment Committee.

Teachers' Retirement System of the State of Kentucky
Retirement Annuity Trust
Quarterly Investment Performance
Gross Returns
For the Period Ended December 31, 2019

FINAL

	<u>Market Value</u>	<u>Last Qtr</u>	<u>FYTD</u>	<u>1-Year</u>	<u>3-Year*</u>	<u>5-Year*</u>	<u>10-Year*</u>	<u>20-Year*</u>
TOTAL PLAN	\$ 21,278,872,116.94	6.92	7.69	21.92	11.27	8.25	9.51	6.26
<i>Policy Benchmark</i>		<i>6.06</i>	<i>7.11</i>	<i>21.02</i>	<i>10.76</i>	<i>8.22</i>	<i>9.30</i>	<i>-</i>
Total Equity	\$ 13,639,622,382.72	10.87	10.67	31.18	13.78	9.59	11.44	5.79
Domestic Equity	\$ 8,812,351,036.86	10.51	11.39	32.59	14.36	10.69	13.30	6.60
<i>S&P 1500 Index</i>		<i>8.92</i>	<i>10.59</i>	<i>30.90</i>	<i>14.65</i>	<i>11.46</i>	<i>13.52</i>	<i>-</i>
All-Cap Equities	\$ 370,113,576.40	11.21	10.62	27.80	12.23	-	-	-
<i>Russell 3000 Index</i>		<i>9.10</i>	<i>10.37</i>	<i>31.02</i>	<i>14.57</i>	<i>-</i>	<i>-</i>	<i>-</i>
Large-Cap Equities	\$ 7,291,317,800.49	10.86	12.08	33.44	14.98	10.80	13.24	-
<i>S&P 500 Index</i>		<i>9.07</i>	<i>10.92</i>	<i>31.49</i>	<i>15.27</i>	<i>11.70</i>	<i>13.56</i>	<i>-</i>
Mid-Cap Equities	\$ 707,355,209.28	7.01	6.32	29.88	12.69	10.80	13.66	-
<i>S&P 400 Index</i>		<i>7.06</i>	<i>6.97</i>	<i>26.20</i>	<i>9.26</i>	<i>9.03</i>	<i>12.72</i>	<i>-</i>
Small-Cap Equities	\$ 443,564,450.69	9.74	9.09	27.46	9.17	9.71	14.03	-
<i>S&P 600 Index</i>		<i>8.21</i>	<i>8.00</i>	<i>22.78</i>	<i>8.36</i>	<i>9.56</i>	<i>13.35</i>	<i>-</i>
International Equity	\$ 4,827,271,345.86	11.53	9.36	28.62	13.04	7.51	6.83	-
<i>MSCI AC World Ex US</i>		<i>8.99</i>	<i>7.14</i>	<i>22.13</i>	<i>10.40</i>	<i>6.01</i>	<i>5.45</i>	<i>-</i>
Fixed Income	\$ 3,241,868,330.63	-0.18	2.48	9.44	4.53	3.64	4.60	5.73
<i>Bloomberg Barclays Govt/Credit Index</i>		<i>-0.01</i>	<i>2.63</i>	<i>9.71</i>	<i>4.35</i>	<i>3.23</i>	<i>3.96</i>	<i>5.16</i>
Real Estate	\$ 1,221,073,280.87	1.38	2.74	6.61	9.45	10.57	9.10	9.33
In House Real Estate Equity	\$ 408,820,071.59	0.29	-0.58	2.82	8.78	8.95	8.29	8.69
<i>CPI plus 2%</i>		<i>1.34</i>	<i>2.26</i>	<i>4.33</i>	<i>4.16</i>	<i>3.85</i>	<i>3.78</i>	<i>4.15</i>
Core Real Estate	\$ 488,743,550.04	1.73	3.43	7.35	8.05	9.92	12.06	-
<i>NCREIF ODCE (VW) Index</i>		<i>1.52</i>	<i>2.85</i>	<i>5.35</i>	<i>7.10</i>	<i>8.97</i>	<i>11.42</i>	<i>-</i>
Non-Core Real Estate	\$ 323,509,659.24	2.25	6.16	10.59	12.03	14.45	-	-
<i>NCREIF Property Index</i>		<i>1.55</i>	<i>2.98</i>	<i>6.42</i>	<i>6.70</i>	<i>8.25</i>	<i>-</i>	<i>-</i>
Private Equity	\$ 1,267,830,413.89	1.87	4.99	8.06	15.21	11.16	13.04	-
Mature Private Equity	\$ 477,460,964.47	2.06	3.98	3.95	12.64	9.01	-	-
<i>S&P 500 Index plus 3%</i>		<i>9.88</i>	<i>12.57</i>	<i>35.43</i>	<i>18.73</i>	<i>15.05</i>	<i>-</i>	<i>-</i>
Private Equity < 5 Years	\$ 790,369,449.42	1.08	4.93	10.01	16.88	12.57	14.13	-
Timberland	\$ 180,808,789.31	0.54	1.60	3.08	1.27	3.31	3.31	-
<i>NCREIF Timberland Index</i>		<i>-0.04</i>	<i>0.14</i>	<i>1.30</i>	<i>2.71</i>	<i>3.13</i>	<i>4.45</i>	<i>-</i>
Additional Categories	\$ 1,457,068,500.26	0.74	2.09	8.76	5.97	4.89	7.40	-
<i>B of A Merrill Lynch U.S. High Yield Master II Index</i>		<i>2.59</i>	<i>3.84</i>	<i>14.39</i>	<i>6.31</i>	<i>6.13</i>	<i>7.50</i>	<i>-</i>
Cash (Unallocated)	\$ 270,600,419.26	0.42	0.96	2.13	1.67	1.10	0.60	1.92
<i>90 Day T-Bill</i>		<i>0.46</i>	<i>1.02</i>	<i>2.28</i>	<i>1.67</i>	<i>1.05</i>	<i>0.56</i>	<i>1.69</i>

Total Trust Gross Return for 30-year period*

8.15

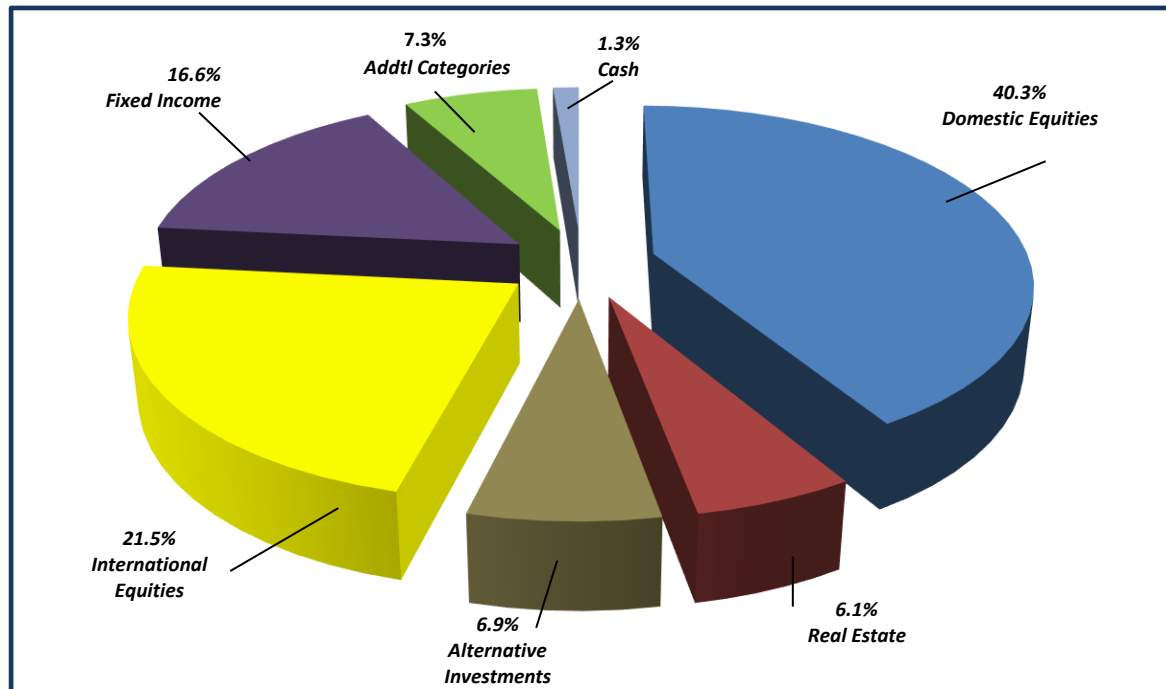
*Returns are annualized for periods longer than one year

** Prior to July 1, 2008, TRS did not benchmark overall fund performance. Effective July 1, 2008, the Board of Trustees approved a Policy Index that 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.

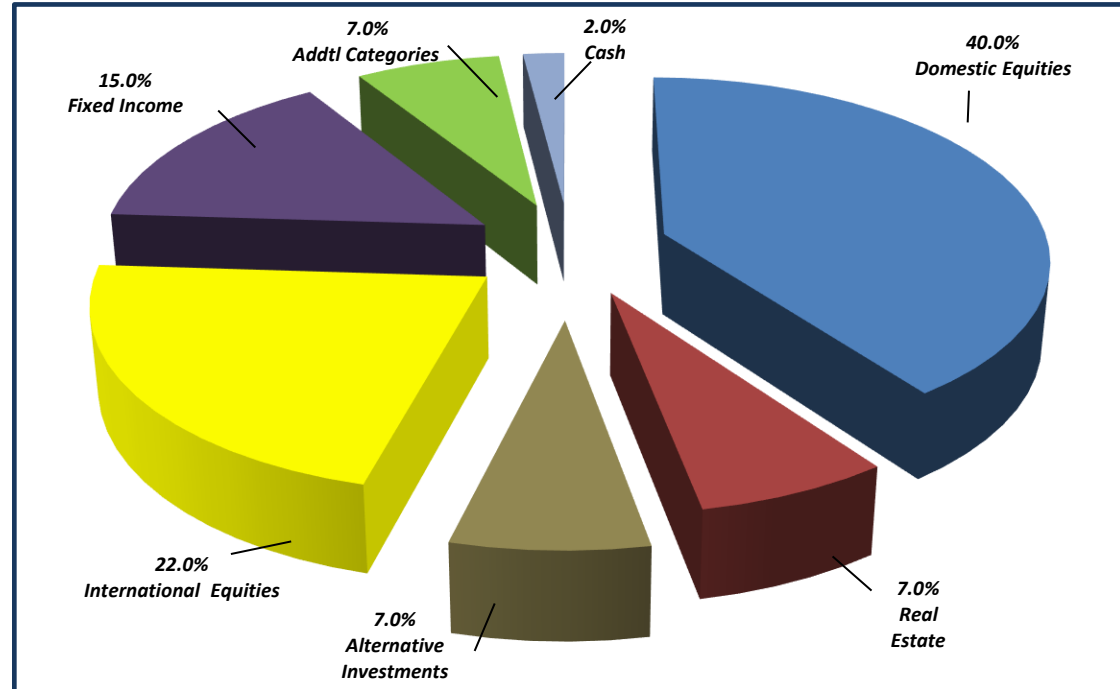
Teachers' Retirement System of Kentucky
Quarterly Investment Update
For the period ended December 31, 2019

(\$ in millions)	\$'s	12/31/2019 Actual %	9/30/2019 Actual %	Target %	Strategic Ranges
Domestic Equities	\$8,812.3	41.4%	40.3%	40.0%	34.0 - 48.0%
Real Estate	1,221.1	5.7%	6.1%	7.0%	4.0 - 10.0%
Alternative Inv.	1,448.6	6.8%	6.9%	7.0%	4.0 - 10.0%
International Equities	4,827.3	22.7%	21.5%	22.0%	18.0 - 25.0%
Fixed Income	3,241.9	15.3%	16.6%	15.0%	12.0 - 19.0%
Addtl Categories	1,457.1	6.8%	7.3%	7.0%	4.0 - 10.0%
Cash	270.6	1.3%	1.3%	2.0%	1.0 - 3.0%
Total	\$21,278.9	100.0%	100.0%	100.0%	

ACTUAL %



TARGET %



Teachers' Retirement System of the State of Kentucky
Health Insurance Trust
Quarterly Investment Performance
Gross Returns
For the Period Ended December 31, 2019

FINAL

	<u>Market Value</u>	<u>Last Qtr</u>	<u>FYTD</u>	<u>1-Year</u>	<u>3-Year*</u>	<u>5-Year*</u>
<u>TOTAL PLAN</u>	\$ 1,525,708,456.13	5.99	6.64	18.77	10.20	7.56
<i>Policy Benchmark</i>		5.84	6.52	19.38	10.09	-
<u>Total Equity</u>	\$ 947,642,317.62	9.22	8.79	26.24	12.21	8.57
<u>All Cap Equities</u>	\$ 41,226,722.97	11.25	10.67	27.81	11.54	-
<i>Russell 3000</i>		9.10	10.37	31.02	14.57	-
<u>Global Equities</u>	\$ 906,415,594.65	9.13	8.70	26.18	12.29	8.64
<i>MSCI AC World IMI (Net)</i>		9.05	8.85	26.35	12.09	8.34
<u>Fixed Income</u>	\$ 122,437,012.12	0.28	2.48	8.80	3.80	3.06
<i>Barclays Government Credit</i>		-0.01	2.63	9.71	4.35	3.23
<u>Real Estate:</u>	\$ 81,122,111.70					
<u>Core Real Estate</u>	\$ 36,716,161.60	2.04	4.03	8.06	8.18	-
<i>NCREIF ODCE (VW)</i>		1.51	2.84	5.34	7.09	-
<u>Non-Core Real Estate</u>	\$ 44,405,950.10	2.82	5.78	10.27	12.07	15.77
<i>NCREIF Property Index</i>		1.55	2.98	6.42	6.70	8.25
<u>Private Equity</u>	\$ 114,609,286.57	1.25	3.76	6.76	14.93	14.11
<u>Mature Private Equity</u>	\$ 20,560,981.00	4.20	5.76	11.08	15.19	15.30
<i>S&P 500 plus 3%</i>		9.88	12.57	35.43	18.73	15.05
<u>Private Equity < 5 Years</u>	\$ 94,048,305.57	-0.06	2.64	5.91	14.51	-
<u>Additional Categories:</u>	\$ 237,191,217.26	0.97	2.45	10.13	5.83	5.07
<i>B of A Merrill Lynch High Yield Master II</i>		2.59	3.84	14.39	6.31	6.13
<u>Cash (Unallocated)</u>	\$ 22,706,510.86	0.41	0.95	2.39	1.72	1.13
<i>90 Day T-Bill</i>		0.46	1.02	2.28	1.67	1.05

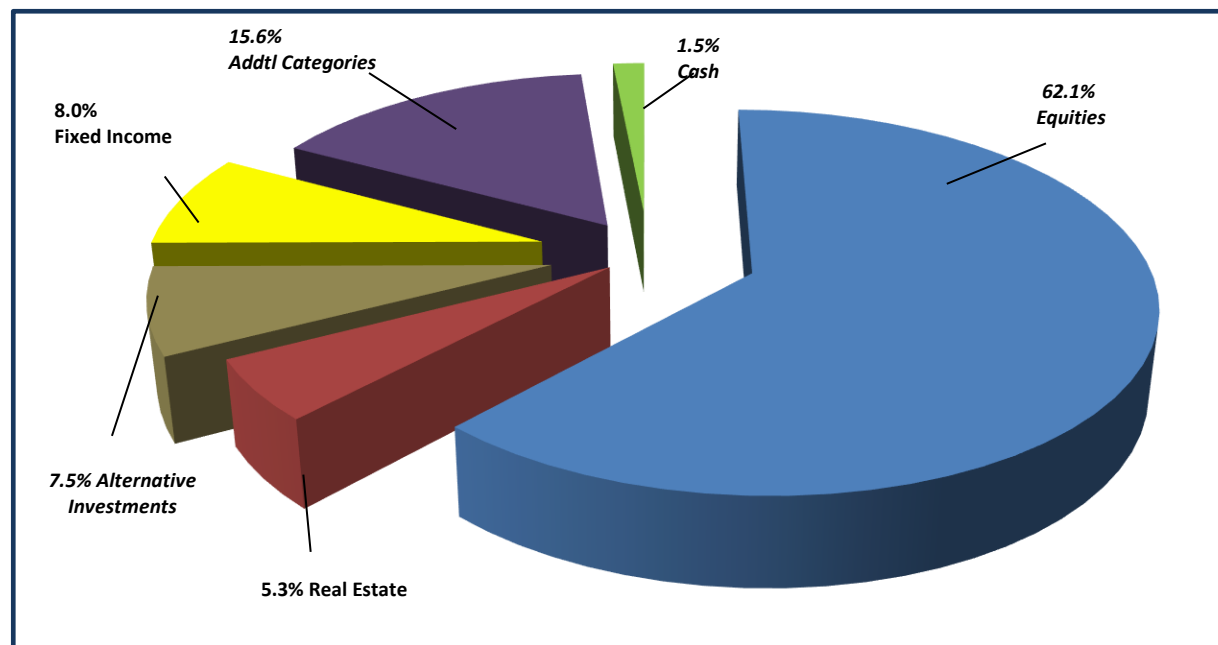
*Returns are annualized for periods longer than one year

** Prior to July 1, 2015, TRS did not benchmark overall fund performance. Effective July 1, 2015, the Board of Trustees approved a Policy Index that 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.

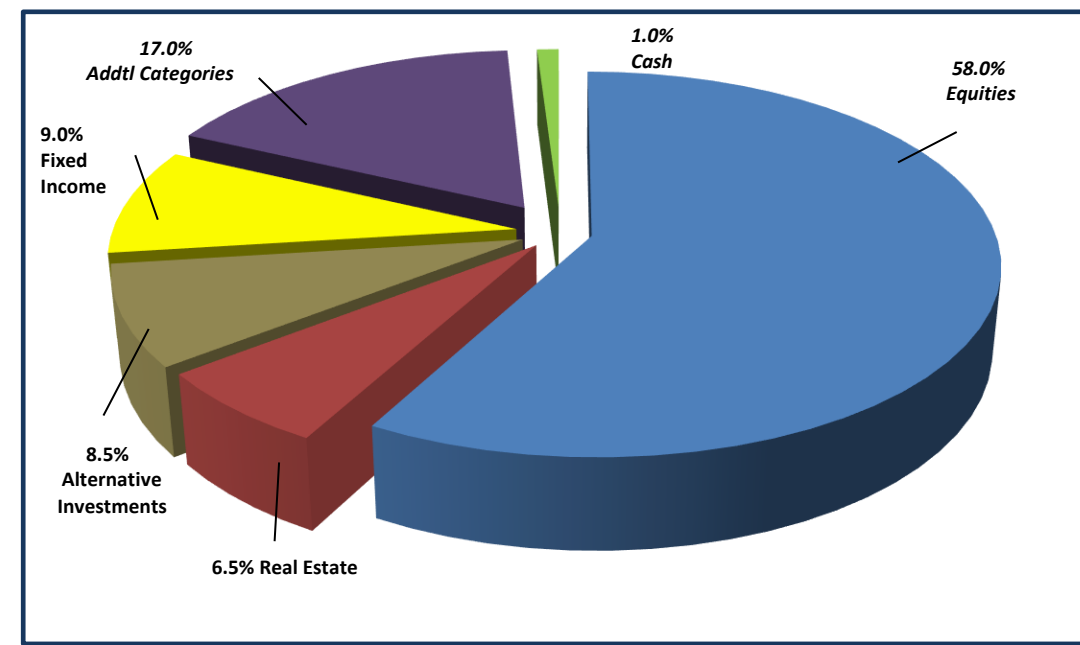
Teachers' Retirement System of Kentucky
Insurance Trust Fund
Quarterly Investment Update
For the period ended December 31, 2019

<i>(\$ in thousands)</i>	<u>\$'s</u>	<u>12/31/2019</u> <u>Actual %</u>	<u>9/30/2019</u> <u>Actual %</u>	<u>Target %</u>	<u>Strategic</u> <u>Ranges</u>
Equities	\$947,642.3	62.1%	61.2%	58.0%	51.0 - 64.0%
Real Estate	\$81,122.1	5.3%	5.6%	6.5%	4.0 - 12.0%
Alternative Inv.	\$114,609.3	7.5%	7.6%	8.5%	5.0 - 12.0%
Fixed Income	\$122,437.0	8.0%	8.6%	9.0%	6.0 - 12.0%
Addtl Categories	\$237,191.2	15.6%	14.9%	17.0%	14.0 - 21.0%
Cash	\$22,706.5	1.5%	2.1%	1.0%	0.0 - 4.0%
Total	<u>\$1,525,708.4</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	

ACTUAL %



TARGET %



TOTAL BV INVESTED AT 09/30/19 \$ 15,670,795,244.76

October Activity

Purchases	943,231,080.00	
Disposals	(883,610,813.04)	
Paydowns	(1,809,805.37)	
Redemptions	(14,673,660.44)	
Short-Term Pool Net	<u>25,450,674.12</u>	68,587,475.27

November Activity

Purchases	616,915,249.78	
Disposals	(588,116,210.66)	
Paydowns	(1,623,362.79)	
Redemptions	(10,023,889.00)	
Short-Term Pool Net	<u>112,466,225.83</u>	129,618,013.16

December Activity

Purchases	451,306,267.76	
Disposals	(404,367,699.46)	
Paydowns	(1,819,057.22)	
Redemptions	(42,174,958.66)	
Short-Term Pool Net	<u>(178,630,377.21)</u>	(175,685,824.79)

TOTAL BV INVESTED AT 12/31/19 \$ 15,693,314,908.40

* TRS 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, (\$8,323,389.21) 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	473,570,398
- Pending Payable	<u>(8,323,389)</u>
Net	<u>465,247,009</u>

INVESTMENT ACTIVITY

October 1, 2019 -- December 31, 2019

Total Book Value Invested @ 10/1/19 \$ 15,670,795,244.76

Purchases:

356	Cash Equivalents	\$ 1,012,796,642.31	
99	Fixed Income Securities	915,286,933.89	
1380	Equity Securities	746,420,376.88	
35	Real Estate	40,675,735.34	
88	Alternative Investments	137,417,723.49	
127	Additional Categories	171,651,827.94	
2085	Total Purchases		\$ 3,024,249,239.85

Disposals:

285	Cash Equivalents	\$ 1,053,510,119.57	
98	Fixed Income Securities	871,711,602.13	
312	Principal Paydowns	5,252,225.38	
23	Redemptions / Maturities	58,750,267.00	
1148	Equity Securities	734,116,145.89	
42	Real Estate	28,070,297.66	
148	Alternative Investments	75,691,601.35	
170	Additional Categories	166,505,076.13	
0	Additional Principal Paydowns	-	
12	Additional Redemptions / Maturities	8,122,241.10	
2238	Total Disposals		\$ 3,001,729,576.21

Total Book Value Invested @ 12/31/19 \$ 15,693,314,908.40

Total Par Value Invested @ 12/31/19 \$ 15,686,500,223.64

Total Market Value Invested @ 12/31/19 \$ 21,278,872,116.94

* TRS 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, (\$8,323,389.21) 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	473,570,398
- Pending Payable	(8,323,389)
Net	<u>465,247,009</u>

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

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 of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Election of 2020-2021 Board Chair and Vice Chair

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

KRS 161.340 was amended by HB 300 (2012 RS) to limit a trustee to no more than four consecutive years serving as chair or vice chair.

Recommendation: The executive secretary recommends that the board elect a chair and vice chair consistent with KRS 161.340 and 102 KAR 2:010.

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: 2020-2021 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. If you have any particular interest in serving on a committee, please notify the chair. The current committees and their members are as follows:

Administrative Appeals

Hollis Gritton, Chair
Lynn Patterson, Vice Chair
Laura Schneider
John Boardman, Alternate

Governance & Audit

Hollis Gritton, Chair
William Alverson, Vice Chair
Frank Collecchia
Lynn Patterson, Alternate

Insurance

Charles Harman, Chair
Josh Underwood, Vice Chair
Brenda McGown
Laura Schneider, Alternate

Investment

Hollis Gritton, Chair
Brenda McGown, Vice Chair
William Alverson
John Boardman
Frank Collecchia
Josh Underwood
Alison Wright
Lynn Patterson, Alternate
Laura Schneider, Alternate

Legislative

Brenda McGown, Chair
Alison Wright, Vice Chair
Josh Underwood
Hollis Gritton, Alternate

Nominating

Laura Schneider, Chair
Alison Wright, Vice Chair
Hollis Gritton
William Alverson, Alternate

Personnel

Alison Wright, Chair
Brenda McGown, Vice Chair
William Alverson
Hollis Gritton
Lynn Patterson
Charles Harman, Alternate

Scholarship

Josh Underwood, Chair
Alison Wright, Vice Chair
Charles Harman
Laura Schneider
Brenda McGown, Alternate

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Board Appointment of Investment Committee

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 adopted certain recommendations concerning the TRS investment program, which were promoted by a coalition of constituency groups and endorsed by the governor and members of the Governor's Public Pension Working Group. The board delegated authority to the Investment Committee to implement the recommendations adopted by the board.

Senate Bill 2 (2017 RS) provides for two trustees with investment experience appointed by the governor.

1. The chair at the meeting will review recommendations for seven trustees and two alternates to serve on the Investment Committee for fiscal year 2020-2021 and ask the board to act on those.

Chair's recommendations for the Investment Committee for fiscal year 2020-2021:

Hollis Gritton, Chair
Brenda McGown, Vice Chair
William Alverson
John Boardman
Frank Collecchia
Alison Wright
Active teacher trustee elected in 2020
Laura Schneider, Alternate
Lynn Patterson, Alternate

2. Pursuant to the board's previously referenced recommendations, two highly respected, nationally recognized, investment experts were appointed in 2009 to serve as non-voting members of the Investment Committee. Both investment experts have been appointed annually since then to continue on the Investment Committee.

Recommendation: The executive secretary recommends that the board ratify the appointment of Bevis Longstreth and George Philip to serve on the Investment Committee for fiscal year 2020-2021.

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

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 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.

The statute and regulation cover the retirement annuity and life insurance trusts, and, in accordance with KRS 161.677(3), the health insurance trust is to be managed in the same general manner. From time to time, TRS staff members 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 they 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 and includes all investment instruments of the retirement system provided for in KRS 161.220 to 161.716 and KRS 161.990, whether designated retirement annuity, life insurance, health insurance trust or the Kentucky Teachers' Retirement System insurance trust.

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

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 Health Insurance Trust. The executive secretary requests authority from the board to make the required transfer of funds as of July 1, 2020.

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) the Teachers' Savings Fund, (2) the State Accumulation Fund and (3) the Allowance Reserve Fund, with such credits to be transferred from the Guarantee Fund and credited on July 1, 2020.”

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Transfer of Reserve Funds

KRS 161.420 requires TRS to transfer an amount equal to the accounts of members retiring on July 1 each year, 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 2020-2021 fiscal year as follows:

“The executive secretary is directed to determine the aggregate amount of the accumulated accounts of teachers retiring during 2020-2021 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 of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: 2020-2021 Administrative Expense Fund Budget

Administrative Expense Fund Budget: The state budget adopted by the legislature sets amounts that the retirement system may expend for administration during a fiscal year. The allowable budget of \$16,100,300 was approved by the legislature for the 2020-2021 fiscal year. The amount approved was \$127,200 more than the proposed budget recommended by the board.

A copy of the proposed 2020-2021 administrative budget is attached. 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, 2020.

Recommendation: The executive secretary recommends that the board approve the proposed 2020-2021 Administrative Expense Fund Budget as presented.

Teachers' Retirement System of the State of Kentucky

Administrative Budget

	Final Budget 2019-2020	Proposed Budget 2020-2021
PERSONNEL COSTS		
Salaries & Wages	\$ 7,797,100	\$ 7,875,100
FICA/Medicare	246,200	248,700
Retirement	2,058,900	2,264,100
Health/Life Insurance	852,200	877,800
SUB TOTAL PERSONNEL	10,954,400	11,265,700
Worker's Compensation	5,900	5,900
Unemployment Compensation	4,600	4,600
Employee Training	49,500	59,500
Legal Services	127,300	127,300
Auditing	272,800	122,800
Medical Review	100,100	100,100
Consulting Services	102,000	102,000
Actuarial	333,100	333,100
Investigative Services	39,500	40,700
Janitorial Services	40,200	40,200
Other	2,200	2,200
TOTAL PERSONNEL COSTS	12,031,600	12,204,100
OPERATING EXPENSES		
Natural Gas	14,700	19,700
Electricity	80,200	90,200
Water & Sewage	12,800	12,800
Meeting Room Rentals	9,300	9,300
Copy Machine Rental	17,000	18,000
Motorpool Rental	5,700	5,700
Maintenance-Building & Grounds	97,100	100,900
Equipment Maintenance	13,800	13,800
Computer Maintenance	220,600	220,600
Postage & Delivery Services	474,900	474,900
Printing	198,900	198,900
Insurance	209,500	209,500
Other	10,500	10,500
Telephone	28,200	28,200
Computer Services	133,000	133,000
Office Supplies	62,700	63,900
Furniture under \$5000	14,100	14,100
Computer Software	1,330,700	1,790,500

Teachers' Retirement System of the State of Kentucky
Administrative Budget

Storage	6,900	6,900
Travel-In State	28,600	28,600
Travel-Out-of-State	30,000	30,000
Subscriptions & Dues	169,000	177,000
Other	10,100	10,100
Computers (PC) Under \$5,000	<u>103,200</u>	<u>103,200</u>
TOTAL OPERATING EXPENSES	3,281,500	3,770,300
CAPITAL OUTLAY		
Furniture/Office Equipment	34,900	34,900
Computers over \$5,000	<u>91,000</u>	<u>91,000</u>
TOTAL CAPITAL OUTLAY	<u>125,900</u>	<u>125,900</u>
TOTAL EXPENDITURES	<u>\$ 15,439,000</u>	<u>\$ 16,100,300</u>

TEACHERS RETIREMENT SYSTEM KENTUCKY
ADMINISTRATIVE EXPENSES ANALYSIS

Our actual expenses vs. Budget	Actuarial Liabilities End of Year	Actual Expenses	Basis Points	Budgeted Expenses	Percent Expended	Amount returned to Pension Fund at year end
Through Current Year 4/30/20		11,535,002		12,865,834.00	89.66%	
Fiscal Year 6/30/19	37,927,400,000	13,711,337	0.0362%	13,949,200.00	98.29%	168,176.39
Fiscal Year 6/30/18	37,248,851,000	13,168,116	0.0354%	13,515,000.00	97.43%	86,312.25
Fiscal Year 6/30/17	36,620,675,000	11,881,187	0.0324%	12,934,000.00	91.86%	799,722.32
Fiscal Year 6/30/16	35,768,359,000	10,960,754	0.0306%	12,196,600.00	89.87%	785,982.95
Fiscal Year 6/30/15	34,774,285,000	10,440,118	0.0300%	12,196,600.00	85.60%	2,020,284.36
Fiscal Year 6/30/14	33,476,447,000	9,078,009	0.0271%	12,030,300.00	75.46%	3,814,011.56
Fiscal Year 6/30/13	32,432,630,000	9,677,241	0.0298%	12,030,300.00	80.44%	5,179,859.68
Fiscal Year 6/30/12	30,659,792,000	8,987,875	0.0293%	12,030,300.00	74.71%	3,208,685.47
Fiscal Year 6/30/11	29,479,929,000	8,530,724	0.0289%	11,428,700.00	74.64%	3,104,778.23
Fiscal Year 6/30/10	27,643,213,000	8,830,054	0.0319%	10,851,000.00	81.38%	2,187,712.93
Fiscal Year 6/30/09	29,945,493,000	8,165,757	0.0273%	10,102,600.00	80.83%	2,118,883.81
Fiscal Year 6/30/08	28,979,091,000	7,551,936	0.0261%	9,453,500.00	79.89%	2,044,217.34
Fiscal Year 6/30/07	27,266,457,000	7,351,846	0.0270%	9,075,400.00	81.01%	1,877,948.70
Fiscal Year 6/30/06	24,666,744,000	6,839,859	0.0277%	8,613,500.00	79.41%	1,902,090.55
Fiscal Year 6/30/05	23,898,817,000	6,652,673	0.0278%	8,147,900.00	81.65%	1,751,527.21

Our expenses compared to similar size systems	Actuarial Liabilities End of Year	Actual Expenses	Basis Points
Kentucky Retirement System 6/30/19	47,076,824,000	36,425,000	0.0774%
New Mexico Public Employees 6/30/19	22,162,998,348	13,583,374	0.0613%
Indiana Public Employees 6/30/19	15,576,060,000	18,472,000	0.1186%
Georgia Employees 6/30/19	19,387,876,000	15,620,000	0.0806%
Kansas Public Employees 6/30/19	29,100,136,000	13,279,726	0.0456%
Louisiana Teachers 6/30/19	31,574,146,857	13,445,962	0.0426%
Kentucky Teachers 6/30/19	37,927,400,000	13,711,337	0.0362%
Ohio Teachers Retirement System 6/30/19	100,056,862,000	66,469,000	0.0664%

ACTUAL SPENDING V. BUDGET
FOR PERIOD ENDING APRIL,

2020

	ACTUAL	BUDGET	VARIANCE
	Y T D	Y T D	
Regular Salaries & Wages	\$ 5,871,953.38	\$ 6,497,584.00	625,630.62
Employers FICA	145,282.69	205,166.60	59,883.91
Employers Retirement Credit	1,575,037.18	1,715,750.00	140,712.82
Employer Health Insurance	689,440.17	707,168.00	17,727.83
Employer Life Insurance	993.00	3,000.00	2,007.00
Worker's Compensation	5,885.28	4,916.60	(968.68)
Unemployment Compensation	-	3,833.30	3,833.30
Employee Training	52,423.00	41,250.00	(11,173.00)
Employee Uniforms	659.68	833.30	173.62
Legal Services	57,696.45	106,084.00	48,387.55
Auditing Service	132,258.92	227,332.00	95,073.08
Medical & Dental Services	58,350.00	83,418.00	25,068.00
Consulting Services	85,000.00	85,000.00	-
Misc. Services	22,284.80	32,916.60	10,631.80
Court Reporting	-	1,000.00	1,000.00
Actuarial Services	163,255.50	277,584.00	114,328.50
Janitorial Services	33,250.00	33,500.00	250.00
Natural Gas	12,216.09	12,250.00	33.91
Electricity	72,387.86	66,833.30	(5,554.56)
Water & Sewage	-	10,666.60	10,666.60
Rent of Non-St Owned Build/Land	4,207.72	3,500.00	(707.72)
Rent of State Owned Build/Land	1,212.30	3,833.30	2,621.00
Rent of Equipment	-	416.70	416.70
Copy Machine Rental	14,733.10	14,166.60	(566.50)
State Carpool Rental	243.78	4,750.00	4,506.22
Maintenance-Buildings & Grounds	70,606.72	80,918.00	10,311.28
Maintenance of Equipment	-	6,166.60	6,166.60
Computer Maintenance	174,070.96	183,832.00	9,761.04
Postage & Postage Meters	382,612.17	390,333.30	7,721.13
Other Parcel Delivery Services	1,371.66	5,416.70	4,045.04
Printing Pd to State Agency	-	2,916.70	2,916.70
Printing Pd to Vendor	117,196.05	162,833.30	45,637.25
Insurance Premium	186,380.64	174,583.30	(11,797.34)
Garbage Collection	1,236.87	2,500.00	1,263.13
Service Not Otherwise Classified	3,726.27	6,250.00	2,523.73
Telephone Paid to Vendor	15,491.31	23,500.00	8,008.69
Dept Tech Serv Computer Charges	54,148.82	110,833.30	56,684.48
Comp Modem-Line Chg	-	3,333.30	3,333.30
Computer Equip Under \$5000	158,839.05	65,583.30	(93,255.75)
MARS Charges	20,700.00	17,083.30	(3,616.70)
Office Supplies	35,431.76	51,083.30	15,651.54
Motor Vehicle Supplies & Parts	47.53	1,000.00	952.47
Building Material & Supplies	425.38	2,583.30	2,157.92
Motor Fuel & Lube	768.01	1,750.00	981.99
Furn/Fixtures/Equip Under \$5000	480.42	11,750.00	11,269.58
Books for Dept Use	2,050.44	1,166.70	(883.74)
Computer Software	1,152,667.73	1,108,916.00	(43,751.73)
Banking Service & Fees	-	-	-
Storage	9,529.11	5,750.00	(3,779.11)
In-State Travel	14,864.47	19,666.60	4,802.13
Out-of-State Travel	14,117.60	25,000.00	10,882.40
Travel Non-State Employees	1,105.31	4,166.60	3,061.29
Dues & Subscriptions	116,267.71	140,832.00	24,564.29
Other	2,095.45	8,416.70	6,321.25
Furniture/Fixture/Equip Over \$5000	-	29,083.30	29,083.30
Telephone/Telecom Equipment	-	-	-
Computer Equip Over \$5000	-	75,833.30	75,833.30
	<u>\$ 11,535,002.34</u>	<u>\$ 12,865,833.80</u>	<u>\$ 1,330,831.46</u>

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Internal Revenue Code 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 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 2020-2021.

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

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 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 also has over time departed from many of the standards established in the state's personnel system. For example, TRS uses a 40-hour work week (compared to the state's 37.5-hour work week) because the 40-hour week is 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. The budget passed in the 2020 Regular Session of the General Assembly provides for no state employee annual increments.

The executive secretary requests authorization from the board to approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by the TRS's Employee Compensation Plan, during fiscal year 2020-2021.

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 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 approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by TRS's Employee Compensation Plan, during fiscal year 2020-2021.

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Report of the Investment Committee

1. Investment Committee Meeting and Actions: Investments approved at the May 21, 2020, Investment Committee meeting are: commitments of \$50 million from the Retirement Annuity Trust, \$10 million from the Health Insurance Trust and \$500,000 from the Life Insurance Trust to the Landmark Equity Partners XVII fund; commitments of \$35 million from the Retirement Annuity Trust, \$5 million from the Health Insurance Trust and \$500,000 from the Life Insurance Trust to Fort Washington Opportunities Fund IV; and commitments of \$35 million from the Retirement Annuity Trust, \$5 million from the Health Insurance Trust and \$500,000 from the Life Insurance Trust to Fort Washington Opportunities Fund IV-S (a sidecar created for TRS).

Also, commitments to Molpus Timber Co. were increased to up to \$375 million from the Retirement Annuity Trust.

The Investment Committee also approved renewals of investment manager contracts for fiscal year 2021 under current terms for Wellington, Todd, UBS, State Street and Fort Washington. Similarly, the committee approved service provider contracts renewals for fiscal year 2021 under existing terms for Aon Investment Consulting, Ice Miller and Reinhart Boerner Van Deuren.

The committee also heard portfolio presentations from UBS Asset Management and Audax Private Equity.

2. Purchases and Disposals: During this quarter, 2,982 purchases amounted to \$4,097,270,150.31 and 3,480 disposals amounted to \$3,913,932,383.77. The disposals consisted of 3,098 sales, 350 principal payments and 32 redemptions. While the TRS 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, TRS's invested securities had a book value of \$15,876,652,674.94 and a market value of \$18,073,265,702.81.

3. Staff's Comments on Economic and Market Conditions: The quarter ending March 31, 2020, was historic, both for markets and for the world at large, as a local outbreak late last year in China's Hubei Province of a previously unknown coronavirus morphed into a global pandemic. In order to contain the virus and reduce the burden on health care systems, governments around the globe closed their economies, imposing travel restrictions; cancelling social gatherings and events; shuttering non-essential businesses;

and even locking down some entire cities. In response to this extraordinary economic disruption, the U.S. Federal Reserve announced two emergency rate cuts, bringing the Fed funds rate range down to 0 - 25 basis points. In addition, the Fed announced open-ended quantitative easing alongside a host of other liquidity-enhancing programs. Meanwhile, the U.S. federal government enacted the bipartisan Coronavirus Aid, Relief, and Economic Securities (CARES) Act, which provided \$2.3 trillion in fiscal stimulus. These concurrent acts of fiscal and monetary policy in direct reaction to a problem unseen in modern times were unprecedented in size, scope and the speed with which they were enacted.

Markets did not begin heavily discounting the economic risks associated with the COVID-19 outbreak until the last week of February. As recently as February 19, the S&P 500 closed at an all-time high of 3,386. Over the course of the following three weeks, the S&P 500 closed in bear-market territory, representing the index's fastest 20% drawdown from an all-time high. Ultimately, the index fell 33.9% from peak-to-trough before partially rebounding near the end of the month.

Risk assets saw significant declines during the quarter. Although equities grabbed most of the headlines, stresses in lesser-followed markets were in some ways more acute and did more to force the hand of monetary authorities. Credit exchange-traded funds (ETFs), which normally track the value of their underlying bonds, routinely closed at large discounts to their net asset value (NAV) due to liquidity mismatches and difficulty in price discovery. Lower-quality credit assets, such as high-yield debt and bank loans, fell more than 20% intramonth, while investment-grade debt and high-quality structured credit also suffered severe losses. Compounding the effects of the reduction in demand caused by COVID-19 was an oil price war that erupted between Saudi Arabia and Russia in early March. The ensuing price drop in oil further stressed the corporate valuations and debt and the stability of economies tied to oil revenues. The U.S. dollar appreciated nearly 10% against its trade-weighted basket from March 3 through March 23, weighing heavily on returns in emerging markets.

Due to the policy response, markets rallied significantly from their lows by the end of the quarter. However, considerable uncertainty remains with respect to the balancing act policy makers must perform between ensuring public health and restoring economic activity.

The most recent International Monetary Fund World Economic Outlook report forecasted a 3% decrease in global gross domestic product (GDP) for 2020, a level significantly below what was experienced during the global financial crisis that began in 2008. This model still relies on a gradual recovery taking hold beginning in the second half of the calendar year. Recent U.S. GDP growth estimates for the second quarter of calendar 2020 across major investment banks indicate an annualized contraction in economic activity ranging anywhere from 15% to more than 30%.

U.S. markets peaked in mid-February before growing concerns surrounding the spread of COVID-19 caused the S&P 500 to drop nearly 34% over a three-week period. In

response, federal lawmakers passed a fiscal stimulus package through the CARES Act, and the Federal Reserve worked to combat the effects of the pandemic by cutting interest rates to near zero and launching large-scale asset purchases. Buoyed by these relief measures, the market experienced a 15.5% gain from the trough to March 31; however, the S&P 500 still finished the quarter down 19.6%, marking the ninth-worst quarter since 1926. Small- and mid-cap stocks were hardest hit with the Russell 2000 and Russell Mid-Cap indexes down 30.6% and 27.1%, respectively.

March experienced two of the six worst days in the stock market dating back to 1928, with daily returns of -12% and -9.5%. Conversely, March also included the ninth (9.3%) and 10th (9.4%) best days since 1928.

Low volatility stocks held up well in the risk-off environment of the quarter. Less expected was the downside protection provided by momentum and growth stocks. Value underperformed growth across all market capitalizations, experiencing a sharper drawdown than growth. Double-digit percentage declines were seen in the quarter for the Russell 1000 Value (26.7%), the Russell 1000 Growth (14.1%), the Russell 2000 Value (35.7%) and the Russell 2000 Growth (25.8%).

Active management continued to deliver mixed results in the March 31 quarter with about 50% of managers providing excess returns. Large-cap value managers and small-cap growth managers outperformed their respective benchmarks with the highest rates of success. Large-cap growth and small-cap value managers struggled, on average, against their benchmarks.

Developed international markets fared slightly worse than domestic markets during the quarter ending March 31, with broad indexes declining nearly 25%. Value stocks continued to underperform growth, with the gap between the style groups widening meaningfully, and larger companies with diversified business lines generally outperformed their smaller counterparts. Sectors were negative across the board, but defensive sectors (such as health care, consumer staples and utilities) held up better amidst the volatility. Health care stocks performed best, as the sector was the only one to avoid double-digit negative returns. Economically sensitive and commodity-related stocks were hit hard. Energy and financial stocks lost about a third of their value.

For the quarter, emerging markets were the worst performing equity asset class, although they only trailed developed equity markets by a thin margin. Similar to the rest of the world, value significantly underperformed growth, and large-cap stocks also outperformed small. Emerging markets also were negative across sectors and countries, but with greater disparity by region than the developed world, as there was a flight to countries perceived as safe havens.

COVID-19-related fears and subsequent monetary policy responses led Treasury yields to steep declines of more than 100 basis points across all maturities. On March 9, the 30-year yield ended the day at just 0.99%, marking the first time that all maturities ended below 1%. The declines benefitted Treasuries, as the Bloomberg U.S. Treasury Index

returned 8.2% for the quarter. Long-dated Treasury returns were even more pronounced, as the Bloomberg U.S. Long Treasury Index returned 20.6%. Credit experienced significant selloffs and volatility over the quarter. Investment-grade corporates recorded the two most severe weeks of spread-widening ever in March, only to be followed by the most extreme week of spread-tightening. At one point, spreads reached 373 basis points, surpassing the previous month's high yield levels. In all, the Bloomberg U.S. Corporate Index declined 3.6% in the March 31 quarter with bifurcated returns between quality groups, as AAA-rated bonds returned 4.7% while BBB rated bonds declined 7.1%. Non-investment grade credit was hit even harder. High-yield spreads exceeded 1,000 basis points for the first time since 2008, and the Bloomberg U.S. High-Yield Index registered its second-worst quarter ever with a drop of 12.7%.

Core private real estate returned 0.97% during the quarter ended March 31, as reported by the NCREIF-ODCE Index, from a 1.02% income gain and a 0.05% loss due to price appreciation. While the income component remained in line with historical levels, price appreciation experienced a meaningful decrease of 0.52% compared to the prior quarter.

4. Performance: Investment performance was very weak for the quarter ending March 31, 2020. The Retirement Annuity Trust portfolio declined 14.18% for the quarter, in line with the policy index that decreased 14.11%. TRS's domestic equities declined 23.19%, underperforming the S&P 1500 Stock index, which decreased 20.57% for the quarter. TRS's international stocks declined 21.8%, outperforming the MSCI All Country ex U.S. index, which declined 23.26% for the quarter. Alternatives and real estate were positive contributors as private equity gained 3.15% while real estate returned 1.76%. TRS's fixed income returned 3.5%, as the Bloomberg Barclays Gov/Credit Bond index returned 3.37% for the quarter.

Recommendation: The executive secretary recommends that the board accept and ratify the Report of the Investment Committee.

20200615 TRS Board of Trustees Regular Quarterly Meeting - Report of the Investment Committee

*Teachers' Retirement System of the State of Kentucky
Retirement Annuity Trust
Quarterly Investment Performance
Gross Returns
For the Period Ended March 31, 2020*

FINAL

	Market Value	3 Months	FYTD	1-Year	3-Year*	5-Year*	10-Year*	20-Year*
TOTAL PLAN	\$18,073,265,702.81	-14.18	-7.58	-4.33	3.95	4.49	7.41	5.33
<i>Policy Benchmark</i>		-14.11	-8.00	-4.85	3.69	4.59	7.26	-
Preliminary through May 31, 2020	\$20,210,053,345.18	1.26	3.43	8.37	6.86	6.43	9.08	6.05
Total Equity	\$10,704,154,099.99	-22.69	-14.44	-11.18	1.97	3.52	8.05	4.36
Domestic Equity	\$ 6,943,468,615.98	-23.19	-14.44	-10.97	2.56	4.57	9.71	5.12
<i>S&P 1500 Index</i>		-20.57	-12.16	-8.51	4.22	6.15	10.31	4.72
All-Cap Equities	\$ 299,590,729.45	-17.78	-9.05	-6.64	3.65	-	-	-
<i>Russell 3000 Index</i>		-20.90	-12.70	-9.13	4.00	-	-	-
Large-Cap Equities	\$ 5,842,560,955.93	-22.71	-13.38	-9.70	3.15	4.89	9.76	-
<i>S&P 500 Index</i>		-19.60	-10.82	-6.98	5.10	6.73	10.53	-
Mid-Cap Equities	\$ 502,615,416.32	-26.41	-21.76	-18.56	0.06	3.07	9.27	-
<i>S&P 400 Index</i>		-29.70	-24.80	-22.51	-4.09	0.56	7.88	-
Small-Cap Equities	\$ 298,701,514.28	-30.78	-24.49	-22.80	-4.08	0.84	8.99	-
<i>S&P 600 Index</i>		-32.64	-27.25	-25.89	-5.34	0.45	8.06	-
International Equity	\$ 3,760,685,484.01	-21.80	-14.47	-11.58	1.07	1.43	3.96	-
<i>MSCI AC World Ex US</i>		-23.26	-17.79	-15.14	-1.48	-0.17	2.52	-
Fixed Income	\$ 2,839,969,335.22	3.50	6.07	9.68	5.40	4.00	4.71	5.77
<i>Bloomberg Barclays Govt/Credit Index</i>		3.37	6.08	9.82	5.17	3.54	4.15	5.19
Real Estate	\$ 1,233,109,511.40	1.76	4.55	6.57	9.39	10.27	9.04	9.30
In House Real Estate Equity	\$ 408,820,071.59	1.78	1.19	2.85	8.70	8.89	8.27	8.66
<i>CPI plus 2%</i>		0.31	2.51	3.55	3.95	3.83	3.76	4.07
Core Real Estate	\$ 495,322,404.17	1.54	5.02	7.02	7.78	9.43	11.56	-
<i>NCREIF ODCE (VW) Index</i>		0.97	3.83	4.87	6.81	8.46	11.45	-
Non-Core Real Estate	\$ 328,967,035.64	2.08	8.37	10.92	12.28	13.78	-	-
<i>NCREIF Property Index</i>		0.71	3.72	5.28	6.41	7.65	-	-
Private Equity	\$ 1,318,179,017.83	3.15	8.30	12.72	15.33	12.06	13.06	-
Mature Private Equity	\$ 457,616,855.39	2.61	6.69	11.13	13.12	9.75	-	-
<i>S&P 500 Index plus 3%</i>		-19.00	-8.82	-4.19	8.26	9.93	-	-
Private Equity < 5 Years	\$ 860,562,162.44	3.67	8.78	13.31	16.80	13.62	14.21	-
Timberland	\$ 254,735,866.25	1.65	3.28	3.22	0.68	2.09	3.70	-
<i>NCREIF Timberland Index</i>		0.11	0.25	1.30	2.48	2.80	4.49	-
Additional Categories	\$ 1,483,417,384.22	-7.04	-5.10	-2.63	2.53	3.08	6.29	-
<i>B of A Merrill Lynch U.S. High Yield Master II Index</i>		-13.12	-9.77	-7.45	0.55	2.67	5.50	-
Cash (Unallocated)	\$ 239,700,487.90	0.32	1.28	1.86	1.72	1.16	0.63	1.86
<i>90 Day T-Bill</i>		0.58	1.61	2.25	1.83	1.17	0.62	1.65

Total Trust Gross Return for 30-year period* 7.64

*Returns are annualized for periods longer than one year

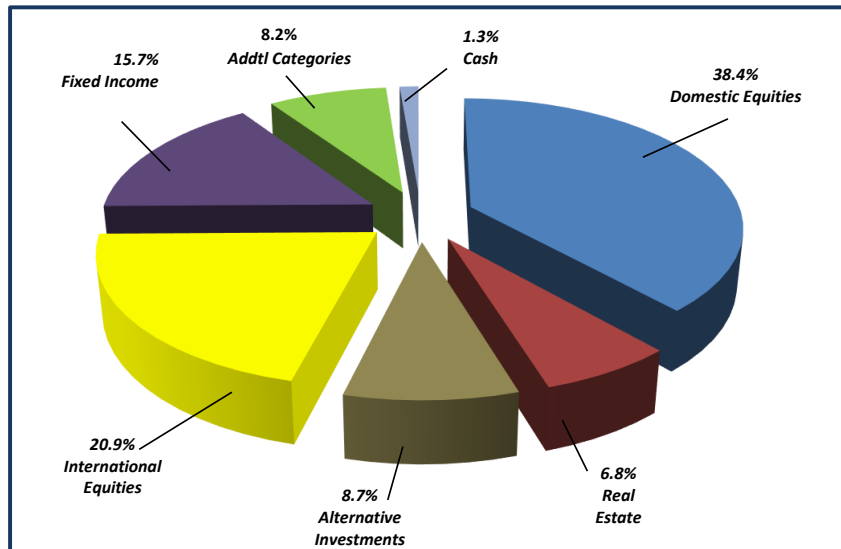
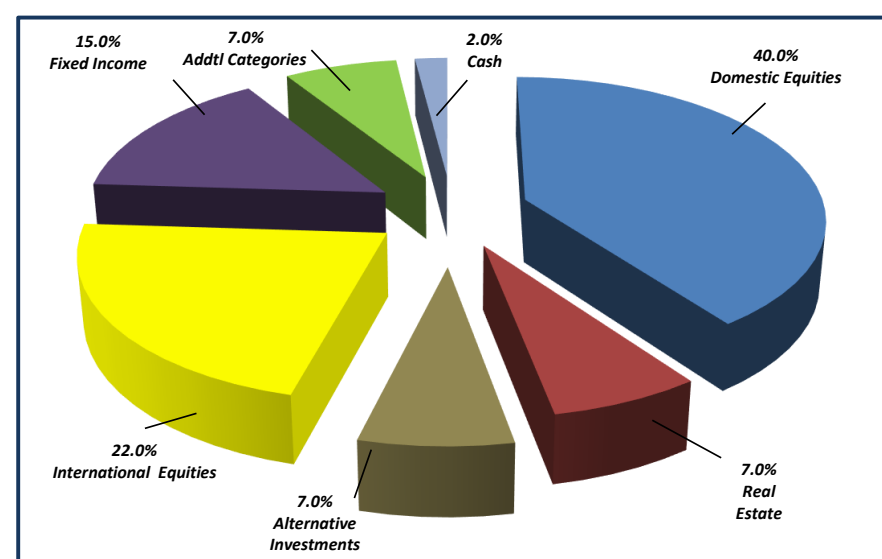
** Prior to July 1, 2008, TRS did not benchmark overall fund performance. Effective July 1, 2008, the Board of Trustees approved a Policy Index that represents the returns of appropriate benchmarks for the various asset classes weighted by the mid-point of the strategic range for the current fiscal year.

Teachers' Retirement System of Kentucky

Quarterly Investment Update

For the period ended March 31, 2020

(\$ in millions)	\$'s	3/31/2020 Actual %	12/31/2019 Actual %	Target %	Strategic Ranges
Domestic Equities	\$6,943.5	38.4%	41.4%	40.0%	34.0 - 48.0%
Real Estate	1,233.1	6.8%	5.7%	7.0%	4.0 - 10.0%
Alternative Inv.	1,572.9	8.7%	6.8%	7.0%	4.0 - 10.0%
International Equities	3,760.7	20.9%	22.7%	22.0%	18.0 - 25.0%
Fixed Income	2,840.0	15.7%	15.3%	15.0%	12.0 - 19.0%
Addtl Categories	1,483.4	8.2%	6.8%	7.0%	4.0 - 10.0%
Cash	239.7	1.3%	1.3%	2.0%	1.0 - 3.0%
Total	\$18,073.3	100.0%	100.0%	100.0%	

ACTUAL %**TARGET %**

*Teachers' Retirement System of the State of Kentucky
Health Insurance Trust
Quarterly Investment Performance
Gross Returns
For the Period Ended March 31, 2020*

FINAL

	<u>Market Value</u>	<u>3 Months</u>	<u>FYTD</u>	<u>1-Year</u>	<u>3-Year*</u>	<u>5-Year*</u>
<u>TOTAL PLAN</u>	\$ 1,345,639,366.09	-14.22	-8.52	-5.61	3.08	3.83
<i>Policy Benchmark</i>		-14.80	-9.24	-6.38	2.69	-
Preliminary through May 31, 2020	\$ 1,506,981,612.61	0.21	1.13	5.16	5.57	5.41
<u>Total Equity</u>	\$ 750,213,331.38	-22.14	-15.29	-12.50	1.03	2.73
<u>All Cap Equities</u>	\$ 72,901,102.66	-18.01	-9.26	-6.81	2.92	-
<i>Russell 3000</i>		-20.90	-12.70	-9.13	4.00	-
<u>Global Equities</u>	\$ 677,312,228.72	-22.07	-15.29	-12.48	1.06	2.82
<i>MSCI AC World IMI (Net)</i>		-22.44	-15.57	-12.73	0.76	2.45
<u>Fixed Income</u>	\$ 125,742,250.79	3.43	6.00	9.27	4.72	3.61
<i>Barclays Government Credit</i>		3.37	6.08	9.82	5.17	3.54
<u>Real Estate:</u>	\$ 83,353,436.27	2.26	7.34	9.44	10.44	14.24
<u>Core Real Estate</u>	\$ 37,324,189.25	1.85	5.95	8.06	8.17	-
<i>NCREIF ODCE (VW)</i>		0.97	3.83	4.87	6.81	-
<u>Non-Core Real Estate</u>	\$ 46,029,247.02	2.61	8.53	10.61	12.31	15.41
<i>NCREIF Property Index</i>		0.71	3.72	5.28	6.41	7.65
<u>Private Equity</u>	\$ 122,926,274.23	3.24	7.12	11.92	14.04	14.70
<u>Mature Private Equity</u>	\$ 27,201,497.00	-0.96	4.75	9.99	14.82	14.64
<i>S&P 500 plus 3%</i>		-19.00	-8.82	-4.19	8.26	9.93
<u>Private Equity < 5 Years</u>	\$ 95,724,777.23	3.58	6.32	11.13	13.75	-
<u>Additional Categories:</u>	\$ 251,141,687.55	-7.83	-5.57	-2.95	2.21	2.90
<i>B of A Merrill Lynch High Yield Master II</i>		-13.12	-9.77	-7.45	0.55	2.67
<u>Cash (Unallocated)</u>	\$ 12,262,385.87	0.33	1.28	1.86	1.79	1.19
<i>90 Day T-Bill</i>		0.58	1.61	2.25	1.83	1.17

*Returns are annualized for periods longer than one year

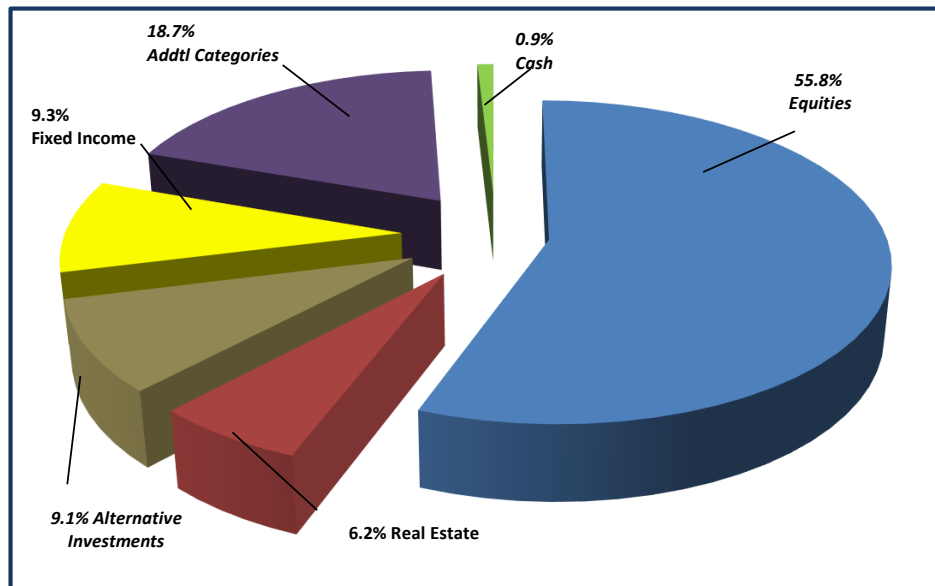
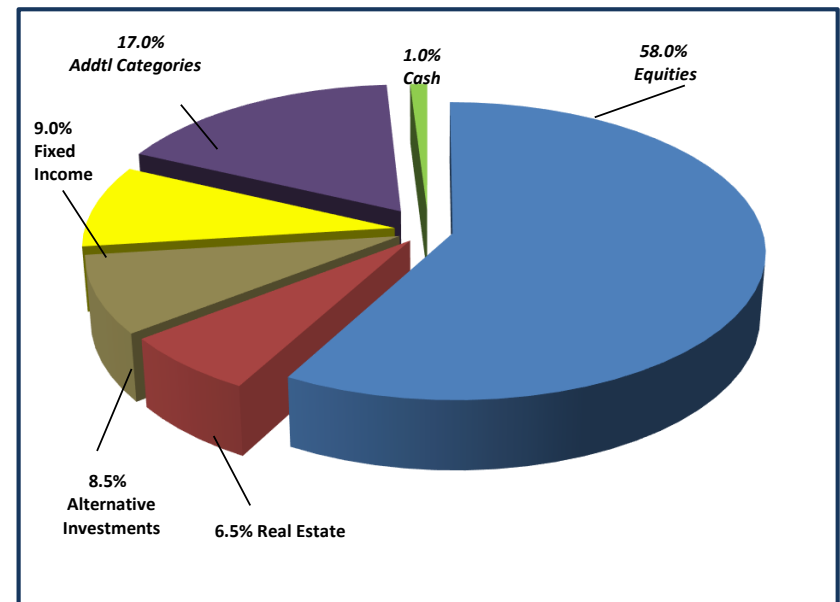
** Prior to July 1, 2015, TRS did not benchmark overall fund performance. Effective July 1, 2015, the Board of Trustees approved a Policy Index that represents the returns of appropriate benchmarks for the various asset classes weighted by the mid point of the strategic range for the current fiscal year.

Teachers' Retirement System of Kentucky**Insurance Trust Fund**

Quarterly Investment Update

For the period ended March 31, 2020

(\$ in thousands)	\$'s	3/31/2020 Actual %	12/31/2019 Actual %	Target %	Strategic Ranges
Equities	\$750,213.3	55.8%	62.1%	58.0%	51.0 - 64.0%
Real Estate	\$83,353.4	6.2%	5.3%	6.5%	4.0 - 12.0%
Alternative Inv.	\$122,926.3	9.1%	7.5%	8.5%	5.0 - 12.0%
Fixed Income	\$125,742.3	9.3%	8.0%	9.0%	6.0 - 12.0%
Addtl Categories	\$251,141.7	18.7%	15.6%	17.0%	14.0 - 21.0%
Cash	\$12,262.4	0.9%	1.5%	1.0%	0.0 - 4.0%
Total	<u>\$1,345,639.4</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	

ACTUAL %**TARGET %**

TOTAL BV INVESTED AT 12/31/19 \$ 15,693,314,908.40

January Activity

Purchases	902,897,401.31	
Disposals	(890,477,265.61)	
Paydowns	(2,403,011.48)	
Redemptions	(5,891,711.32)	
Short-Term Pool Net	<u>333,657,992.70</u>	337,783,405.60

February Activity

Purchases	735,747,052.52	
Disposals	(455,142,683.40)	
Paydowns	(1,763,289.13)	
Redemptions	(36,080,063.60)	
Short-Term Pool Net	<u>(274,905,264.52)</u>	(32,144,248.13)

March Activity

Purchases	810,962,228.20	
Disposals	(889,580,513.65)	
Paydowns	(5,567,847.61)	
Redemptions	(4,156,157.23)	
Short-Term Pool Net	<u>(33,959,100.64)</u>	(122,301,390.93)

TOTAL BV INVESTED AT 03/31/20 \$ 15,876,652,674.94

* TRS 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, \$1,926,912.98 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

Total Short Term	490,710,748
+ Pending Receivable	<u>1,926,913</u>
Net	<u><u>492,637,661</u></u>

INVESTMENT ACTIVITY

January 1, 2020 -- March 31, 2020

Total Book Value Invested @ 1/1/20 \$ 15,693,314,908.40

Purchases:

339	Cash Equivalents	\$ 1,647,663,468.28	
125	Fixed Income Securities	403,209,093.97	
2180	Equity Securities	1,355,968,740.65	
30	Real Estate	25,846,620.96	
77	Alternative Investments	249,406,933.40	
231	Additional Categories	415,175,293.05	
2982	Total Purchases		\$ 4,097,270,150.31

Disposals:

322	Cash Equivalents	\$ 1,622,869,840.74	
134	Fixed Income Securities	796,462,235.87	
350	Principal Paydowns	9,734,148.22	
27	Redemptions / Maturities	40,368,187.11	
2263	Equity Securities	1,006,878,139.12	
36	Real Estate	15,239,557.43	
147	Alternative Investments	157,266,950.66	
196	Additional Categories	259,353,579.58	
0	Additional Principal Paydowns	-	
5	Additional Redemptions / Maturities	5,759,745.04	
3480	Total Disposals		\$ 3,913,932,383.77

Total Book Value Invested @ 03/31/20 \$ 15,876,652,674.94

Total Par Value Invested @ 03/31/20 \$ 15,801,941,894.29

Total Market Value Invested @ 03/31/20 \$ 18,073,265,702.81

* TRS 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, \$1,926,912.98 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	490,710,748
+ Pending Receivable	1,926,913
Net	492,637,661

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Report of the Legislative Committee

Staff is proposing to the Legislative Committee an amendment of TRS administrative regulation 102 KAR 1:340. This regulation provides definitions and details for the application of KRS 161.220(9)(b), which limits pension spiking.

Specifically, this anti-spiking law limits, for retirement calculation purposes, the amount of any increase in compensation that a member receives in her or his final three years to either the greatest percentage increase on any one rank and step of the salary schedule in the school district or the percentage increase received by all other members with employers that are not a school district. This limitation does not apply if the member receives a large increase in compensation for a full four years prior to retirement. It also does not apply if there is a "corresponding change in position or in length of employment."

This regulation as it currently exists provides definitions and guidance on what constitutes a corresponding change in length of employment. The proposed amendment would further define what constitutes a corresponding change in position.

Recommendation: Staff recommends approval of the Legislative Committee report.

1 FINANCE AND ADMINISTRATION CABINET

2 KENTUCKY TEACHERS' RETIREMENT SYSTEM

3 (Amendment)

4 102 KAR 1:340. Calculation of final average salary when there is a corresponding change in
5 position or in length of employment during any of the final three (3) years immediately prior to
6 retirement.

7 RELATES TO: KRS 161.220(9)

8 STATUTORY AUTHORITY: KRS 161.310

9 NECESSITY, FUNCTION AND CONFORMITY: KRS 161.310(1) requires the board of
10 trustees to promulgate administrative regulations for the administration of the funds of the
11 retirement system and for the transaction of business. KRS 161.220(9) establishes the definition
12 of "final average salary" for retirement calculation purposes, which ~~[definition]~~ limits the
13 amount of increases in salaries that can be included as final average salary if those increases are
14 received for any of the three (3) years of employment immediately prior to retirement, unless the
15 member experiences a corresponding change in position or in length of employment. This
16 administrative regulation establishes the method for calculating final average salary if there is a
17 change in position or in length of employment.

18 Section 1. Definitions.

19 (1) "Additional duties" means service from a duty or duties outside of the member's
20 primary job duty. This includes compensation paid from a district's supplemental or extra service
21 salary schedule, such as coaching, club sponsoring, and summer school teaching. Additional
22 duties also includes extended school services (ESS). For members employed by employers that
23 are not school districts, additional duties includes assignments, responsibilities, duties, college

1 credit hour classes taught, grant writing or projects that are outside of, or added to, the member's
2 position.

3 (2) "Position" means:

4 (a) The primary job duty performed by a member that, standing alone, earns service
5 credit in TRS, whether that job duty is provided in full-time employment as defined in KRS
6 161.220(21), part-time employment or substitute teaching; and

7 (b) Does not include additional duties as defined in this administrative regulation.

8 (3) "Newly Created Position" means a position that did not exist at least a full 12 months prior to
9 the member's assumption of that position.

10 (4) "Previously Existing Position" means a position that existed at least a full 12 months prior to
11 the member's assumption of that position.

12 Section 2. A member who receives an increase in salary that exceeds the limits permitted
13 for inclusion as final average salary pursuant to KRS 161.220(9)(b) and experiences a
14 corresponding change in length of employment shall have his or her final average salary
15 calculated using salaries adjusted in the manner established in this section.

16 (1) The member shall receive one (1) additional day of salary for retirement calculation
17 purposes at the member's base daily rate of pay for each day added to the member's annual
18 contract from the immediately prior fiscal year.

19 (2) The base daily rate of pay used as an additional day of salary for retirement
20 calculation purposes shall not include compensation:

21 (a) For extra duties worked beyond the member's primary job duty for which the member
22 receives most of his or her compensation;

23 (b) That exceeds the limitations established by KRS 161.220(9)(b);

1 (c) That is not “annual compensation” as defined by KRS 161.220(10); or

2 (d) That is otherwise excluded from use in retirement calculations pursuant to the
3 provisions of KRS 161.220 through 161.716.

4 (3) The additional days shall be worked days in order to have the additional salary
5 included for retirement calculation purposes.

6 Section 3. (1) The limitation established by KRS 161.220(9)(b) on the amount of salary
7 included in each of the member’s three (3) highest salaries shall not apply if the increase in the
8 member’s salary is due to a corresponding change in position. A corresponding change in
9 position only occurs if:

10 (a) The member assumes a newly created position in which all duties are new and
11 different from the previous position the member held.

12 (b) The member moves from one (1) position to another separate, previously existing
13 position; or

14 (c) The member assumes a second, previously existing position in its entirety, and now
15 occupies two different positions.

16 (d) For purposes of subsections b and c of this section:

17 1. For school district employers, the district salary schedule is proof of a
18 previously existing position.

19 2. For other employers, proof of a previously existing position includes official
20 employment records, such as those for classified and non-classified positions established
21 under the state merit system.

22 3. For all employers, a title change in and of itself is not proof.

23 Section 4. The limitation established by KRS 161.220(9)(b) on the amount of salary
24 included in each of the member’s three (3) highest salaries shall apply in situations including
25 when:

26 (a) A member performs additional duties during a fiscal year; or

1 (b) The employer changes the member's duties or responsibilities to include additional
2 duties or responsibilities within the member's existing position; or

3 (c) The member assumes some, but not all, duties of a second position; or

4 (d) The member assumes a newly created position in which not all duties are new and
5 different.

6 Section 5. Members who experience a corresponding change in position will be entitled
7 to receive salary credit:

8 (a) if the employer is a school district, based upon the compensation paid to the new
9 position from the previous year's salary schedule, plus a percentage increase equal to the highest
10 percentage increase received by members on any one (1) rank and step of the salary schedule of
11 the school district or,

12 (b) if the employer is not a school district, the percentage increase received by all other
13 members.

14 (c) Any contributions paid to TRS on salaries that are disallowed under KRS
15 161.220(9)(b) shall be refunded to the school district on the member's behalf.

102 KAR 1:340. Calculation of final average salary when there is a corresponding change in position or in length of employment during the last three (3) years immediately prior to retirement.

APPROVED:

DATE

ALISON WRIGHT, CHAIR
TEACHERS' RETIREMENT SYSTEM OF
THE STATE OF KENTUCKY

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Report of the Governance and Audit Committee

The Governance and Audit Committee will have a special meeting on June 15, 2020, prior to the quarterly board meeting and present a report to the board during the quarterly meeting that will include several contract issues, in addition to the annual report of the internal auditor.

1. Security Audit of Pathway

TRS published a request for proposals (RFP) earlier this year for a security audit of Pathway. that resulted in a contract with Based upon review of responses to the RFP, staff was recommending a contract with Crowe LLP. This matter could not be presented to the board for a vote in March because of the COVID-19 emergency. Pursuant to the procurement rules, the executive secretary contracted with Crowe. Details of this procurement are being presented now.

2. Contract Renewals: Pursuant to the provisions of service contracts that resulted from earlier RFPs in accordance with Senate Bill 2 (2017 RS), staff is recommending to the committee renewal of those contracts for fiscal year 2020-2021 as follows:

A. Actuarial Services:

Cavanaugh Macdonald Consulting

B. Federal Tax, Fiduciary, Litigation and Other Legal Services:

Ice Miller
McBrayer
Stoll Keenon Ogden
Williams & Jensen

C. Janitorial Services:

AC Advanced Cleaning Services

D. Printing Services:

SouthEast Printing & Mailing

E. Software Solution and Services for Financial Reports:

Vertosoft

F. Communications:

MulloyBorland

3. Investment Expert Contracts: Staff is recommending to the committee contracts for fiscal year 2020-2021 as follows:

Bevis Longstreth

George Philip

4. Internal Auditor's Report

A. Review of Fiscal Year 2019-2020 Audit Summaries: The internal auditor will be reporting to the committee on projects under the fiscal year 2019-2020 audit plan.

B. Recommendation of Fiscal Year 2020-2021 Audit Plan: The internal auditor will be presenting a report on the fiscal year 2020-2021 audit plan.

Executive Secretary Recommendation: The executive secretary recommends that the board consider the report of the committee.

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Report of the Insurance Committee

The Insurance Committee will have a special meeting on June 15, 2020, prior to the quarterly board meeting. The committee will present a report to the board during the quarterly meeting.

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

FROM: Gary L. Harbin, CPA
Executive Secretary

DATE: June 15, 2020

SUBJECT: Executive Secretary's Observations and Comments

1. Number of Retirements: The number of retirements for June/July this year was less than the number for the same period last year. The number of retirements this year was the fewest in 15 years and below the average of 1,238 for the last 15 years. The chart below lists the number of June/July retirements over the past 15 years.

<u>School Year Ended</u>	<u>Number of Retirees</u>
2020	916
2019	1,043
2018	1,381
2017	1,269
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

2. Executive Secretary serving as President of Public Sector Healthcare Roundtable: I serve as the president of the Public Sector Healthcare Roundtable. The roundtable is a national coalition of public sector health care purchasers that has been formed to insure the interests of the public sector are represented properly 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, Virginia.

3. Executive Secretary's Meetings: I have met with several groups recently and will report to the board concerning the following:

March 19, 2020	Teleconference with investment manager
April 1, 2020	Know Your Rx Coalition teleconference
April 2, 2020	Teleconference with mental health professionals regarding COVID-19
April 6, 2020	Teleconference with healthcare professionals

April 14, 2020	Teleconference with investment manager
April 17, 2020	Teleconference with NCTR
April 20, 2020	Teleconference with KRTA Executive Council
April 20, 2020	Teleconference with public relations consultant
April 23, 2020	Participated in NCTR webinar
April 28, 2020	Teleconference with Aon and Coriell
May 14, 2020	Teleconference with investment manager
May 20, 2020	Participated in KRTA webinar
June 2, 2020	Know Your Rx Coalition board meeting
June 4, 2020	Teleconference with public relations consultant
June 12, 2020	Teleconference with Public Sector Healthcare Roundtable members

4. Coronavirus response: During the global pandemic of COVID-19, TRS has performed without a hitch, providing all our services to members. About 90 to 95% of employees work from home in a dozen Kentucky counties, a handful prefer being in the office and another handful splits time between home and office. The most noticeable change is that the office remains closed to visitors. The checks still are going out on time. Counseling sessions are conducted by video or phone. We're still processing retirements and completing changes requested in beneficiaries. We're still investing in real time. Seminars are conducted as webinars. Board and committee meetings are conducted with public access using video teleconferencing. We still work with all the national groups we did before, including presenting virtually at conferences. I've spoken to multiple constituent group meetings. We've directly contacted our oldest members using mass emails and phone calls. I recorded a video that is on the TRS website talking to members about how TRS is operating at this time. A page on the website contains the video and summarizes all the changes made because of the virus and ways that members can help keep themselves well at this time.

5. Director of Retiree Health Care serving on SALGBA board: Jane Gilbert serves on the board of the State and Local Government Benefits Association (SALGBA), which is a national organization that provides its members with educational and collaborative support. Since its inception in 1982, SALGBA members have held educational conferences in major cities across the country.

SALGBA offers a continuing education program that provides accreditation as a Certified Government Benefits Administrator. Director Gilbert and TRS employee Leeann Uebel have achieved the accreditation.

6. Chief Financial Officer serving on GFOA and P2F2 committees: Mark Whelan serves on the Government Finance Officers Association (GFOA) Committee on Retirement Benefits and Administration. Also, earlier this year, the CFO was named to the GFOA Special Review Executive Committee. This committee is responsible for setting program policy for the Certificate of Achievement for Excellence in Financial Reporting Program. The CFO recently presented at a GFOA teleconference on pension plans' response to the coronavirus.

GFOA is a national organization with more than 20,000 members. The committee works with state and local administrators, trustees and personnel officials to manage state and local

retirement funds and employee benefits effectively. The committee tracks new industry practices; regulatory and legislative developments; and issues best practices to assist public pension and personnel officers.

The CFO also serves on the board of the Public Pension Financial Forum (P2F2). The membership of P2F2 includes finance directors and professionals from all over the United States. P2F2 is an education and professional networking organization that promotes financial excellence for public pension plans. P2F2 works with the Governmental Accounting Standards Board (GASB), Government Finance Officers Association (GFOA) and the American Institute of Certified Public Accountants (AICPA) with the development and implementation of accounting standards that affect public pension plans.

7. Disabilities Earnings Limitations: In 2013, the board authorized increasing the disability earnings limitation to \$41,982. From time to time, the board reviews increasing the limitation to account for inflation. Staff performed an analysis of increases in the Consumer Price Index over the last seven years and recommends the following:

- Effective July 1, 2020, increase the disability earning limitation to \$42,360; and
- Effective January 1, 2021, increase the disability earning limitation to \$42,740

Executive Secretary's Recommendation: The Executive Secretary recommends that the disability earnings limitation be increased as reported.

8. Next Meeting: The next quarterly meeting of the board will be September 21, 2020.