

## MEMORANDUM

To: Representative James Todd  
From: Alan D. Conroy, Executive Director  
Date: January 23, 2013  
Subject: Asset Allocation of KPERS' Assets

During the House Pensions and Benefits Committee meeting on January 16, you requested information regarding the current asset allocation of KPERS' assets. Attachment A provides the requested information. Additional background about KPERS' target asset allocation is provided below as context for the data.

Background. KPERS' strategic allocation to each asset class is determined through an asset/liability study. Conducted every three to five years, an asset/liability analysis uses statistical and actuarial methods to project the future growth path of both assets and liabilities. The last, full asset/liability study was completed in July 2011 by the KPERS Board of Trustees and staff, working with the System's general investment consultant. However, 2012 HB 2461 gave the System some additional flexibility to invest in "alternative investments," such as private equity, private credit, infrastructure, and other similar investments that are not regularly traded. In light of this additional flexibility, the Board conducted another asset/liability study over the summer to update its long-term strategy, which then was adopted in November.

The System's investment staff and consultants are now in the process of developing an implementation plan for the new target strategy. The KPERS investment portfolio will be transitioned to the new long-term target over a period of time, as market conditions warrant. Due to the size of KPERS' portfolio and the nature of alternative investments, this transition is expected to occur over a period of four years, with annual interim targets as implementation guideposts.

### Attachments.

- Attachment A shows KPERS' asset allocation on December 31, 2012, as compared to the interim target allocation established for January 1, 2013, and the new long-term target. (Please note – the target allocation chart provided to the Committee on January 16 did not reflect these new targets.)
- Attachment B is taken from a presentation by KPERS' general investment consultant, Allan Emkin of Pension Consulting Alliance, Inc., to the KPERS Board of Trustees on January 17, 2013, which outlined new target asset allocation implementation plans. In addition to the information provided by Attachment A, it sets out the remaining interim target allocations for 2014-2016.
- Attachment C provides a quick reference to each of the asset classes in KPERS' target allocation, including a brief description and the benchmark used for performance comparisons.

I would be glad to respond to any other questions you may have about KPERS' portfolio or provide additional information upon request.

Attachments

**House Pensions & Benefits**

Date: 1/23/2013

Attachment # 1



## Asset Allocation Overview

Portfolio Value as of 12/31/2012: \$13,649,517,815

	Current Allocation (12/31/12)		1/1/13 Interim Policy Target		Current \$ to Interim Target \$	1/1/13 Long-Term Policy Target	
	Dollars	Percent	Dollars	Percent		Dollars	Percent
Domestic Equity	\$4,416,485,934	32.36%	\$4,367,845,701	32.00%	\$48,640,233	\$3,207,636,687	23.50%
International Equity	\$3,932,844,990	28.81%	\$3,958,360,166	29.00%	-\$25,515,177	\$3,207,636,687	23.50%
Fixed Income	\$2,172,953,367	15.92%	\$2,183,922,850	16.00%	-\$10,969,483	\$1,910,932,494	14.00%
Yield Driven	\$665,845,073	4.88%	\$682,475,891	5.00%	-\$16,630,818	\$1,091,961,425	8.00%
Real Return	\$917,013,721	6.72%	\$955,466,247	7.00%	-\$38,452,526	\$1,501,446,960	11.00%
Real Estate	\$1,021,831,962	7.49%	\$955,466,247	7.00%	\$66,365,715	\$1,501,446,960	11.00%
Private Equity	\$353,640,264	2.59%	\$409,485,534	3.00%	-\$55,845,270	\$1,091,961,425	8.00%
Cash	\$168,902,504	1.24%	\$136,495,178	1.00%	\$32,407,326	\$136,495,178	1.00%
<b>Total</b>	<b>\$13,649,517,815</b>	<b>100.00%</b>	<b>\$13,649,517,815</b>	<b>100.00%</b>	<b>\$0</b>	<b>\$13,649,517,815</b>	<b>100.00%</b>

January 23, 2013



# KPERS Asset Allocation

Attachment B

## KPERS Asset Allocation Policy Targets:

- Long Term Target adopted by KPERS November 16, 2012

	12/31/2012		Percent				
	Allocation	Target	1/1/2013	1/1/2014	1/1/2015	1/1/2016	1/1/2017
U.S. Equity	32.4	23.5%	32	29	26	25	23.5
Non-U.S. Equity	28.8	23.5%	29	27	25	24	23.5
Fixed Income	15.9	14.0%	16	15	14	14	14
Yield-Driven	4.9	8.0%	5	6	8	8	8
Real Return	6.7	11.0%	7	9	11	11	11
Real Estate	7.5	11.0%	7	9	10	11	11
Private Equity	2.6	8.0%	3	4	5	6	8
Cash	1.2	1.0%	1	1	1	1	1
	100%	100%	100	100	100	100	100

- The target allocations broadly reflect the gradual reduction of Global Equity to fund equity-like assets (Private Equity, Real Estate) and the gradual reduction of Fixed Income to fund Real Return assets.

## Asset Class Descriptions January 2013

**Domestic Equity:** This asset class consists of common and preferred stocks (publicly traded securities) of U.S. based companies.

The market index used for comparison is the Russell 3000 Index.

**International Equity:** This asset class consists of common and preferred stocks (publicly traded securities) of non-U.S. based companies.

The market index used for comparison is the MSCI All Country World Index ex U.S. Index.

**Fixed Income:** This asset class is composed of bond holdings, including bonds issued by the U.S. Treasury and governmental agencies, corporations (domestic and foreign), foreign sovereign entities, and municipalities. It also includes mortgage-backed and asset-backed securities, as well as money market securities.

The market index for this asset class is the Barclays Capital Universal Index.

**Yield Driven:** This is a new "risk class" composed of investments that derive a significant part of their expected return from income and have moderate exposure to growth risk or credit risk, but still provide a degree of diversification. (For example, Real Estate Investment Trusts, or REITs, are now part of this asset class.)

The benchmark for this asset class is a custom blend of several indices.

**Real Return:** This asset class is composed of investments, which are expected to provide long-term inflation protection. (For example, TIPS, or Treasury Inflation Protected Securities, are a key component of this portfolio.)

The benchmark for these assets is the Consumer Price Index plus 3%. Additional strategies are under development for this asset class.

**Real Estate:** The real estate asset class consists of investments in real properties, including core and non-core strategies. Core real estate investments include office, retail, industrial, and multifamily housing and are not publicly traded.

The benchmark for this asset class is a custom blend of several indices.

**Private Equity:** The private equity asset class consists of investments in non-publicly traded equity and debt across multiple sectors, including venture/growth, buyout, and credit opportunities.

The benchmark for this asset class is the Russell 3000 Index plus 3%.

**Cash Equivalents:** The cash equivalents portfolio consists of short-term money market instruments (publicly traded) which provide liquidity for the timely payment of benefits and/or expenses while earning a competitive return.

The benchmark for this asset class is the Merrill Lynch 0-1 year U.S. Treasury Index.