

MINUTES OF MEETING NO. 343
BOARD OF TRUSTEES
KENTUCKY RETIREMENT SYSTEMS
August 21, 2008 at 9:00 A.M., E.T.
Board Room
Perimeter Park West, 1270 Louisville Road
Frankfort, Kentucky 40601

Item 1

At the quarterly Meeting of the Board of Trustees held on August 21, 2008, the following members answered to their name: Randy J. Overstreet, Chair, Patricia R. Ballenger, Bobby D. Henson, Susan S. Horne, Nikki R. Jackson, Vince Lang, W. Lewis Reynolds III and Christopher Tobe.

In addition, those present were Robert M. Burnside, Executive Director, and Tracey M. Mulder, Recording Secretary. Also present were William A. Thielen, Gerri D. Miller, Adam C. Tosh, Marlane F. Robinson, J. Eric Wampler, Todd E. Coleman, Amy Doss Fields, Connie A. Davis, Scarlett Consalvi, Shawn Sparks and Richard Schultz, KRS; Mary Helen Peter and Rebecca Heckler, Kentucky Public Retirees; Brad Gross and Kelly Dudley, Legislative Research Commission; and Ed Davis, Fraternal Order of Police.

Item 2

It was moved by Mr. Lang, seconded by Mr. Henson and carried by the Board of Trustees to approve the minutes of meeting number 342 as amended.

Mr. Tobe expressed concern with the rehiring of Robert Klausner citing two articles he read that were not favorable about him, one in *The New York Times* and one in *Forbes Magazine*. Mr. Overstreet noted that the Board had been made aware of issues regarding Mr. Klausner in the past and explained that he was contracted for very specific services unrelated to those that may have been discussed in the media.

Item 3

Mr. Overstreet presented the memorandum "Oath of Office."

This memorandum was presented for informational purposes.

Item 4

Mr. Overstreet presented the memorandum "Affirmative Action Plan."

Ms. Robinson reviewed the memorandum.

This memorandum was presented for informational purposes.

Ms. Robinson departed.

Item 5

Mr. Overstreet presented the memorandum "Legislative Update/Kentucky Public Pension Working Group."

Mr. Burnside provided the Board with an update of the status of the Public Pension Working Group and its six subcommittees.

Mr. Burnside provided the Board with an update of the actions taken to date by KRS to implement House Bill 1. He referred to "Appendix A: Benefit Components" to explain the changes in the benefit components as required by House Bill 1.

Mr. Wampler led a discussion regarding the changes to the definition of hazardous duty that were included in House Bill 1. Mr. Wampler advised that the legislature changed the provisions of KRS 61.592 that define hazardous duty for persons who are hired and have an initial participation date in CERS of on or after September 1, 2008. Mr. Wampler advised that KRS attorneys and key staff interpret the change to mean that any individual hired with an initial participation date in CERS on or after September 1, 2008 may not be reported as hazardous until the employer petitions the Board of Trustees to approve hazardous coverage for that position, even though the position was previously classified as hazardous prior to September 1, 2008. Mr. Wampler advised that through numerous discussions with the Governor's office, there is considerable confusion on the interpretation of the new statutory language, especially regarding the intent of the legislation. In order to resolve this conflict and provide clear direction to CERS employers on how to implement the hazardous duty language in House Bill 1, KRS staff recommends petitioning the Office of the Attorney General for a formal opinion on the interpretation of KRS 61.592 and related statutes.

After considerable discussion on the topic, the Board expressed their support of the plan to petition the Office of the Attorney General. Accordingly, no rulings will be issued on CERS employer requests for hazardous coverage for employees participating on or after September 1, 2008, until KRS receives a reply from the Attorney General.

This memorandum was presented for informational purposes.

Jennifer A. Jones, KRS, entered the meeting during this discussion.

Item 6

Mr. Overstreet presented two memorandums titled “Administrative Regulations.”

Mr. Wampler reviewed the two memorandums.

It was moved by Ms. Horne, seconded by Ms. Ballenger and carried by the majority to authorize staff to file with the Legislative Research Commission the proposed ordinary administrative regulation 105 KAR 1:130, Hazardous Duty Coverage, subject to a formal opinion from the Office of the Attorney General and to work with the Legislative Research Commission to make recommended changes that do not alter the effect of the amendment to the administrative regulations.

Ms. Jackson abstained.

Ms. Consalvi departed.

It was moved by Mr. Reynolds, seconded by Mr. Lang and carried by the Board of Trustees to authorize staff to file with the Legislative Research Commission the remaining proposed administrative regulations as presented in the memorandum and to work with the Legislative Research Commission to make recommended changes that do not alter the effect of the amendments to the administrative regulations.

Ms. Jones departed.

Item 7

Mr. Overstreet presented the memorandum “Implementation of 1% Employee Contribution to the KRS Insurance Fund.”

This memorandum was presented for informational purposes.

Item 8

Mr. Overstreet presented the memorandum “Quarterly Reports of the Audit Committee.”

Ms. Ballenger reviewed the memorandum.

It was moved by Ms. Ballenger, seconded by Mr. Reynolds and carried by the Board of Trustees to ratify the action of the Audit Committee with respect to approving the Audit Report “Review

of Expenditure for Roof Repair KRS Perimeter Park West, Inc.”

Mr. Coleman explained to the Board that Internal Audit had recently completed a series of questions from the Finance and Administration Cabinet regarding the Holly Hill land purchase transaction, which were follow up questions to a series completed in February of this year. Mr. Tobe expressed concern that there may be issues with the IRS because Perimeter Park West (PPW) is considered a non-profit entity and due to the purchase of Holly Hill. Mr. Coleman stated that PPW is considered a 501(c)(25), which means that it is tax exempt and only allowed to hold real estate. Mr. Tobe expressed concerns regarding governance issues because PPW has its own separate board meetings. Mr. Thielen stated that the PPW board consists of two members of the Board of Trustees and held meetings as necessary. All matters before the PPW board and any recommendations are taken to the Investment Committee and then ultimately the Board of Trustees. Mr. Tobe opined that the real estate owned by KRS served more of an administrative function rather than an investment function.

Item 9

Mr. Overstreet presented the memorandum “Nominations for CERS Board Member Election.”

Mr. Lang and Mr. Davis departed.

Mr. Coleman advised that the Election Policy provides that the Board will complete a nomination form to nominate three candidates for each of the two CERS positions for a total of six nominations.

The Board of Trustees voted and Mr. Coleman collected the ballots.

Mr. Overstreet advised that because there were exactly six candidates for this election that all six are eligible for nomination.

It was moved by Ms. Ballenger, seconded by Mr. Tobe and carried by the Board of Trustees to nominate Janet Barrow, Edwin Davis, Vince Lang, Brian S. Roy, Thomas A. Wietholter and Robert Wilcher to be placed on the CERS election ballot.

Mr. Lang and Mr. Davis returned.

Item 10

Mr. Overstreet presented the memorandum "Retiree Health Plan Committee Report."

Mr. Henson and Mr. Schultz reviewed the memorandum.

It was moved by Mr. Henson, seconded by Ms. Horne and carried by the Board of Trustees to ratify the action of the Retiree Health Plan Committee with respect to awarding a contract to Independent Pharmaceutical Consultants, Inc. to assist KRS with implementing an Employer Group Waiver Plan.

It was moved by Mr. Henson, seconded by Mr. Lang and carried by the Board of Trustees to adopt the following monthly rates for the 2009 KRS health plans for Medicare eligible retirees: Medical Only Plan: \$162 per month, Plus Plan: \$267 per month, and Premium Plan: \$338 per month.

Mr. Sparks and Mr. Schultz departed.

Item 11

Mr. Overstreet presented the memorandum "Initial Retirement Cases, Fourth Quarter, 07-08."

It was moved by Mr. Lang, seconded by Ms. Horne and carried by the Board of Trustees to ratify the action of staff and approve the payment of initial retirement benefits as presented.

Item 12

Mr. Overstreet presented the memorandum "Death Benefit Payments, Fourth Quarter, 07-08."

It was moved by Mr. Henson, seconded by Mr. Reynolds and carried by the Board of Trustees to ratify the action of staff and approve the payment of death benefits as presented.

Item 13

Mr. Overstreet presented the memorandum "Refund of Member Contributions for the Quarter Ended June 30, 2008."

It was moved by Ms. Horne, seconded by Mr. Lang and carried by the Board of Trustees to approve the action of the staff in the refund of member contributions for the quarter ended June 30, 2008.

Item 14

Mr. Overstreet presented the memorandum "Financial Statements as of June 30, 2008."

Mr. Thielen reviewed the memorandum.

This memorandum was presented for informational purposes.

Mr. Coleman and Mr. Gross departed.

Item 15

Mr. Overstreet presented the memorandum "Fiduciary and Ethics Reports from Around the Country."

Mr. Wampler reviewed the memorandum and attached articles. He emphasized to the Board the importance of thorough due diligence when contracting with vendors, in particular security litigation firms.

Mr. Tobe stated that Mr. Klausner was mentioned in the *Forbes Magazine* article regarding security litigation and referral fees.

Mr. Wampler noted that later in the agenda he will discuss the hiring of an Evaluation Counsel for Securities Litigation. Mr. Wampler stated that Mr. Klausner does not and will not ever represent KRS on any matter related to Securities Litigation. Mr. Wampler stated that information from the *Forbes* article was distributed to the Board of Trustees at the time it was printed. Mr. Wampler stated that KRS evaluated Mr. Klausner and determined that there has never been any Bar complaint against him and that there is no conflict of interest since he does not represent KRS in the area of securities litigation. Mr. Wampler advised that Mr. Klausner has done excellent work for KRS in the matters of which he has been assigned.

This memorandum was presented for informational purposes.

Item 16

Mr. Overstreet presented the memorandum "Investment Portfolio, June 30, 2008."

Mr. Tosh reviewed the memorandum.

This memorandum was presented for informational purposes.

Item 17

Mr. Overstreet presented the memorandum "Investment Committee Quarterly Report."

Mr. Tosh reviewed the memorandum. Mr. Tosh noted that the pension fund was down 4.21% and that relative to other pension funds KRS was now in the upper half of pension plans, moving up from the bottom of the third quartile.

Mr. Tobe asked if peer comparisons could be included in the performance overview in the future.

Mr. Tosh stated that something could be included on occasion but there are more conclusive pension plan surveys for the fiscal year end.

Mr. Tobe stated that it would be important information for the Board of Trustees to not only see the index but comparisons to other public pension plans.

Mr. Tosh stated that there are numbers available to compare KRS to other pension plans but he would caution that month to month or quarter to quarter comparisons may not necessarily be reflective of what the System is doing. Mr. Tosh stated that the rankings look at performances but not how those pension plans are structured.

Ms. Horne stated that she and Mr. Tosh had previously discussed providing peer comparisons on the quarterly reports and she is reluctant to go in that direction. Ms. Horne suggested that since the information is available, Board members request the quarterly comparisons if they choose to do so. However, since it is not a true reflective comparison, the information should not be included in the quarterly report.

Mr. Reynolds concurred with Ms. Horne because if two different pension plans of relatively the same size are compared from an actuarial standpoint, the emerging liabilities from one plan to another are not comparable and each plan would vest accordingly.

Mr. Tosh stated that although we need to look at the comparisons and how other pension plans are investing, as fiduciaries it is our objective to manage the money in the best interest of KRS.

It was moved by Mr. Reynolds, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of the Investment Committee with respect to a commitment of \$75 million to Crestview Partners Fund II, a mid-market buyout fund, pending satisfactory completion of the due diligence and successful negotiation of partnership terms; a commitment of \$100 million to Duff, Ackerman & Goodrich, a venture capital fund, pending satisfactory completion of the due diligence and successful negotiation of partnership terms; select Northern Trust Global Investments to manage investments in the NTGI Developed Small Cap Index Fund, Emerging Markets Small Cap Fund, and Frontier Market Index Fund, pending satisfactory completion of the due diligence and successful contract negotiations; a contract extension for Strategic Investment Solutions (SIS) in order to ensure continued consultant services/coverage as the due diligence is completed on the general consultant search; select Reinhart Boerner Van Deuren for KRS' Securities Evaluation Consultant, pending satisfactory completion of the due diligence and successful contract negotiation; and authorize the Chief Investment Officer to invest up to \$25 million in commitments to top-tier venture capital funds (Accel Partneres, Benchmark Capital, Greylock Partners, Kleiner Perkins Caufield & Byers (KPCB) and Sequoia Capital) through the KRS Opportunistic Venture Capital Fund/Program, pending satisfactory completion of due diligence and successful contract/partnership negotiations.

Item 18

Mr. Overstreet presented the memorandum "Fiscal Year Review of Commissions."

This memorandum was presented for informational purposes.

Item 19

Mr. Overstreet presented the memorandum "Participation of Additional Agencies and Hazardous Positions."

Ms. Miller reviewed the memorandum.

It was moved by Mr. Lang, seconded by Ms. Horne and carried by the Board of Trustees to approve CERS participation of Sandy Hook Water District and the City of Grayson.

It was moved by Mr. Lang, seconded by Ms. Horne and carried by the Board of Trustees to approve hazardous duty coverage for the position of Executive Director of the Northern Kentucky Strike Force with the Kenton County Fiscal Court retroactive to April 1, 2004.

It was moved by Ms. Horne, seconded by Mr. Reynolds and carried by the Board of Trustees to approve hazardous duty coverage for the position of Assistant Chief of Paramedicine with the Burlington Fire Protection District effective September 1, 2008.

It was moved by Ms. Ballenger, seconded by Ms. Horne and carried by the Board of Trustees to approve hazardous duty coverage for the position of Deputy Chief of Operations with the Shelby County Fiscal Court effective September 1, 2008.

The Board discussed the request for hazardous duty coverage for the position of Staff Assistant with the Office of the Attorney General. The Board requested that staff obtain additional information to clarify the position because the title of Staff Assistant is a general classification in State Government.

It was the consensus of the Board to defer the position of Staff Assistant, Office of the Attorney General, to a future meeting.

Item 20

Mr. Overstreet presented the memorandum "START Quarterly Report."
Mr. Thielen reviewed the memorandum.

This memorandum was presented for informational purposes.

Ms. Horne departed.

Item 21

Mr. Overstreet presented two memorandums titled "Contracts."

Mr. Wampler reviewed the two memorandums.

It was moved by Ms. Ballenger, seconded by Mr. Lang and carried by the Board of Trustees to adopt the recommendation of the Hearing Officer Search Committee and authorize contracts

with Patsey Jacobs and Vaughn Murphy to provide hearing officer services at a rate of \$60.00 per hour plus all necessary and reasonable travel expenses in accordance with the KRS Travel Policy and Procedures.

It was moved by Mr. Lang, seconded by Ms. Ballenger and carried by the Board of Trustees to adopt the recommendation of the Risk Management Auditor Search Committee and authorize a contract with Advanced Investigative Solutions, Inc. to provide investigator services at the following rate: \$95.00 per hour or a flat rate of \$2,500.00 for investigating specific disability/applicants/recipients or members/retirees/beneficiaries within the Commonwealth of Kentucky. If the number of cases referred for investigation exceeds ten per fiscal year, the rate will be reduced to \$80.00 per hour or a flat rate of \$2,000.00 for all subsequent cases. The Contractor reserves the right to increase the hourly and flat rate fee by no more than 30% for investigations outside the Commonwealth. The Contractor and his employees traveling to perform services will be reimbursed all necessary and reasonable travel expenses in accordance with the KRS Travel Policy and Procedures.

It was moved by Mr. Tobe, seconded by Mr. Henson and carried by the Board of Trustees to authorize a contract with Reinhart Boerner Van Deuren to act as Evaluation Counsel for Securities Litigation as outlined in the presentation memorandum at the following rates:

Senior Shareholder	\$330.00/hour
Shareholder	\$330.00/hour
Senior Associates	\$250.00/hour
Associate	\$225.00/hour
Paralegal	\$ 95.00/hour

The Systems would also reimburse all necessary and reasonable out of pocket costs and expenses, including travel expense to meet with the Systems' staff, the Board of Trustees and/or a committee of the Board of Trustees, and for court appearances in accordance with the KRS Travel Policy and Procedures.

It was moved by Mr. Reynolds, seconded by Ms. Ballenger and carried by the Board of Trustees to authorize a contract with Julia Field Costich, M.P.A., J.D., PhD as an Expert Witness to review and analyze documents and other materials and consult with the Systems, its attorneys and representatives and offer expert opinions at the rate of \$100 per hour. The Systems will also reimburse all necessary and reasonable travel expenses to meet with Systems' staff, the Board of Trustees and/or a committee of the Board of Trustees, and for deposition or court appearances in accordance with the KRS Travel Policy and Procedures.

It was moved by Ms. Ballenger, seconded by Mr. Henson and carried by the Board of Trustees to authorize the extension of the Contract for Services dated May 18, 2006 with Strategic Investment Solutions, Inc. for one year from July 1, 2008 with all terms and conditions to remain the same.

Item 22

Mr. Overstreet presented the memorandum "Surplus Property Declaration."

Mr. Thielen reviewed the memorandum.

This memorandum was presented for informational purposes.

It was moved by Mr. Reynolds, seconded by Mr. Tobe and carried by the Board of Trustees to enter into "Closed Session" for the purposes of 1) discussing litigation pursuant to KRS 61.810(1)(c) because of the necessity of protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege; 2) discussing member accounts pursuant to KRS 61.810(1)(k) due to the sensitive and personal nature of the medical records to be considered and the requirement of KRS 61.661(1) that each member's account be administered in a confidential manner.

Ms. Peter, Ms. Heckler, Ms. Dudley and Mr. Davis departed.

It was moved by Mr. Henson, seconded by Mr. Lang and carried by the Board to return to "Open Session" after discussion of member accounts and litigation in "Closed Session" under the provisions of KRS 61.810(1)(c), (k) and KRS 61.661(1) with no action being taken in "Closed Session."

Item 23

Mr. Overstreet presented the memorandum "Pending Litigation."

Pending litigation was reviewed in closed session with no action being taken.

Item 24

Mr. Overstreet presented the memorandum "Disability Appeals Committee Quarterly Report."

It was moved by Ms. Jackson, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of the Disability Appeals Committee for the quarter ending June 30, 2008.

Item 25

Mr. Overstreet presented the memorandum "Administrative Appeals Committee Quarterly Report."

It was moved by Mr. Reynolds, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of the Administrative Appeals Committee for the quarter ending June 30, 2008.

Item 26

Mr. Overstreet presented the memorandum "Medical Examiners Approvals/Denials of Disability Retirement."

It was moved by Mr. Henson, seconded by Ms. Jackson and carried by the Board of Trustees to ratify the action of staff in the denial of 88 disability applications and approval of 38 disability applications, for the quarter ending June 30, 2008.

Item 27

Mr. Overstreet presented the memorandum "Annual Review Update for Recipients Receiving Disability Benefits."

It was moved by Ms. Jackson, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of staff in the termination of disability retirement benefits for five recipients.

Item 28

Mr. Overstreet presented the memorandum "Recommendations for Hazardous Disability Retirement."

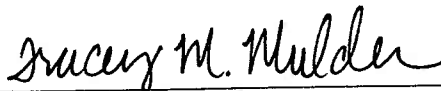
It was moved by Mr. Lang, seconded by Ms. Ballenger and carried by the Board of Trustees to ratify the action of staff and approve hazardous disability retirement benefits for nine applicants, with six of those being approved for in-the-line-of-duty benefits.

Item 29

There being no further business, the meeting was adjourned at 12:35 p.m., to meet on October 31, 2008 at 8:30 A.M., E.T., or upon the call of the Chair, Executive Director, or at the request of five members of the Board.


CERTIFICATION

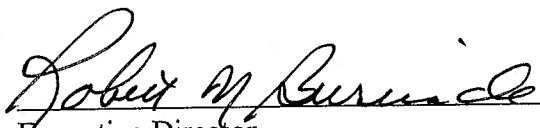
I, Tracey M. Mulder, do certify that I was present at this meeting and that I have recorded above the action of the Board on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805 through 61.850 were met in connection with this meeting. Finally, I certify that the Minutes and supporting materials have been forwarded to each member of the Board and have been included in the permanent records of the Board.



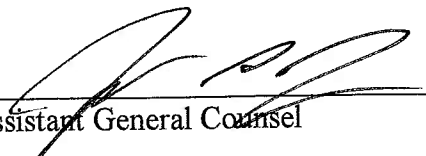
Tracey M. Mulder
Recording Secretary

We, the Chair and the Executive Director of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of Meeting No. 343 were approved by the Board on February 19, 2009.

Signed: 
Chair

Signed: 
Executive Director

I, Jennifer A. Jones, was present for only a portion of Meeting No. 343 and have reviewed the Minutes of Meeting No. 343 for form, content and legality.


Assistant General Counsel