

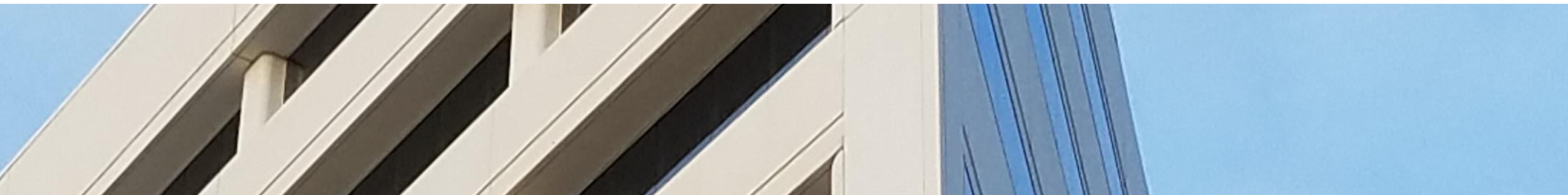


Prepared for



KRS U.S. Equity Composite

Initial Review of Investment Structure



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Wilshire Consulting
AGENDA

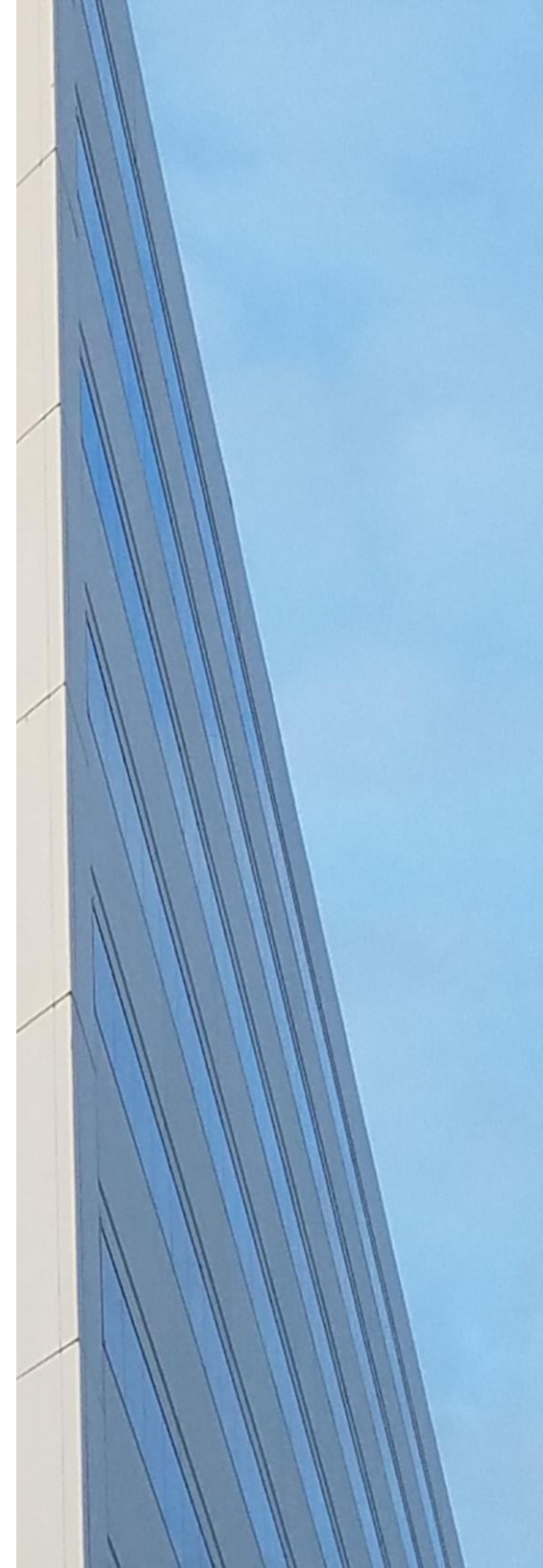
Review of current manager lineup

Investment Structure Inputs

Investment Structure Results & Observations

Conclusions

Next Steps





Current Manager Lineup

Current Manager Lineup as of 11/30/2017

Manager/Product	Allocation (%)
River Road Asset Management – Dividend All-cap Value	1.2%
River Road Asset Management – Focused Absolute Value	4.7%
Westfield Capital Management Co. – All-cap Growth Equity	5.7%
S&P - 500 Index	48.2%
KRS Internally Managed – Scientific Beta	11.2%
Northern Trust – NT Quality Small Cap Core Strategy	8.4%
Russell Midcap Index	10.7%
Systematic Financial Management – Mid-cap Value	9.9%

KRS U.S. Equity Composite Qualitative Analysis



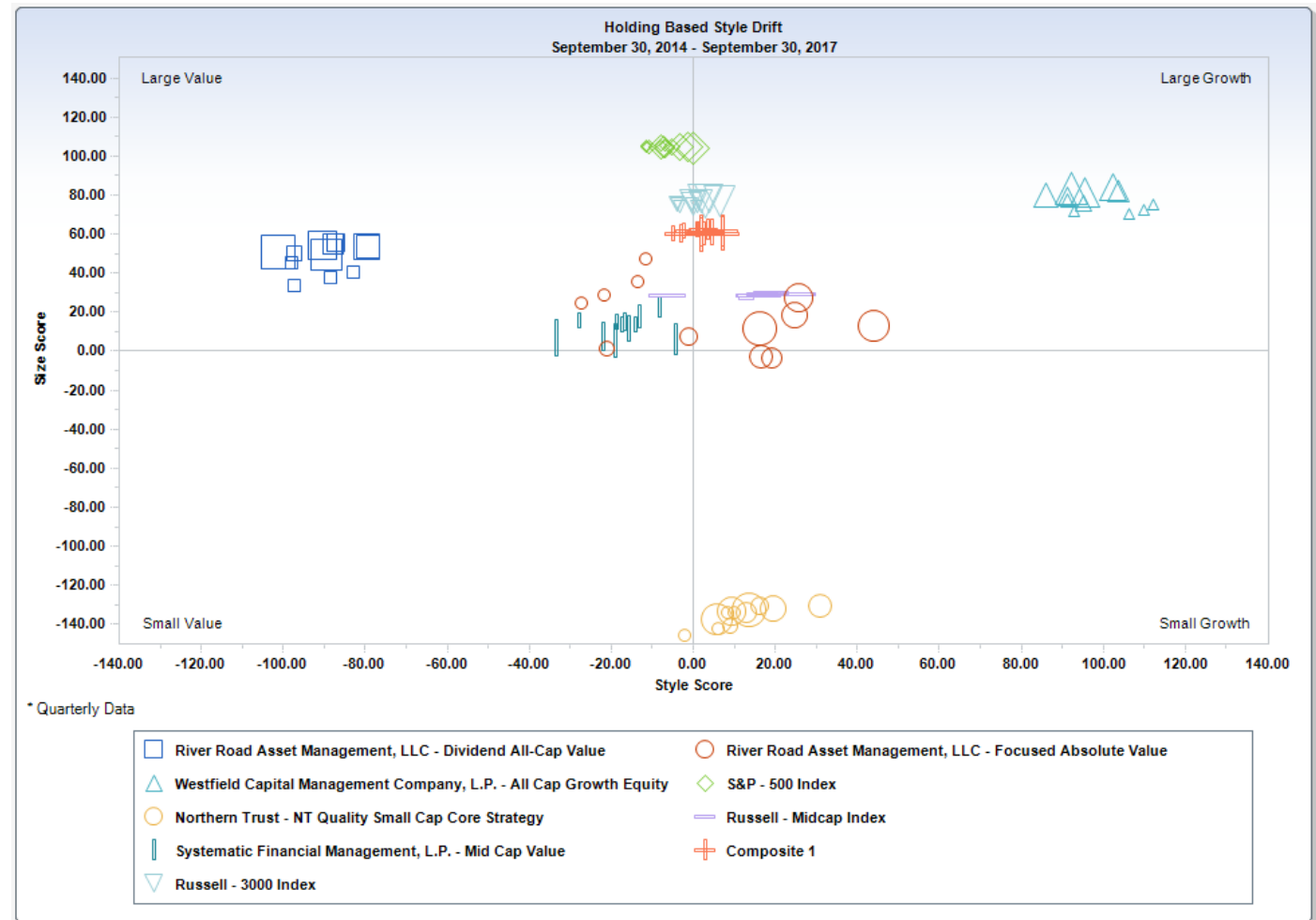
- Currently, two of the five external investment manager products employed within the U.S. Equity Composite have been ranked by Wilshire Associates
 - Westfield Capital Management Company’s All-cap Growth product
 - Systematic Financial Management’s Mid-cap Value product
- Decile results shown below represent a 100% qualitative scoring model

 Manager Decile Ranking Report	Eval Date	Firm	Team	<u>Qualitative Rankings(100%)</u>							<u>Quantitative Rankings(0%) as of September, 2017</u>				<u>Total</u>
				Organization	Information	Forecasting	Portfolio Construction	Implementation	Attribution	Skill	Universe IR	Consistency Means Avg	Consistency Batting	Beta Decile Deduction	
Westfield Capital Management Company, L.P. - All Cap Growth Equity	11/28/2017	1st	1st	1st	1st	1st	5th	4th	3rd	7th	6th	9th	6th	0.5	2nd
Systematic Financial Management, L.P. - Mid Cap Value	4/4/2017	4th	5th	5th	3rd	5th	3rd	3rd	5th	7th	10th	4th	6th	0.6	4th

- Remaining external investment manager products have been added to Wilshire’s Manager Research queue for evaluation

KRS U.S. Equity Composite Composite Style Drift

- Current Composite shows similar style drift with Russell 3000 Index over the last few years
- Individual manager styles compared to style benchmark range from minimal to large style differentials (see appendix for individual product style drift analysis)
- River Road Focused Absolute Value shows most drift through time



Investment Structure Inputs

- Excess Return, Tracking Error, & Correlation of Excess Returns over trailing 5-years ending 9/30/2017

	River Road Asset Management, LLC - Dividend All-Cap Value	River Road Asset Management, LLC - Focused Absolute Value	Westfield Capital Management Company, L.P. - All Cap Growth Equity	S&P - 500 Index	KRS - Scientific Beta	Northern Trust - NT Quality Small Cap Core Strategy	Russell - Midcap Index	Systematic Financial Management, L.P. - Mid Cap Value
Return	-1.51	2.00	0.52	-0.01	-0.26	0.57	0.03	-1.77
Risk	3.94	5.38	4.44	1.15	2.49	6.89	2.65	5.33
Correlation								
River Road Asset Management, LLC - Dividend All-Cap Value	1.00							
River Road Asset Management, LLC - Focused Absolute Value	0.45	1.00						
Westfield Capital Management Company, L.P. - All Cap Growth Equity	-0.65	-0.25	1.00					
S&P - 500 Index	0.03	-0.04	-0.24	1.00				
KRS - Scientific Beta	0.25	-0.29	-0.05	0.03	1.00			
Northern Trust - NT Quality Small Cap Core Strategy	0.09	0.13	0.02	-0.89	-0.19	1.00		
Russell - Midcap Index	0.15	0.05	0.25	-0.78	0.36	0.56	1.00	
Systematic Financial Management, L.P. - Mid Cap Value	0.17	0.22	-0.05	-0.69	-0.20	0.64	0.51	1.00

* Excess Statistics use gross of fee returns vs. Russell 3000 Index

Investment Structure Inputs

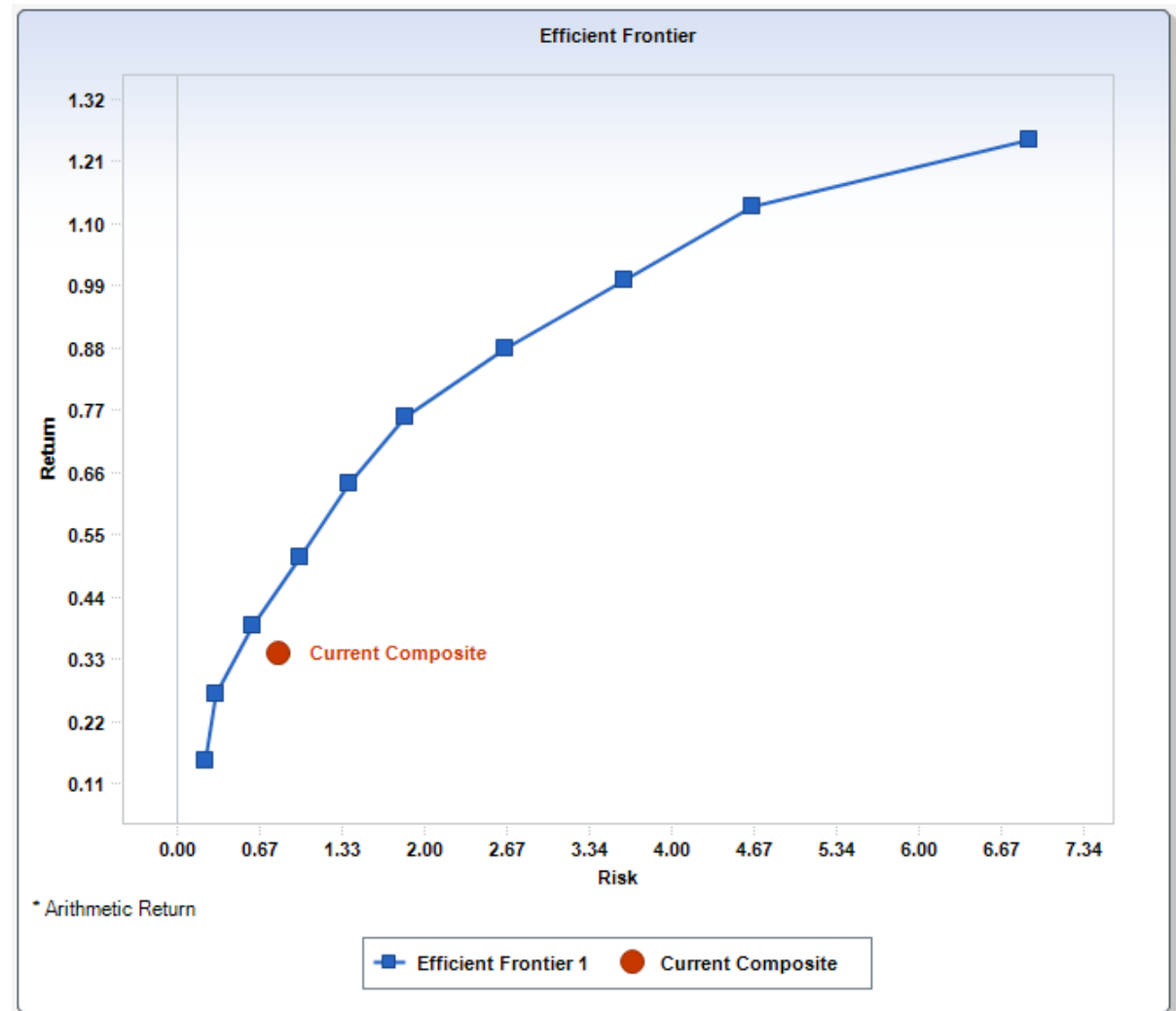
- Excess Return Assumptions updated with forward looking net of fee expectations based on historical quantitative analysis

	River Road Asset Management, LLC - Dividend All-Cap Value	River Road Asset Management, LLC - Focused Absolute Value	Westfield Capital Management Company, L.P. - All Cap Growth Equity	S&P - 500 Index	KRS - Scientific Beta	Northern Trust - NT Quality Small Cap Core Strategy	Russell - Midcap Index	Systematic Financial Management, L.P. - Mid Cap Value
Return	0.50	1.00	0.50	0.00	0.50	1.25	0.00	1.00
Risk	3.94	5.38	4.44	1.15	2.49	6.89	2.65	5.33
Correlation								
River Road Asset Management, LLC - Dividend All-Cap Value	1.00							
River Road Asset Management, LLC - Focused Absolute Value	0.45	1.00						
Westfield Capital Management Company, L.P. - All Cap Growth Equity	-0.65	-0.25	1.00					
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Systematic Financial Management, L.P. - Mid Cap Value	0.17	0.22	-0.05	-0.69	-0.20	0.64	0.51	1.00

* Excess Statistics vs. Russell 3000 Index; Forward-looking excess returns considered to be net of fees

Investment Structure Analysis

- Current Composite sits inside the efficient frontier
 - Higher excess return at same risk levels
 - Lower risk for same level of excess return



Investment Structure Analysis

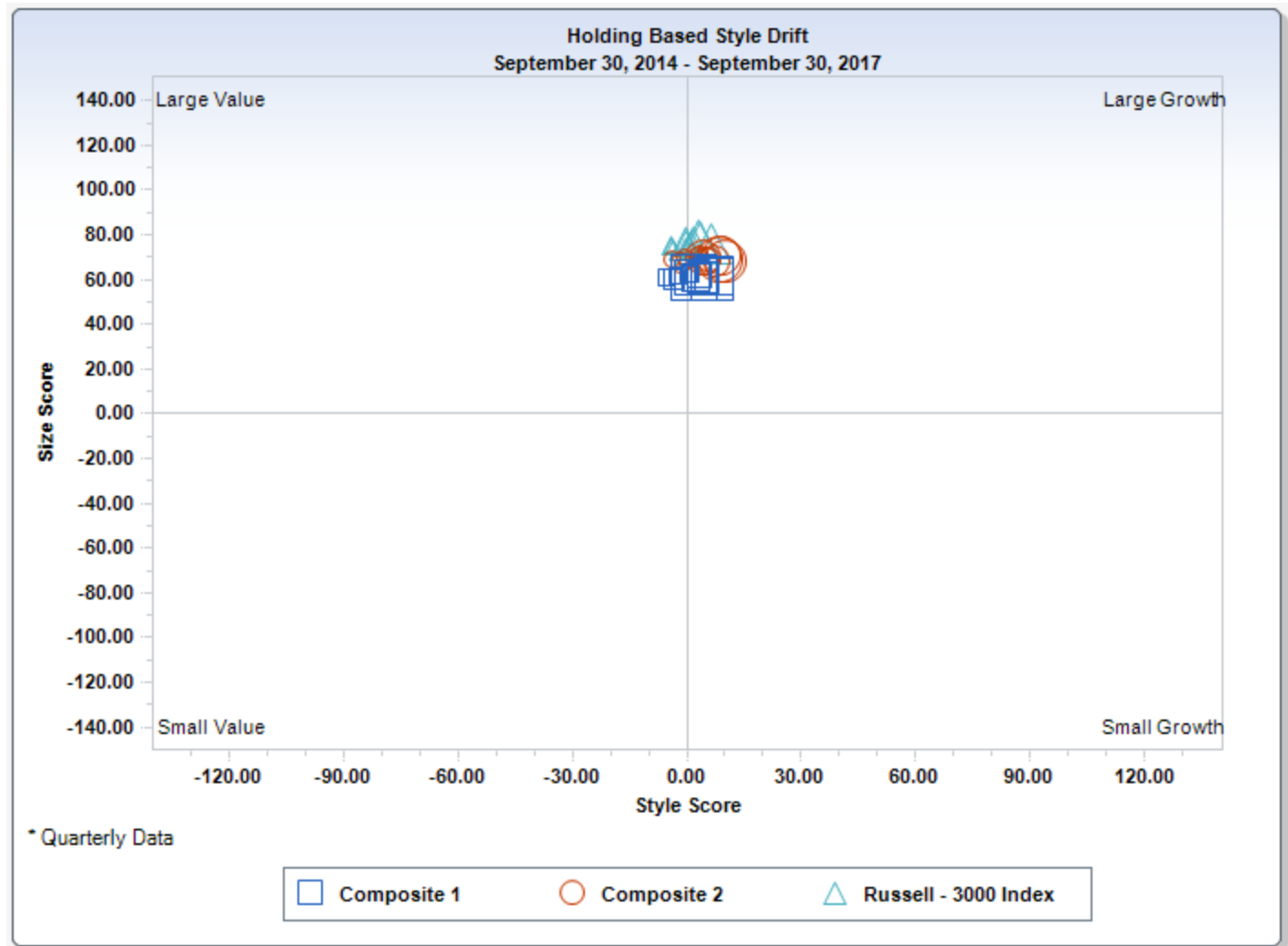
- Portfolio 3 on the efficient frontier is closest in proximity to Current Composite
- River Road Asset Management – Dividend All-cap Value is not utilized by the Optimizer
- Optimizer does not allocate to the Russell – Midcap Index in any of the efficient portfolios, except the low risk Portfolio 1.
- Portfolio 3 is close to a 50/50 mix between active and passive management

Efficient Frontier Report											
Efficient Frontier 1											
Asset	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Portfolio 5	Portfolio 6	Portfolio 7	Portfolio 8	Portfolio 9	Portfolio 10	Current Composite
River Road Asset Management, I	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.20
River Road Asset Management, I	0.00	2.21	7.40	12.58	17.77	23.93	31.46	39.00	45.51	0.00	4.70
Westfield Capital Management	3.32	6.11	8.75	11.38	14.02	13.19	7.42	1.65	0.00	0.00	5.70
S&P - 500 Index	74.81	66.92	48.26	29.61	10.95	0.00	0.00	0.00	0.00	0.00	48.20
KRS - Scientific Beta	1.32	10.95	20.99	31.03	41.07	41.52	28.32	15.13	0.00	0.00	11.20
Northern Trust - NT Quality Sma	7.82	9.24	9.05	8.85	8.66	13.14	24.29	35.43	50.93	100.00	8.40
Russell - Midcap Index	10.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.70
Systematic Financial Manageme	2.51	4.58	5.56	6.55	7.53	8.22	8.51	8.79	3.55	0.00	9.90
Return	0.15	0.27	0.39	0.51	0.64	0.76	0.88	1.00	1.13	1.25	0.34
Risk	0.22	0.30	0.61	0.99	1.39	1.84	2.64	3.61	4.65	6.89	0.81
Return/Risk	0.66	0.90	0.65	0.52	0.46	0.41	0.33	0.28	0.24	0.18	0.42

KRS U.S. Equity Composite Composite Style Drift



- Current Composite is well positioned, with a slight small cap bias, vs. Russell 3000 Index
- Optimal Composite has a closer proximity from Wilshire's style model to the Russell 3000 Index



Observations & Considerations

Analysis Observations

- The current U.S. Equity composite is appropriately constructed and does not show meaningful style/size bets vs. Russell 3000
- Given existing manager lineup, and desire to potentially move away from the Diversified All-cap Value product from River Road, the portfolio can be optimized to provide similar excess return with a decrease in tracking error
- No Immediate wholesale changes to the U.S. Equity composite recommended, small reallocation amongst existing lineup to achieve more optimal composite

Future Topics of Discussion

- What role is the River Road Focused Absolute Value playing in current composite?
- Staff conviction in Systematic Financial's Mid-cap Value product might not be strong
- Wilshire Manager Research qualitative analysis will largely drive recommendations on potential investment manager replacement via a more formal investment structure project in the coming quarters
- Overall, no glaring issues that call for immediate action to restructure portfolio

Next Steps

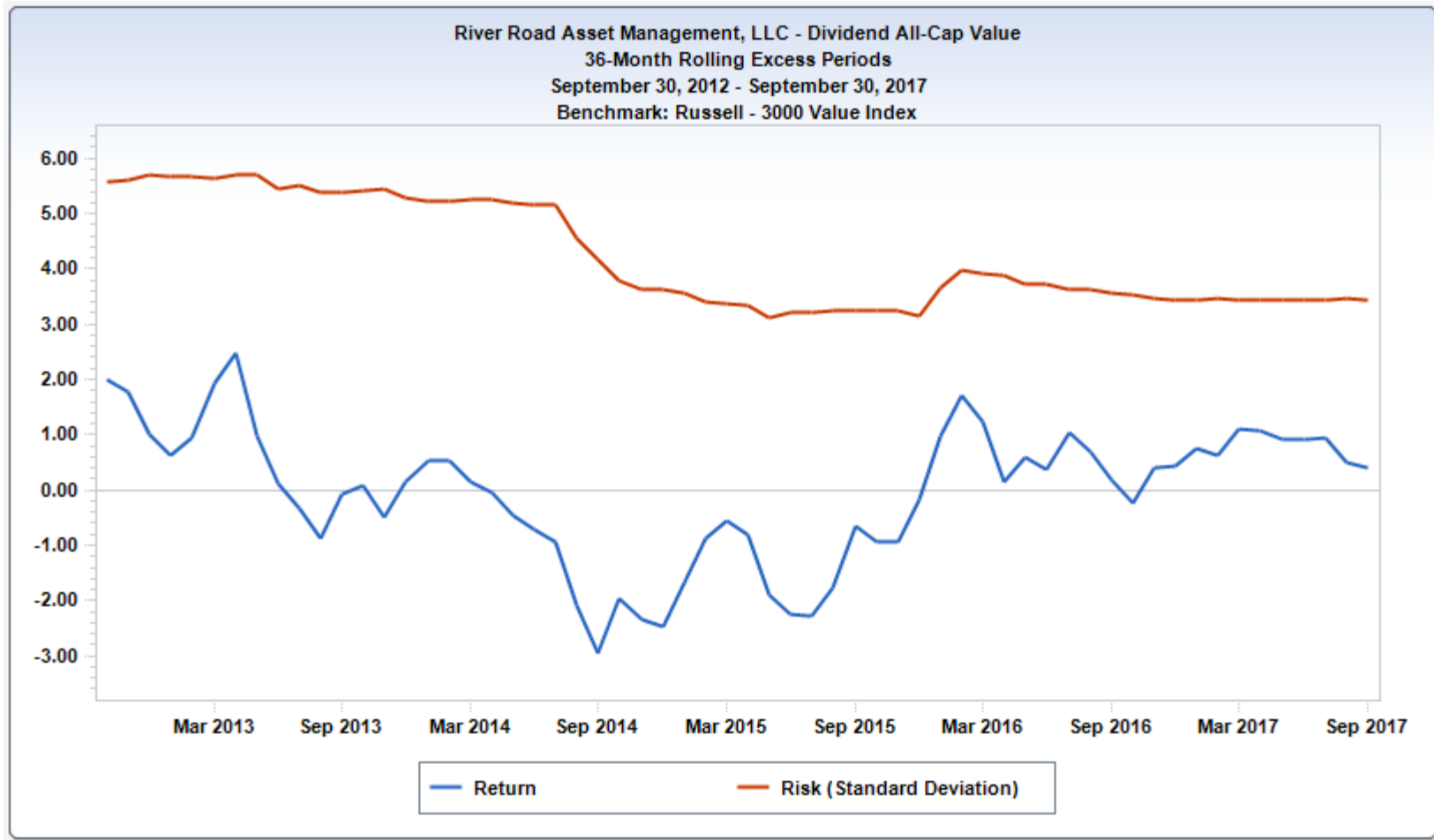
- Wilshire team will move onto Fixed Income and Non U.S. composite analysis
- Wilshire Manager Research to conduct in-depth qualitative analysis which will allow:
 - Forward looking alpha assumptions to be fine-tuned
 - Recommendations on any manager replacement or additions/subtractions to existing manager line-up
 - Formal Investment Structure analysis to be conducted and presented at a future board meeting alongside staff
- KRS staff/board to review and critique initial analysis
- KRS staff/board to adopt/reject optimal composite and make any rebalancing changes necessary



Appendix

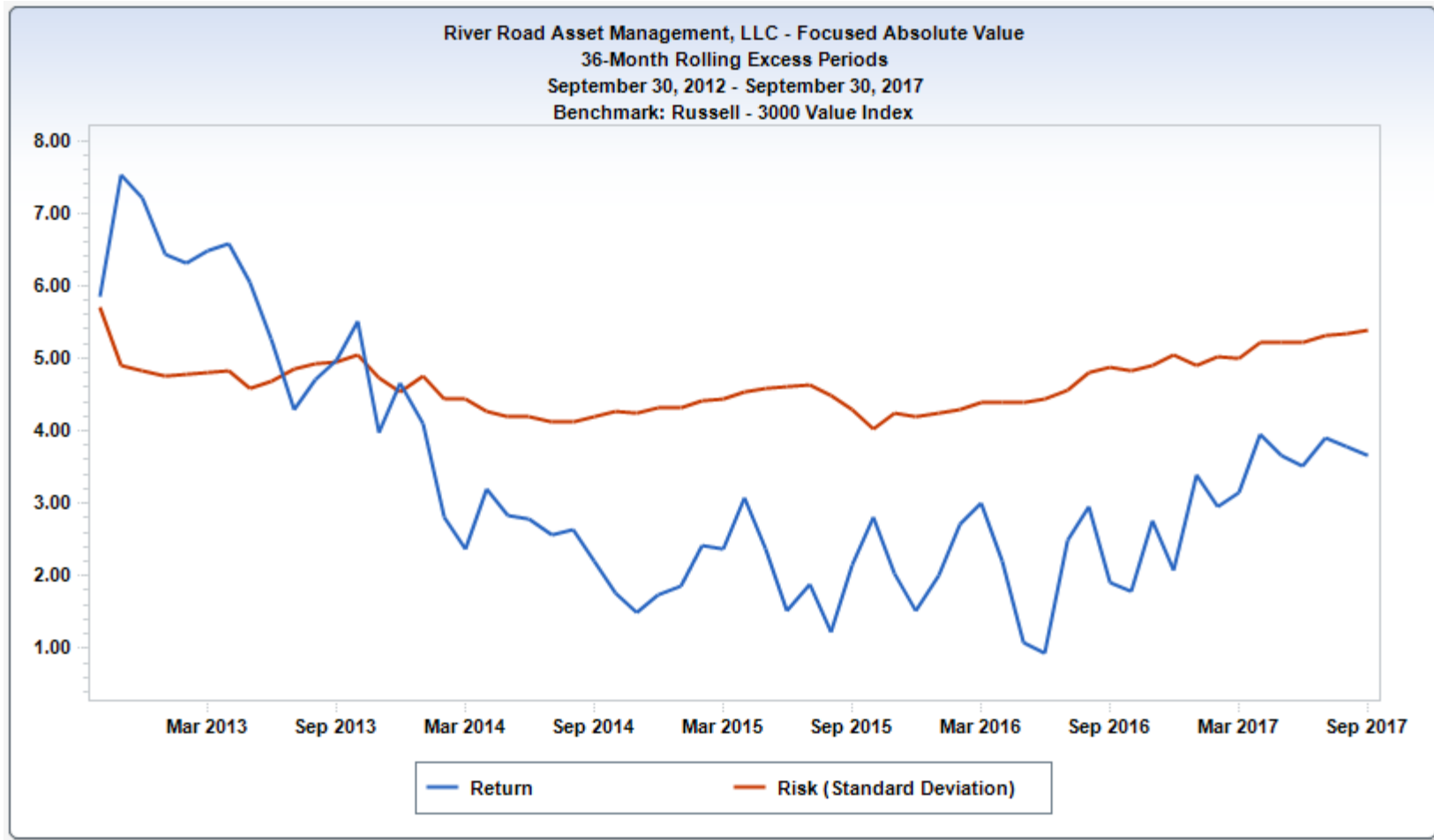
River Road Asset Management – Dividend All-cap Value

- Rolling 36 month Excess Return & Tracking Error



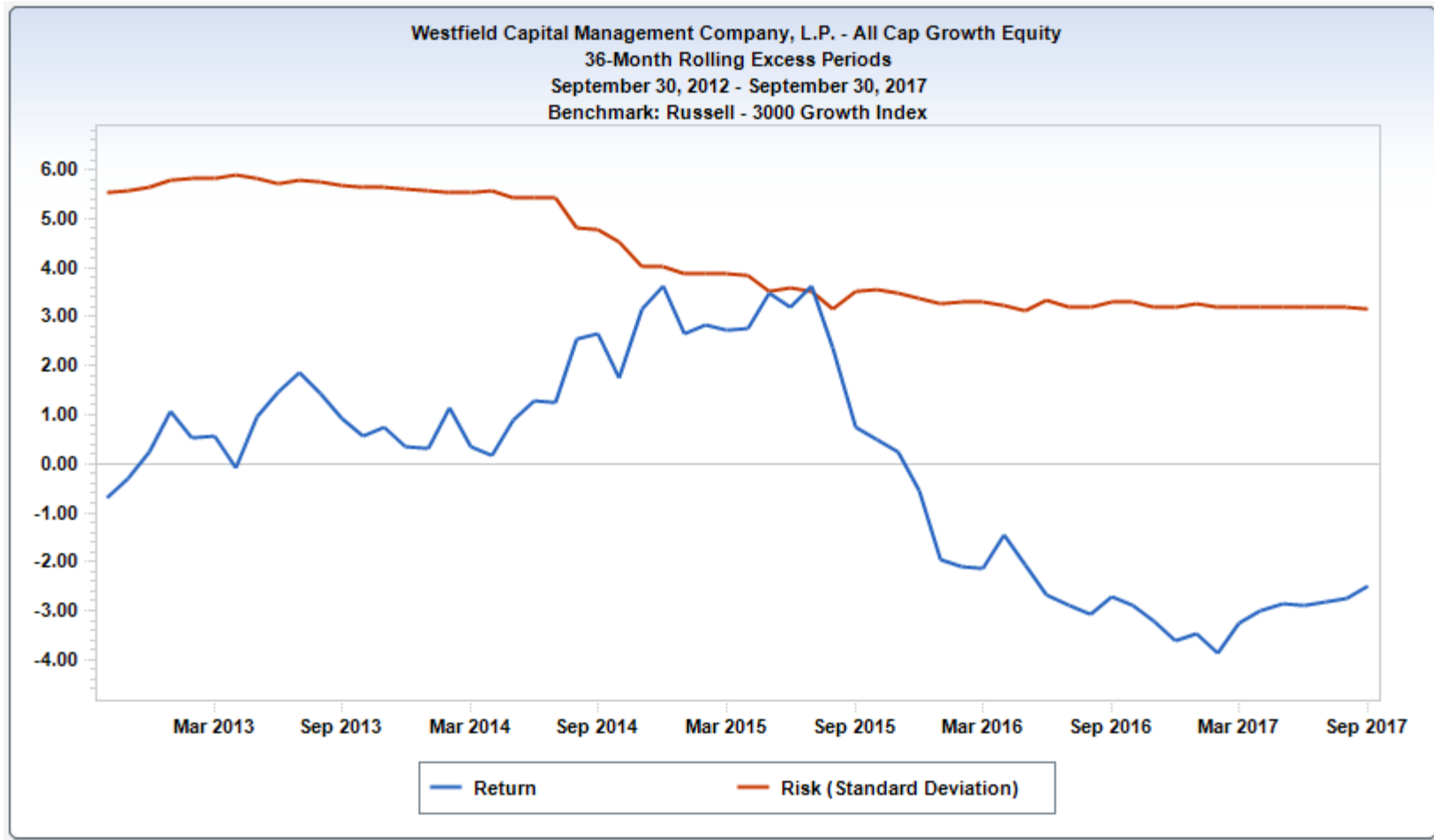
River Road Asset Management – Focused Absolute Value

- Rolling 36 month Excess Return & Tracking Error



Westfield Capital Management Co. – All Cap Growth Equity

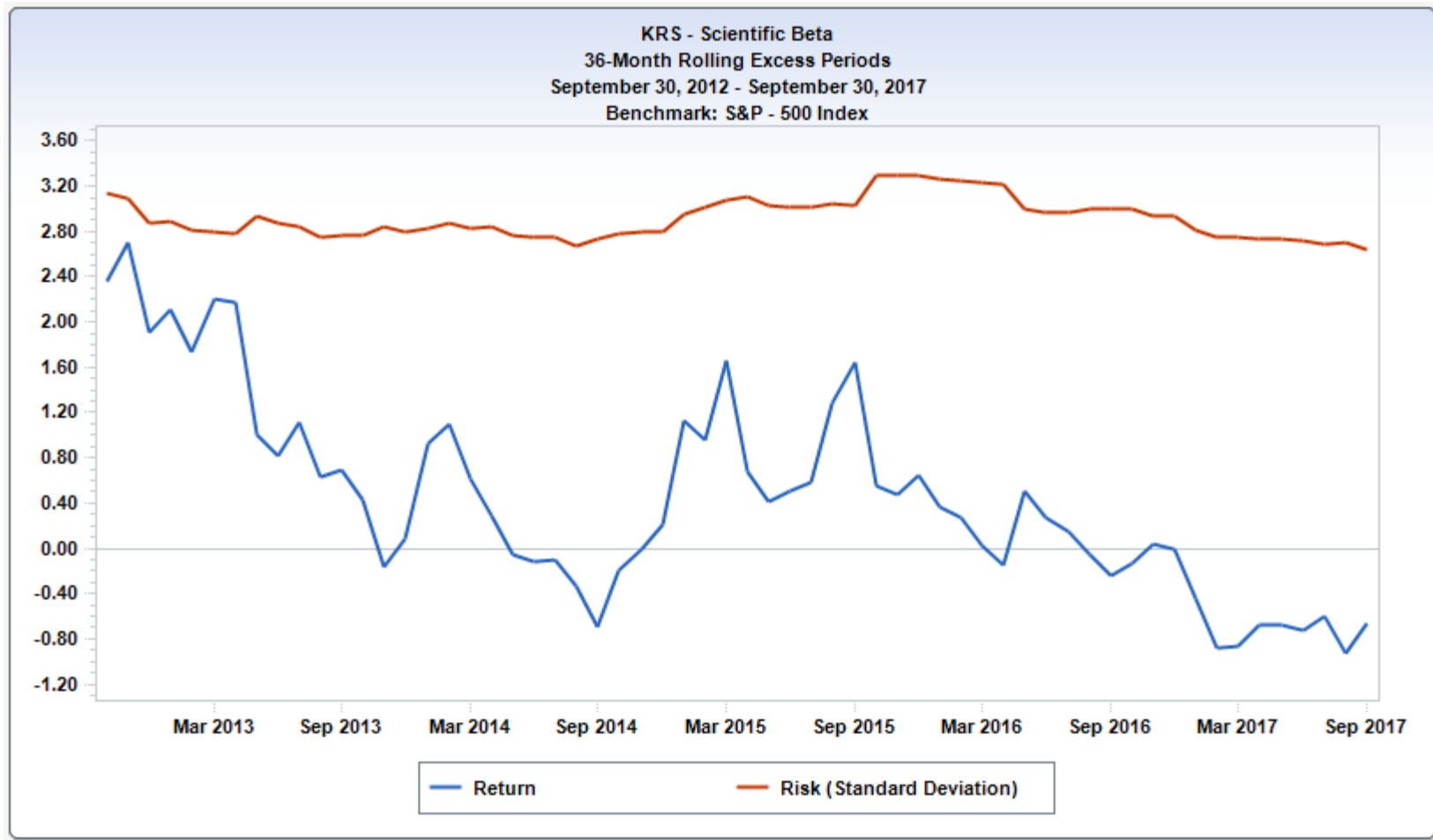
- Rolling 36 month Excess Return & Tracking Error



KRS U.S. Equity Composite

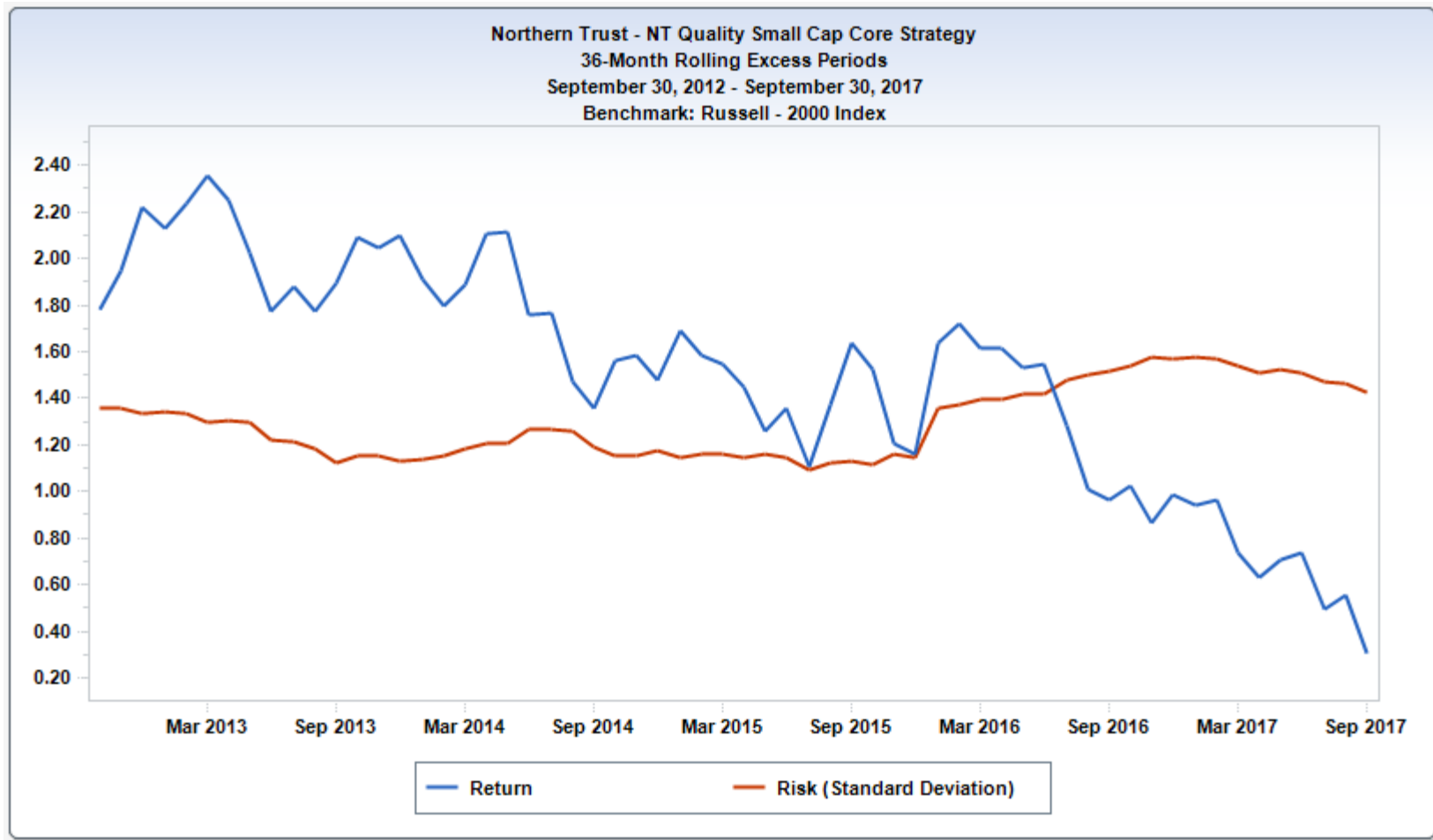
KRS – Scientific Beta

- Rolling 36 month Excess Return & Tracking Error



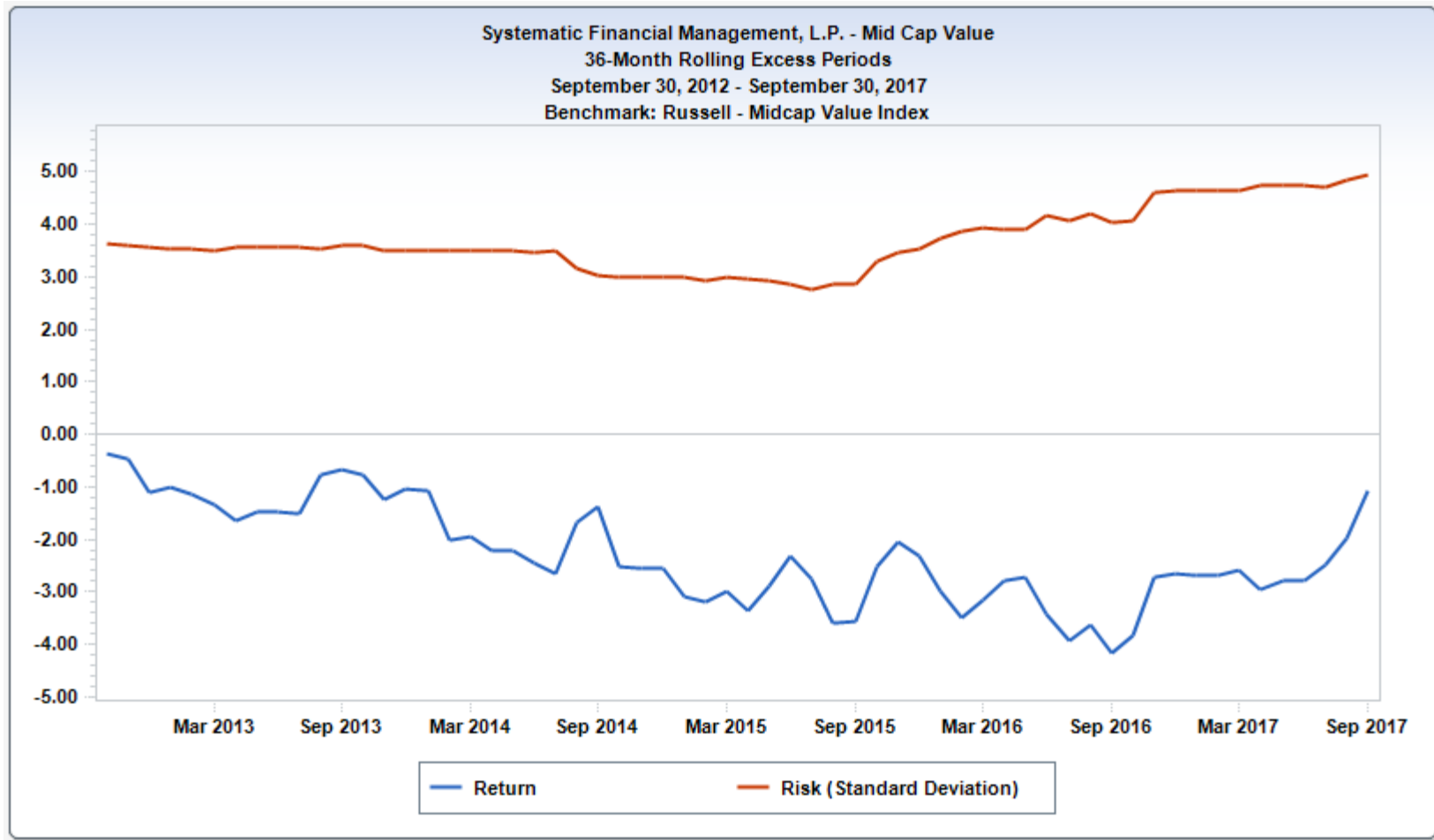
Northern Trust – NT Quality Small Cap Core Strategy

- Rolling 36 month Excess Return & Tracking Error



Systematic Financial Management – Mid-cap Value

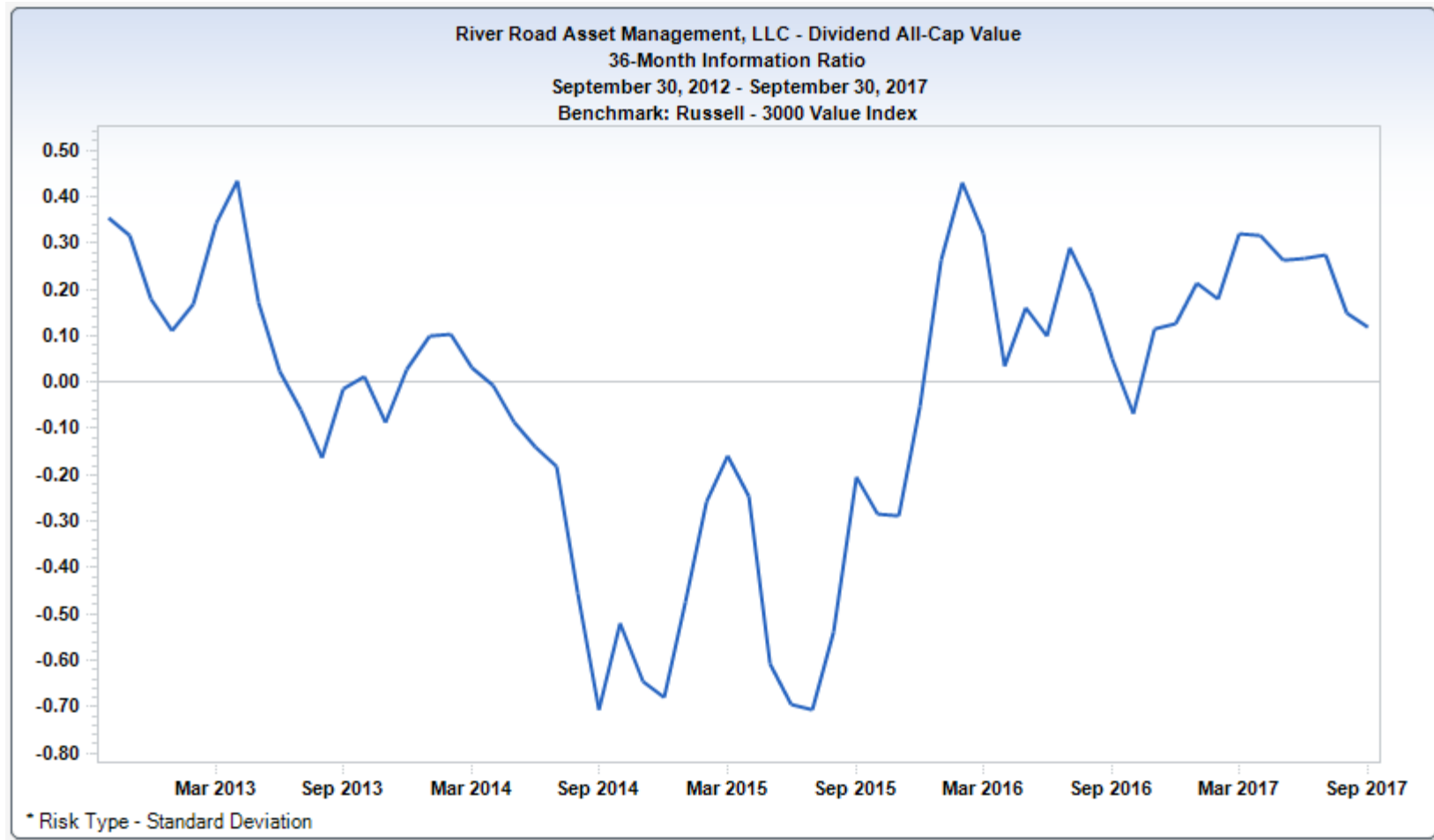
- Rolling 36 month Excess Return & Tracking Error



KRS U.S. Equity Composite

River Road Asset Management – Dividend All-cap Value

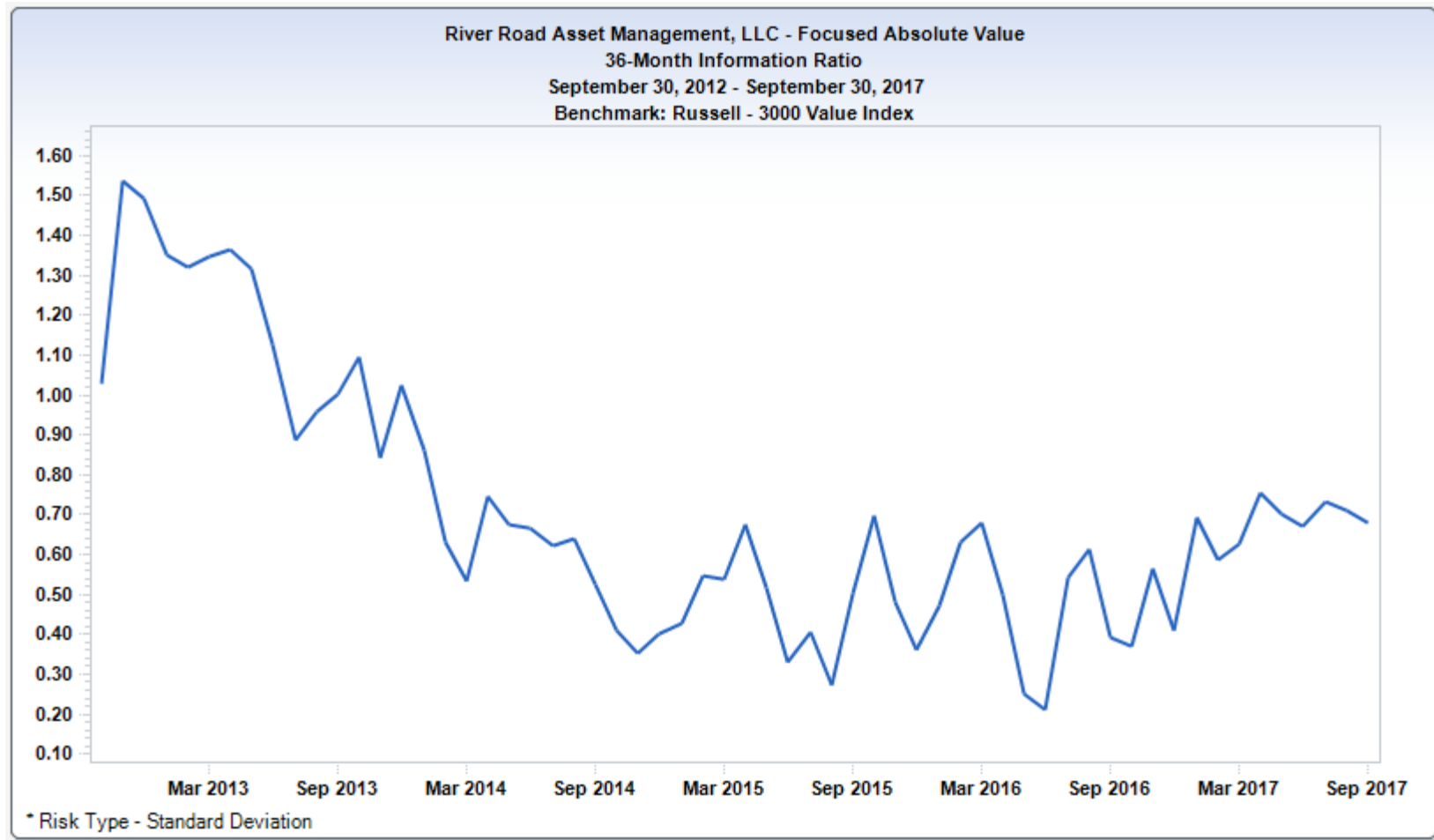
- Rolling 36 month Information Ratio



KRS U.S. Equity Composite

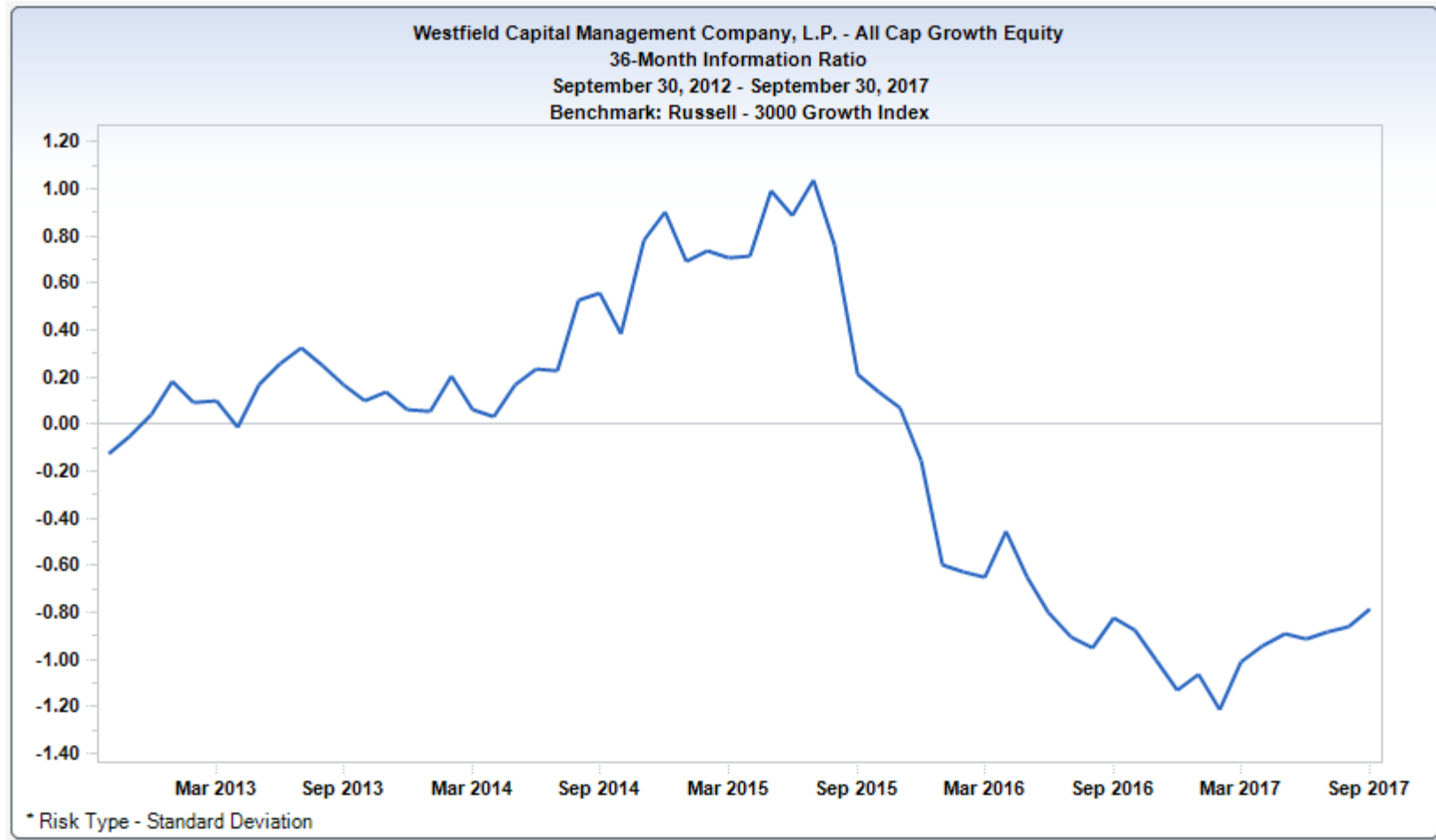
River Road Asset Management – Focused Absolute Value

- Rolling 36 month Information Ratio



Westfield Capital Management Co. – All Cap Growth Equity

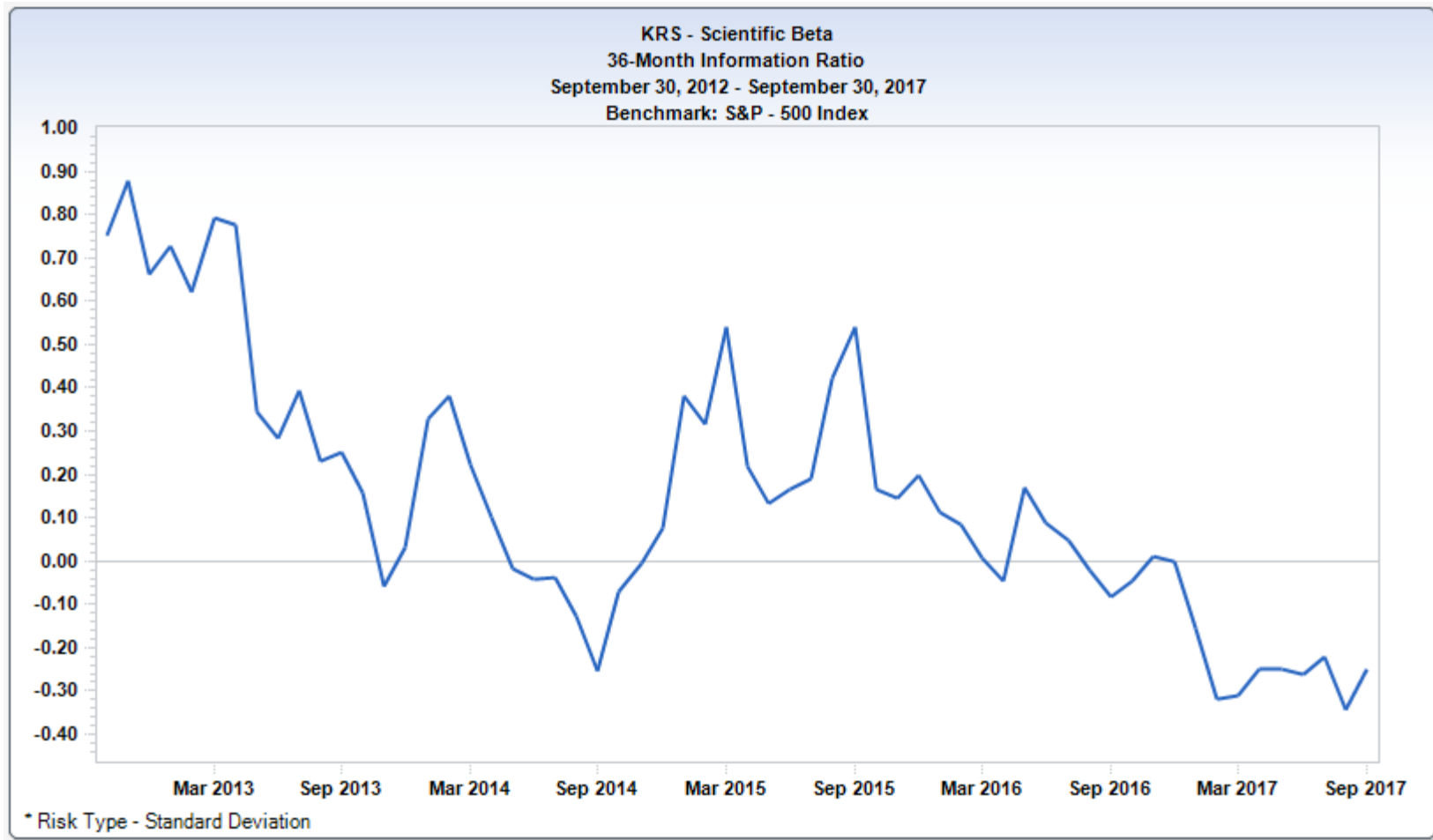
- Rolling 36 month Information Ratio



KRS U.S. Equity Composite

KRS – Scientific Beta

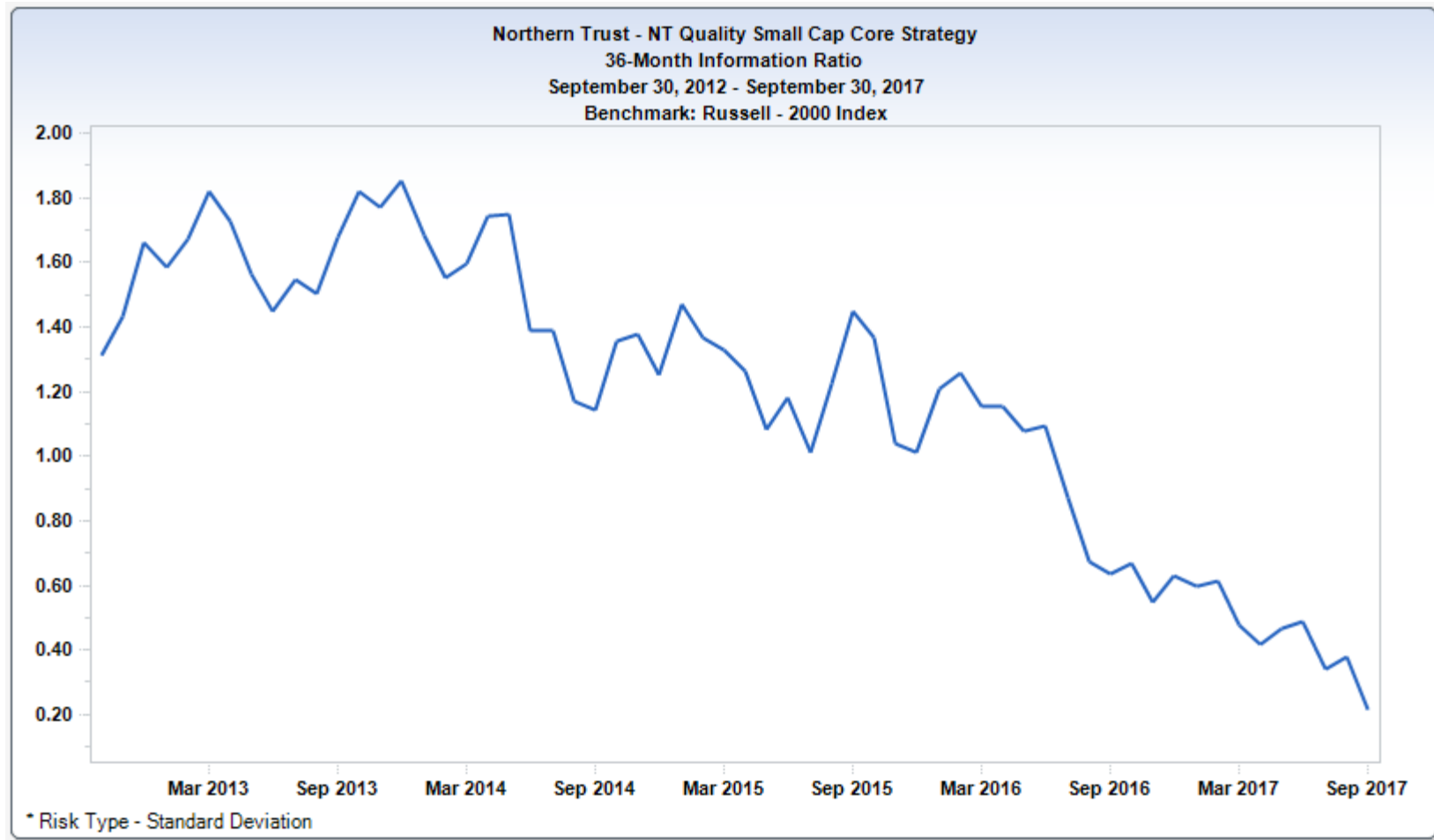
- Rolling 36 month Information Ratio



KRS U.S. Equity Composite

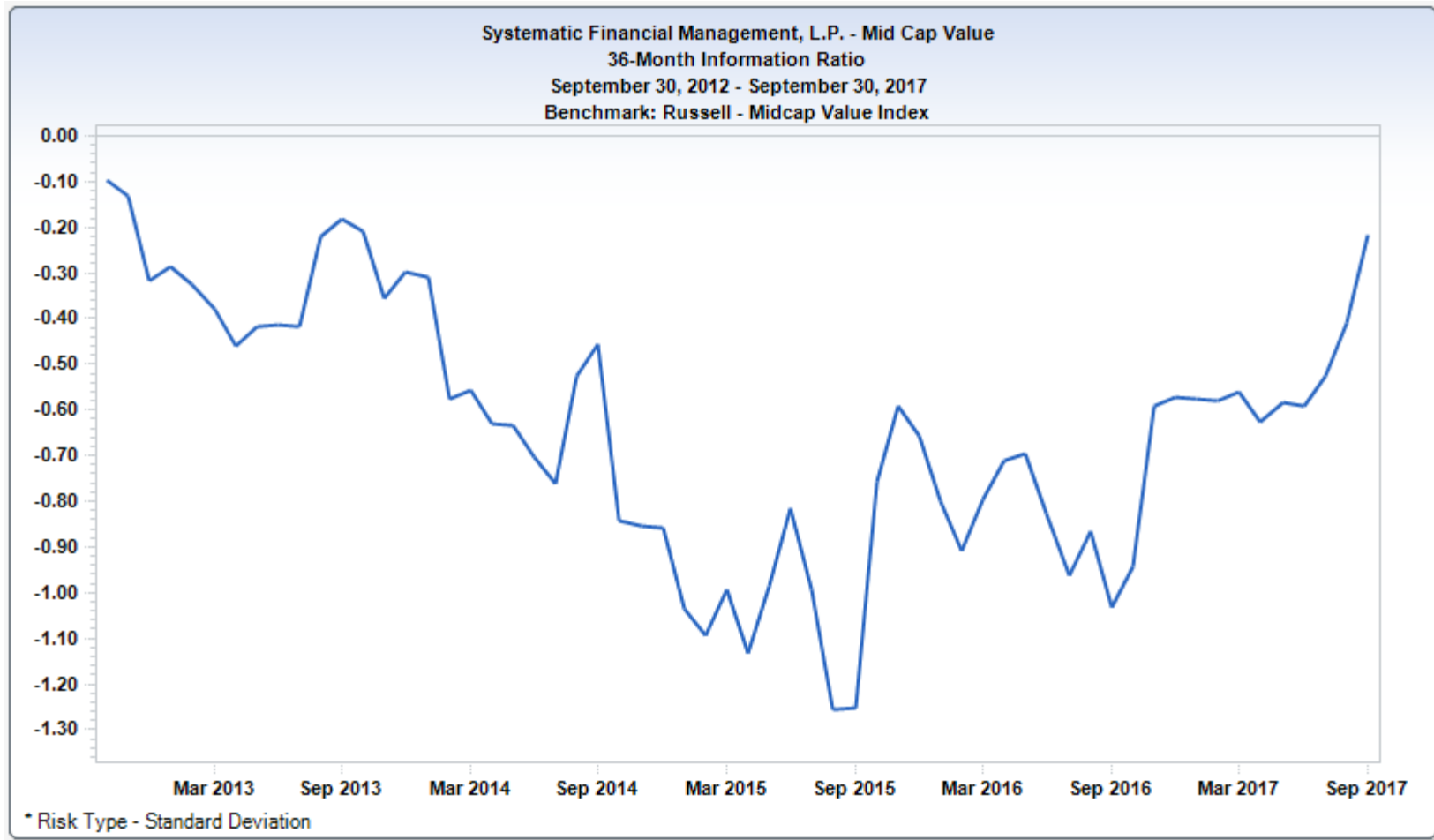
Northern Trust – NT Quality Small Cap Core Strategy

- Rolling 36 month Information Ratio



Systematic Financial Management – Mid-cap Value

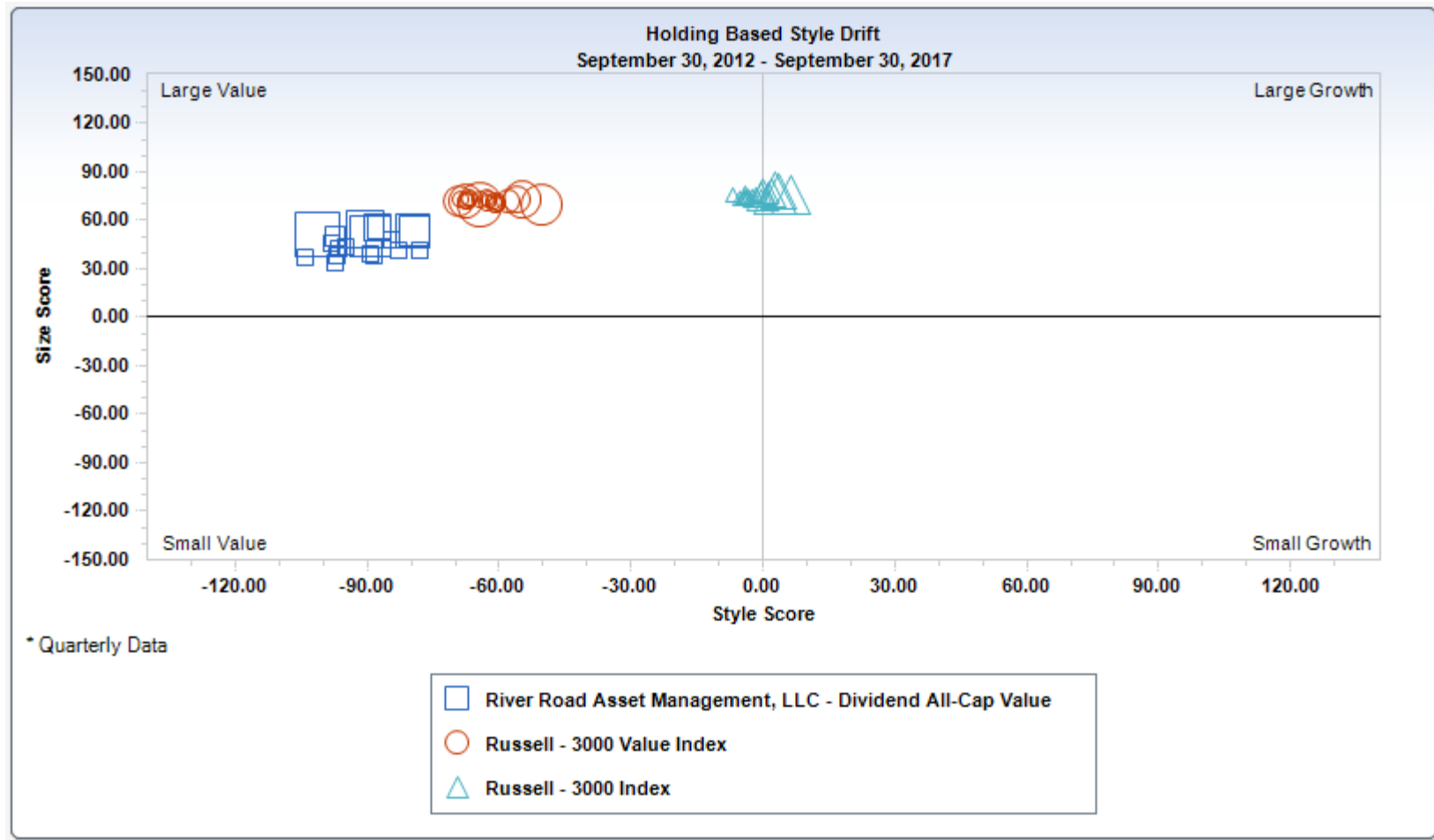
- Rolling 36 month Information Ratio



KRS U.S. Equity Composite

River Road Asset Management – Dividend All-cap Value

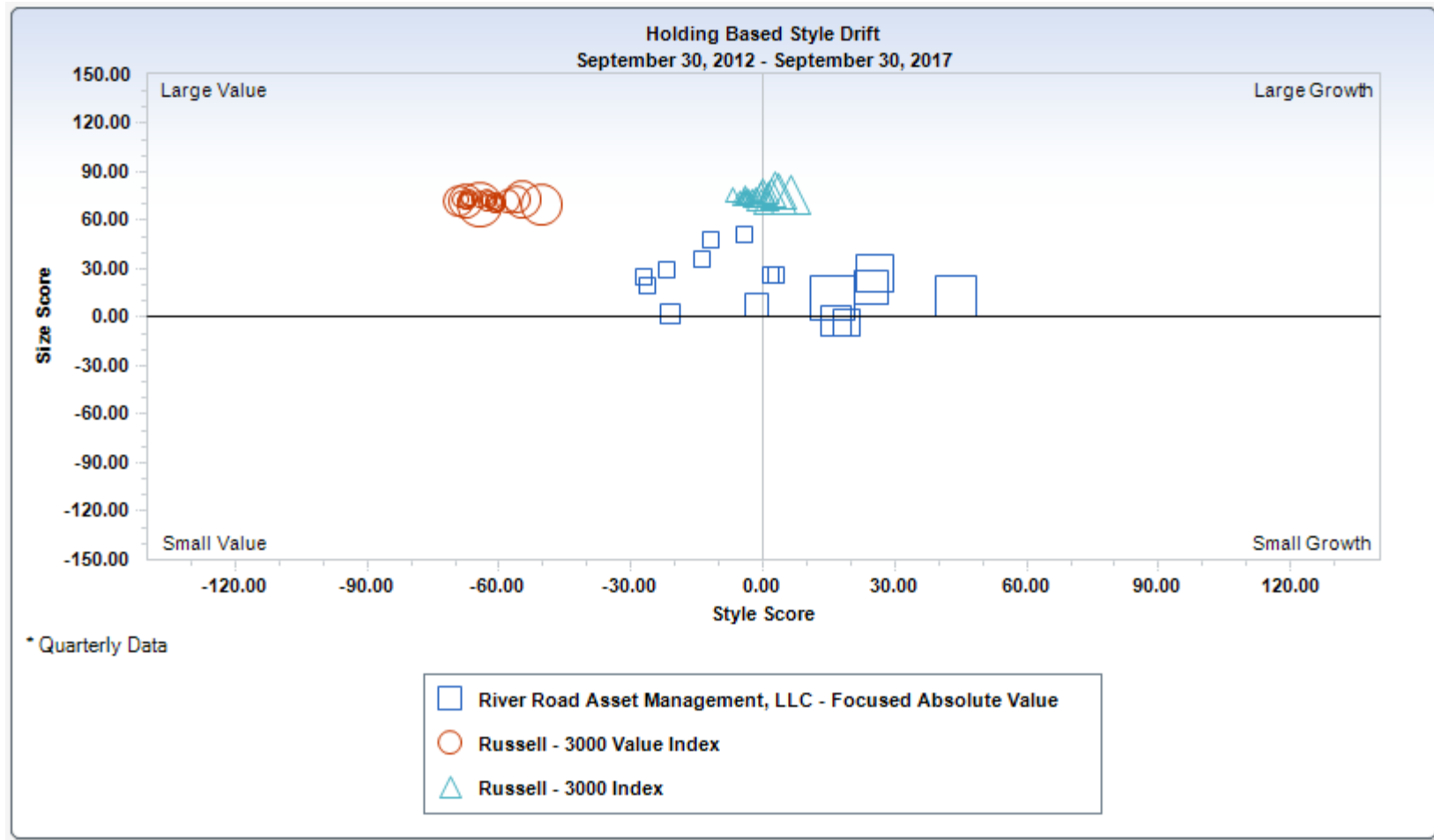
- Holdings-based Style Drift



KRS U.S. Equity Composite

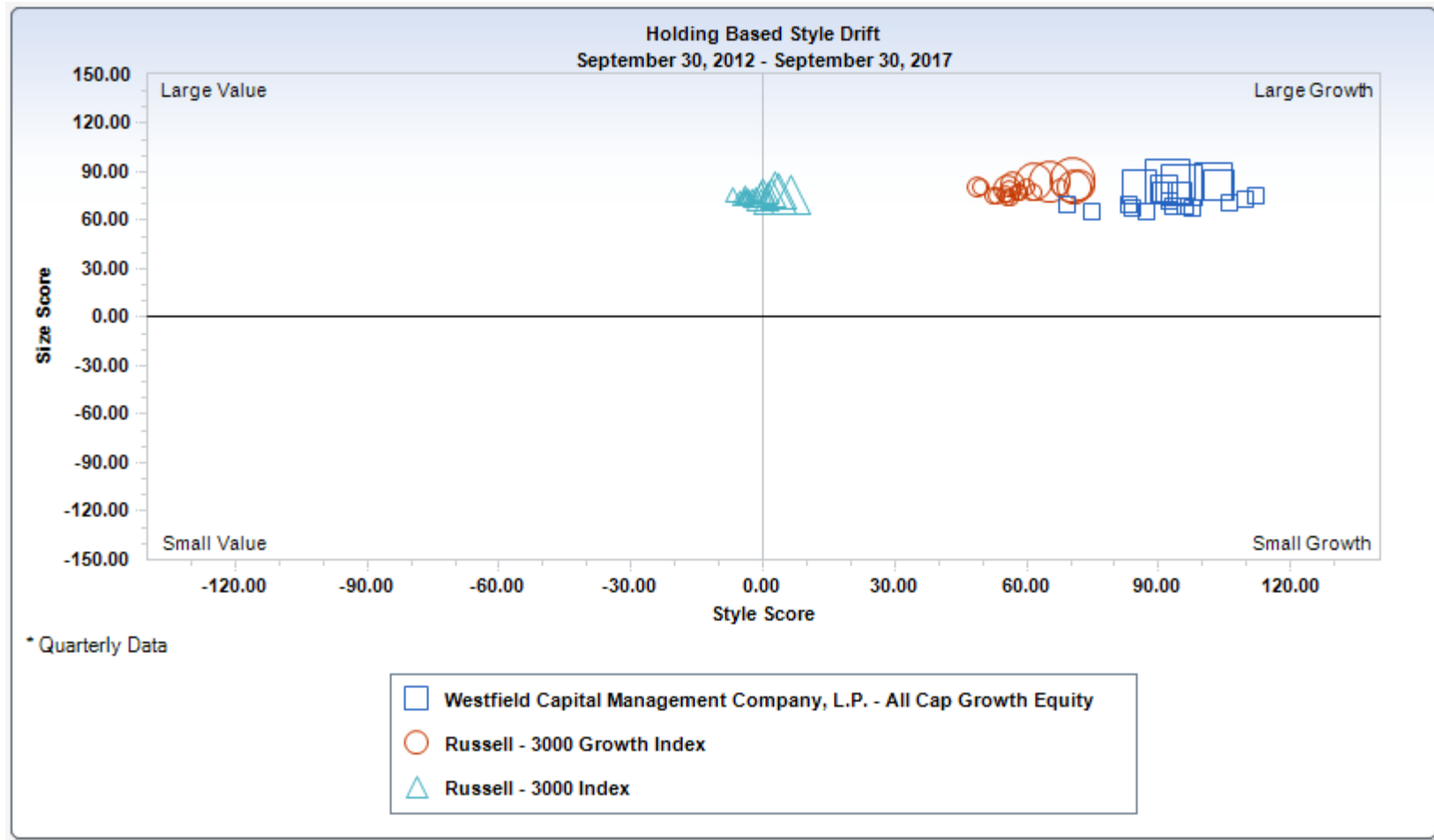
River Road Asset Management – Focused Absolute Value

- Holdings-based Style Drift



Westfield Capital Management Co. – All Cap Growth Equity

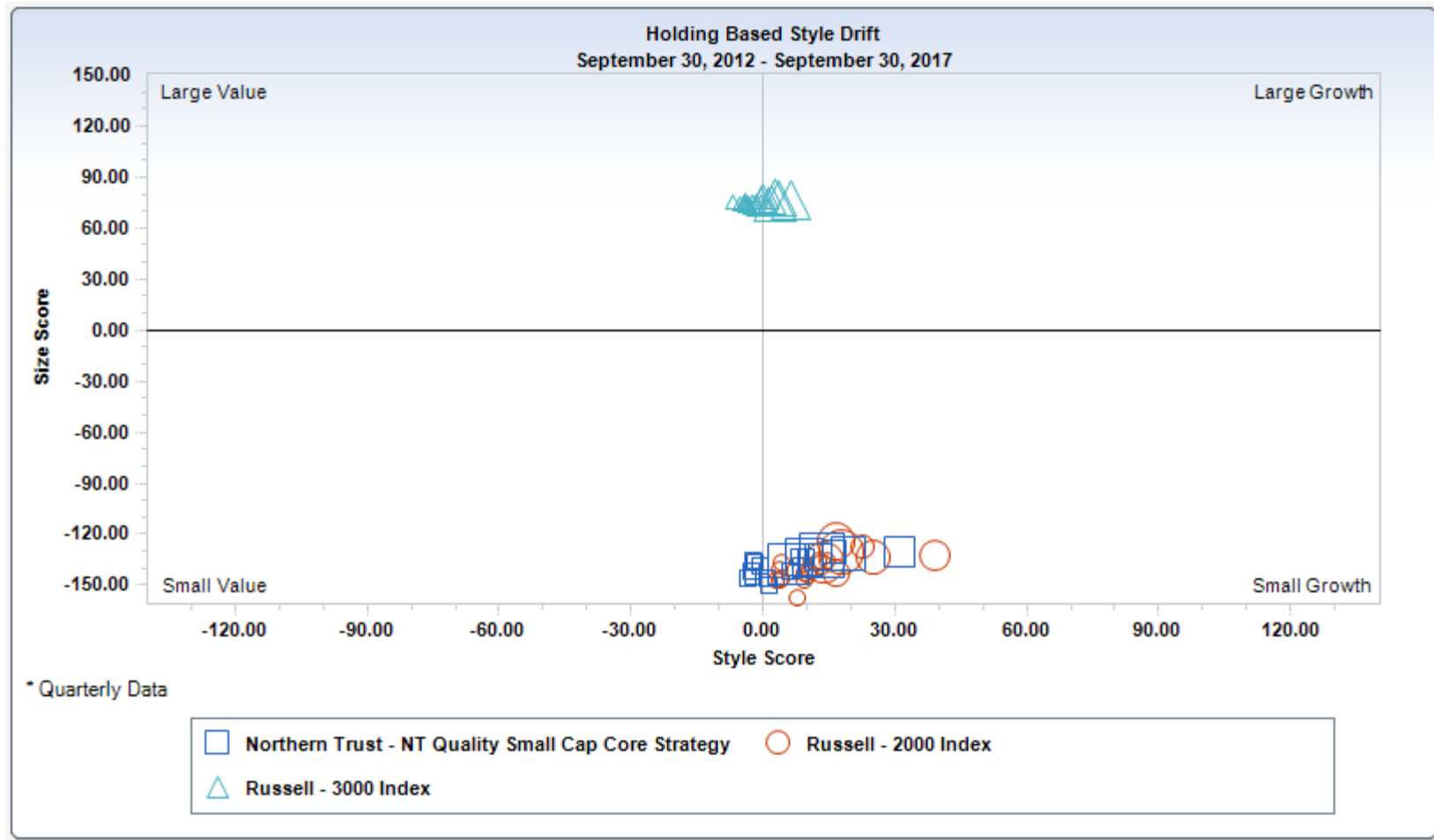
- Holdings-based Style Drift



KRS U.S. Equity Composite

Northern Trust – NT Quality Small Cap Core Strategy

- Holdings-based Style Drift



Systematic Financial Management – Mid-cap Value

- Holdings-based Style Drift

