Investment Policy Statement

The purpose of this ***Investment Policy Statement*** is to establish a clear understanding between the **Investment Committees for the Kentucky Judicial Retirement Fund** and the **Kentucky Legislators Retirement Fund**, hereinafter referred to as the "Committees," and **Hilliard Lyons Trust Company**, hereinafter referred to as the "Manager," of the investment policies and objectives of the Committees. This *Statement* will outline an overall philosophy that is specific enough for the Manager to know what is expected, but sufficiently flexible to allow for changing economic and securities markets.

OBJECTIVES

The assets of the two Funds must be invested with the care, skill and diligence that a prudent person acting in this capacity would undertake. The Manager's primary objective will be to provide growth of principal and income of the Funds' assets. This objective should be pursued as a long-term goal designed to maximize the benefits available, without exposure to undue risk, as defined herein. The Committees understand that fluctuating rates of return are characteristic of the securities markets, thus, the Manager's greatest concern should be long-term appreciation of the Funds' assets and consistency of total portfolio returns.

The Committees recognize that short-term market fluctuations may cause variations in performance; thus, the Funds expect the total portfolio of both Funds to be such as to achieve, over a three-year moving time period, a total return equal to, or greater than, the composite performance of securities markets, as follows: Securities markets are represented by the returns of the S&P 500 Index (Equity), and the Barclays Capital U.S. Intermediate Government/Credit Bond Index (Fixed Income).

POLICIES AND RESTRICTIONS

The Committees intend the investment policies and restrictions presented in this *Statement* to be used as a framework to help the Manager achieve the investment objectives of the Funds, at a level of risk the Committees deem acceptable. These policies and restrictions should not impede the Manager's efforts to attain overall objectives, nor should they exclude the Manager from appropriate investment opportunities. The Committees allow the Manager substantial discretion in the asset allocation and diversification of the Funds, for the purposes of increasing investment returns and/or reducing risk exposure. When appropriate, the Committees also give the Manager broad responsibility to shift the commitment of Fund assets among asset classes, industry sectors and individual securities to pursue opportunities presented by long-term secular changes within the capital markets.

Unless otherwise provided herein, all investments will be the same as those permitted for Trust Funds by law in the Commonwealth of Kentucky. Investments will be limited to readily marketable securities and no investment will be made in mortgages.

ASSET ALLOCATION

The Committees expect the Funds' asset allocation policies to reflect, and be consistent with, the investment objectives and risk tolerances expressed throughout this *Statement*. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of maximizing the Committees' return objectives while minimizing risk. Although dynamic capital markets may cause fluctuating risk return opportunities over a market cycle, the following standards will be used to evaluate the asset allocation (as measured at market value) over a three-year moving time period.

(1) **Defined Benefit Investments.**

A. Equities will have a target allocation of 70% of the portfolio's market value. The Manager is granted discretion to vary from this allocation, but must remain within a range of 60% to 80% of the portfolio's market value in equities.

B. Fixed income and/or cash equivalents as defined in this policy statement will have a target allocation of 30% of the portfolio's market value. The manager is granted discretion to vary from this allocation, but must remain within a range of 20% to 40% of the portfolio's market value in fixed income and/or cash equivalents as defined in this policy statement.

C. If an allocation exceeds its targeted range for six consecutive weeks, the applicable Investment Committee will be notified and will make an affirmative decision whether, given the current market indicators and relative risk profile of the portfolio at that time, an adjustment to lessen the Fund's applicable percentage exposure is immediately required. The Manager will be notified of the Committee's decision, and if applicable, will be instructed to reduce the equities and/or fixed income to timely bring the fund back to its targeted investment allocation. The Committees' designee will review the funds' allocation on a weekly basis and make quarterly reports to the Committees, or more frequent reports, if the target allocations exceed the parameters above.

(2) **Hybrid Cash Balance Investments.**

A. Equities will have a target allocation of 70% of the portfolio's market value. The Manager is granted discretion to vary from the allocation by 5%; thus, the target range for equities is 65% to 75%.

B. Fixed income will have a target allocation of 30% of the portfolio's market value. The Manager is granted discretion to vary from the allocation by 5%; thus, the target range for fixed income is 25% to 35%.

EQUITIES

The Committees expect the Manager to maintain the equity portfolio at a risk level roughly equivalent to that of the equity market as a whole, with the objective of exceeding its results. Equity holdings shall be selected from any security listed on the New York, American and Regional Stock Exchanges, or at the NASDAQ markets. The Manager is prohibited from investment in private placements, letter stock, and uncovered options; or from engaging in short sales, margin transactions or other specialized investment activities. The Manager may write covered options against common stocks held by the Funds to increase investment returns and/or reduce risk.

(1) **Defined Benefit Investments**. Within the above guidelines, the Committees give the Manager full discretion for security selection, timing and turnover, subject to the following limitations:

A. Investment in common stocks shall be from those stocks that meet the statutory standards for investment of trust funds, except that 50% of the total portfolio of each Fund may not be invested in common stocks with a dividend payment history of less than five years.

B. Investment in an individual security at time of purchase shall not exceed 5% of each Fund's then current market value of the equity portfolio. At a time when the security's value reaches 8% of the Fund's market value of the equity portfolio, the Manager shall immediately notify the applicable investment Committee. The Committee, within 30 days from receipt of the notice, shall recommend a course of action to the Manager; if the Committee fails to make a recommendation within the prescribed period of time, the Manager, at its discretion, may or may not reduce the equity holding.

C. Investment in a particular industry shall not exceed 25% of the Fund's market value of the equity portfolio.

(2) **Hybrid Cash Balance Investments**.

A. The equity assets of each segregated Hybrid fund shall be invested in the Vanguard 500 Index VFINX.

FIXED INCOME

The Manager is prohibited from investing in private placements, from speculating in fixed income or interest rate futures and from arbitrage or any other specialized investments. Within the following restrictions, the Manager has complete discretion over timing and selection of fixed income securities.

(1) **Defined Benefit Investments**. Investments in fixed income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings and maturity premiums. The Manager may select from appropriately liquid preferred stocks, corporate debt securities, obligations of the U.S. Government and its Agencies and issues convertible to equities. These investments will be subject to the following limitations:

A. No issues (with the exception of those of the U.S. Government and its Agencies) may be purchased with more than 15 years' duration.

B. Investments in securities of the U.S. Government and its Agencies may be purchased with a maturity of up to 30 years, but the average maturity of those securities in each Fund shall not exceed ten years.

C. Investments in securities at time of purchase of a single issuer (with the exception of U.S. Government and its Agencies) of each Fund must not exceed 5% of the Fund's market value of the fixed income portfolio.

D. Only corporate debt issues that meet or exceed a credit rating of BBB from Standard & Poor's and/or a BAA rating from Moody's, may be purchased.

E. Preferred stocks must be rated A, or better, by Moody's and/or Standard & Poor's at the time of purchase.

F. Investment in bonds will be limited to those eligible for purchase by national banks.

G. Bond maturities will be reasonably spaced with due consideration given to call provisions.

(2) **Hybrid Cash Balance Investments**.

A. The fixed income assets of each segregated Hybrid fund shall be invested in the Barclays iShares Intermediate Credit Bond CIU.

CASH AND EQUIVALENTS

The Manager may invest in commercial paper, repurchase agreements, and Treasury Bills to provide income, liquidity for expense payments and preservation of the Funds' principal value. Commercial paper assets must be rated as least A-2 or P-2 by Standard & Poor's and Moody's, respectively. The Manager may not invest more than 10% of the **Defined Benefit Investment's** market value in the obligations of a single government agency, except obligations of the U.S. Government and its agencies which are not restricted. Corporate cash equivalent investments shall be restricted to not more than 7% per issuer. Pending investment, the Manager may not invest more than 5% of the **Hybrid Cash Balance Investment's** market value in qualified cash or cash equivalents.

OTHER ASSETS

The Manager will not purchase assets other than those mentioned above without the written consent of the Committees. Investments in contracts of financial futures, commodities and currency exchange are strictly prohibited. Investments not specifically addressed by this *Statement* are forbidden by the Committees without written consent.

SALES AND PURCHASES

All equity transactions shall be handled through the brokerage company selected by the Committees. The Manager shall have discretion in selecting the institution through which to purchase fixed income and cash equivalents. The Manager will immediately notify the Executive Director of the Judicial Form Retirement System (JFRS) of all transactions, with specific data as to settlement and delivery instructions. (The JFRS Executive Director will in turn notify the custodian of the Funds to effect such sales and purchases.)

COMMUNICATIONS

The JFRS Executive Director will maintain daily contact with the Manager to advise the Manager of available funds for reinvestment. The Manager is required to give the Committees monthly portfolio appraisals, and to give the Committees promptly at the end of each quarter a quarterly account review detailing investment performance (time-weighted), strategy and each Fund's value. The Committees also must receive information about changes in the Manager's investment philosophy, management, ownership and key personnel in a timely fashion.

Meetings will be held on a quarterly basis between the Committees and the Manager to discuss:

(1) The Manager's investment performance and risk levels, in light of the stated policies and objectives.

(2) The Manager's view on important developments within the economy and the securities markets, and their potential effect on investment strategy and Fund performance.

(3) The effects of changes within the Manager's organization on investment philosophy, strategy and performance.

(4) Amendments to the policies and objectives presented in this *Statement*.

The Committees may call more frequent meetings if significant concerns arise about the Manager's performance, strategy, personnel and organizational structure.

By **executing** this *Investment Policy Statement*, the Manager agrees to its terms and conditions. Should the Manager believe at any time that changes, additions or deletions to this *Statement* are advisable, it will be the Manager's full responsibility to recommend them to the Committees on a timely basis.

Executed on this, the 29 day of January, 2016.

Investment Committee
Kentucky Judicial Retirement Plan

By ______________________
Laurance B. VanMeter, Chairman

Investment Committee
Kentucky Legislators Retirement Plan

By ______________________
Hubert Collins, Chairman

Hilliard Lyons Trust Company

By ______________________
Donald L. Asfahl, President