

Minutes of the Meeting of the Investment Committee
University of Kentucky
Monday, December 9, 2019

The Investment Committee met on Monday, December 9, 2019, in Ballroom A of the Gatton Student Center.

A. Meeting Opened

Elizabeth McCoy, Chair of the Investment Committee, called the meeting to order at 2:00 p.m. and requested a roll call.

B. Roll Call

The following members of the Investment Committee answered the call of the roll: Elizabeth McCoy, Joe R. Bowen, Michael A. Christian, A.C. Donahue, and Barbara Young. The following Committee member was not in attendance: Trustee Carol Martin "Bill" Gatton.

The following Community Advisory members answered the call of the roll: William C. Britton, James F. Hardymon, Quint Tatro, and Myra L. Tobin.

The University Investment Staff was represented by Susan I. Krauss, Treasurer, and Todd D. Shupp, Chief Investment Officer.

Fund Evaluation Group (FEG) was represented by Michael J. Aluise.

C. Approval of Minutes for September 12, 2019

Chair McCoy called for a motion to approve the minutes from the Committee meeting on September 12, 2019. The motion was moved by Trustee Bowen and seconded by Trustee Young. The motion passed without dissent.

D. Student Managed Investment Fund Presentation

Ms. Krauss introduced Jon Chait, Faculty Advisor for the Master of Finance (MSF) Program, and James Keyser, a student in the Graduate Student Managed Investment Fund (SMIF) class. Mr. Chait provided a brief background of the course structure. He stated that the entire MSF Program, approximately 55 students, participates in the SMIF program. The Student Portfolio Management Committee (SPMC) is composed of five-seven select students and makes final investment decisions for the graduate SMIF portfolio. Mr. Chait then introduced Mr. Keyser who presented the Program's value-oriented investment methodology and recent portfolio performance. Mr. Keyser continued with a stock pitch presentation and analysis featuring HCA Healthcare.

E. ICR 1 – Approval of Endowment Investment Policy

Chair McCoy asked for a motion to approve ICR 1, the approval of the Endowment Investment Policy. The motion was moved by Trustee Young, and seconded by Trustee Bowen. The motion passed without dissent.

F. ICR 2 – Extension of Endowment Investment Custodian Contract

Chair McCoy asked for a motion to approve ICR 2, the extension of the Endowment Investment Custodian Contract. The motion was moved by Trustee Bowen, and seconded by Mr. Tatro. The motion passed without dissent.

G. Investment Staff Report

Mr. Shupp presented the Investment Staff Report beginning with an overview of the Endowment asset allocation as of October 31, 2019. Next, he discussed the September 30th asset allocation. Mr. Shupp highlighted the annual Other Post-Employment Benefits (OPEB) inflow of \$5.5 million which occurred on September 23rd. These funds were reinvested in both U.S. and non-U.S. equities. He stated that the Portfolio remains within the policy ranges and is well-diversified across asset classes. Next, he highlighted manager appointments and terminations. Four new manager appointments occurred between September 13 and December 9 across private credit, private equity, private real assets, and diversifying strategies asset classes. One termination occurred for the period within the diversifying strategies asset class. Due diligence for the period included: the annual FEG Investment Forum, updates with existing and prospective managers, regular monthly and quarterly calls with FEG, as well as SMIF update meetings with both the undergraduate and graduate programs. Lastly, Mr. Shupp highlighted an on-site meeting with a potential new investment manager within the private credit asset class.

Trustee Derrick Ramsey mentioned having read several reports indicating the next recession is just around the corner and asked what is being done to prepare for that scenario. Mr. Shupp replied that the Portfolio is well-diversified, which is a good way to navigate uncertainty. This diversified positioning is expected to provide downside protection in the event market volatility spikes, while allowing for upside participation in bullish market environments. Trustee Ramsey asked whether we have cash to deploy following a market downturn. Mr. Shupp replied by stating portfolio liquidity is closely monitored to ensure adequate funds are available to capitalize on such opportunities.

H. Performance Review and Market Update

Mr. Aluise began the performance review and market update by stating that 2019 was a banner year for most asset classes. From an asset class perspective, in terms of equities, the U.S. outperformed other geographies, both developed and emerging. In terms of fixed income, the longer the duration, the better the performance has been.

For real assets, real estate was the top performer. The University of Kentucky (UK) endowment portfolio gained 1% for the month of October, 9.2% calendar year to date, and 6.6% for the trailing three-year period through October 31, 2019. Mr. Aluise commented on what worked well and not as well for the October year-to-date time period. Global equity absolute performance was a positive, while hedged strategies and global fixed income absolute performance did not work as well for the period. The temporary market reversal from growth to value that began in September was a positive for the UK Portfolio (UK outperformed benchmarks from August 31st to October 31st). A continuation of this trend would be a definite plus for the Endowment.

Next, Mr. Aluise commented on final FY2019 performance. The Endowment returned 5.5% for the Fiscal Year, compared to 5.0% for the InvestorForce Endowments and Foundations (E&F) peer group, and 5.2% for the National Association of College and University Business Officers (NACUBO) peer group. Regarding asset allocation, the Portfolio's allocation is within policy ranges. Although the Portfolio remains underweight in private asset classes, the current allocation (as of October 31, 2019) is closely aligned with UK's broad targets. In conclusion, within public equity, maintaining a value bias along with an overweight to international markets has provided a headwind over the last several years, but there has been an improvement in value performance more recently. From June 30, 2018, significant progress has been made on moving to the approved asset allocation. Equity exposure has increased (45% to 54%). Diversifying strategies has decreased (19% to 14%). Attention is being given to private markets, where the Portfolio is underweight compared with current targets.

Mr. Britton asked if the projected returns for global fixed income and international equities were favored over U.S. equities by FEG over the next 10 - 15-year period. Mr. Aluise replied that FEG currently believes international equity is priced more attractively than U.S. equity. Fixed income is different because the broad asset category includes diverse assets, from high quality, conservative bonds to more aggressive credit strategies. Mr. Shupp added comments emphasizing the importance of having the right mix of high-quality investments within the Endowment's fixed income Portfolio. "Over the past year, high quality fixed income has delivered a return in excess of 11%."

Mr. Aluise next discussed recent activity, highlighting four new commitments including: Centana Growth Partners II, Angelo Gordon Net Lease Realty Fund IV, Farallon Real Estate Partners III, and Elliott International. Mr. Aluise highlighted background, portfolio construction, strategy, and key differentiators for the managers. Finally, Mr. Aluise returned to the Portfolio's performance for the month ending October 31, 2019 with comments on each asset class.

I. Other

Ms. Krauss reviewed the 2020 Investment Committee meeting schedule and tentative agenda items. She stated that the next meeting will include a fixed income strategy review as well as a consideration of extending the consultant contract with FEG.

Calls will be conducted by Investment Office staff with each Committee member to discuss this potential renewal. Finally, Ms. Krauss noted the inclusion of the Supplemental Endowment reports as of June 30, 2019 and September 30, 2019 as well as the Operating Cash and Investment Report as of October 31, 2019.

J. Meeting Adjourned

Hearing no further business, the meeting was adjourned at 3:03 p.m.

Respectfully submitted,



Kristina W. Goins
University Financial Services