

Minutes of the Meeting of the Investment Committee  
University of Kentucky  
Monday, May 4, 2020

The Investment Committee met on Monday, May 4, 2020, via Zoom Webinar.

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 were in attendance: Elizabeth McCoy, Joe R. Bowen, Michael A. Christian, and Barbara Young. The following Committee member was not in attendance: Carol Martin "Bill" Gatton.

The following Community Advisory members were in attendance: William C. Britton, Quint Tatro, and Myra L. Tobin. The following Community Advisory member was not in attendance: James F. Hardymon.

The University Investment Staff was represented by Todd D. Shupp, Chief Investment Officer.

Fund Evaluation Group (FEG) was represented by Michael J. Aluise and Rebecca S. Wood.

C. Approval of Minutes for February 20, 2020

Chair McCoy called for a motion to approve the minutes from the Committee meeting on February 20, 2020. The motion was moved by Trustee Bowen and seconded by Trustee Christian. The motion passed without dissent.

D. Investment Staff Report

Mr. Shupp presented the Investment Staff Report beginning with an overview of the Endowment asset allocation as of March 31, 2020. He began by stating that diversification served us well in the period since the last Investment Committee meeting, and the UK Portfolio remains balanced across the four major asset categories. March had two of the worst days for stock markets in history, and we followed the rebalancing plan in our Investment Policy by shifting some gains from our high quality fixed income portfolio to equities. Given the magnitude of the market sell-off, our public equity exposure still decreased in the period, but by a smaller amount than it would have otherwise given the rebalancing activity. Hedged equity was essentially flat, having provided some downside protection during the market decline. Private equity increased due to lagged performance reporting as well as some capital call activity during the period. Fixed income remained

relatively flat, reflecting resilient performance within the asset class during the market downturn. Public real assets decreased as large price declines occurred, particularly in the commodities market. The Portfolio experienced an increase in private real assets due to capital calls and a lagged market value effect. Mr. Shupp also highlighted details in the asset allocation report related to the Portfolio's liquidity tiers and policy ranges. The Portfolio remains within the guidelines of our policy targets outlined in the Investment Policy, despite major market moves during the period.

Next, Mr. Shupp reported on manager appointments, terminations, and due diligence for the period. On March 1, a new commitment of \$20 million was made in the diversifying strategies portfolio to Borealis Strategic Offshore Capital Fund. In April, a public credit investment of \$20 million was made in Artisan High Income Fund, as well as a \$20 million commitment to Beach Point Capital Opportunities Fund in private credit. On the terminations side, a full redemption was made from the Vanguard Real Estate Index Fund, reflecting a decision to move from passive to active management in this area. The proceeds were reinvested in PIMCO IRMAF, an existing public real assets manager that utilizes a tactical, active approach in allocating to inflation-hedging assets. Mr. Shupp concluded with the manager due diligence report, stating that ongoing due diligence continued for both potential and existing managers via conference calls, webcasts, and Zoom meetings, and highlighted an FEG webcast that occurred during the height of the sell-off in March.

#### E. Performance Review and Market Update

Mr. Aluise began with a brief update of FEG operations during the COVID-19 pandemic and outlined some key points for the day's discussion. First, the Endowment's diversified portfolio was designed to weather volatile periods. We were prepared for a major sell-off, and market volatility provided a source of potential opportunities. Next steps for 2020 include the Portfolio risk review (shifted to June), conducting the Investment Committee survey, and reviewing asset allocation as part of the annual Investment Policy update.

Mr. Aluise then reviewed returns by major asset classes for the quarter ending March 31. Equity markets declined 20-25% depending on geography, with the U.S. a relative leader as investors sought quality. Fixed income was one of the only areas to post gains during the quarter, while energy was a notable laggard. Hedge funds preserved capital better than equities during the quarter but failed to shine during the period. He continued by sharing some historical context of the coronavirus market crisis compared to other market drawdowns. The speed of the market decline in 2020 was unprecedented, with the stock market experiencing the fastest move in history from a bull to bear market territory in history. The volatility was extraordinary in the other direction as well, with the market rally in late March making the first quarter's bear market the shortest on record.

Mr. Aluise then reviewed UK Endowment specific performance. The UK Portfolio declined by an estimated 12.1% in the first quarter of 2020, which slightly lagged the

manager weighted index. Hedged equity, fixed income, and diversifying strategies helped preserve capital for the endowment over the period. The Portfolio's allocation to equities, particularly value-oriented international equity strategies, was a detractor from performance. Trustee Bowen asked if UK's hedged equity allocation includes funds with the ability to short the market, and Mr. Aluise replied that this allocation includes managers going both long and short in the market.

Next, Mr. Aluise commented that value stocks have historically provided a consistent premium to growth stocks but, since 2008, growth stocks have outperformed value stocks. Historically, value stocks tend to do better in major market downturns, but this did not occur in the first quarter as growth stocks continued to outperform value stocks. This has had an impact on the Portfolio's relative performance given its value orientation within the public equity portfolio.

Mr. Aluise concluded his presentation by stating that although the pandemic and the market's reactions developed quickly, the economic decline will not end immediately, and market opportunities do not require rash reactions. Some key things to consider for the Portfolio in the current environment are to rebalance, review opportunities to buy what others are selling, and avoid selling at the bottom. The portfolio was prepared for the first quarter's volatility and is able to prudently lean in to risk assets. More information on portfolio risk monitoring will be provided at the next meeting, along with a detailed review of asset allocation in September.

Mr. Shupp highlighted FEG's manager memo outlining new appointments as well as a mandate change to our Reams Core Plus allocation. Mr. Tatro asked if consideration had been given to de-risk the Portfolio since it is possible that the worst is not yet behind us. Mr. Shupp replied that the Portfolio was diversified following the Great Financial Crisis and de-risked over time by reducing long-only equity exposure. Therefore, we entered this crisis with a very well-balanced and prudent Portfolio from a risk standpoint. Mr. Tatro then stated that the Committee should be comfortable with the Portfolio's asset allocation in the event the market declines another 30%, and that he does not want to see a decision made after a decline to reduce risk. Mr. Shupp responded that the Portfolio is not currently positioned with a high equity allocation and in any large market moves, either to the upside or downside, UK will continue to steer back to our established targets. While there remains a high amount of uncertainty, the Portfolio remains well positioned.

F. Other Business

Mr. Shupp briefly reviewed the 2020 Investment Committee meeting schedule and tentative agenda items. The schedule includes the Risk Review in June and planning the agenda for the September Retreat.

G. Meeting Adjourned

Hearing no further business, the meeting was adjourned at 2:57 p.m.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kristina W. Goins". The signature is written in a cursive style with a large initial 'K'.

Kristina W. Goins  
University Financial Services