

Meeting Minutes of the Investment Committee
University of Kentucky
Monday, December 13, 2021

The Investment Committee of the University of Kentucky Board of Trustees met on Monday, December 13, 2021, in the Gatton Student Center Harris Ballroom.

A. Meeting Opened

Investment Committee Chair Elizabeth McCoy, called the meeting to order at 2:08 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 Hollie Swanson. The following Committee member was not in attendance: Carol Martin "Bill" Gatton.

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

The University Investment Staff was represented by Chief Investment Officer Todd D. Shupp and Investment Officer Nancy K. Rohde.

Cambridge Associates were represented by Kyle Blackburn, Eric Thornton and Drew Landry.

C. Approval of Minutes for September 10, 2021

Chair McCoy called for a motion to approve the minutes from the Committee meeting on September 10, 2021. The motion was moved by Trustee Bowen and seconded by Trustee Swanson. The motion passed without dissent.

D. Private Investments Strategy Review

Mr. Thornton introduced Kyle Blackburn, Director of Private Investments at Cambridge Associates (Cambridge). Mr. Blackburn briefly covered the agenda of discussion topics and identified key team members of the private investment team. Given the wide dispersion of returns in the private investment space, a large and focused research team like Cambridge's is critical to carry out rigorous due diligence and select the best managers. He next provided an update on the private investment landscape. He reported the number of strategies and approaches in the space had multiplied over the years, a lot of capital had entered the space, and valuations were elevated relative to history. Cambridge believes that smaller funds have a better chance to achieve a higher rate of return going forward.

Mr. Blackburn next outlined some aspects of Cambridge's investment philosophy that they believe are important to apply to UK's private investment portfolio, including a focus on high-quality best ideas, manager concentration levels meaningful enough to impact portfolio returns, diversification across vintage years to mitigate behavioral risk, diversification across managers to mitigate organizational risk and evaluating a program over the long-term. Cambridge looks for managers with a competitive advantage that increases the potential to create sustainable alpha for clients, net of fees. He listed some key themes driving manager selection in today's market environment, including targeting the middle market, seeking sector and strategy specialists, seeking growth equity as a focused strategy, looking to managers with operational expertise and backing talent at emerging managers.

Next Mr. Blackburn provided a performance update of the UK private portfolio, which outperformed the public market equivalent through June 30, 2021. At Mr. Shupp's request, he defined the internal rate of return (IRR) as a return methodology that incorporates both the timing and size of cash flows. This calculation approach helps investors judge the velocity at which capital is returned and is preferred for private funds because the investment manager determines when capital is called and returned. Mr. Blackburn next provided an overview of the capital contributions and distributions within the private UK portfolio since the program's inception. He next turned to the investment plan for UK within the private asset classes, including private equity, private credit and private real assets. The recommended fund additions within the various private asset classes were determined through modeling that included the current line-up of funds, their forecasted contributions and distributions, and the recently proposed target allocations to private equity, private credit and private real assets.

Lastly, Mr. Blackburn walked through the private investments performance report, noting that the report is produced quarterly and lists the funds by asset class. Trustee Swanson asked what Cambridge expects in terms of returns for private real assets going forward. Mr. Blackburn replied that the real assets program, in general, is a lower risk, lower rate of return strategy. He stated that 12-14% IRR is a good target return for those types of strategies.

E. ICR 1 – Approval of Endowment Investment Policy

Mr. Shupp presented a recommendation that the Investment Committee approve the revised Endowment Investment Policy. The revised policy reflects the adoption of modest but meaningful changes to asset allocation targets intended to enhance the Portfolio's expected return while maintaining prudent diversification. Other minor changes include policy benchmark adjustments and updates that reflect the recent change in the endowment investment consultant. Chair McCoy called for a motion to approve ICR 1. The motion was moved by Trustee Christian and seconded by Trustee Bowen. The motion passed without dissent.

F. ICR 2 – Approval of Extension of Endowment Investment Custodian Contract

Mr. Shupp presented a recommendation that the Investment Committee authorize Investment Staff to extend the contract with Northern Trust to provide custodial services for the University of Kentucky for the period of March 1, 2022 through February 29, 2024, subject to the terms and conditions of the existing contract. Chair McCoy called for a motion to approve ICR 2. The motion was moved by Trustee Christian and seconded by Trustee Swanson. 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, 2021. He stated that the Portfolio remains well-diversified and within the established asset allocation targets. While there were no major changes since the last meeting, the most notable was a 1% increase in the global equity portfolio. This was driven by an uptick in private equity market values as June 30 valuations came in. He also noted a slight decrease in global fixed income primarily driven by a reduction in high-quality fixed income, as well as a slight decrease in real assets. The final category, diversifying strategies, remained relatively flat. Turning to portfolio cash flows, Mr. Shupp highlighted a \$25M addition to the Operating Quasi-Endowment in late August. Lastly, Mr. Shupp gave a brief update on the Cambridge onboarding process.

Next, Ms. Rohde discussed recent manager appointments, terminations and due diligence for the period. On the appointments side, UK made four new investments. Within private equity, a \$15M commitment was made to Summit Partners Growth Equity Fund XI-B as well as a \$15M commitment to Blue Delta Capital Fund III. Within the private real assets space, a \$15M commitment was made to Peppertree Capital Fund IX. And finally \$25M was invested in Hudson Bay International Fund, a diversifying strategies fund. On the terminations side, UK redeemed in full from Autonomy Global Macro Fund. Lastly, Ms. Rohde discussed manager due diligence and research during the period which featured ongoing manager due diligence meetings as well as several discussions with Cambridge, including meetings with asset-specific research teams. Trustee Christian asked how much progress has been made in the investment consultant transition process. Mr. Shupp replied that great progress has been made working with Cambridge and he cited developments related to both public and private equities as examples.

H. Performance Review and Market Update

Mr. Thornton began with a snapshot of October performance, for both month-to-date and year-to-date periods. He reported that markets snapped back in October due largely to strong earnings and resilient economic data boosting sentiment. He pointed to global stocks posting a return of 16.8% for the year-to-date period, driven largely by strong growth of company earnings, which have come in above analyst predictions. He noted however that certain sectors and geographies have not done as well, such as emerging markets declining 0.3% year-to-date (YTD). The emerging markets index is dominated by

China with a 40% index weight, and the country's equities have been relatively weak in 2021 as China's government has taken a hardline approach to certain sectors.

Mr. Thornton stated inflation was another major driver in recent market movements, reporting that several measures of inflation are coming in high. Asset classes such as energy have benefitted from increased inflationary pressures. He stated that inflation is very difficult to predict, and a well-diversified portfolio that includes some assets that may benefit from higher inflation such as real assets, should continue to be a smart, strategic move over time. He added that so far, the overall markets are not panicking about inflation, though bonds have started to see some movement.

Mr. Tatro asked what Cambridge's position was on dislocation in the domestic markets, with very few stocks keeping the indices where they are and the massive underperformance of the rest of the market. Mr. Thornton acknowledged that a handful of large technology stocks currently comprise a large percentage of the S&P 500's market cap. While some of those stocks' moves upward have been justified due to very good earnings, he also believes that some of the effects are driven by the trend toward passive investment. Cambridge is uncertain how this ends, but they believe that value matters in the long-term and that active management makes sense, particularly in a lopsided market.

Shifting to UK performance, Mr. Thornton stated that Portfolio performance for the 10-month YTD period through October 31 was driven mostly by US stocks and real assets, and private investments also helped substantially. He stated that on a relative basis, UK underperformed the policy benchmark with the primary drivers being hedge funds and private investments. Within the private equity area, though difficult to determine exact attribution effects, UK had less exposure to venture and growth equity strategies than the benchmark. He added that it is not uncommon to see such variation especially in a year like 2021.

Mr. Hardymon asked a question relating to the new asset allocation ranges, specifically how they compare to the current allocations rather than the old targets as shown in ICR 1. He wanted to get a sense of the magnitude of the changes to the Portfolio. Mr. Shupp provided some historical context for the target ranges, and highlighted the increase to global equity, specifically that a portion of the increase will be to private equity, an asset class in which building an allocation takes time. It is not expected that any of the changes will be dramatic or sudden.

I. Other Business

Mr. Shupp reviewed the schedule of 2022 Investment Committee meetings and tentative agenda items. He highlighted that February's meeting will include an asset class education session from Cambridge Associates as well as an IC action regarding changes to the Student Managed Investment Fund Program (SMIF). In April there will be the annual risk review and SMIF class update, the Investment Retreat will take place in September, and the final meeting in December will feature another education session.

J. Meeting Adjourned

Hearing no further business, the meeting was adjourned at 3:32 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Kristina W. Goins".

Kristina W. Goins
University Financial Services