

**Minutes of the Investment Committee**  
**University of Kentucky Board of Trustees**  
**8:30 am February 18, 2016**  
**Charles T. Wethington Building, Room 327C**

IN ATTENDANCE:

Investment Committee Members:	William S. Farish, Jr., Chair Claude A. “Skip” Berry, III James H. Booth William C. Britton Mark Bryant Robert D. Vance
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Community Advisory Members:	James F. Hardymon Myra L. Tobin William E. Seale
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Investment Staff & Consultants:	Susan I. Krauss Todd D. Shupp Kristina W. Dills Becky Gratsinger (RVK) Rob Palmeri (RVK)
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Chair Farish called the meeting to order at 8:30 a.m. Ms. Dills then conducted a roll call. Susan Krauss introduced Kristina Dills, Investment Operations Analyst, to the Committee. Chair Farish called for a motion to approve the minutes from the Committee meeting on December 14, 2015. The motion was moved by Mr. Vance, seconded by Mr. Bryant, and approved by all.

Ms. Krauss introduced the next agenda item, the NACUBO Commonfund Study of Endowments. UK participates in this comprehensive survey each year and was number 83 out of 828 in terms of ranking by market value of endowment assets, in the top 10 percent. Ms. Krauss turned the floor over to RVK to go over some high level results of the survey. Mr. Palmeri began by stating that the survey was made up of 812 endowments and foundations that represent \$529 billion in investable assets. This reflected a decrease of 20 respondents this year. All data is net of fees, and is as of June 30, 2015. Data is broken out by cohorts – those applicable to UK are \$500 million-\$1 billion, and over \$1 billion. The average return for total institutions over trailing periods was 2.4% ((1-year), 9.9% (3-year), 9.8% (5-year), 6.3% (10-year). Mr. Palmeri noted the larger institutions yielded the highest returns over each period due mainly to higher allocations to private equity and real estate. Mr. Palmeri reviewed average one-year returns by asset class for 2015 and 2014, noting that UK outperformed the average return two years in a row for the domestic equity and private equity asset classes.

Ms. Krauss then presented four benchmarking summaries with data from the 2015 NACUBO study. The first summary included public institutions with \$1-2 billion in endowment funds, the second included University Review Committee “URC” benchmark institutions, the third included SEC peer institutions, and the fourth included Kentucky institutions. Three distinct classifications were included in the \$1-2B benchmarking group: 1) Public Colleges, which are University or System funds, 2) IRF – Institutionally

Related Foundations, and 3) Combined Endowments/Foundations. Focusing on 10-year returns, the average return of public institutions was 5.6% compared to 6.6% for those with foundations, so institutions with foundations outperformed those without by 100 basis points. This was noted as meaningful and confirms our suspicion that UK is at a disadvantage by not having a foundation to manage the endowment assets, as do most public institutions. The disadvantage of managing the endowment without a foundation structure is related to public procurement and open records laws, which prevents us from being flexible or nimble, which is needed for implementation of certain investment strategies. Additionally, UK's structure and procurement requirements have prevented us from implementing a fully direct investment program, leading us to implement fund-of-funds in private equity and hedge funds. It was noted by Trustee Vance that UK had underperformed in comparison to our peer groups. Ms. Krauss replied that investment staff are not satisfied with the endowment performance and have taken measures to fully diversify the portfolio, which should improve longer-term performance. Additionally, the University has added a full time chief investment officer and supporting staff, and is also exploring strategies to overcome procurement and legal challenges in order to allow for more direct investments.

Mr. Shupp then presented the Investment Staff Report. He began with an overview of the endowment asset allocation as of December 31, 2015, noting that the portfolio remains well within the policy ranges and well diversified across asset classes. Next, he provided an update on manager appointments, terminations and due diligence for the period. Within Diversified Inflation Strategies, UK made a commitment to an illiquid strategy managed by Aether Investment Partners. Also, on Feb 1<sup>st</sup> we invested in a new liquid strategy, the PIMCO Inflation Response Multi-Asset Fund, or IRMAF. This was also a component of the DIS search in which Aether was selected, and we fully redeemed from Wellington DIH to fund PIMCO IRMAF. Due diligence during the period included a number of routine updates on managers as well as calls with semi-finalists in the consultant search. Mr. Shupp then provided updates on the Endowment Investment Custodian and Endowment Investment Consultant searches. A recommended finalist has been selected for the Endowment Investment Custodian, with the contract in the final stages of negotiation. Regarding the Endowment Investment Consultant search, the RFP evaluation committee has narrowed the candidate list down to four finalists, presenting today.

Next, Ms. Gratsinger presented a performance review and market update. She began by stating the fourth quarter was positive for equities. Total market value was \$1.2B as of December 31, 2015. Ms. Gratsinger then provided a total fund overview of performance as of 12/31/15. The total fund was up 1.64%, net of fees, for the quarter. Reviewing quarterly performance by asset class, domestic equity was up 6.55% and international equity was up 2.97%. Fixed income was down 0.28%, diversified inflation strategies were down 3.13%, GTAA was up 0.16%, long/short equity was up 2.92%, absolute return was down 0.75%, and real estate was up 2.55%. The performance estimate for the month of January is approximately a 3% loss, without real estate and private equity components included.

Ms. Krauss then provided a brief performance review for operating fund cash and investments as of December 31, 2015. She stated that the total of operating fund cash and investments was approximately \$1.08 billion. Excluding \$576.9 million of bond proceeds and other construction funds held at the state, the total amount to support operations was \$882 million. Also, total cash and investments subject to the operating fund investment policy was approximately \$504.5 million, with \$294.4 million in overnight and short-term investments and \$210 million in other investments.

At 9:15 a.m., Chair Farish explained that the Investment Committee needed to go into closed session to discuss the finalists for the Endowment Investment Consultant. He stated that only those persons necessary to provide information to the Committee and appropriate staff may be present, that nothing else would be discussed in the closed session and that no votes would be taken. Mr. Farish then made a motion to go into closed session pursuant to KRS 61.180 (1)(K). Mr. Farish also cited KRS 45A.085 (7) and KRS 45A.695 of the Kentucky Model Procurement Code, which allows information derived from a request for

proposals (RFP) submitted by all of the competing offerors to be discussed in closed session. Mr. Bryant seconded the motion. The motion was then approved.

The closed session concluded at 2:30 p.m. Chair Farish stated that the Committee would proceed with the open session.

Ms. Krauss presented IC1, the recommendation that the Investment Committee authorize investment staff to conduct further due diligence and enter into contract negotiations with the identified finalists in the endowment investment consultant search. Approval of IC1 was moved by Mr. Britton, seconded by Mr. Booth, and approved by all.

The meeting was adjourned at 2:34 pm.

Respectfully submitted,  
Kristina W. Dills  
Office of the Treasurer