

Meeting Minutes of the Investment Committee
University of Kentucky
Thursday, February 16, 2023

The Investment Committee of the University of Kentucky Board of Trustees met on Thursday, February 16, 2023, in the Gatton Student Center Harris Ballroom.

A. Meeting Opened

Investment Committee Chair, Ray A. Daniels, called the meeting to order at 2:15 p.m. and requested a roll call.

B. Roll Call

The following members of the Investment Committee were in attendance: Ray A. Daniels, E. Britt Brockman, Todd Case, C. Frank Shoop and Hollie Swanson.

The following Community Advisory members were in attendance: William C. Britton, Elizabeth McCoy and Quint Tatro.

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

Cambridge Associates was represented by Eric Thornton and Drew Landry.

C. Approval of Minutes for December 12, 2022

Chair Daniels called for a motion to approve the minutes from the Committee meeting on December 12, 2022. The motion was moved by Trustee Shoop and seconded by Trustee Case. The motion passed without dissent.

D. Undergraduate Student Managed Investment Fund Presentation

Mr. Quint Tatro introduced two students from the undergraduate Student Managed Investment Fund (SMIF) class, who presented a stock pitch for one of the Fund's portfolio holdings, Ethan Allen Interiors Inc. (Ethan Allen). Following a brief description of the undergraduate SMIF course, the students outlined a company overview for Ethan Allen, an overview of the furniture industry and their thesis for owning the stock. Through charts and graphs, the students summarized performance for the stock since its inclusion in the Fund, revenue growth for the company over the past four years and key financial metrics for Ethan Allen against competitors.

E. Emerging Markets Equity Education Session

Mr. Eric Thornton, Cambridge Associates, began the Emerging Markets Equities Education Session with a strategy overview. He started by defining emerging markets

broadly as countries that are growing, increasing their engagement with the rest of the world and developing their capital markets. Practically speaking in the investment world, emerging countries are classified by index providers as they organize capital markets among various categories. Presently, the emerging markets universe includes 24 countries, of which China is by far the largest constituent, followed distantly by India. Importantly, while emerging markets countries account for roughly 12% of the world's total stock market capitalization, they account for nearly double that percentage of the world's gross domestic product (GDP). This disparity means that emerging markets countries are producing more economic activity per capita than their developed peers.

Turning to the UK endowment, the objectives of including emerging markets in the portfolio include gaining exposure to a source of long-term growth, enhancing diversification and dampening volatility within international equities, and opportunities for active management in less efficient markets. There is no dedicated policy target for emerging markets equity in UK's Portfolio, rather it is part of the Endowment's international equity allocation which currently has a 20% working target. The emerging markets equity allocation represented 4.4% of the total Portfolio as of December 2022 and consisted of five dedicated strategies including four active managers and one passive index holding. Mr. Thornton concluded his remarks by introducing representatives from one of the Endowment's emerging markets equity managers, ARGA Investment Management.

Mr. Sujith Kumar and Mr. Bruce Deutsch, of ARGA Investment Management (ARGA), provided a summary of their firm and the emerging markets equity strategy in which UK is invested. Mr. Deutsch began with a brief overview of the organization, noting that it was founded in 2010 and employs a philosophy and approach that dates back over 25 years. Mr. Kumar explained ARGA's investment philosophy, which is rooted in their belief that market overreaction creates anomalies that are persistent and exploitable. He next discussed ARGA's investment process, noting the advantage of their industry model approach which they believe provides them with a research advantage. As a last point of the strategy overview, Mr. Kumar explained key points of ARGA's portfolio construction and sell discipline, then provided an update on the portfolio's current positioning. He concluded his remarks with a review of ARGA's performance for the emerging markets equity mandate. Although the track record is short given the relatively new relationship, the strategy has strongly outperformed since its inclusion in the UK portfolio compared to the benchmark.

F. Investment Staff Report

Mr. Shupp presented the Investment Staff Report beginning with an overview of the Endowment asset allocation as of December 31, 2022 compared to the October 31, 2022 asset allocation presented at the last meeting. He noted that the allocation report reflects the new policy targets approved in December. He highlighted that there was an uptick in global equity and global fixed income allocations while real assets saw a slight reduction. Diversifying strategies came down slightly as ongoing redemptions continued to bring the allocation closer to the new lower policy target. Regarding recent rebalancing

activity, much of the activity during the period took place within global equities as gains from international were reallocated toward domestic holdings. The new Responsible Investing SMIF portfolio was also partially funded. Finally, efforts were made within the fixed income portion of the portfolio to extend duration back to a benchmark-neutral stance given the remaining uncertainty in the economy. He concluded that the Portfolio remains well-diversified and well within the policy ranges for asset allocation.

Ms. Rohde discussed recent manager appointments, terminations and due diligence for the period. On the appointments side, UK invested \$12 million in the Vanguard Long-Term Treasury Index ETF. She stated there was nothing to report on the terminations side. Lastly, Ms. Rohde referenced manager due diligence and research during the period, highlighting that many of the manager meetings focused on a look back at the calendar year 2022 and a look forward to the calendar year 2023.

G. Performance Review and Market Update

Mr. Drew Landry, Cambridge Associates, presented a performance review and market update for the period ending December 31, 2022. He began by discussing some key market themes for the calendar year. The year was defined by widespread interest rate hikes, record inflation and geo-political events around the world, particularly the war in Ukraine. He stated that performance was challenging for public market investments, with large drawdowns across asset classes. One bright spot was global natural resources stocks which gained over 20% for the year. Aside from inflation, another key theme was the growth to value style rotation which kicked off at the end of calendar year 2021. The Fourth Quarter of 2022 ended on a positive note due to softer inflation data, the reopening of China and renewed optimism within capital markets.

Focusing on UK's performance, the Portfolio declined in the calendar year but lost less than the target allocation index. Supporting relative returns were better than benchmark performance in public real assets and public equity, an outperformance of private investments and an overweight to real assets. In addition, the public fixed income portfolio outperformed the market benchmark due to its below-market duration. Countering those areas of relative strength, diversifying strategies trailed the industry benchmark, and the portfolio's growth-oriented emerging markets equity exposure lagged.

H. Other Business

Mr. Shupp reviewed the schedule of 2023 Investment Committee meetings and tentative agenda items. He highlighted that the Investment Committee Retreat will be held in June this year and will include some additional education sessions, the annual Portfolio risk review as well as a discussion of the Investment Strategy Survey results.

I. Meeting Adjourned

Hearing no further business, the meeting was adjourned at 3:27 p.m.

Respectfully submitted,



Kristina W. Goins
University Financial Services