

**Minutes  
Investment Committee  
January 30, 2014**

IN ATTENDANCE:

Investment Committee Members:	Carol Martin Gatton, Chair William C. Britton Mark P. Bryant James W. Stuckert
Community Advisory Members:	James F. Hardymon
Investment Staff & Consultants:	Susan I. Krauss Kimberly C. Lush Steve Hahn (R.V. Kuhns & Associates) Ron Klotter (R.V. Kuhns & Associates)

Mr. Gatton called the meeting to order at 1:00 p.m. Mr. Gatton then made a motion to approve the minutes from the Committee meeting on December 16, 2013. The motion was seconded and all approved.

The first item on the agenda was approval of the revised endowment investment policy. Ms. Krauss noted the action was deferred from the previous Investment Committee meeting and that the revised policy includes changes to the language in the Roles and Responsibilities and Delegation of Authority sections to clarify responsibilities for appointing, monitoring and evaluating investment managers. Additionally, an updated manager structure includes changes to reflect decisions made during the new asset allocation implementation. She stated that the purpose of the proposed changes is to align the University with best practices in the endowment investment industry and to establish a governance framework. In the section for Purpose of the Investment Policy, language has been added to clarify that the policy will be reviewed annually and at any other times as desired by the Committee and Endowment investment staff. Also, language has been added to clarify that any modifications to the policy shall be approved by the Committee. In the Roles and Responsibilities section, the Endowment investment staff has been defined as the University's Treasurer and Chief Investment Officer. A sentence was added stating that the Staff will perform other duties as delegated by the Committee. The Delegation of Authority section now includes language noting the Committee delegates certain investment related activities to Staff. In collaboration with the Consultant, the Staff will hire a Custodian. Also, in collaboration with the Consultant, the Staff will appoint, monitor and evaluate external investment managers for the investment asset allocation and strategies approved by the Committee. The Staff and Consultant will provide updates to the Committee on manager appointments, terminations, and the ongoing monitoring and evaluation of existing managers, at each meeting and at other times as requested by the Committee. Mr. Britton inquired if the Committee had simply delegated authority for selection of investment managers as required by the governing regulations. Ms. Krauss stated that is correct and that the Committee has the authority to take back the delegation if at any time they are not satisfied with how Staff is performing this function. Changes to the Summary of Endowment Investment Manager Structure and Benchmarks included an addition to the Broad U.S. Equity section of a \$5.1 million commitment to the University's Student Managed Investment Funds program. In the Non-U.S. Equities section, clarification has been added that the total allocations to Mondrian and William and Blair are 6% each and reflect new allocations to each firm's emerging market and/or small-cap strategies. In the Long-Biased Long/Short Equity category, Prisma has been terminated. The section for Global Tactical Asset

Allocation now reflects that GMO has been selected as an additional GTAA manager. Mr. Stuckert made a motion to move adoption of the revised endowment investment policy as presented. Mr. Britton seconded the motion and it was approved.

The next agenda item was an update on the CIO search and a review of benchmarking data. Ms. Krauss provided a status update on the CIO search. The CIO position was advertised beginning in late October in several publications for approximately five weeks. One hundred applications were submitted for review. The pool has been narrowed down to approximately ten candidates. An interview committee will be conducting the interviews of the final candidates. Mr. Gattton has been invited to be a member of the interview committee. Endowment benchmarking data was then provided. Ms. Krauss presented the summary results of the 2012 NACUBO – Commonfund Study of Endowments. The two major categories of the study presented were return and asset allocation data and staffing data. Per the results of the study, the University of Kentucky is clearly understaffed for an endowment of its size. Institutions with endowment investment pool assets over \$1 billion reported an average number of FTE's of 10.9 and institutions with assets \$500 million to \$1 billion reported average FTE's of 2.7. The University of Kentucky has 1.1 FTE's. Ms. Krauss also presented a 2013 Endowment Management Benchmarking study she conducted involving fifteen peer institutions. As part of this study, she conducted on-site visits at Louisiana State University and its related foundation and The Ohio State University. A key statistic of the study is that six of the fifteen participating institutions have endowments greater than one billion dollars and five of those six institutions have a CIO on staff. Ms. Krauss also shared the performance results of the peer institutions, highlighting the fact that institutions with a CIO had a fifty basis points advantage in performance compared to those without a CIO over a ten year period.

Ms. Krauss then provided a review of the asset allocation and transition plan summary dated December 31, 2013. She summarized the transition activity that has occurred over the last six months related to implementation to the new asset allocation approved by the Committee in June 2013. Two RFP's have been completed, one for GTAA and one for Real Estate. On-site visits have been conducted at GMO, Wellington and Grosvenor, and sixteen new contracts have been completed. Two contracts were completed with GMO and Northwood, which are new managers, and fourteen contracts were completed with existing managers to manage new strategies. She stated that the Phase I transition is near completion with approximately \$617 million in total transition adjustments taking place between mid-December and early January, meaning over half of the portfolio was transitioned in less than a month. The remaining Phase I activity includes investment of the Prisma redemption proceeds and transition of funds between the Grosvenor See Blue Fund to the See Blue B Fund related to implementation of the new direct hedge fund program.

The next item on the agenda was an update by Steve Hahn from R.V. Kuhns. Mr. Hahn provided an overview of the University's private equity investments. He stated that the goal of the allocation is to enhance returns. He noted that the asset class was added in 2005 with a lot of the capital being deployed after 2005, making the program relatively immature in terms of where it is in its life cycle. He added that comparing performance against other asset classes is difficult because of the nature of the private equity investment cycle, which has been extended by the financial crisis. A snapshot of the portfolio was provided. Mr. Hahn pointed out that even though the performance doesn't look great against the comparable public market, the fund is performing quite well on a peer basis - all funds except for two (which account for less than 4% of commitments) are above median statistics. Therefore, the portfolio is maturing well on an overall basis. Next, Mr. Hahn reviewed the pacing analysis, noting new commitments of approximately \$80 million each in 2014, 2017 and 2020 are needed to reach and maintain the new 12% target allocation to Private Equity. He concluded his presentation with comments on direct fund investing versus a separate account manager, commenting that the benefits of a customized separate account by an industry leading discretionary manager should outweigh the fee premium versus a dedicated private equity staff.

Next, Ms. Krauss introduced the Neuberger Berman team comprised of Kaci Boyer, Brien Smith and Drew Fox. Ms. Krauss reminded the Committee that Neuberger Berman was hired in September 2011 as a result of an RFP process and that \$100 million dollars was committed to the NB Wildcats fund, which is a fund of one, with UK as the sole investor. Brien Smith began the review by reviewing Neuberger Berman's three performance goals, which are to provide absolute or positive returns, to outperform the public markets by 500 basis points, and to outperform peers by delivering top quartile vintage year performance. He added that the focus of this portfolio has been to invest with the premier private equity firms, tactically weighting certain strategies to capture the best risk/reward opportunities using diversification to mitigate risk. Kaci Boyer then provided an overview of the program started for the NB Wildcat fund. Two separate commitments formed the \$100 million fund size, with \$50 million going to the NB Crossroads 2010 fund, a commingled Neuberger private equity fund, and \$50 million to a separate account used as a means to build strategic concentration in areas of opportunity. Ms. Boyer noted that the IRR as of 9/30/13 for the prior twelve months was 19.6% and the IRR since inception was a strong 13%. Mr. Smith commented that liquidity was well ahead of schedule and that a cash distribution was expected in the second quarter. Mr. Smith stated that the fund is 84% committed and that the timing is right to discuss new commitments, noting they would be willing to offer favorable fee terms for additional commitments. Ms. Boyer then provided information regarding geographic diversification and industry diversification and Mr. Smith reviewed significant realizations of the fund. Mr. Smith concluded the presentation by thanking the University for its business and the opportunity to present to the Committee.

Ron Klotter from R.V. Kuhns then provided a quick performance review. His primary comment on the capital markets was in regards to the huge difference between stocks and bonds - the U.S. stock market was up 30% and the U.S. bond market was down 3%. He stated that the portfolio had total assets of \$1.152 billion as of 12/31/13 and the calendar year to date return was approximately 14.25%, which was well ahead of both benchmarks due to strong performance across the board. He added that domestic equities such as Wellington had rebounded and that all international managers had done well. He stated that there was slight underperformance in some of the fixed income strategies although in aggregate they were fine. He noted that the brand new Long / Short Equity Composite had been added to the portfolio. He mentioned that it was a great year in the hedge fund Absolute Return space with Grosvenor up 14% and that Prisma also did well at 10%. In closing, he noted that Real Estate also had a good year. Ms. Krauss informed the Committee that a Real Estate manager will be invited to the May 2014 Committee meeting to provide an update.

Ms. Krauss provided a brief review of operating cash. She stated that total operating cash of \$620 million was on hand as of 12/31/13. She noted that the state intermediate pool had taken a hit and lost 2% due to the rise in interest rates during the month of December. She also mentioned a plan to soon invest at least \$50 million with Reams at a targeted yield of 2%.

Mr. Gatton introduced Mike Richey to present an update from the Office of Development on the impact of philanthropy. Mr. Richey provided a ten-year history of endowment values, noting that the spending distribution for fiscal year 2012-2013 was \$36.3 million and that there were 2,088 individual endowments as of June 30, 2013. A chart of FY13 Gift Receipts by Purpose was reviewed. The total of gift receipts was \$97.4 million, made up of \$67.9 million for current operations, \$18 million for capital purposes and \$11.5 million for endowments. A chart for FY13 New Commitments by Purpose was also provided, which is reflective of Development's total work product and includes cash gifts received and new pledges, as well as new and confirmed expectancies. The total of new commitments was \$130.9 million with \$67.7 million for current operations, \$50 million for capital purposes and \$13.2 million for endowments. Mr. Richey also provided charts showcasing an upward trend at the University in the areas of gift receipts, new commitments and donors. Mr. Richey noted charts at the end of the presentation reflecting a reconciliation of Development's reported gifts to the audited financial statements, commenting that Development follows reporting standards set forth by CASE, which is the Council for Advancement and Support of Education.

The meeting was adjourned by Mr. Gatton at 3:49 p.m.

Respectfully submitted,  
Kimberly C. Lush  
Office of the Treasurer