

**Minutes of the Investment Committee**  
**University of Kentucky Board of Trustees**  
**2:30 p.m. on September 10, 2015**  
**Center of Excellence for Rural Health in Hazard, Kentucky**

IN ATTENDANCE:

Investment Committee  
Members: William S. Farish, Jr., Chair  
James H. Booth  
William C. Britton  
Mark P. Bryant  
Carol Martin Gatton  
Robert D. Vance

Community Advisory  
Members: James F. Hardymon  
Myra L. Tobin

Investment Staff &  
Consultants: Susan I. Krauss  
Todd D. Shupp  
Kimberly C. Lush  
Rob Palmeri (RVK)

Mr. Farish called the meeting to order at 2:30 p.m. Ms. Lush then conducted a roll call. Mr. Farish made a motion to approve the minutes from the Committee meeting on June 18, 2015. Mr. Farish's motion was moved by Mr. Britton, seconded by Mr. Vance, and approved by all.

Mr. Shupp then presented the Investment Staff Report. He began with an overview of the endowment asset allocation as of July 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 of June 19 through September 10, 2015. In emerging markets, \$18.6 million was invested in the William Blair Emerging Markets Growth Fund and \$18.6 million was invested in the Mondrian Emerging Markets Equity Fund, totaling the 3% target allocation to emerging markets equity. Within the fixed income area, portfolio structure changes that were approved at the June 18 Investment Committee meeting were initiated. On June 30, 2015, \$33.1 million was invested in the PIMCO Income Fund, with funding coming from the PIMCO Unconstrained Bond Fund, representing the first phase of the new fixed income portfolio structure. On August 3, 2015, an initial capital call of \$4.4 million was funded for the \$28 million commitment to the Grosvenor Opportunistic Credit Fund IV, initiating the second phase of the new fixed income portfolio structure implementation.

Mr. Shupp then stated that, on August 26, 2015, an amendment was completed to extend the SMIF (UK Student Managed Investment Fund) Investment Management Agreement through June 30, 2016 and to allow temporary oversight of the current graduate SMIF account by undergraduate students. Regarding due diligence, he noted that there had been several calls and meetings since June, including updates with existing managers, research on diversified inflation strategies, and discussions with RVK regarding the framework for the illiquid diversified inflation strategies RFP and the best and final proposals for the custodian RFP. Mr. Shupp then provided an update on the Endowment Investment Custodian search. The evaluation committee, which consists of members from the University and RVK, has selected a firm and contract negotiations are underway. Next, he provided an update on the Endowment Investment

Consultant RFP. Fiscal year 2016 is the final year of the University's contract with RVK and an RFP is planned to be issued in the Fall of 2015, with finalists presenting to the Committee in closed session at the February 18, 2016 meeting. The proposed term of the contract will be an initial period of four years with four one-year renewal options for a total term not to exceed eight years.

Next, Mr. Palmeri presented a performance review and market update. He began with a review of capital markets for the period of June 30, 2014 through June 30, 2015, noting that U.S. equities had a return of 7.42%, international equities returned 6.49%, bonds only produced a 1.86% return, real estate was a strong performer with a return of 14.43%, hedge funds were up 3.45%, and commodities were down -23.71%. In regards to domestic equity, he mentioned that large cap stocks provided minimal outperformance over small cap stocks, but growth stocks significantly outperformed value stocks over the trailing one-year period. International equities were noted as having a poor fiscal year as developed markets performed moderately better than their emerging market counterparts. On a regional level, Japan (+8%) and the Middle East (+9%) were the only MSCI regions that experienced positive returns over the last year. Fixed income markets provided modest gains over the fiscal year, as most sectors provided positive, but minimal performance. U.S. fixed income performed significantly better than international over the last year, as the continuation of low rates led to a stable fixed income environment.

Mr. Palmeri then provided a total fund overview of performance. For the fiscal year, he noted the total fund returned 1.59% (net), underperforming the Target Allocation Index by 3.03%. Gross of fees, the total fund returned 1.90% and ranked in the 71<sup>st</sup> percentile. He mentioned that the total fund's relative underperformance can be partially attributed to poor relative performance for all composites with the exception of domestic equity, international equity, and private equity and significant relative underperformance from the diversified inflation strategies composite (-17.25%, net of fees) and the GTAA composite (-10.58%, net of fees). Net of fees, the total fund composite underperformed the target allocation index in all trailing time periods. On a gross of fees basis, the fund slightly underperformed the All Endowments – Total Fund peer group median over the trailing 1, 3, 5 and 7-year periods. On a net of fees, absolute basis, the real estate composite had the highest fiscal year return (10.10%). Several private equity managers also contributed significantly, and the private equity composite returned 9.0%. He stated that another factor to be aware of is liquidity, and that 54% of the University's portfolio has daily or monthly liquidity, 24% has three-month liquidity, and 21% has long-term liquidity.

Mr. Palmeri continued with a composite performance overview as of June 30, 2015. He noted that the domestic equity composite returned 7.16% (net), slightly underperforming the Dow Jones Total Stock Market Index, which returned 7.18%. The international equity composite returned -3.20% (net), outperforming the MSCI ACW Ex US Investable Market Index (Net) Blend, which returned -4.97%. The fixed income composite returned 0.50% (net), underperforming the Barclays Us Agg Bond Index, which returned 1.86%. The diversified inflation strategies composite returned -12.12% (net), underperforming the DIS Blended Index, which returned -8.93%, as well as the Consumer Price Index +5% Blend, which returned 5.13%. The GTAA composite returned -5.45% (net), underperforming the 60/40 Blend, which returned -2.42%, and the Consumer Price Index + 5%, which returned 5.13%. The long/short equity composite returned 3.93% (net), underperforming the HFN Eq Hedge Agg Index, which returned 5.01%. The absolute return composite returned 2.46% (net), underperforming the HFN Fund of Funds Multi-Strategy Index (net), which returned 3.45%. The real estate composite returned 10.10% (net), underperforming the Real Estate Custom Index, which returned 13.14%. The private equity composite returned 9.0%, outperforming the Cambridge US Prvt Eq Index, which returned 4.93%. He concluded with an update on preliminary performance for July 2015. He mentioned that the portfolio was up 0.10% for the month, domestic equity was up 1.46%, international equity outperformed its index by 0.31%, the fixed income composite was up 0.54%, diversified inflation strategies were down -2.24%, the long/short equity portfolio was up 0.70%, absolute return was up 0.65%, and data was unavailable to evaluate the real estate and private equity composites.

Ms. Krauss then provided a brief performance review for operating fund cash and investments as of July 31, 2015. She stated that the total of operating fund cash and investments was approximately \$1.2 billion. Excluding \$226.1 million of bond proceeds held at the state, the total amount to support operations was \$962.1 million. Also, total cash and investments subject to the operating fund investment policy was approximately \$600.4 million, with \$374.2 million in overnight and short-term investments and \$226.1 million in other investments.

The meeting was adjourned at 3:38 p.m.

Respectfully submitted,  
Kimberly C. Lush  
Office of the Treasurer