

Meeting Minutes of the Investment Committee
University of Kentucky
Thursday, September 14, 2023

The Investment Committee of the University of Kentucky Board of Trustees met on Thursday, September 14, 2023, in the Gatton Student Center Harris Ballroom.

A. Meeting Opened

Investment Committee Chair, Ray A. Daniels, called the meeting to order at 2:01 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, M.D., Todd Case, C. Frank Shoop and Hollie Swanson.

The following Community Advisory members were in attendance: Tom Abell, M.D., William C. Britton, Elizabeth McCoy, Kathy McMullen 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.

C. Approval of Minutes for June 15, 2023

Chair Daniels called for a motion to approve the minutes from the Committee meeting on June 15, 2023. The motion was moved by Trustee Shoop and seconded by Trustee Case. The motion passed without dissent.

D. Cambridge Associates Education Session / Active versus Passive Investing

Mr. Eric Thornton, with Cambridge Associates (Cambridge), began the education session by defining active and passive investment approaches. He stated that there are three prerequisites to pursuing active management: (1) the belief that managers with true skill exist; (2) that the investor can identify and access these managers, and (3) the investor must be patient and be able to tolerate periods of underperformance versus benchmarks. Extensive resources are needed to sift through the landscape of opportunities when it comes to picking managers. He added that even the best managers underperform over multi-year periods, with 90% or more of US managers spending at least one period underperforming for three years.

Though the title of the presentation was *Active Versus Passive Investing*, Mr. Thornton noted that active and passive can co-exist in a portfolio. A core/satellite approach to public equity investing utilizes a large, diversified core position – either

passive or quantitative - that is complemented by more concentrated fundamental active managers. The university's current public equity portfolio manager structure is a mix of active and passive. Compared to large peers, UK has slightly more allocated to passive management.

E. Endowment Investment Policy Discussion

Mr. Shupp briefly discussed the Endowment Investment Policy, stating that no material changes are being proposed at this time. He noted only two minor language revisions: 1) an update to reflect Nancy Rohde's new title as Investment Director and 2) an update to a department name within the policy itself. The updated policy will be brought before the Committee at December's meeting for approval.

F. Investment Staff Report

Mr. Shupp presented the Investment Staff Report beginning with an overview of the Endowment asset allocation as of July 31, 2023. He stated a consistent trend, since the last meeting, was that global equity was the only category to increase. This was driven by strong performance within the public equity portfolio as well as a slight increase in private equity. Modest declines took place in each of the other categories (fixed income, real assets and diversifying strategies). Addressing net cash flows by asset category, Mr. Shupp noted a decrease in diversifying strategies and an offsetting increase in global equity. He concluded by stating the portfolio's liquidity profile is well within the policy ranges.

Next, Mr. Shupp provided an update on the student impact of the UK endowment. UK's endowment provides real-world investment experience through a couple of different channels. The Endowment Investment Internship program has had 11 undergraduate student interns since the program's launch in 2016, many of whom went on to obtain competitive roles at top-tier organizations upon graduation. The second is the Student Managed Investment Funds (SMIF) program, established in 2013. The portfolio now holds three of these funds, including the newest: the Responsible Investing SMIF. Ms. Nancy Rohde noted some additional examples of student engagement, including coordinating meetings with money managers both on campus as well as on-site visits to manager offices in several cities across the world. This included manager visits in London and Dublin over the summer. Trustee Swanson asked if global travel was part of a study abroad program. Ms. Rohde replied that it was not, but rather a group of first-generation student cohorts. Mr. Shupp added that there was a recent *UKNOW* story that highlighted additional details of the trip.

Ms. Rohde discussed recent manager appointments, terminations and due diligence for the period. On the appointments side, UK invested \$15 million in the GMO Equity Dislocation Fund, L.P., and committed \$15 million to Hudson Bay Special Opportunities Fund. On the terminations side, she stated there was nothing to report. Lastly, Ms. Rohde referenced manager due diligence and research during the period, both with existing and prospective managers. She cited a recent visit to New York City

where meetings took place with five managers currently in the UK portfolio.

G. Performance Review and Market Update

Mr. Thornton presented a performance review and market update for the fiscal year ending June 30, 2023. He began with a backdrop for the markets stating this was a very strong year for equities. He added that bonds fared worse, especially investment-grade and longer duration assets; real assets were mixed. Diving into the fiscal year review for UK, he stated that while major asset class performance was positive, the endowment portfolio slightly lagged the policy benchmark, driven largely by underperformance in private investments. Working well for UK's portfolio was strong performance in public equities and public real assets, and diversifying strategies also outpaced the benchmark. Countering this, private equity performance significantly lagged compared to public equity, and private real assets were down slightly after a very strong FY22. Overweight allocations to small-cap and emerging markets detracted from performance.

Next, Mr. Thornton detailed UK's performance for each asset class in FY23. He noted the concentrated nature of the global equity market strength, in particular as large-cap technology stocks were buoyed by positive developments in artificial intelligence (AI). A look at equal-weighted indexes over the same time horizon shows more modest performance. Mr. Tatro opined that a lot of the concentration in the S&P 500's performance is a result of the increased popularity and interest in passive management, which opens up an opportunity for active managers in the rest of the market universe. Mr. Thornton agreed and stated that this is one of the primary reasons that they are proponents of active management. Trustee Swanson asked for Mr. Thornton's opinion on potential headwinds for the big tech stocks such as potential AI regulation and anti-trust lawsuits. Mr. Thornton replied that these are indeed potential catalysts for a re-evaluation of those names, though he cautioned that it is difficult to foresee a reversion and timing.

H. Other Business

Mr. Shupp reviewed the schedule of the 2023 Investment Committee meetings and tentative agenda items. The remaining meeting of the year will take place in December. Key agenda items for the meeting will include an ICR for the Endowment Investment Policy, an ICR for the Endowment investment custodian recommendation, as well as an education session led by Cambridge on the endowment's private equity portfolio.

I. Meeting Adjourned

Hearing no further business, the meeting was adjourned at 3:14 p.m.

Respectfully submitted,



Kristina W. Goins
University Financial Services