

**UNIVERSITY OF KENTUCKY ENDOWMENT
INVESTMENT COMMITTEE REPORT TO BOT
May 2, 2017**

- The Investment Committee met May 1, 2017 to review performance results and conduct other business. The Endowment pool had a market value of \$1.3 billion as of March 31, 2017, and gained an estimated 3%, or \$36.8 million, in the three months since December 31, 2016.
- The Investment Committee approved IC1, a proposal to amend the structure of the existing Student Managed Investment Funds Program (SMIF). The Endowment's remaining commitment of \$3.3 million will be allocated to the existing undergraduate SMIF and a new account to be managed by graduate students in the Master of Science in Finance program. As background, the program was approved by the Investment Committee in December 2013 and a total of \$5.1 million was committed for student management.
- That concludes my report on performance, Mr. Chair. I'm happy to answer any questions at this time.

**UNIVERSITY OF KENTUCKY
INVESTMENT COMMITTEE MEETING SUMMARY**

- The Investment Committee met May 1, 2017 to review performance results and conduct other business. The Endowment pool had a market value of \$1.3 billion as of March 31, 2017. For the nine month period ending March 31, the Endowment pool generated an estimated return of 6.6%, compared to a return of 6.3% for the market-based policy benchmark. Several asset categories contributed to Endowment pool performance during the period, with U.S. and International Equities allocations serving as leading contributors.

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- The Committee heard reports on the following:
 - Ms. Susan Krauss, Treasurer, introduced Dr. David Blackwell, Dean of the Gatton College of Business and Economics, Mr. Quint Tatro, Adjunct Professor of Finance, and a student from the undergraduate class that oversees the Student Managed Investment Funds. The student provided a presentation on a stock recently added to the portfolios.
 - Ms. Krauss then presented IC1, Approval of Changes to the Student Managed Investment Funds Program (SMIF).
 - Mr. Nolan Bean, investment consultant from FEG, presented the Portfolio Risk Review.
 - Mr. Todd Shupp, CIO, presented the endowment asset allocation and rebalancing/transition activity as of March 31, 2017 and provided a report on manager appointments, terminations and due diligence since the last meeting.
 - Mr. Bean provided an update on endowment performance results for the period ending March 31, 2017.
 - Ms. Krauss reviewed recent updates to the operating fund investment policy as well as reports on operating cash and investments as of March 31, 2017.
 - Ms. Krauss reviewed the Investment Committee meeting schedule for the remainder of calendar 2017 and the supplemental endowment reports for December 31, 2016.

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UPDATED ASSET ALLOCATION

- Investment staff and consultant, FEG, recommended adjustments to the target asset allocation with the objective of achieving the Endowment’s long-term return target of 7.5%.
- The Investment Committee approved the recommended target asset allocation at its meeting December 12, 2016. Staff has flexibility to implement tactical adjustments within approved policy ranges for each asset class, based on market conditions and ongoing research.
- The current and previous target asset allocations are shown below.

Asset Class	Current UK Target	Prior Target
Public Equity	20%	24%
Private Equity	15%	12%
Hedged Equity	5%	14%
Total Equities	40%	50%
High Quality Fixed Income	10%	10%
Public Credit	5%	0%
Private Credit	5%	0%
Total Fixed Income	20%	10%
Public Real Assets	10%	12%
Private Real Assets	10%	10%
Total Real Assets	20%	22%
Diversifying Strategies	20%	18%
Total	100%	100%
Expected Return¹	8.1%	7.2%
Expected Risk (Standard Deviation)¹	15.1%	15.4%

¹ Expected return and risk figures per FEG.

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Ten-Year History of Endowment Returns:

Note: The following return data is posted on the Endowment Services website.

	<u>Fiscal Year:</u>		<u>Calendar Year:</u>	
	<u>UK</u> <u>Endowment</u>	<u>Policy</u> <u>Benchmark*</u>	<u>UK</u> <u>Endowment</u>	<u>Policy</u> <u>Benchmark*</u>
2007	16.8%	17.6%	5.7%	7.4%
2008	-8.2%	-6.3%	-30.8%	-28.1%
2009	-20.9%	-19.3%	22.5%	17.7%
2010	13.0%	10.6%	11.5%	12.6%
2011	19.1%	19.6%	-2.1%	-0.4%
2012	-0.8%	-0.1%	12.6%	11.0%
2013	11.9%	10.3%	15.1%	13.6%
2014	16.2%	15.2%	4.4%	6.1%
2015	2.2%	4.6%	-0.1%	3.2%
2016	-1.5%	1.0%	5.1%	5.9%
Trailing 3-Yr.	5.4%	6.9%	3.1%	5.1%
Trailing 5-Yr.	5.4%	6.1%	7.3%	7.9%
Trailing 10-Yr.	4.0%	4.7%	3.3%	4.1%

* The policy benchmark is a weighted average of various market index returns that are representative of the University's asset allocation. The benchmark has changed over time due to changes in the University's asset allocation, and was most recently updated effective January 1, 2014.

The benchmark currently consists of the following:

18%	Consumer Price Index + 5%
14%	HFN Equity Hedge Aggregate Index
12%	Dow Jones US Total Stock Market Index
12%	MSCI ACW Ex US Investable Market Index
12%	Real Estate Custom Index
12%	Venture Economics All Private Equity Index
10%	Barclays US Aggregate Bond Index
10%	HFN FOF Multi-Strategy Index

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**Summary of Returns by Asset Class
Trailing periods ending March 31, 2017**

	Performance (%)					
	QTR	FYTD	1□ Year	3□ Years	5□ Years	10□ Years
U.S. Equity Composite	5.7	15.5	18.3	9.7	13.1	6.7
DJ US TSM Index	5.8	15.1	18.1	9.7	13.1	7.6
International Equity Composite	9.0	10.7	10.9	0.9	5.8	1.3
MSCI ACW Ex US Investable Mkt Index (Net) Blend	8.0	13.8	13.0	0.8	4.7	1.6
Global Fixed Income Composite	1.6	3.7	6.3	3.2	3.0	5.2
Barclays US Agg Bond Index	0.8	-1.7	0.4	2.7	2.3	4.3
Real Assets Composite	2.6	3.1	8.8	-5.3	-2.6	N/A
Consumer Price Index + 5%	1.6	5.4	7.4	6.2	6.4	6.8
GTAA Composite	4.8	7.6	10.3	0.6	1.6	N/A
Consumer Price Index + 5%	1.6	5.4	7.4	6.2	6.4	6.8
Hedged Equity Composite	3.1	5.9	8.4	2.3	N/A	N/A
HFN Eq Hedge Agg Index (Net)	3.7	9.5	10.1	4.0	N/A	N/A
Absolute Return Composite	1.1	7.6	9.8	1.8	5.0	N/A
HFN FOF Multi-Strat Index (Net)	2.0	5.2	5.5	1.1	2.9	N/A
Private Real Estate Composite	0.4	5.0	6.3	8.9	9.4	5.8
NCREIF Property Index (Mo)	0.0	3.5	5.6	10.0	10.3	6.5
Private Equity Composite	0.0	2.6	5.1	9.1	11.2	6.2
Cambridge US Prvt Eq Index	0.0	3.8	6.5	8.8	11.7	8.8
Total Fund Composite	3.0	6.6	8.9	3.5	6.4	3.5
Market Based Target Allocation Index	3.0	6.3	8.3	4.3	6.5	3.8

* Performance results are net of fees and based on FEG quarterly performance report as of 03/31/17.