

Meeting Minutes of the Investment Committee
University of Kentucky
Thursday, September 12, 2024

The Investment Committee of the University of Kentucky Board of Trustees met on Thursday, September 12, 2024, in the Gatton College of Business and Economics, Woodward Hall.

A. Meeting Opened

Investment Committee Chair, Elizabeth McCoy, called the meeting to order at 1:58 p.m. and requested a roll call.

B. Roll Call

The following members of the Investment Committee were in attendance: Elizabeth McCoy, Ray A. Daniels, Lance Lucas, Hollie Swanson and Robert Vance.

The following Community Advisory members were in attendance: Tom Abell, M.D., William C. Britton, Kathy McMullen and Quint Tatro. The following Community Advisory member was not in attendance: Kelly Craft.

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 13, 2024

Chair McCoy called for a motion to approve the minutes from the Committee meeting on June 13, 2024. The motion was moved by Trustee Lucas and seconded by Trustee Vance. The motion passed without dissent.

D. Endowment Manager Presentation: PIMCO

Ms. Libby Cantrill and Mr. Kian Rohani from investment manager PIMCO, provided a brief update on their firm as well as an economic and policy outlook.

E. Proposed Changes to Endowment Investment Policy

Mr. Todd Shupp discussed a couple of minor proposed changes to the Endowment Investment Policy. He noted a language update to reflect the University's new governing regulations that were approved in June. Additionally, he discussed minor changes to the portfolio's policy benchmark, specifically those relating to public real assets and diversifying strategies benchmarks.

F. Investment Staff Report

Mr. Shupp presented the Investment Staff Report beginning with an overview of the endowment asset allocation as of July 31, 2024. He noted that there were few significant changes since the April 30, 2024 report. The global equity allocation moved up slightly, driven by the strength of the public equity market during the time period. The global fixed income allocation declined modestly, driven by distribution activity within private credit. Real assets also shifted down, driven by declines among some private real asset funds. Finally, the diversifying strategies allocation moved up slightly as a new investment was made during the period; the overall diversifying strategies allocation is expected to come down closer to the target as redemption proceeds are received in the fourth quarter. Mr. Shupp briefly discussed the net cash flows by asset category, highlighting an inflow from a new quasi endowment for the Center for Applied Energy Research, which was previewed at the June committee meeting. He concluded that the portfolio remains well within its liquidity guidelines.

Ms. Nancy Rohde discussed recent manager appointments, terminations and due diligence for the period. On the appointments side, UK committed \$15 million to Blue Delta Capital Fund IV and invested \$20 million in GoldenTree Select Offshore Fund. On the terminations side, UK redeemed in full from Palmer Square Ultra-Short Duration Investment Grade Fund and Vanguard Long-Term Treasury Index ETF. Lastly, Ms. Rohde referenced manager due diligence and research during the period. She highlighted a due diligence trip to New York and Connecticut where Investment Staff met with private and public equity managers as well as managers in the private credit and private infrastructure space.

Mr. Shupp introduced a new report designed to improve reporting on the portfolio's private investments. The report highlights a summary of the portfolio's combined private investment allocation and the investment approach within the allocation, as well as graphical representations of the portfolio's commitment pacing, unfunded commitments and cash flows. He noted that the private investment allocation is right on target at 35% of the portfolio, is well-diversified and on pace to meet the annual commitment target for this calendar year, and is seeing an increase in net cash flows as distribution activity appears to be improving.

G. Performance Review and Market Update

Mr. Eric Thorton presented a performance review and market update for the fiscal year ending June 30, 2024. He provided an overview of performance for each major asset class, noting that it was another very strong year for public equities due to an easing of inflation as well as the continued enthusiasm around Artificial Intelligence (AI). UK's portfolio benefitted from the strength of the U.S. market but was held back by overweight allocations to small-cap and non-U.S. equity. Private equity returns were muted, while public fixed income performance improved as the market began to anticipate policy rate cuts. Diversifying strategies generated a solid gain, driven by strong performance from long-short equity and opportunistic managers. He concluded that public real assets were

a positive standout on the strength of Master Limited Partnerships (MLPs) during the fiscal year, while private real estate and natural resources declined.

Trustee Vance asked if the reported fiscal year return included capital contributions by donors or if it was pure return. Mr. Thornton replied that this was pure return. He then asked if we should expect small-cap equity to do better with interest rates falling. Mr. Thornton replied that yes, it is generally presumed that small-cap stocks will do better as interest rates fall because they typically have more debt and thus more to gain as rates decline. That said, if rates are falling due to economic weakness, that would be a headwind that could offset the benefit of lower debt costs. Trustee Shoop made some positive comments on UK's endowment performance, noting that the dollar returns on a pool of \$2.3 billion are significant.

Mr. Tatro asked some questions related to how benchmarks are updated when the endowment's asset allocation targets are adjusted. Mr. Shupp clarified that the policy benchmark is a blend of all the historical asset mixes the portfolio has had over time, and the prior return history does not change when adjustments are made to the policy. Trustee Lucas mentioned the anticipated Fed rate cuts for the following week and asked if we act based on that information or wait to see what the Fed does. Mr. Thornton noted that the Fed gets a lot of media and investor attention, and Cambridge does not believe that they have an edge over the market in predicting big macro events such as Fed cuts. They believe instead that outperformance can be achieved by selecting managers for the portfolio who can dig into individual companies that do not receive as much attention and scrutiny, with more potential to identify mispricings. Importantly, the endowment portfolio has such a long time horizon that we do not need to rely on making shorter-term calls on rates.

H. Other Business

Mr. Shupp reviewed the schedule of the remaining 2024 Investment Committee meetings and tentative agenda items. The remaining meeting of the year will take place in December. Key agenda items will include an ICR for the Endowment Investment Policy as well as an educational session with one of the Endowment's investment managers, Select Equity Group.

I. Meeting Adjourned

Hearing no further business, the meeting was adjourned at 3:30 p.m.

Respectfully submitted,



Kristina W. Goins
University Financial Services