

**Minutes of the Investment Committee
University of Kentucky Board of Trustees
2:30 p.m. on December 12, 2016
Room 327C, Charles T. Wethington Building**

IN ATTENDANCE:

Investment Committee
Members:

Mark P. Bryant, Chair
Claude A. Berry, III
James H. Booth
William C. Britton
Michael A. Christian
Robert D. Vance
Barbara S. Young

Community Advisory
Members:

James F. Hardymon
William E. Seale (participated via conference call)
Myra L. Tobin

Investment Staff &
Consultants:

Susan I. Krauss, Treasurer
Todd D. Shupp, Chief Investment Officer

Nolan M. Bean, Consultant, Fund Evaluation Group
Michael J. Aluise, Consultant, Fund Evaluation Group

Chair Bryant called the meeting to order at 2:30 p.m. and requested a roll call. Chair Bryant then reviewed highlights from the minutes of the Committee meeting on September 8, 2016, and called for a motion to approve the minutes. The motion was moved by Mr. Britton, seconded by Mr. Vance, and approved by all.

Ms. Krauss introduced the first agenda item, the Student Managed Investment Fund (SMIF) presentation, and provided background information regarding the program. She noted that the SMIF was established by the Committee in December 2013, at which time, an allocation of up to \$5.1 million was approved. Currently, the program has been funded with approximately \$1.7 million. The first investment of approximately \$650,000 was made in January 2014 to the undergraduate SMIF, an existing program that had been in place for many years under a TVA sponsorship program. Then, in August 2014, an additional \$1.1 million investment was made to a graduate level SMIF; however, the undergraduate class has assumed management of those funds since August 2015. Also, additional funds of up to \$3.3 million are expected to be allocated for graduate level classes in the future. Ms. Krauss then introduced Quint Tatro, adjunct faculty member and sponsor of the program, and John Troutman, a senior in the program. Mr. Tatro stated that he is a local registered investment adviser in Lexington, as well as the SMIF faculty adviser, and noted that he attended the class in 1998, when it was just a club. Mr. Troutman then began a stock pitch presentation for his selected stock, Intel (INTC), which he had presented for the class. He provided a company overview, noting that Intel is a leader in the global market of semi-conductors and that the following five areas are reviewed by the class when determining which stocks to purchase: profitability, balance sheet, management, economic moat and valuation.

Ms. Krauss then discussed IC 1, a recommendation that the Committee approve revisions to the Endowment Investment Policy. She noted that the revised policy reflects the proposed changes discussed at the September retreat and subsequent feedback received from Investment Committee members. The changes include: updated Roles and Responsibilities section to clarify that the Committee may engage an investment custodian for the endowment investments; updated Delegation of Authority section to remove delegation to staff for hiring of the investment custodian and to add reference to the alternative search process approved by the Chief Procurement Officer; adoption of revised asset allocation targets, ranges and market indexes in the asset categories of global equity, global fixed income, real assets and diversifying strategies; adoption of liquidity tiers and related guidelines; and other minor changes. Regarding asset allocation targets and ranges, she noted that the recommendation is for global equity to have a target of 40% and a range of 30 – 60%, for global fixed income to have a target of 20% and a range of 5 – 25%, for real assets to have a target of 20% and a range of 5 – 25% and for diversifying strategies to have a target of 20% and a range of 5 – 25%. Regarding the proposed liquidity tiers, Ms. Krauss mentioned that they provide guidelines for no less than 35% liquid assets, no more than 65% combined exposure to semi-liquid and illiquid assets and no more than 35% illiquid assets. Chair Bryant called for a motion to approve IC 1. The motion was moved by Mr. Christian, seconded by Mr. Britton, and approved by all except Ms. Young, who abstained.

Next, Mr. Shupp presented the Investment Staff Report. He began with an overview of the endowment asset allocation as of October 31, 2016, stating that the portfolio remains well within the policy ranges and well diversified across asset classes. He noted there was an inflow of approximately \$12 million in September in the form of an OPEB quasi endowment addition, which was added to non-U.S. equity and invested with Mondrian, a value oriented equity manager. Additionally, approximately \$22 million was shifted from PIMCO Core Plus Fixed Income and allocated to Reams Core Plus Fixed Income as part of the plan to restructure the fixed income portfolio and to reduce fees. He then presented a summary of commitments and capital calls and manager concentration, mentioning that manager concentration has come down with PIMCO and will be coming down with Wellington and Grosvenor. He noted that asset allocation is now being presented in the following four main categories as defined by FEG: global equity, global fixed income, real assets and diversifying strategies. With adoption of IC 1, global equity has a policy target of 40%, but is now a more inclusive category with the addition of hedged equity and private equity. Global fixed income has a policy target of 20%, with high quality / rate sensitive at 10%, public credit at 5% and private credit at 5%. Real assets has a policy target of 20% with public real assets at 10% and private real assets at 10%, and diversifying strategies, which now includes absolute return and GTAA, has a policy target of 20%. Also, he highlighted a breakdown of the portfolio's liquidity tiers as of October 31, with liquid at 49.5%, semi-liquid at 27.5% and illiquid at 23%. Then, he provided an update on manager appointments, terminations and due diligence for the period of September 9, 2016 through December 11, 2016. Manager appointments included the creation of Wildcat Alpha, a non-discretionary fund of one vehicle designed by UK and FEG to streamline portfolio implementation, similar in structure to the portfolio's existing Grosvenor See Blue B investment. Other manager appointments included a \$9 million commitment to Gramercy Distressed Opportunities Fund III, an \$11 million commitment to Homestead Capital USA Farmland II, a temporary investment of \$23.8M in a high quality fixed income strategy, and a \$25 million investment in the DW Value Offshore Fund. Mr. Shupp also noted there has been an extensive amount of due diligence during the period.

Next, Mr. Bean provided a performance review for the period ending September 30, 2016. He began by noting a memo from FEG to the University that provides details surrounding the commitments to Gramercy and Homestead, as well as the investment in the DW Value Fund, all of which will be held in the Wildcat Alpha Fund. The purpose of the memo was to provide an overview of the rationale for manager additions to the portfolio. Relating to performance, he stated that the return for the quarter ending September 30, 2016 was 2.8%, greater than the market-based benchmark of 2.6%. For private equity, the IRR was 10% at 6/30/16, compared to the MSCI AC World Index of IRR of 6.5% and, as of October 31, 2016, the total portfolio return was (0.7%) for the month, outperforming the market-based

benchmark of (1.0%). Questions were asked regarding the implications of global political changes. Mr. Bean explained that, in his view, the likelihood of abnormal market movements, either positive or negative, has increased due to the uncertainty in the market regarding political policies across the globe. Given the market uncertainty, the markets may experience greater volatility in 2017.

Ms. Krauss then reviewed the dates for the upcoming 2017 Committee meetings, along with the tentative agenda items. On February 16, 2017, the 2016 NACUBO-Commonfund Study of Endowments will be reviewed. On May 1, 2017, there will be another SMIF presentation and an in-depth portfolio risk review. On June 15, 2017, a credit strategy review is planned. A retreat is targeted for September 14, 2017, and, on December 11, 2017, there will be another SMIF presentation and consideration will be given to a revised Endowment Investment Policy, following review of proposed changes to the policy at the September retreat. Ms. Krauss reminded the Committee that the policy must be formally reviewed and approved annually and it's anticipated that changes to the management fee and spending policy may be proposed to provide additional funding for the capital campaign and various endowed initiatives. Ms. Krauss noted a new standard report that will be included in the Committee's package going forward, the Endowment Historical Asset Values, Flows and Returns chart. The new report is an expanded version of the historical asset value chart that was reviewed at the September 8th Investment Committee retreat. Finally, Ms. Krauss noted the operating cash and investment report included in the other section and commented the report would be provided in the future, but would no longer be reported on as a separate agenda item since the Investment Committee does not have direct responsibility for oversight and management of the operating investments as it does for the endowment investments, as established by the governing regulations. Mr. Britton stated he would like to continue receiving a report on operating cash and investments as a separate agenda item. Ms. Krauss stated that it would be kept as an agenda item.

The meeting was adjourned at 2:45 p.m.

Respectfully submitted,
Kimberly C. Lush
Office of the Treasurer