INVESTING
IN KU

An Overview of the Long-term Investment Program at KU Endowment as of December 31, 2020

As published quarterly on the KU Endowment website:

www.kuendowment.org/invest

Investments

KU Endowment donors choose which university project, school or area they want to support. In addition, they may specify whether their gifts will be expendable (available to meet immediate needs) or will be used to create permanent funds that will provide support for the university across generations.

KU Endowment places permanent, or endowed, funds in its Long-term Investment Program, where they are collectively invested in a professionally managed, diversified portfolio that emphasizes equity securities.

Financial and Investment Objectives

To meet the overall goal of generating enduring value for participating funds, KU Endowment has set the following primary objectives for its Long-term Investment Program:

- The **financial** objective is to preserve the "real" value (purchasing power) of the principal (the gift value) and provide for spending distributions, while providing a relatively stable source of funding for the participants.

- The **investment** objective is to earn an average annual "real" (i.e., after adjusting for inflation) total return that is at least equal to the total spending rate net of investment fees, over long time periods.
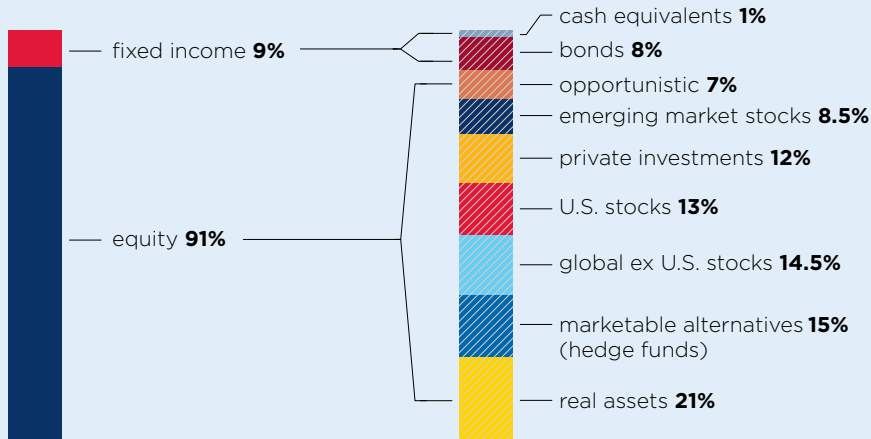
Evaluation of progress toward these objectives requires the following:

- A *long-term perspective* that implies a high average allocation to equity securities and consequent market price volatility.

- Recognition that the desire to maintain the purchasing power of the principal and to produce a relatively stable and predictable spending stream *involves trade-offs* that must be balanced in establishing the investment and spending policies.
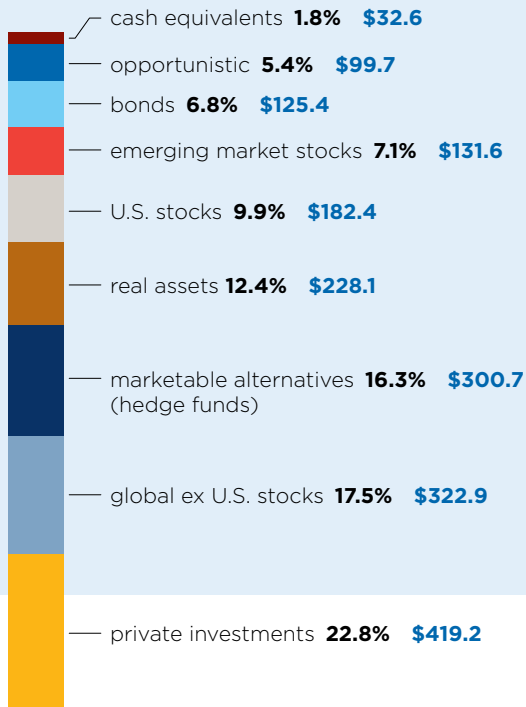
Target asset allocation

The portfolio is diversified by asset class, with the following long-term policy targets.

TARGET ASSET ALLOCATION

fixed income **9%**
- cash equivalents **1%**
- bonds **8%**

equity **91%**
- opportunistic **7%**
- emerging market stocks **8.5%**
- private investments **12%**
- U.S. stocks **13%**
- global ex U.S. stocks **14.5%**
- marketable alternatives **15%** (hedge funds)
- real assets **21%**

ASSET MIX

- cash equivalents **1.8%** **$32.6**
- opportunistic **5.4%** **$99.7**
- bonds **6.8%** **$125.4**
- emerging market stocks **7.1%** **$131.6**
- U.S. stocks **9.9%** **$182.4**
- real assets **12.4%** **$228.1**
- marketable alternatives **16.3%** **$300.7** (hedge funds)
- global ex U.S. stocks **17.5%** **$322.9**
- private investments **22.8%** **$419.2**

(in millions)

TOTAL MARKET VALUE OF LONG-TERM INVESTMENTS*

$1.843 Billion

*As of December 31, 2020

In order to achieve optimal results, it is important to spread commitments to private investments over time. Therefore, it will take several years to reach the long-term policy target for this particular asset class.
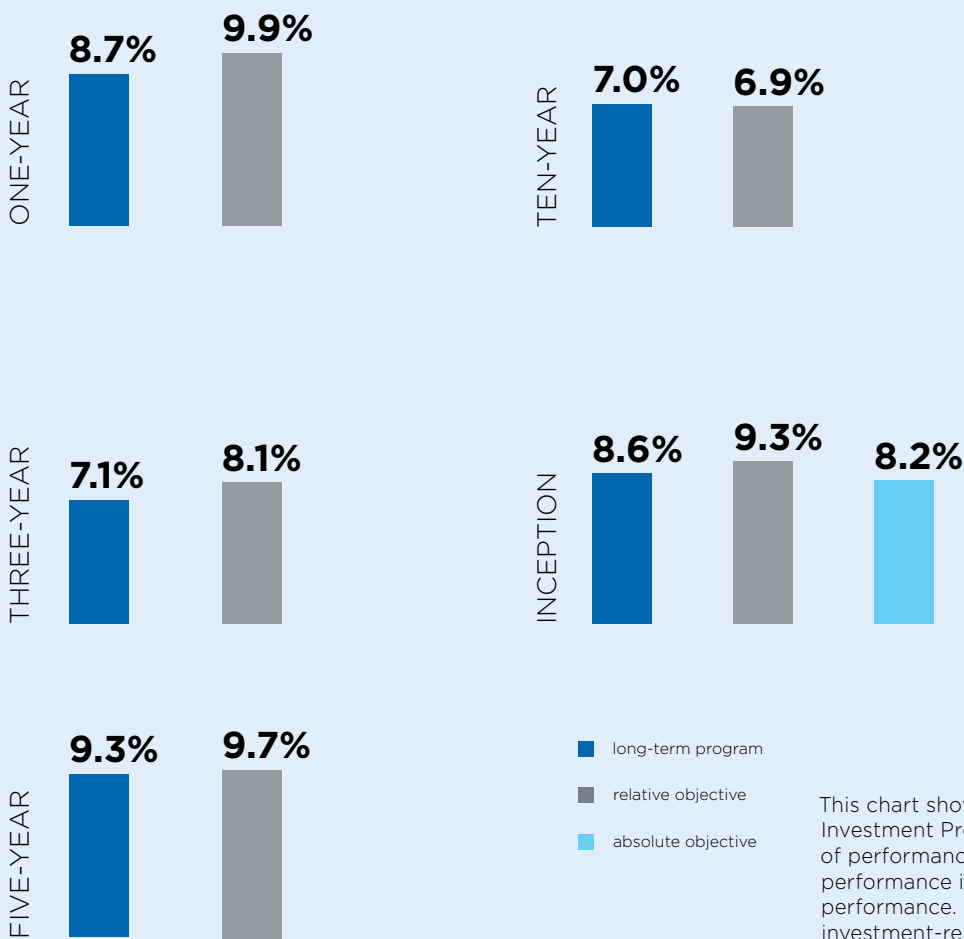
Performance objectives

Over the long term, the **absolute objective** is to achieve a total return that meets or exceeds the rate of inflation, measured by the Consumer Price Index, plus the Long-term Investment Program's total spending rate.

The **relative objective** is to achieve a total return that meets or exceeds a combined benchmark of appropriate capital market indices, weighted according to the portfolio's target asset allocation.

LONG-TERM INVESTMENT PERFORMANCE
As of December 31, 2020

ONE-YEAR: 8.7% | 9.9%

TEN-YEAR: 7.0% | 6.9%

THREE-YEAR: 7.1% | 8.1%

INCEPTION: 8.6% | 9.3% | 8.2%

FIVE-YEAR: 9.3% | 9.7%

- ■ long-term program
- ■ relative objective
- ■ absolute objective

This chart shows the total return for the Long-term Investment Program portfolio since the inception of performance measurement in June 1988. Past performance is not necessarily indicative of future performance. Performance is net of external investment-related expenses (e.g., managers, custodians and consultants).

Long-term Investment Program illustration

This chart illustrates growth in the market value of a $100,000 endowed fund from June 1988 through December 2020. Over this period, the fund grew to $254,539 and provided $291,335 in support for KU through spending policy distributions.

$100,000 ENDOWMENT
Invested in Long-term Investment Program
June 1988 — December 2020
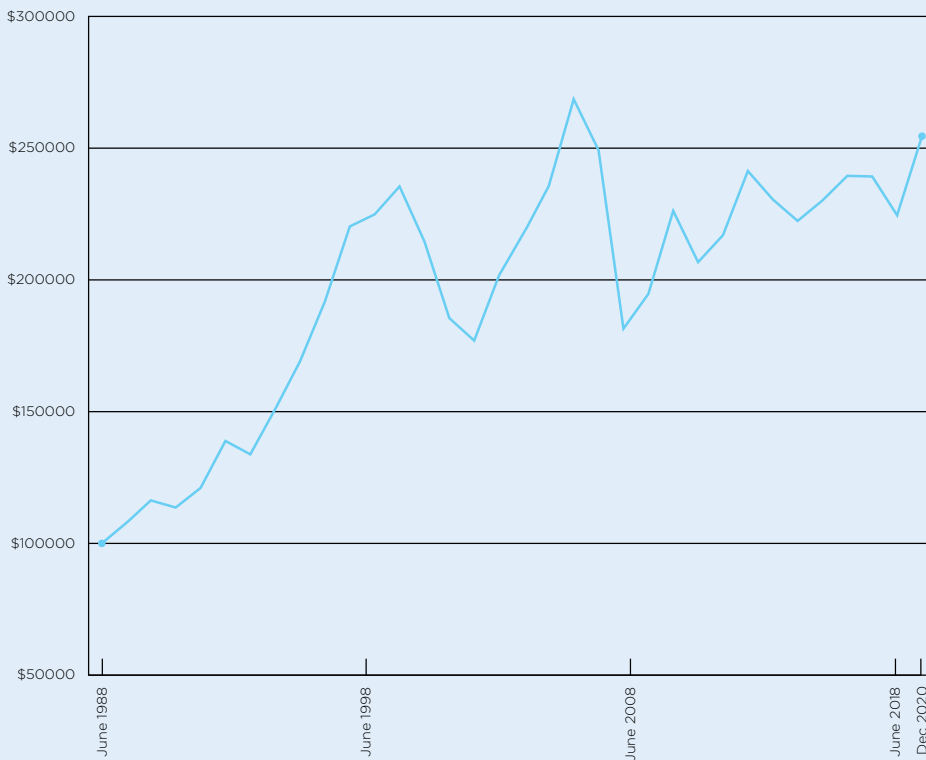
TOTAL
SUPPORT
FOR KU

$291,335

ENDING
MARKET
VALUE

$254,539

*Past performance is not necessarily indicative of future performance. Performance is net of external investment-related expenses (e.g., managers, custodians and consultants) and spending policy distributions.

Spending policy

The spending policy determines the amount that may be spent annually from each participating fund to support its intended purpose. The policy also determines the amount KU Endowment may use to cover a portion of operating expenses.

A spending policy must balance between the following competing objectives:

- Preserve the real value (purchasing power) of participating funds over the long term
- Maximize the level, stability and predictability of spending distributions over the long term

No spending policy can optimize these objectives all the time. The volatility of market returns cannot be eliminated from spending distributions without incurring substantial risk of eroding the fund's real value.

KU Endowment utilizes a Constant Growth spending policy, where spending is adjusted annually by inflation, measured by the Consumer Price Index for All Urban Consumers ("CPI-U").

The target annual spending rate of the Constant Growth policy is 5.5% of the market value, with:

- 4.6% out of 5.5% allocated to participating funds for current expenditure
- 0.9% out of 5.5% allocated to KU Endowment as an administrative fee

To avoid potential under-distributions or unsustainable over-distributions relative to the current market value in any given year, the policy is subject to a 4.5% "floor" and a 6.5% "cap" of the trailing four quarter average market value.

The spending policy may be modified by KU Endowment's Executive Committee upon the recommendation of the Investment Committee to account for changes in market and economic conditions and the needs of KU.

Oversight

KU Endowment's investment and spending guidelines are overseen by the Investment Committee of the KU Endowment Board of Trustees. Investment Committee members:

John B. Dicus, **chair**

Ray D. Evans

Edward J. Healy

Jay Howard

Joanna Rupp

Bradford T. Sanders

John C. Shawver

Todd L. Sutherland

One of several standing committees at KU Endowment, the Investment Committee develops guidelines and procedures for investment programs in accordance with the policies established by the KU Endowment Executive Committee. The KU Endowment Investment Department staff administers the Long-term Investment Program according to these guidelines.

The Long-term Investment Program is managed by investment firms selected by KU Endowment for their expertise and experience in specialized portfolio management.

Custody
State Street Bank provides master custody services including asset safekeeping, income collection, trade settlement, cash management, market pricing, and both consolidated and separate account reporting.

Consulting
Cambridge Associates LLC provides investment consulting services including asset mix and spending reviews, investment guideline reviews, investment manager searches and performance evaluation.

For questions about investment programs, contact:

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