

**Minutes
Investment Committee
Board of Trustees
September 11, 2007**

IN ATTENDANCE:

Investment Committee Members:	Mr. Billy B. Wilcoxson, Chair Mr. Stephen P. Branscum Ms. Pamela Robinette May Ms. Myra Leigh Tobin Ms. JoEtta Y. Wickliffe
Board of Trustees Members:	Mr. James F. Hardymon Ms. Mira S. Ball
Investment Staff & Consultants:	Mr. Henry Clay Owen Ms. Susan I. Krauss Mr. Steve Voss (Ennis, Knupp & Associates) Mr. Matt Russ (Ennis, Knupp & Associates)
Others:	Mr. Frank A. Butler Mr. Marc A. Mathews Mr. Sergio Melgar Mr. Dan Adkins

The meeting was called to order at 8:35 a.m.

Mr. Wilcoxson asked for a motion to approve the June 12, 2007 minutes. Mr. Branscum made a motion to approve the minutes, Ms. May seconded the motion and all approved.

Ms. Krauss reported on the endowment asset allocation, reporting the endowment pool had a market value of \$935.8 million as of August 31, 2007, comprised of 69.2% equities, 0.9% private equities, 21.8% fixed income and 8.1% real estate. On July 26th, the University implemented the new State Street Russell 3000 enhanced index fund with a \$150 million transfer from the State Street Wilshire 5000 index fund. Additionally, on August 9th, the University invested \$16.3 million of new funds (RCTF funds and endowment gifts net of spending distributions), allocating \$10.0 million to the enhanced index fund and \$3.17 million each to PIMCO and Reams.

Mr. Voss reported that subsequent to the Committee's decision on June 12, 2007, to convert RREEF's core real estate strategy to a core-plus/value-added strategy, RREEF announced the departure of several key investment professionals. A major reason for the departures was that senior professionals recently completed a five-year incentive compensation plan put in place by Deutsche Bank upon the acquisition of RREEF by Deutsche in 2002. Many of the departures were employees from support units, such as client relations, whose duties can be performed by large support teams in place. However, one of the departures was the lead portfolio manager for the RREEF America III fund, which is the core-plus/value-added strategy. As such, Mr. Voss recommended that the University remain in the RREEF America II core fund and not proceed with the conversion to the core-plus/value-added strategy. Ennis Knupp will continue to monitor the RREEF organization and will also develop another plan for obtaining value-added real estate

exposure. Ms. May made a motion to rescind the June action and stay in the RREEF America II core fund, Mr. Branscum seconded the motion, and all approved.

Mr. Russ reviewed the quarter ended June 30, 2007, noting that the endowment returned 4.7%, compared to the policy benchmark and endowment/foundation index return of 4.6%. Mr. Voss then reviewed the fiscal year performance with the Committee, noting that the endowment performed well on an absolute basis, returning 16.8%, achieving the goal of growth after spending and inflation (16.8% return, less spending of 5.0%, less inflation of 2.7%, equals corpus growth of 9.1%). However, the endowment underperformed the policy benchmark return of 17.9% by 114 basis points. A breakdown of the underperformance by asset class is as follows (in basis points):

U.S. Equity Asset Class	(78)
Non-U.S. Equity Asset Class	(1)
Global Equity Asset Class	(41)
Fixed Income Asset Class	0
Real Estate Asset Class	<u>6</u>
Total Underperformance	(114)

The U.S. equity and global equity asset classes were the primary detractors of relative performance due to poor results by Legg Mason's U.S. whole-stock equity strategy, Capital Guardian's U.S. whole-stock equity strategy and Wellington's global equity strategy. Legg Mason and Capital Guardian underperformed the Wilshire 5000 index by 420 and 510 basis points, respectively, and Wellington underperformed the MSCI All-Country World Index by 510 basis points. Mr. Voss noted that Capital Guardian and Wellington have improved their performance since June 30th (for the period July 1, 2007-August 31, 2007), outperforming their benchmarks by 77 and 27 basis points, respectively. Legg Mason's performance has not improved, as the strategy underperformed the Wilshire 5000 index by 554 basis points. Mr. Voss recommended that both the Legg Mason and Capital Guardian allocations be reduced from 9% to 4% due to the poor performance and also to reduce the active risk that the managers contribute to the overall portfolio. Mr. Voss further recommended that the Legg Mason allocation be eliminated completely by mid-2008 if performance has not improved. After some discussion by the Committee, Ms. Wickliffe made a motion to terminate Legg Mason and transfer the assets to the State Street Russell 3000 Enhanced Index Fund, Mr. Branscum seconded the motion, and all approved.

Mr. Owen discussed the proposed timeline for the special informational session and investment consultant request for proposals, noting the proposed time for the special informational session is the afternoon of October 15, 2007. The Investment Consultant RFP will be distributed on October 16th, with proposals due November 14th. The evaluation committee will review proposals and select finalists to make presentations to the Investment Committee in a special session to be held on January 21, 2008¹. The evaluation committee will consist of Mr. Owen, Ms. Krauss, Mr. Butler and Mr. Mathews. The proposed contract implementation date is April 1, 2008. The Committee agreed with the proposed timeline.

With no further business, Mr. Wilcoxson made a motion that the meeting be adjourned, Mr. Branscum seconded the motion and all approved. The meeting adjourned at 10:20 a.m.

Susan I. Krauss
Office of the Treasurer

¹ Subsequent to the Investment Committee meeting, the Committee agreed that the special session to interview consultant finalists will be held on January 23, 2008.