

IC 2

Office of the Treasurer
September 9, 2008

Members, Investment Committee

APPROVAL OF CONTRACT AMENDMENT WITH STATE STREET
FOR THE MANAGEMENT OF PASSIVE RUSSELL 1000 ALLOCATION

Recommendation: that the Investment Committee approve a contract amendment with State Street for the management of the 23.95% passive Russell 1000 allocation.

Background: The Investment Committee approved a revised asset allocation and manager structure on June 16, 2008, which includes a strategy change within the U.S. equity asset class. A passive large-cap allocation, complemented with an active small-cap allocation will replace the “whole-stock” strategy, which involved passive management of half of the U.S. equity allocation to the broad U.S. equity market, complemented by two active all-cap managers and an active small-cap manager.

R. V. Kuhns & Associates (“RVK”) and investment staff requested fee proposals for this mandate from State Street and Northern Trust, current service providers for the University. RVK and staff also performed a review of the leading four index fund service providers, which include Barclays Global Investors (“BGI”) and Vanguard, in addition to State Street and Northern Trust. As a result of this review, RVK recommends hiring State Street for the passive Russell 1000 mandate. State Street has tight historical tracking error as compared to the Russell 1000 index and offered a very competitive fee arrangement. State Street proposed an annual fee of 2 basis points on the first \$50 million and 1 basis point on the remaining, which results in an effective fee of \$27,500, or 1.2 basis points, based on an estimated allocation of \$225 million. BGI had the tightest historical tracking error as compared to the Russell 1000 index, however typically charges a fee of 3 basis points for this size allocation. The 1.2 basis point fee offered by State Street will offset the expected difference in tracking error between BGI and State Street.

The attached RVK memo provides further background for this recommendation.

Action Taken: Approved Disapproved Other _____