

IC 3

Office of the Treasurer
September 9, 2008

Members, Investment Committee

APPROVAL OF RETAINING WELLINGTON FOR THE MANAGEMENT OF ACTIVE RUSSELL 2000 ALLOCATION

Recommendation: that the Investment Committee approve retaining Wellington for the management of the 2.05% active Russell 2000 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 reviewed leading active small-cap U.S. equity managers, one of which is Wellington, the University’s current small-cap manager. As a result of this review, RVK recommends remaining with Wellington since it is an excellent firm and ranks in the top quartile of returns for this mandate. Wellington actually has two products that rank in the top quartile of the Russell 2000 universe, which are the Emerging Companies Strategy (current fund UK is invested in) and the Smaller Companies Strategy. A comparison of the two strategies revealed that the Emerging Companies Strategy is a better fit for this mandate due to a lower weighting of non-U.S. securities. The Emerging Companies Strategy allows up to 20% investment in non-U.S. securities, while the Smaller Companies Strategy allows up to 30%. Additionally, the Emerging Companies Strategy has outperformed the Smaller Companies Strategy over the last eight years, which is the timeframe both strategies have been in operation.

The attached RVK memo provides further background for this recommendation.

Action Taken: Approved Disapproved Other _____