

**Minutes
Investment Committee
Board of Trustees
September 9, 2008**

IN ATTENDANCE:

Investment Committee Members:	Ms. JoEtta Y. Wickliffe, Acting Chair Mr. Stephen P. Branscum Mr. James F. Hardymon
Community Advisory Members:	Mr. James W. Stuckert Mr. Billy B. Wilcoxson
Board of Trustees Members:	Ms. Mira S. Ball Dr. Britt Brockman
Investment Staff & Consultants:	Mr. Marc A. Mathews Ms. Susan I. Krauss Ms. Donna Counts Mr. Russ Kuhns (R.V. Kuhns & Associates) Mr. Rob Palmeri (R.V. Kuhns & Associates) Mr. Bruno Grimaldi (R.V. Kuhns & Associates)
Others:	Dr. Lee T. Todd, Jr. Mr. Frank A. Butler Ms. Barbara W. Jones Mr. Sergio Melgar

The Investment Committee meeting was called to order at 8:30 am. Ms. Wickliffe asked for a motion to approve the June 16, 2008 minutes. Mr. Hardymon made the motion to approve the minutes, Mr. Branscum seconded the motion and all approved.

Ms. Wickliffe stated that the Investment Committee needed to go into closed session in order to hear a report on the evaluation of proposals for the Non-U.S. equity manager search because an open discussion of the firms and deliberations of the committee could jeopardize the retention of the recommended firms. Ms. Wickliffe made a motion to go into closed session pursuant to KRS 61.810 (1) (g), to discuss specific proposals because an open discussion could jeopardize the proposals. Mr. Hardymon seconded the motion, all approved, and the committee then went into closed session.

The Chair announced that the closed meeting was concluded and the committee was now in open session and would proceed with a vote on a recommendation. Mr. Hardymon made a motion to approve IC 1 to approve a contract amendment with Capital Guardian and authorize contract negotiations with two new firms for the management of the non-U.S. equity allocation. Mr. Branscum seconded the motion. The motion was approved unanimously.

Ms. Krauss began discussing the next item on the agenda, IC 2, by giving the background for the proposed action. The Investment Committee approved a revised asset allocation on June 16, 2008 which included a strategy change within the U.S. equity asset class. The new strategy would include a passive large-cap allocation complimented with an active small cap allocation, which will replace the previous

“whole-stock” strategy. Ms. Krauss noted that the U.S. large cap market is very efficient, therefore it makes sense to hire an index manager for this space. She reported that RVK and staff requested fee proposals on managing this allocation from State Street and Northern Trust, existing service providers. RVK and staff also performed a review of the four leading index fund service providers, which includes Barclays Global Investors and Vanguard, in addition to State Street and Northern Trust. As a result of this evaluation RVK recommended hiring State Street. While Barclays had less historical tracking error as compared to the Russell 1000 index, State Street had the lowest fees. Ms. Krauss said the difference in fees should offset the expected difference in tracking error to provide the desired index returns. Since State Street is a current manager, this strategy change can be done with a contract amendment. Staff and RVK recommend entering into a contract amendment with State Street for the management of the 23.95% Russell 1000 allocation. Mr. Mathews pointed out that the 23.95% large cap allocation represents roughly 92% of the University’s total U.S. equity allocation of 26%, in line with the composition of the broad U.S. equity market. Mr. Branscum made a motion to approve IC 2 to approve a contract amendment with State Street for the management of the passive Russell 1000 allocation. Mr. Hardymon seconded the motion. The motion was approved unanimously.

Mr. Mathews introduced the next item on the agenda, IC 3, and stated that this was the second part of the new U.S. equity allocation. RVK and staff reviewed leading active small-cap U.S. equity managers, one of which is Wellington, the current small-cap manager. Based on this review it is recommended to remain with Wellington since it is an excellent firm and ranks in the top quartile of returns for this area. Their research team is deep, the company is 100% employee owned and has a long history as an asset manager. Mr. Mathews noted that Wellington offers two investment options, an Emerging Companies Strategy and a Small Cap Strategy. The Emerging Company Strategy is deemed a better fit due to a lower weighting of non-U.S. securities. Also, the Emerging Companies Strategy has outperformed the Smaller Companies Strategy over the long-term. In addition, this is the current Wellington investment for the Fund. Mr. Hardymon made a motion to approve IC 3 to retain Wellington for the management of the active Russell 2000 allocation. Mr. Branscum seconded the motion. The motion was approved unanimously.

Ms. Krauss began discussing the next item on the agenda, IC 4. She noted that another strategy change was a new allocation to the real return asset class. Staff and RVK reviewed leading real return managers, two of which are PIMCO and Wellington, existing managers. PIMCO offers a “fund of funds” strategy that allocates assets to a variety of PIMCO mutual funds. PIMCO’s product provides exposure to a variety of fixed income securities, including TIPS, emerging market bonds, and other real return investments, such as commodities and real estate. The fund of-funds product provides a high level of diversification, as evidenced by its low historical volatility. Wellington’s Diversified Inflation hedges strategy has a significant allocation to global equities in certain inflation-related industries, as well as commodities and TIPS. Due to the use of equities, Wellington’s strategy has produced higher returns with higher volatility, as compared to PIMCO’s strategy. Ms. Krauss stated it is recommended that the real return allocation of 7% of the total portfolio be accomplished by allocating 5.25% to PIMCO and 1.75% to Wellington and that contract amendments be approved with PIMCO and Wellington. The combination of the two strategies at a 75%/25% weighting should produce the desired return and risk levels for this asset class. Mr. Branscum made a motion to approve IC 4 for contract amendments with PIMCO and Wellington for the management of Real Return allocations. Mr. Hardymon seconded the motion. The motion was approved unanimously.

Ms. Krauss moved on to the next item on the agenda, IC 5, which was a recommendation that the Committee approve a change in the Endowment Investment Policy to authorize staff to make commitments to successor funds of approved private equity and real estate managers to reach and maintain the approved policy allocation and ensure diversification across vintage year, strategy, etc. The revised asset allocation approved in June provided for an increase in the private equity allocation from 5%

to 7% and an increase in the real estate allocation from 8% to 12%. Ms. Krauss presented forecasting analyses for private equity and real estate which revealed that significant commitments will need to be made in the next five years to these asset classes in order to reach the target allocations of 7% and 12%, respectively. Additionally, upon reaching the target allocations, new commitments will need to be made in order to maintain the target allocations. Private equity and certain real estate investments are structured as closed-end funds, with capital calls over a period of time and distributions back to investors as the underlying investments in the fund are sold. Managers typically open new funds every two years. Pantheon, one of the University's existing private equity managers currently has two new funds open that the Staff will make commitments to upon approval of this action. Mr. Hardyman made a motion to approve IC 5. Mr. Branscum seconded the motion. The motion was approved unanimously.

Mr. Mathews then gave an update on the plan for implementing the new asset allocation and reported that the implementation was on schedule. Ms. Krauss described one suggested change to the implementation plan that would allow RVK and staff to complete an RFP process for Value Added and Opportunistic Real Estate managers and bring finalist recommendations and rationale to the committee at the regular session scheduled for December 9, 2008, eliminating the interviewing of finalists by the Committee in a special session on December 8, 2008. Ms. Krauss explained the suggested change is appropriate since the University has been investing in the real estate asset class for some time, increasing the comfort level for Committee members and staff.

Ms. Krauss reviewed the asset allocation transition schedule and noted that by December 2008 the transition should be complete for all asset classes with the exception of Real Estate and Private Equity, contingent upon completion of contract negotiations. The undertarget private equity allocation will be invested temporarily in the U.S. and non-U.S. asset classes and the undertarget real estate allocation will be invested temporarily in the fixed income asset class.

The next item on the agenda was the performance review and market update by RVK. Mr. Grimaldi gave the capital market overview. He highlighted the continuing problems in the mortgage market, the underperformance of the financial sector continues and the outperformance of the energy sector. He stated that the best performing asset class in fixed income was TIPS.

Mr. Palmeri then gave the report on the endowment portfolio as of June 30, 2008. Compared to the median for all endowment funds, the UK allocation is overweight in U.S. Equity, underweight in international equity and significantly underweight in alternative investments. The investment allocation changes approved in June will bring the portfolio more in line with the median allocation of all Endowment funds which should improve returns and reduce volatility. Mr. Palmeri went through the RVK handout highlighting fund performance. For the year ended June 30, 2008, the total fund returned -8.17%, net of fees, underperforming the UK benchmark by 1.87%. He noted that the performance difference is primarily a result of high allocation to equities, poor performance in the domestic equities and poor performance in real estate. Domestic equity declined by 16.09% compared to the DTW 500 Index decline of 12.53%. Global equity declined by 8.23% compared to the MSCE ACW index decline of 9.27%. International Equity declined by 8.47% compared to MSCE EAFE index decline of 10.61%. Fixed income increased by 7.67% compared to the Lehman Brothers US Aggregate index of a 7.12%. Real Estate increased by 4.90% compared to the NCREIF Property index increase of 8.84%. Mr. Palmeri reported that the steps being taken to change allocations as approved in the June meeting will reduce the risk in the portfolio and increase the return through diversification into new asset classes.

After the portfolio discussion was complete, Mr. Branscum made note that a vote had not been taken on the proposed change in the implementation plan. He noted that a formal vote should be made on this since the Committee had formally approved the implementation plan in June. Mr. Branscum made a

motion to approve the suggested change to the implementation plan. Mr. Hardymon seconded the motion. The motion was approved unanimously.

The next item on the agenda was a review of the Cash, Overnight and Short-Term Investment Report. Ms. Counts reported that as of June 30, 2008 the total portfolio subject to the short term investment policy was \$260.1 million. Overnight investments totaled \$62.5 million. Of this, \$54.0 million was invested in the Kentucky Office of Financial Management (OFM) overnight repurchase agreement with an annualized monthly return of 2.07%. Short term investments totaled \$197.7 million, of which \$68.1 million was invested in the OFM short term investment pool with an annualized monthly return of 2.32%, \$60.0 million was invested in the OFM intermediate pool with an annualized monthly return of 3.66%. \$25.0 million was invested in the Fidelity Government Fund, with a return of 2.18% and another \$40.6 million was invested directly in federal agencies and instrumentalities having yields ranging from 2.65% to 4.05%. Ms. Counts reported that investment returns compared favorably to the market performance indices of the three month T-bill rate of 1.68%, the fed funds rate of 2.0% and the 2 year Treasury note rate of 2.63% as of June 30, 2008.

With no further business the meeting adjourned at 10:30 a.m.

Donna Counts
Office of the Treasurer

MEMORANDUM

To: Susan Krauss - University of Kentucky Endowment
From: R.V. Kuhns & Associates, Inc.
Re: Russell 1000 Passive Investment Mandate Recommendation
Date: July 16, 2008

R.V. Kuhns & Associates, Inc. was asked to provide a recommendation on responses to UKY Staff's bid request to State Street Global Advisors (SSGA) and Northern Trust Global Investments (NTGI) – both existing contracted investment management vendors – for an estimated \$225 Million passive investment placement in a Russell 1000 Index Strategy.

You have provided us with the following bid summary from the two firms:

- SSGA: 2 bp on first \$50 MM, 1 bp thereafter – estimated fees (\$225 MM) = \$27,500
- NTGI: 4 bp on first \$100 MM, 2 bp thereafter – estimated fees (\$225 MM) = \$65,000

We would note that both fee proposals are below the standard fee schedules offered by the providers reflective of both the existing relationship and the size of the mandate.

Our review process included the review of two additional leading providers of passive investment management via commingled fund offerings (Barclays Global Investors and Vanguard). Both additional providers did not appear to offer a standard fee/expense structure that was lower than SSGA or NTGI. Their comparative performance and investment process/firm abilities was reviewed as part of our standard due diligence.

Comparative gross-of-fees performance from the eVestment Alliance database:

Investment Performance

Universe Name: eA Large Cap Core Equity

Period Ending Date: March 31, 2008

Return set: Gross of fees

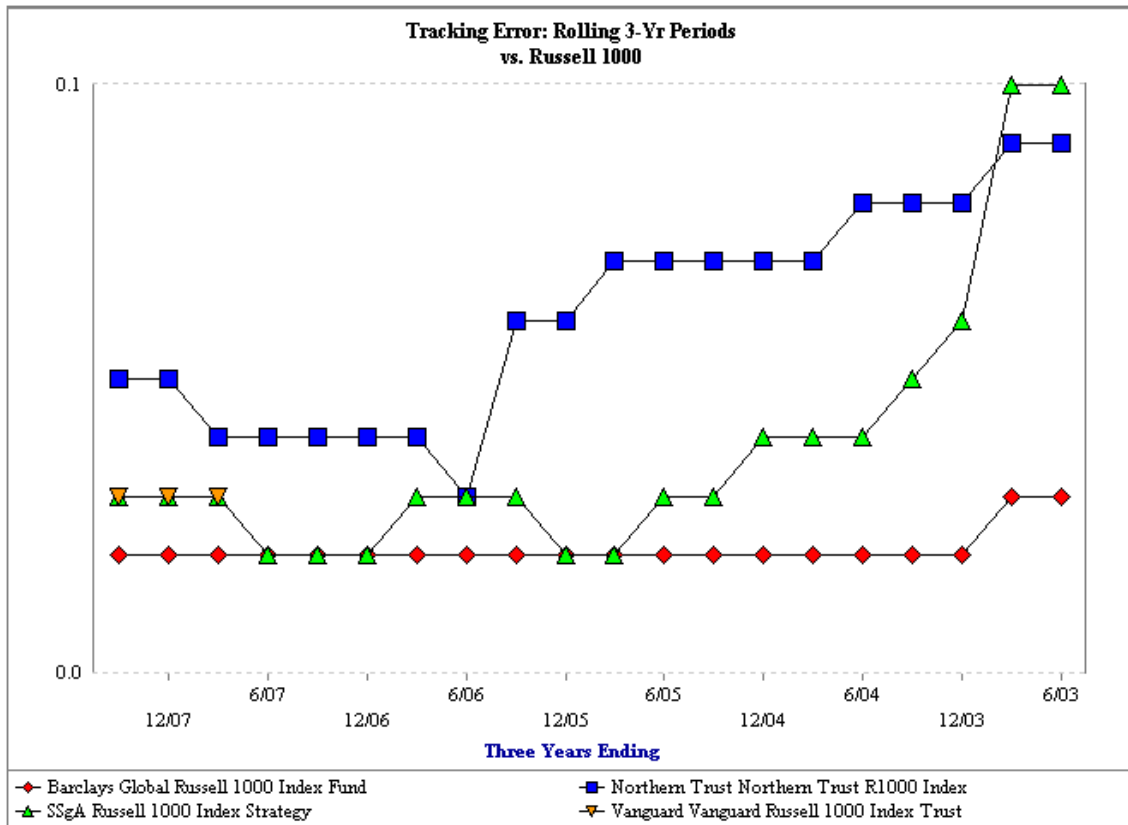
Firm	Product	MRQ Returns		YTD Returns		1 Year Returns		3 Years Returns		5 Years Returns		7 Years Returns		10 Years Returns	
		Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Barclays Global Investors, N.A.	Russell 1000 Index Fund	-9.48	51	-9.48	51	-5.35	65	6.24	58	11.91	56	4.24	64	3.88	72
Northern Trust Global Investments	Northern Trust R1000 Index	-9.47	51	-9.47	51	-5.41	66	6.21	59	11.92	56	4.27	63	3.89	72
State Street Global Advisors	Russell 1000 Index Strategy	-9.51	51	-9.51	51	-5.37	66	6.22	59	11.87	56	4.22	65	3.87	72
Vanguard	Vanguard Russell 1000 Index Trust	-9.50	51	-9.50	51	-5.40	66	6.20	59	---	---	---	---	---	---
<i>Russell Index</i>	<i>Russell 1000</i>	-9.48	51	-9.48	51	-5.40	66	6.19	59	11.86	57	4.20	65	3.83	73

Universe Performance Comparisons

25th Percentile	-7.74	-7.74	-0.18	8.08	13.77	6.31	6.41
Median	-9.39	-9.39	-3.48	6.58	12.20	4.92	5.12
75th Percentile	-10.78	-10.78	-6.22	5.47	10.87	3.68	3.77
# of Observations	339	339	338	321	286	249	186

Tracking error (on a rolling-three-year basis) was also reviewed as it indicates the ability of an index manager to provide consistent performance in-line with the target index.

March 31, 2008



Tracking Error: Rolling 3-Yr Periods vs. Russell 1000 - Three Years Ending

Firm/Product	VT	RM	3/08	12/07	9/07	6/07	3/07	12/06	9/06	6/06	3/06	12/05
Barclays Global Russell 1000 I...	CFE	GF	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Northern Trust Northern Trust ...	SA	GF	0.05	0.05	0.04	0.04	0.04	0.04	0.04	0.03	0.06	0.06
SSgA Russell 1000 Index Strate...	SA	GF	0.03	0.03	0.03	0.02	0.02	0.02	0.03	0.03	0.03	0.02
Vanguard Vanguard Russell 1000...	CFE	NF	0.03	0.03	0.03	---	---	---	---	---	---	---

Firm/Product	VT	RM	9/05	6/05	3/05	12/04	9/04	6/04	3/04	12/03	9/03	6/03
Barclays Global Russell 1000 I...	CFE	GF	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03
Northern Trust Northern Trust ...	SA	GF	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.09	0.09
SSgA Russell 1000 Index Strate...	SA	GF	0.02	0.03	0.03	0.04	0.04	0.04	0.05	0.06	0.10	0.10
Vanguard Vanguard Russell 1000...	CFE	NF	---	---	---	---	---	---	---	---	---	---

We would note that the primary source of tracking error in Russell 1000 is differing strategies used during regular index re-constitution because of the efficiency of maintaining a full-replication strategy (i.e. index sampling is typically not necessary because of the fact that a cost-effective basket of index constituents in this relatively more liquid index can be maintained). NTGI's relatively higher index tracking appears to be derived from the impact of higher securities lending revenue while SSGA's tracking error (which has been more controlled recently) was due to positive performance due to differentiated trading strategies around the annual rebalancing of the index. All providers examined appear to offer evidence of well-contained tracking error results (3 year annualized tracking error <=0.1%)

Given that two existing high-quality managers are currently under contract (SSGA & NTGI), the first question is whether an open RFP process is warranted by the results of our diligence efforts on your behalf. We would note that Barclays Global Investors (BGI) appears to offer strong performance and is a significant player in the passive investment management space. However, it appears that the combination of the higher expected fees from BGI and the presence of two highly qualified firms as existing vendors offset such benefits.

Recommendation: Limit the candidate universe to the two providers (SSGA and NTGI) currently under contract as investment management providers.

Between SSGA and NTGI, we would comment that while both firms are experienced and talented providers of passive investment management services, the offering (inclusive of the superior fee proposal received) from SSGA appears to make them the preferred candidate because of net of fees performance experience and tighter tracking error results.

Recommendation: Retain State Street Global Advisors (SSGA) for the Russell 1000 Index Strategy mandate.

There may be opportunities to consider in-kind transfers as part of the restructuring necessary to effect asset manager changes for which the retention of a transition manager is optimal. We would comment that the transition management affiliates of both Northern Trust and State Street are strong providers. Given the anticipated retention of SSGA, it would appear sensible to obtain a transition management proposal from State Street that can be reviewed in conjunction with asset allocation restructuring efforts. We would be pleased to assist with this process.

Please do not hesitate to contact us with any questions.

MEMORANDUM

To: Susan Krauss and Marc Mathews
From: RVK Manager Research Group
Subject: Recommendation for Domestic Small Cap Manager
Date: July 14, 2008

The purpose of this memorandum is to outline a recommendation to the University of Kentucky for the Domestic Small Cap component of the portfolio. The portfolio currently has an allocation of 3.4% (roughly \$35 million) to small cap equity but the allocation will be brought down to 2.05% (roughly \$18.5 million) after implementing the new asset allocation. The current mandate is managed by Wellington's Emerging Companies strategy team and the recommendation is to remain with the same strategy and team.

RVK's Manager Research Group knows Wellington well and considers the firm best of breed. Their central analyst research team is deep and has an attractive compensation structure to keep them with the firm. The firm is 100% employee owned with three managing partners. Wellington's long history as an asset manager is also a strength of the firm.

RVK staff recently met with Wellington on May 19th in its Boston, MA office to review UK's current investment in the Emerging Companies Strategy. Also reviewed was the Smaller Companies strategy, which is managed by the same team within Wellington. The Team's biographies are attached at the end of the memo.

The Emerging Companies strategy has been a solid performer for the portfolio, particularly over the long-term. Over the past five years, the Emerging Companies strategy is a top quartile performer in the Small Cap Universe. While the shorter term returns are below that of the benchmark, the strategy has a large overweight in micro cap stocks. Micro cap stocks have been the worst performing segment of the market cap over the past four years. Taking this into consideration, the Emerging Companies strategy has benefited from strong individual stock selection.

Table 1
Annualized Performance

As of 3/31/08

	Quarter	1 Year	3 Years	5 Years	10 Years
Wellington Management Company – Emerging Companies	-10.63	-15.35	4.32	17.38	9.20
Russell 2000 Index	-9.90	-13.00	5.06	14.89	4.96
<i>Excess Returns</i>	<i>-0.73</i>	<i>-2.35</i>	<i>-0.74</i>	<i>2.49</i>	<i>4.24</i>

The Emerging Companies strategy purchases stocks below \$1 billion, while the Russell 2000 Index holds stocks with market cap from \$100 million to over \$7 billion. This naturally results in a lower weighted average market cap for the Emerging Companies strategy. While this is not a concern in and of itself, the market cap limitations of the strategy leave the portfolio with limited weighting to the larger small cap stocks.

The Smaller Companies strategy is run by the same portfolio management team as Emerging Companies and migrates up the market cap range. The portfolio management team and investment process are identical for both strategies. There are two differences between the strategies: 1) Market cap range at purchase, which is the largest differentiator, and 2) International allocation.

1. The Emerging Companies strategy does not purchase securities above \$1 billion in market cap, while the benchmark, Russell 2000 Index, market cap ranges from \$100 million to over \$7 billion. This results in the strategy owning much smaller companies than the Index and placing the strategy at a disadvantage when the larger securities within the Index outperform. Both Wellington strategies have a smaller weighted average and median market cap than the benchmark. This is due to the large allocation to micro cap stocks (< \$400 million in market cap) in the strategies compared to the Index.

While the Smaller Companies strategy has a higher weighted average market cap than the Emerging Companies strategy, it is well below that of the Index. This is due to the cap range of the strategy versus the buy-and-hold strategy of the Index. Stocks are removed due to market cap restrictions from the Russell 2000 Index once per year. The Smaller Companies strategy sells stocks when they violate their size boundaries, regardless of timing. The Smaller Companies strategy does have a similar median market cap to the Index.

Table 2
Market Capitalization Breakdown

As of 3/31/08

	Smaller Companies	Emerging Companies	Russell 2000
Cap Range at Purchase (\$mil)	\$100 million to \$2 billion	< \$1billion	N/A
Weighted Avg. Mkt. Cap (\$mil)	\$871	\$502	\$1,309
Median Mkt. Cap (\$mil)	\$516	\$252	\$515
Mkt Cap: % In \$1.5-7.5 billion	17%	4%	31%
Mkt Cap: % In \$750-1.5 billion	15%	11%	37%
Mkt Cap: % In \$400-750 million	37%	30%	20%
Mkt Cap: % In < \$400 million	31%	55%	13%

2. Both strategies have the ability to purchase international securities, but the Smaller Companies strategy has a much higher percentage invested in international securities. The Smaller Companies strategy is allowed to invest up to 30% in international securities, while the Emerging Companies strategy can invest up to 20%. As UK is already invested in the Emerging Companies strategy, the additional weighting toward international might not be a cause for concern. The additional weighting to international is 0.3%, based on the 2% allocation to small cap equity.

Table 3
International Ownership

As of 3/31/08

	Smaller Companies	Emerging Companies
% in ADRs	2%	0%
% in Ordinary Shares	24%	15%

The investment team at Wellington has been stable. The performance of the Smaller Companies strategy has been solid relative to the index and peers, particularly when taking into consideration the over weight to underperforming micro cap stocks. Refer to Table 4 and 5 for more on performance.

Table 4
Annualized Performance

As of 3/31/2008

	MRQ Returns	1 Year Returns	3 Years Returns	5 Years Returns	7 Years Returns	8 Years Returns
Wellington - Emerging Companies	-10.63	-15.35	4.32	17.38	12.2	10.03
Wellington - Smaller Companies	-10.51	-9.95	8.73	21.57	12.62	6.1
Russell 2000 Index	-9.9	-13	5.06	14.89	7.57	4.4
eA Small Cap Core Equity Universe Median	-10.05	-12.44	5.56	15.47	9.5	7.96
Wellington - Emerging Companies: Excess Returns	-0.73	-2.35	-0.74	2.48	4.63	5.63
Wellington - Smaller Companies: Excess Returns	-0.61	3.05	3.67	6.67	5.05	1.7

Table 5
Calendar Year Returns

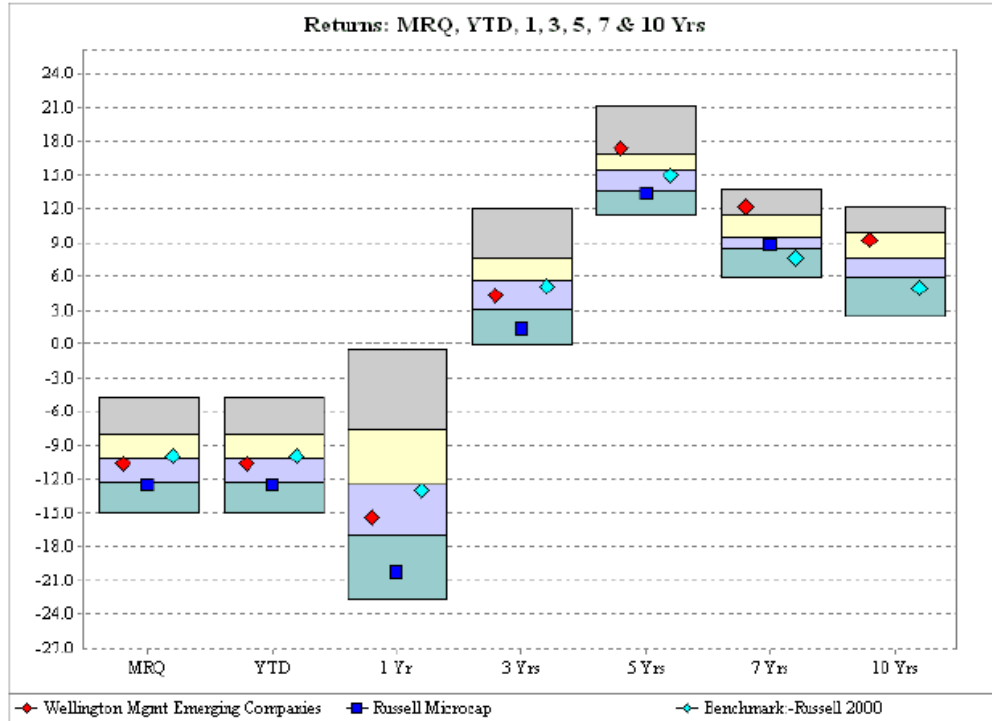
As of 3/31/2008

	Calendar Year 2007 Returns	Calendar Year 2006 Returns	Calendar Year 2005 Returns	Calendar Year 2004 Returns	Calendar Year 2003 Returns	Calendar Year 2002 Returns	Calendar Year 2001 Returns	Calendar Year 2000 Returns
Wellington - Emerging Companies	-3.24	16.28	10.26	24.37	53.38	-11.59	25.08	12.24
Wellington - Smaller Companies	4.15	17.17	14.55	27.96	56.11	-19.51	17.44	-8.09
Russell 2000 Index	-1.56	18.36	4.55	18.32	47.25	-20.48	2.49	-3.02
eA Small Cap Core Equity Universe Median	1	16.1	8.06	20.37	45.58	-14.74	6.31	11.32
Wellington - Emerging Companies: Excess Returns	-1.68	-2.08	5.71	6.05	6.13	8.89	22.59	15.26
Wellington - Smaller Companies: Excess Returns	5.7	-1.19	10.01	9.64	8.86	0.97	14.95	-5.06

The performance of the Emerging Companies strategy has been strong over long time periods compared to peers and the micro cap benchmark. Over the past five calendar years, Emerging Companies has trailed its peers only once, 2007, and the Russell Microcap Index twice, 2003 and 2006. The standard deviation of the Emerging Companies strategy is lower than the micro cap benchmark, while the returns are higher than small cap peers and the micro cap benchmark. The strategy has top quartile excess returns and information ratio over the past five years. This performance data is shown in Charts 1-4 below.

RVK has reviewed all firms in the small cap core universe to determine if an RFP process is warranted. As a result of this review, both the Smaller Companies and Emerging Companies strategies rank in the top quartile of the universe, leading to the conclusion that an RFP process is not warranted.

Chart 1
Annualized Performance
 As of 3/31/08



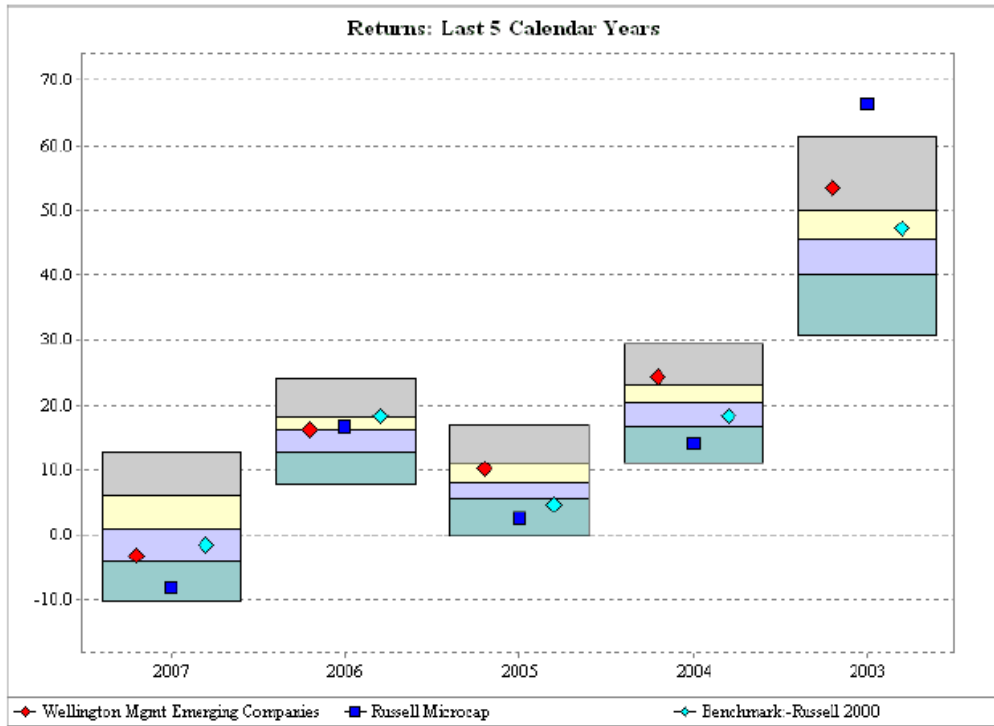
Returns: MRQ, YTD, 1, 3, 5, 7 & 10 Yrs

eA Small Cap Core Equity

	MRQ	YTD	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
5th Percentile	-4.76	-4.75	-0.52	12.08	21.07	13.71	12.14
25th Percentile	-8.00	-8.00	-7.82	7.57	18.78	11.50	9.95
Median	-10.05	-10.05	-12.44	5.56	15.47	9.50	7.56
75th Percentile	-12.16	-12.16	-17.03	3.13	13.55	8.48	5.91
95th Percentile	-15.02	-15.02	-22.67	-0.09	11.48	5.88	2.40
# of Observations	144	144	144	130	113	99	68

Firm/Product	VT	RM	MRQ	Rank	YTD	Rank	1 Yr	Rank	3 Yrs	Rank	5 Yrs	Rank	7 Yrs	Rank	10 Yrs	Rank
Wellington Mgmt Emerging Companies	SA	GF	-10.83	61	-10.83	61	-16.35	68	4.32	64	17.38	20	12.20	18	9.20	28
Russell Microcap			-12.42	78	-12.42	78	-20.17	92	1.33	89	13.41	77	8.81	70	--	--
Benchmark: Russell 2000	N/A	N/A	-9.90	48	-9.90	48	-13.00	53	5.06	58	14.89	58	7.57	83	4.96	83

**Chart 2
Calendar Year Performance**

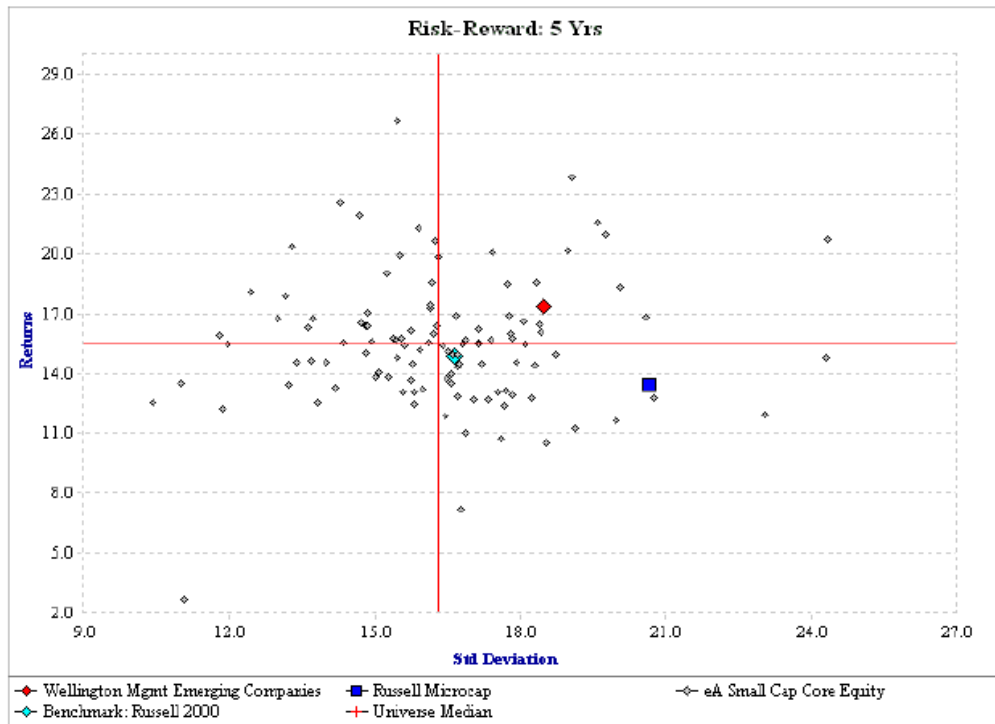


Returns: Last 5 Calendar Years

	eA Small Cap Core Equity				
	2007	2006	2005	2004	2003
5th Percentile	12.72	24.17	16.95	29.32	61.35
25th Percentile	6.02	18.07	11.04	23.23	49.88
Median	1.00	16.10	8.06	20.37	45.58
75th Percentile	-4.14	12.78	5.58	16.88	40.00
95th Percentile	-10.10	7.84	-0.12	11.15	30.88
# of Observations	150	151	144	141	135

Firm/Product	VT	RM	2007	Rank	2006	Rank	2005	Rank	2004	Rank	2003	Rank
Wellington Mgmt Emerging Companies	SA	GF	-3.24	74	16.28	46	10.26	32	24.37	20	53.38	14
Russell Microcap			-9.00	88	16.56	43	2.55	88	14.12	88	66.35	3
Benchmark: Russell 2000	N/A	N/A	-1.56	64	18.36	21	4.55	82	18.32	66	47.25	35

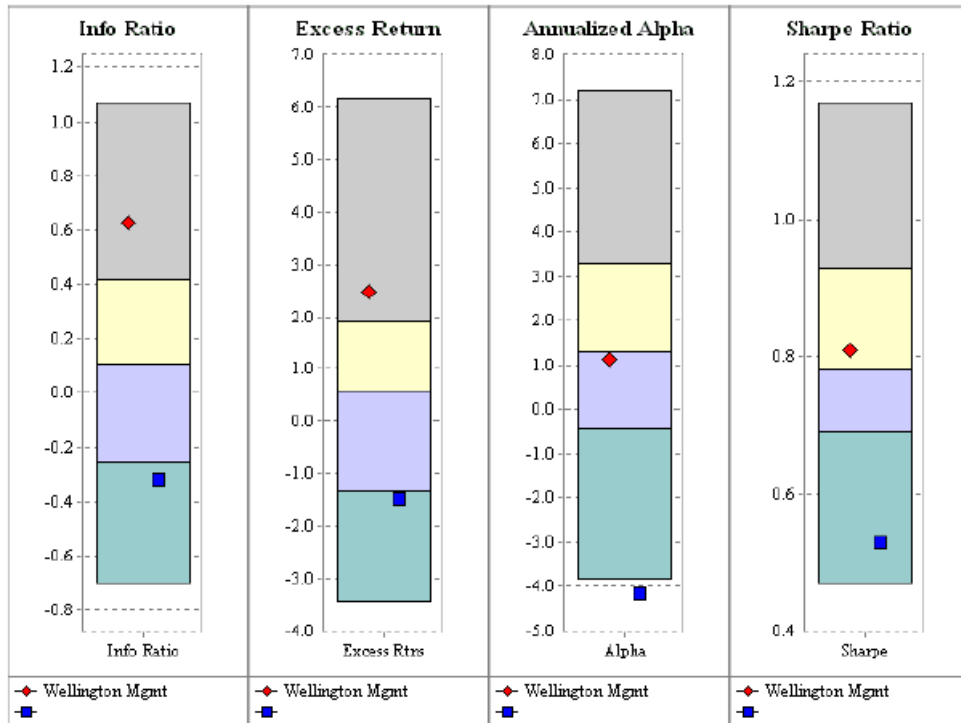
Chart 3
Five Year Risk vs. Reward



Risk-Reward: 5 Yrs

Firm/Product	VT	RM	Returns	Std Deviation
Wellington Mgmt Emerging Companies	SA	GF	17.38	18.47
Russell Microcap			13.41	20.65
Benchmark: Russell 2000	N/A	N/A	14.89	16.63
eA Small Cap Core Equity (Universe Median)			15.47	16.28

Chart 4
MPT Statistics – 5 Year



MPT Stats: 5 Yrs vs. Russell 2000

eA Small Cap Core Equity

	Info Ratio	Excess Rtns	Alpha	Sharpe
5th Percentile	1.07	6.17	7.20	1.14
25th Percentile	0.42	1.89	3.31	0.90
Median	0.11	0.58	1.31	0.75
75th Percentile	-0.25	-1.34	-0.42	0.66
95th Percentile	-0.70	-3.42	-3.80	0.44
# of Observations	113	113	113	113

Firm/Product	VT	RM	Info Ratio	Rank	Excess Rtns	Rank	Alpha	Rank	Sharpe	Rank
Wellington Mgmt Emerging Companies	SA	GF	0.63	19	2.48	20	1.14	52	0.78	44
Russell Microcap			-0.32	79	-1.49	77	-4.17	96	0.50	92

In summary, RVK recommends the Emerging Companies strategy for UK's small cap equity mandate. Below are summary points on our rationale.

1. RVK has performed due diligence on Wellington in the past, is very familiar with its structure, its operations and has a very favorable opinion of the Firm.
2. Although the Fund's performance has lagged recently, longer-term absolute, relative and risk adjusted performance has been very good.
3. The product team is experienced and has been stable. The strategy/process has been stable over time as well. Wellington has communicated that it expects the company, team and strategy to remain stable in the future.
4. The product allows up to 20% in international. Although not ideal for the mandate, RVK is comfortable with the exposure because of its performance, favorable opinion on the Company and the Team. Also, the small cap nature of the product will complement the remaining large cap domestic and International equity exposure.
5. Wellington has managed capacity well in its past and we expect them to continue managing and monitoring its capacity in the future.
6. Lastly, it's difficult to find high quality small cap equity managers that are still open. Asset capacity is a large challenge in the small cap segment of the equity market. Thus high quality, reputable managers will typically close its small cap product between \$1 and \$2.5 billion making it difficult for investors to find one.
7. RVK and UK Management will continue to monitor the small cap equity space and will review products to determine if a more appropriate/suitable product becomes available over time.

Team Biographies:

Kevin M. Barry, Vice President, CFA

Primary Role: Equity Analyst Percentage Ownership: ---
Start Year: Industry: 1986 Firm: 1994
Prior Employer: Initials & Co., Inc (1986-1987)
Prior Employer: International Products Group (1988-1988)
Prior Employer: First National Bank of Boston (1989-1992)
Education: Bowdoin College (BA, 1986)
Education: Dartmouth College (Tuck) (MBA, 1994)

David B. DuBard, Senior Vice President, CFA

Primary Role: Portfolio Manager Percentage Ownership: ---
Start Year: Industry: 1988 Firm: 1992
Prior Employer: Morgan Keegan & Company (1988-1989)
Education: Rhodes College (BA, 1988)
Education: University of Pennsylvania (Wharton) (MBA, 1992)

Jamie A. Rome, Senior Vice President, CFA

Primary Role: Portfolio Manager Percentage Ownership: ---
Start Year: Industry: 1985 Firm: 1994
Prior Employer: Fidelity Investments (1986-1992)
Prior Employer: Hoff-Rome Associates (1985-1986)
Education: Washington University (AB, 1984)
Education: University of Chicago (MBA, 1994)

Peter W. Carpi, Vice President, CFA

Primary Role: Equity Analyst Percentage Ownership: ---
Start Year: Industry: 1999 Firm: 2000
Prior Employer: TL Ventures (1999-2000)
Education: University of Pennsylvania (BSE, 2000)
Education: Stanford University (MBA, 2005)

Jason M. Goins, CFA

Primary Role: Equity Analyst Percentage Ownership: ---
Start Year: Industry: 2001 Firm: 2007
Prior Employer: Franklin Templeton Investments (2001-2005)
Education: Harvard College (BA, 2001)
Education: Harvard Business School (MBA, 2007)

Varun V. Singh, Vice President

Primary Role: Equity Analyst Percentage Ownership: ---
Start Year: Industry: 1997 Firm: 2005
Prior Employer: Robert W. Baird and Co (2003-2005)
Prior Employer: Maxim Integrated Products (2001-2001)
Prior Employer: Dallas Semiconductor Corp (1997-2001)
Education: Indian Institute of Technology (B. Tech, 1992)
Education: University of Chicago (MBA, 2003)
Education: State University of New York (PhD, 1997)

MEMORANDUM

To: Trustees & Committee Members
From: R.V. Kuhns & Associates, Inc.
Re: University of Kentucky Real Return Manager Recommendation
Date: July 8, 2008

The purpose of this memorandum is to outline our recommendation for the University of Kentucky Real Return portfolio. Based on our ongoing due diligence and experience with both firms, we recommend splitting the allocation between PIMCO and Wellington given the demonstrated success of each strategy and the complementary nature of their approaches. R.V. Kuhns recommends dividing the Real Return allocation between the two managers: PIMCO with a 75% allocation and Wellington with a 25% allocation. This memo provides a summary of the key attributes of each strategy and highlights the rationale for this recommendation.

PIMCO and Wellington take a significantly different approach to managing their products. PIMCO's All Asset product is a "fund of funds," meaning that the strategy allocates assets to a variety of PIMCO's existing mutual funds. The fund therefore has the potential for alpha driven both by tactical allocation decisions and from the firm's historic area of expertise, the underlying fixed income strategies. The All Asset product provides exposure to a variety of fixed income securities. TIPS, Treasury Inflation Protected Securities, are directly related to inflation, while other fixed income securities are indirectly related to inflation such as Emerging Market Debt. The Fund also invests in strategies other than fixed income, such as commodities and real estate.

The tactical component of the product is managed by Rob Arnott and Jason Hsu, PhD, at Research Affiliates. Research Affiliates is a research intensive firm with an expertise in tactical asset allocation and index construction. Research Affiliates was founded in 2002 by Rob Arnott. Their ideas and strategies are currently utilized by dozens of investment managers globally. The relationship between PIMCO and Research Affiliates began at product's inception, July 31, 2002. It is an at-will partnership, with no long term contracts in place. Both parties have a stake in the long-term success of the product. In our ongoing due diligence, we have found that the interest of both companies are aligned and pose no additional risk to the product.

The product has lower volatility than many of its peers, making it a solid choice as the "anchor" in the Real Return asset class. The low volatility, combined with their consistent ability to add alpha and outperform their benchmark (CPI +5%), solidified PIMCO as the key product in the recommendation. The "fund of funds" approach also creates a high level of diversification. Further, the existing relationship the University of Kentucky has with PIMCO creates a high level of comfort with how their investment team is structured and the strength of the overall organization.

The Wellington Diversified Inflation Hedges strategy also utilizes tactical allocation shifts in its investment approach, and these allocation decisions are made internally by portfolio manager Scott Elliott. In contrast to the PIMCO product, Wellington's strategy has a significant allocation to global equities, with a standard weighting of 55%. The balance of the product is allocated to Commodities and TIPS, which have standard weightings of 25% and 20% respectively. Portfolio manager Scott Elliott has authority to shift the strategy allocations around these targets by 20%.

While the Wellington product derives roughly 1/3 of its alpha from tactical allocation decisions, the strategy's primary focus is on adding value by leveraging their historic expertise in bottom-up security selection. This is clearly reflected in the product's standard equity allocation, which is significantly higher than that of the PIMCO fund. The Wellington strategy's assets are allocated across existing internal teams, each with an expertise in a specific area. For example, the Core Energy/Metals team has managed the Vanguard Energy Fund since inception (1984). The fund possesses an impressive track record of consistently outperforming its benchmark. Other portfolio teams involved with the product, such as Commodities and Real Estate, also manage stand-alone funds on Wellington's platform.

The combination of Wellington's internal portfolio management expertise and the tactical asset allocation decisions has produced returns that have consistently outperformed the CPI + 5% benchmark. Volatility since inception has been approximately 10 percent, roughly the same as a portfolio consisting of 70 percent stocks/30 percent bonds. Based upon the depth of the firm's resources, the existing relationship with the University of Kentucky, and the product's demonstrated success in outperforming its benchmark with appropriate volatility, Wellington is recommended as the second manager for the Real Return allocation.

The due diligence process included a review of the State Street Real Asset strategy, which provides a static allocation to four passively managed real return strategies: TIPS, REIT's, Commodities, and Natural Resources. The product has a lower return target than those offered by PIMCO and Wellington (CPI +4% vs. CPI +5%), with a volatility target of 10%. While the strategy has posted solid performance since inception in early 2005 due to the strong returns of the underlying asset classes, we would not expect the strategy to perform as well as those offered by PIMCO and Wellington over the long-term. The SSgA strategy is a purely passive approach, and in our view the products offered by PIMCO and Wellington are superior since they provide the potential for additional alpha from active management. Another important differentiation is that State Street's approach is a static allocation to the underlying asset classes, whereas the other two products have the ability to make tactical shifts to their exposures based on market conditions and valuations. We would expect the funds offered by PIMCO and Wellington (or a blend of the two) to outperform the SSgA strategy over time due to their active management and tactical asset allocation. While RV Kuhns considers the SSgA Real Asset strategy to be a strong contender in the broad Real Return asset class, we view the products offered by PIMCO and Wellington as superior due to their broad diversification and additional sources of alpha.

Below are additional points that support this recommendation:

1. The risk budgeted for this mandate is 8.5% volatility. A 75 percent PIMCO/ 25 percent Wellington allocation puts volatility at or below that target.
2. The combination of these two products creates the opportunity to participate in two different strategies and types of real return assets at once, enhancing diversification opportunities and adding to the potential risk reduction.
3. A multiple manager approach provides protection and an efficient transition of assets if there is a need to terminate a manager for any reason.
4. Both managers have a consistent track record of providing returns above their stated benchmarks (alpha).