

**Minutes
Investment Committee
Board of Trustees
June 8, 2010**

IN ATTENDANCE:

Investment Committee Members:	Dr. Edward Britt Brockman, Chair Mr. Dermontti F. Dawson Mr. Carol Martin Gatton Mr. James W. Stuckert
Community Advisory Members:	Mr. Henry Clay Owen
Investment Staff & Consultants:	Ms. Angela S. Martin Ms. Susan I. Krauss Ms. Donna A. Counts Mr. Rob Palmeri (R.V. Kuhns & Associates) Mr. Dan Krivinskas (R.V. Kuhns & Associates)
Others:	Dr. Lee T. Todd, Jr. Mr. Frank A. Butler Ms. Barbara W. Jones Mr. D. Michael Richey* Mr. Sergio L. Melgar* Ms. Ronda S. Beck Mr. John Deans Ms. Kathy Johnson**

*Attended the meeting before the closed session.

**Attended the meeting before and after the closed session.

The Investment Committee meeting was called to order at 8:00 a.m. Dr. Brockman asked for a motion to approve the March 9, 2010 minutes. Mr. Stuckert made the motion to approve the minutes, Mr. Gatton seconded the motion and all approved.

Dr. Brockman introduced the first item on the agenda, the extension of the contracts with the Endowment investment managers for a 12-month period ending June 30, 2011, or other period specified, subject to the terms and conditions of the existing contracts. Ms. Martin stated that these were standard renewals the committee makes annually. Ms. Martin noted that two managers, RREEF and State Street, were in the process of redemption and another, Gartmore, was proposed for liquidation in the next committee agenda item. Ms. Martin stated that these contracts need to be in place until all assets managed by these managers are liquidated. Mr. Stuckert made the motion to approve IC1, Mr. Gatton seconded the motion and all approved.

Dr. Brockman introduced the next item on the agenda, IC2, related to the termination of a contract with Gartmore, an international equity manager, and authorization to issue request for proposals for a new manager, and, if necessary, to coordinate the immediate withdrawal and temporary investment of the funds. Ms. Krauss stated that R.V. Kuhns recommends terminating the University's contract with

Gartmore for several reasons. First, the lead portfolio manager resigned and the new portfolio manager is near retirement. Second, the new portfolio manager's strategy is more benchmark focused and will not provide the diversification and alpha benefits the endowment fund needs in the long-term. Finally, a portfolio manager on the European equity strategy was recently suspended for breach of internal policy for directed trades and as a result the head of compliance resigned. Ms. Krauss indicated that an RFP for a new manager will be issued and a new manager recommendation will be brought to the September Investment Committee meeting. Gartmore will continue to manage the assets until a new manager is hired; although staff and RVK will coordinate immediate withdrawal and investment of the funds if necessary. Mr. Stuckert made a motion to approve IC2 and Mr. Dawson seconded the motion.

Dr. Brockman then introduced the next agenda item, the review of asset allocation and status of the transition plan. Ms. Krauss referred to the Endowment Asset Allocation chart behind tab four in the committee notebooks. The table lists the actual asset allocations as of April 30, 2010, the policy targets and the amount over or under the target allocations. Ms. Krauss stated that the phase two implementation was completed in March and most of the assets are within the target policy ranges except for the private equity and real estate sectors. These investment strategies will be implemented over time. The funds for future allocations to private equity are currently invested in U.S. and non-U.S. equity investments and the funds for future real estate allocations are currently invested in fixed income investments.

Dr. Brockman then introduced the next item on the agenda, the performance review and market update by R.V. Kuhns. Mr. Palmeri began by reviewing the Investment Performance Analysis for the Quarter ended March 31, 2010 and pointing out that in the first quarter of 2010 the capital markets continued to rebound from the lows in March 2009. He added that the asset allocation transition approach of dollar cost averaging out of stocks to the new asset allocations had worked out extremely well over the past year compared to what would have happened had the transition happened all at once. Mr. Palmeri then directed the committee to turn to Page 15, which shows the asset allocation compared to the target asset allocation. The Endowment fund allocation was overweight in domestic equity, international equity and fixed income and underweight in real estate and private equity as of March 31st. The overweight to equities benefited the fund performance over the last quarter.

Mr. Stuckert asked what R.V. Kuhns thinks about the benchmarks and asset allocations for the managers. Mr. Palmeri responded that for equities, the market was positive overall. The theme in the broad market performance had been a rally in low quality stocks, while most of UK's equity managers will not hold low quality stocks. For fixed income, PIMCO and Reams did well. Reams had a difficult year in 2008 because of their style and consequently their credit and spread exposure created a portfolio that was more beta sensitive or stock-like at a time when the portfolio needed less beta exposure. However, both managers rebounded strongly in 2009. Reams, in particular, significantly outperformed the index and other core-plus managers since late 2008 by sticking to their style of investing in credit and spread securities, which hurt them in 2008.

Mr. Palmeri then referred to the asset allocation and fund performance presented on Page 18. For the last quarter, the Total Fund Composite had a gain of 2.72%, slightly above the target allocation benchmark of 2.64% and just below the active allocation benchmark of 2.90%. The Fixed Income Composite increased by 2.9% compared to the benchmark of 1.78%. Within this sector the Reams portfolio showed good return for the quarter at 2.93% and excellent return for the year of 37.15%. The Real Estate Composite had a gain of 1.42% for the quarter. The Absolute Return Composite was up 1.95% for the quarter.

Mr. Palmeri then moved on to discuss April performance. The Total Fund Composite was up almost 1.0% month to date. The Domestic Equity Composite increased 2.12% while international equity composite declined by 0.93%. Fixed income continues to perform very well and the composite was up 1.23%. The Real Return Composite was also up significantly, by 2.43%. Absolute return did not fare as well for the month and the composite was up only .7%. Mr. Palmeri noted that the Hedge Fund Net

Fund-of-Funds Multi-Strategy index is not an ideal index for absolute return, but it is one of only a few indexes available.

The next item on the agenda was a review of the Cash, Overnight and Short-Term Investment Report. Ms. Counts reported that as of April 30, 2010 the total portfolio subject to the overnight and short term investment policy was \$347.0 million. Total cash and investments, including funds invested by the state, was \$669.5 million. Overnight investments totaled \$170.7 million, and had a rate of return of 0.17% slightly exceeding the three month T-bill rate of 0.13%, and slightly below the Fed Funds yield of 0.20% and the Libor 3 month rate of 0.35%. Short term investments totaled \$176.3 million. The total short term average weighted return was 1.64%, compared to the 2 Year Treasury Note yield of 0.96%.

Dr. Brockman then stated that the investment committee needs to go into closed session in order to hear a report on the evaluation of proposals for the real estate manager search and also to hear presentations from the finalists. He stated that the committee will then recommend the firm or firms with which the University should negotiate a contract. The committee must go into closed session because an open discussion on the firms and the deliberations of the committee could jeopardize the retention of a firm for the university.

Dr. Brockman then outlined the guidelines for the closed session stating that only those persons necessary to provide information to the committee, and appropriate staff, may be present with the committee. Nothing else may be discussed in the closed session but information relating to the real estate manager search. He stated that when manager presentations and committee discussion has been completed, no vote may be taken in closed session and all manager presentation materials must be returned to John Deans of UK purchasing division.

Dr. Brockman then asked for a motion that the committee go into closed session pursuant to KRS 61.810 (1) (g). The motion was made by Mr. Gatton and seconded by Mr. Stuckert. The motion was approved unanimously. The committee went into closed session at 8:40 a.m.

At 10:40 a.m. Dr. Brockman announced that the committee was returning to open session and stated that the closed session of the investment committee had concluded and no matters other than the announced matter were discussed and no final action was taken. He said the committee is now back in open session and referred to IC3 in the committee notebook, which authorizes the Executive Vice President for Finance and Administration, or his designee, to enter into contract negotiations with new managers of real estate debt strategies. Mr. Stuckert moved to approve IC3 and Mr. Gatton seconded the motion. All approved.

Dr. Brockman asked Ms. Krauss if there was any new business. Ms. Krauss informed the committee that she is working with RVK on an asset allocation study and review of the investment policy and will bring a recommendation to the committee in September. Additionally, a new non-U.S. manager recommendation will be made in September.

With no further business the meeting adjourned at 10:55 a.m.

Donna Counts
Office of the Treasurer