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Office of the Treasurer
September 14, 2010

Members, Investment Committee

APPROVAL OF ENDOWMENT INVESTMENT POLICY

Recommendation: that the Investment Committee approve the attached Endowment Investment Policy.

Background: The University's current Endowment Investment Policy was formally approved by the Investment Committee on June 9, 2009. Subsequently, on December 1, 2009, the Committee approved changes to the policy related to the spending and management fee policies.

The policy requires an annual review by the Investment Committee and investment staff ("Staff"). Based on a review performed by Staff and investment consultant, R.V. Kuhns & Associates, various changes are included, with the most significant changes highlighted below:

- Updated language to reflect the passage of the Uniform Prudent Management of Institutional Funds Act in Kentucky;
- Establishment of the Endowment Advisory Group by the President to advise the Vice President for Financial Operations and Treasurer on various matters pertaining to the prudent management of individual endowment funds;
- New asset allocation designed to reduce the projected risk, or volatility of the endowment, as follows:

	<u>Current Target Allocation</u>	<u>Proposed Target Allocation</u>	<u>Change</u>
Broad US Equities	26%	20%	-6%
Broad Non-US Equities	20%	20%	--
Total Equities	46%	40%	-6%
Private Equity	7%	7%	--
Real Return	7%	10%	+3%
Absolute Return	10%	20%	+10%
Real Estate	12%	8%	-4%
Total Alternatives	36%	45%	9%
Fixed Income	18%	15%	-3%
Total	100%	100%	--
Projected 1-Yr. Return	7.98%	7.90%	-.08%
Projected 1-Yr. Risk	11.70%	10.92%	-.78%

- New manager structure related to the new asset allocation; and
- New appendices which include Kentucky's Uniform Prudent Management of Institutional Funds Act, a summary of the endowment investment manager structure and related benchmarks, and investment strategy definitions.

Action Taken: Approved Disapproved Other _____