

**Minutes
Investment Committee
Board of Trustees
October 25, 2011**

IN ATTENDANCE:

Investment Committee Members:	Carol Martin Gatton, Chair William Britton William S. Farish, Jr. Joe Peek Erwin Roberts James W. Stuckert
Community Advisory Members:	James F. Hardymon Henry Clay Owen Billy B. Wilcoxson
Investment Staff & Consultants:	Angela S. Martin Susan I. Krauss Rob Palmeri (R.V. Kuhns & Associates)

Mr. Gatton called the meeting to order at 9:00 a.m. and stated that the Investment Committee needs to go into closed session in order to hear a report on the evaluation of proposals for the absolute return manager search and also to hear a presentation from the finalist. He stated that the Committee will then recommend the firm with which the University should negotiate a contract. The Committee must go into closed session because an open discussion on the firm and the deliberations of the Committee could jeopardize the retention of the firm for the university.

Mr. Gatton 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 absolute return manager search. He stated that when the manager presentation 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's Purchasing Division.

Mr. Gatton then made a motion that the Committee go into closed session pursuant to KRS 61.810 (1) (g). The motion was seconded by Mr. Roberts and was approved unanimously. The Committee went into closed session at 9:05 a.m.

At 10:20 a.m. Mr. Gatton announced 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 will proceed with a vote on IC 1. Mr. Gatton asked for a motion to approve IC 1, which authorizes investment staff to

perform an on-site visit of the absolute return manager search finalist and authorize the Purchasing Division to enter into contract negotiations with the manager if the results of the on-site visit are satisfactory. Mr. Stuckert moved to approve IC 1, Mr. Roberts seconded the motion and the motion passed unanimously.

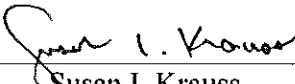
Mr. Gatton asked for a motion to approve the September 13, 2011 minutes. Mr. Stuckert made the motion to approve, Mr. Britton seconded the motion and all approved.

Mr. Gatton introduced the next item on the agenda, which was a review of the September 30, 2011 Flash Report, presented by Rob Palmeri. Mr. Palmeri commented that there was a broad sell-off in the equity markets during the quarter, with losses ranging from 13.9% for the S&P500 to 22.5% for emerging markets, as indicated by the MSCI EM index. The Barclays Aggregate Index returned 3.82% for the quarter driven by 10 year treasury bonds, which were up 25% due to a significant flight to safety. The spike in treasury 10 year treasury yields disrupted many managers in terms of their allocation. Mr. Palmeri commented that both the hedge fund and commodities markets were down, while the real estate market was up during the quarter, with the NCREIF ODCE index returning 3.6%.

Mr. Palmeri reported that the endowment pool lost 9.1% for the quarter ended September 30th driven in absolute terms by the exposure to equities. However he pointed out that it could have been worse as UK has significantly reduced the allocation to equities over the last two-and-a-half years by allocating more to alternatives. A bright spot for the international equity performance is that while the absolute performance was poor for the quarter, the relative performance was strong, with the asset class outperforming the benchmark by 87 basis points. Mr. Palmeri commented that one disappointment for the quarter was the fixed income performance for PIMCO, which significantly lagged its benchmarks due to Bill Gross' decision earlier in the year to take the U.S. Treasury allocation to zero. While the performance is disappointing, there is an understanding of what happened in light of the various events that took place during the quarter.

Mr. Palmeri reported that he and Susan Krauss continue to monitor Capital Guardian, which has been a significant underperformer in the portfolio, and will keep the Committee informed of the on-going due diligence. Additionally, he and Susan Krauss will visit the PIMCO office located in Manhattan in November when the new absolute return manager on-site visit is performed. Ms. Krauss added that they will also visit Berens, one of the existing absolute return managers located in Manhattan.

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



Susan I. Krauss
Office of the Treasurer