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Office of the Treasurer
June 18, 2012

Members, Investment Committee:

REPLACEMENT OF RUSSELL 1000 INDEX FUND MANAGER

Recommendation: that the Investment Committee approve termination of SSGA as the Russell 1000 index fund manager and authorize staff to execute a contract amendment with Northern Trust for management of the passive strategy.

Background: Spending distributions on the state portion of any Research Challenge Trust Fund (“RCTF”) underwater endowments are currently limited to actual income (i.e. interest and dividends received). Effective July 1, 2012, spending distributions on both the state and private portions of any RCTF underwater endowments will be limited to actual income.

In March 2012, SSGA announced discontinuation of their quarterly dividend distribution which is projected to reduce actual income of the endowment pool by \$4 million annually. As a result, UK needs to replace the loss of actual income from SSGA in order to preserve the level of spending distributions for RCTF underwater endowments.

Northern Trust, the University’s endowment custodian, offers a competitive Russell 1000 index fund that distributes income to investors. Investment staff and consultant, R.V. Kuhns & Associates, will negotiate a contract amendment and develop a transition plan to minimize the transaction costs of transitioning between the two index funds.

Action Taken: Approved Disapproved Other _____