

**Minutes  
Investment Committee  
Board of Trustees  
March 4, 2008**

IN ATTENDANCE:

Investment Committee Members:	Mr. Billy B. Wilcoxson, Chair Mr. Stephen P. Branscum Ms. Myra Leigh Tobin Ms. JoEtta Y. Wickliffe
Board of Trustees Members:	Ms. Mira S. Ball
Investment Staff & Consultants:	Mr. Marc A. Mathews Ms. Susan I. Krauss 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 Mr. Henry Clay Owen Mr. Sergio L. Melgar Mr. Dan Adkins

The meeting was called to order at 9:05 a.m.

Mr. Wilcoxson asked for a motion to approve the January 23, 2008 minutes. Ms. Wickliffe made a motion to approve the minutes, Mr. Branscum seconded the motion and all approved.

Mr. Kuhns of R. V. Kuhns & Associates (“RVK”) thanked the Committee for the opportunity to serve as the University’s endowment investment consultant going forward. Mr. Palmeri presented a proposed work plan for the Investment Committee for the remainder of calendar year 2008, detailing proposed agenda items for regular and special sessions of the Investment Committee. The proposed agenda items for the special sessions include educational sessions on alternative investments, reviews of the investment policy statement, asset allocation and manager structure, and the interviewing of prospective investment managers. Mr. Palmeri emphasized that this work plan is a draft and will likely need to be adjusted as the group moves through the process. Mr. Mathews stated that Ms. Krauss would be contacting each Committee member in the next week to determine availability for the special sessions and distributed a worksheet to facilitate scheduling.

Ms. Krauss reported on the endowment asset allocation, reporting the endowment pool had a market value of \$920.4 million as of January 31, 2008, comprised of the following asset allocation:

	<u>1/31/08</u> <u>Allocation</u>	<u>Policy</u> <u>Target</u>	<u>Policy</u> <u>Range</u>
U.S. Equity	47.7%	46.0%	41.0-51.0%
Global Equity	7.9%	8.0%	5.0-11.0%
Non-U.S. Equity	10.9%	11.0%	8.0-14.0%
Private Equity	1.3%	5.0%	0.0-8.0%
Fixed Income	23.3%	22.0%	17.0-27.0%
Real Estate	8.8%	8.8%	5.0-11.0%

Ms. Krauss noted that the asset classes are slightly off their policy targets due to the recent decline of the equity market in January, however the asset classes are well within the policy ranges established in the investment policy. Ms. Krauss also reviewed the over/under target positions of the individual managers and concluded that no rebalancing adjustments are necessary at this time. Staff will continue to invest new funds to undertarget asset classes and managers in an effort to rebalance the portfolio.

Ms. Krauss reviewed the January flash report, noting the endowment pool lost -4.28% in the month of January 2008, as compared to the policy benchmark return of -4.41%, for an outperformance of 13 basis points. For the seven months ended January 31, 2008, the endowment lost -4.79% compared to the policy benchmark return of -3.45%, for an underperformance of 134 basis points. Ms. Krauss reviewed the returns of managers, noting that Capital Guardian's U.S. Equity Strategy has been the biggest detractor from total fund performance for the fiscal year, with Capital underperforming the Wilshire 5000 index by 313 basis points during the seven month period. The underperformance by Capital came in the fourth quarter of 2007 as the U.S. Equity Strategy underperformed the Wilshire 5000 by approximately 500 basis points. In the month of January Capital's performance improved, with the strategy outperforming the Wilshire 5000 by 165 basis points. Ms. Krauss reported staff had requested that RVK perform a review of this strategy in light of the recent poor performance. Mr. Palmeri commented that RVK would recommend keeping Capital Guardian on a watch list for the next six months. Capital Guardian is a quality organization, however due to the underperformance and the recent departure of one of the portfolio managers, further review is warranted. Mr. Palmeri also commented that the whole-stock or all-cap strategy will be reviewed as part of the asset allocation and manager structure review to determine if another strategy should be employed.

Ms. Krauss presented a table of returns from the 2007 NACUBO Endowment Study, displaying the fiscal year 2007 average returns of the participating institutions grouped by size of investment pool assets. The University's total return of 16.8% for the year ended June 30, 2007 slightly lagged the overall average return of 17.5% for all institutions participating in the survey. The University further lagged the average return of 19.3% for endowments similar in size to UK (\$500 million to \$1 billion). The underperformance is attributable to UK's asset allocation, which consists of more exposure to traditional asset classes and less exposure to alternative asset classes. Ms. Krauss pointed out that in all time periods (1, 3, 5 and 10 years) the average returns increased as the size of the investment pool increased. Ms. Krauss stated this is due to the fact that as investment pool assets increase, there is greater diversification and higher allocations to alternative asset classes, which have achieved higher returns over the last ten years. Ms. Krauss reviewed a table summarizing the June 30, 2007 asset allocation of participating institutions, grouped by size, noting that the average allocation to alternative investments for all institutions was 19.7%, with hedge accounting for over half at a 10.6% allocation. For endowments with assets in the \$500 million to \$1 billion range, the average allocation to alternatives was 33.9%, including an average hedge fund allocation of 17.7%. UK's allocation to alternatives as of June 30, 2007 was 8.7% (target allocation was 13%, comprised of 8% real estate and 5% private equity). Ms. Krauss reviewed other tables from the NACUBO study, including 2007 asset class return data and also a ten-year history of the average asset allocation.

Ms. Krauss reviewed 2007 return and asset allocation data of the University's nineteen benchmark institutions assigned by CPE. The average return of the nineteen benchmarks was 20.0% for the year ended June 30, 2007, compared to UK's return of 16.8%. UK also underperformed its benchmarks in the three, five and ten year periods. A review of the asset allocation at June 30, 2007 revealed that the benchmark institutions had an average allocation to alternatives of 38.1%, including an average hedge fund allocation of 19.9%. Ms. Krauss emphasized that while UK's historical returns are lower than benchmark and peer institutions, UK has met the primary objective of an endowment fund, which is generating returns equal to or greater than the sum of spending allocations, inflation, and the costs of managing the investments. However, this information on benchmark and peer institutions should be considered in the upcoming asset allocation review.

Ms. Krauss reported that the Office of the Treasurer had provided assistance for the University's response to an information request from the United States Senate Committee on Finance. The Committee on Finance requested tuition, financial aid and endowment information from universities with the top 100 endowments in an effort to explore solutions to the rising cost of higher education.

Mr. Kuhns distributed a copy of the 2007 Yale Endowment Report to the Committee, stating the Committee should find the report interesting to read in conjunction with the upcoming asset allocation review. Yale is the leader in endowment management as evidenced by outstanding historical returns (in the top one percent of large institutional investors for the ten years ending June 30, 2007). Yale has achieved this success by investing in alternative asset classes including private equity, absolute return and real return. RVK's asset allocation review and analysis will include these same alternative asset classes. Descriptions of the asset classes are included in the Yale report.

With no further business, Ms. Tobin made a motion that the meeting be adjourned, Mr. Branscum seconded the motion and all approved. The meeting adjourned at 10:35 a.m.

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Susan I. Krauss  
Office of the Treasurer