IN ATTENDANCE:

Investment Committee  Mr. Carol Martin Gatton, Chair  
Mr. Erwin Roberts  
Members:  Mr. William S. Farish, Jr.  
Dr. Joe Peek  
Mr. James W. Stuckert  

Community Advisory Members:  Mr. Billy B. Wilcoxson  

Investment Staff & Consultants:  Ms. Angela S. Martin  
Ms. Susan I. Krauss  
Ms. Donna A. Counts  
Mr. Rob Palmeri (R.V. Kuhns & Associates)  

Others:  Ms. Shelia Brothers  
Ms. Jo Hern Curris  
Dr. Charles R. Sachetallo  
Ms. Barbara Young  

Mr. Gatton called the meeting to order at 9:05 a.m. and asked for a motion to approve the March 28, 2011 minutes. Mr. Stuckert made the motion to approve, Mr. Roberts seconded the motion and all approved.

Mr. Gatton introduced the first agenda item, the Portfolio Risk Review and Asset Allocation presented by Mr. Palmeri. Mr. Palmeri began by explaining that this analysis is done on an annual basis to review different forms of risk including Theme Risk, which evaluates portfolios broadly by themes of Capital Appreciation, Capital Preservation, Alpha and Inflation. Other risk issues analyzed included beta risk, risk budgeting and fixed income sensitivity. This review is intended to determine if the portfolio is well diversified. He noted that several years ago beta risk of the portfolio had been relatively high as a result of the high concentration in equities and Reams’ credit-focused fixed income strategy. This led to significant asset allocation changes. The diversification over the last few years has reduced the beta exposure of the portfolio. Mr. Palmeri stated that this year’s analysis indicates the current portfolio is well balanced and diversified and RVK is not recommending any adjustments to asset allocation.

Next Mr. Palmeri discussed asset allocation liquidity issues and noted that with private equity and real estate there can be liquidity concerns. However, the overall portfolio has 55% in liquid assets, and stated this was a well diversified position.

Mr. Palmeri moved on to discuss the 2011 Asset Allocation study. He stated that RVK also reviews asset allocation every year by using a model that includes forecast assumptions for each asset class, including expected return, risk and correlation as inputs in the model. The output of the model is an “efficient frontier” or set of multiple different asset allocations that provide the highest level of return for a given
level of risk. The current target portfolio provides an expected return of 7.7% and a standard deviation of 11.74%. Mr. Palmeri stated that the asset allocation analysis did not suggest any changes to the current targets.

Mr. Peek asked to confirm the target Beta of the portfolio is 0.58. Mr. Palmeri confirmed this and stated that was the target Beta now but he would like to reduce that even more in the future. Mr. Stuckert asked how RVK determined the capital market assumptions used in the asset allocation model. Mr. Palmeri replied that they are reviewed internally by RVK staff knowledgeable in each asset class.

Next Mr. Palmeri described the Monte Carlo simulations conducted to provide insight into the probability of various performance outcomes based on history and expected changes for the future. He stated the purpose of this analysis is to evaluate the worst case scenario and try to minimize the probability of downside risk and maximize expected return over the long term. Committee members discussed various issues that affect future risk including equity exposure, future interest rates and inflation. Mr. Palmeri stated that RVK would continue to monitor the various risks of the portfolio. Mr. Stuckert noted that RVK had done a very good job of reviewing the asset allocation and managers.

Mr. Gatton reviewed the next item on the agenda by introducing Susan Krauss to discuss IC 1. Ms. Krauss stated that IC 1 is approval of the updated Endowment Investment Policy. The current policy requires that the committee review and approve the policy annually. The committee did this last in September 2010. Ms. Krauss explained that there are no significant changes to the policy. Under the delegation of authority section it is recommended that a provision be added stating that staff will assist the Committee with selection and oversight of the vendors and execute required contracts and applicable renewals. In the past renewals had routinely been brought to the committee every year. Since the committee is monitoring the managers on an on-going basis and any problems with managers are addressed during the year, the committee approval of the annual renewals were a formality.

Ms. Krauss then reviewed the financial objectives. She stated that while the objectives are not changing it was a good opportunity to review them. The first objective is the preservation of the purchasing power of the endowment assets and the related revenue stream overtime. The second objective is to earn an average real return of at least 4.5% per year. While the nominal investment return goal is 7.5%, after controlling for an assumed long-term inflation rate of 3% would provide the 4.5% real return objective.

A second recommended change is to update the target allocation range for Private Equity from 3-9% to 5-9% in order to reflect that the endowment is moving closer to the target allocation for private equity.

Next Ms. Krauss explained there are some clarifications to the Summary of Endowment Investment Manager table in Appendix 2. The Private Equity allocation is adjusted to combine the separate opportunistic and core allocations to an overall private equity allocation of 7%. For Absolute Return the opportunistic and absolute return targets for Grosvenor will be combined for a target of 12% because these strategies are being managed together within the See Blue fund. Under the Real Estate allocation the value added/opportunistic allocation is re-characterized as non-core because it is very difficult to accurately classify value added and opportunistic managers. Under the Fixed income asset class the target allocation to PIMCO’s Unconstrained Bond Fund will be increased from 3% to 5%, with the offset to PIMCO’s Core-Plus strategy. Ms. Krauss noted that private equity proposals are due at the end of this week and real estate proposals are due later this month. New manager recommendations will be made at the September 13th Investment Committee meeting.

Mr. Stuckert moved to approve IC 1, Mr. Roberts second the motion. The motion passed unanimously.

Mr. Gatton introduced the next item which was a review of the asset allocation and rebalancing activity by Ms. Krauss. Ms. Krauss stated the total market value was $961.2 million as of April 30th. She reviewed the actual asset allocations, the target allocations, the over- under- market position for each manager and the rebalancing adjustments completed in March and April. She highlighted the changes that will be made in the future in order to work toward the target allocations. She noted that a lot of
rebalancing occurred in late 2010 and early 2011 and the transition of the portfolio to the target is proceeding well.

Mr. Gatton then moved on to the next item on the agenda, the investment performance review and market update. Mr. Palmeri began by referring to the snapshot summary and the manager compliance summary in the committee notebook. In particular, he noted the portfolio had a value of $918.5 million at the beginning of the quarter and a value of $940.3 million at March 31, 2011, with capital appreciation of $23.6 million over the quarter.

Next, Mr. Palmeri presented a summary of their due diligence review. He noted that one manager, GAM, had been put on watch, and while they have seen some good performance over the past four months, they would like to see some personnel stability going forward. RVK will continue to monitor the firm closely.

Mr. Palmeri then presented the detailed Investment Performance Analysis for the period ending March 31, 2011. He reviewed capital market conditions highlighting the challenges of European debt crisis, high unemployment, high oil prices and low real estate performance. While reviewing asset allocation versus target allocation difference he noted the equity allocation continues to be overweight, but these funds are earmarked for private equity. Real Estate and Private Equity are underweight and the selection process for managers in these areas is ongoing. Next Mr. Palmeri reviewed fund performance by fund attribution. The asset allocation contributed positively to the fund performance but manager value added contributed negatively. He attributed this in part to the international equity asset area. He noted that there are two new managers in this area and more time is needed to evaluate their performance.

Mr. Palmeri stated that total fund performance was up 288 basis points over the quarter. The International Equity asset classes were up 2.1% while the market was up 3.4%. As stated earlier, this is an area that will be monitored. The Fixed Income sector continues to do extremely well up 89 basis points exceeding the index of 42 basis points. The Real Return sector continues to do well, much of this attributed to Wellington and their exposure to energy which performed very well over the quarter. The Absolute Return strategies for the quarter were up 1.5% well outperforming the hedge fund of funds index of .7% for the quarter. Mr. Palmeri stated that comparing managers to the Real Estate benchmarks can be a bit tricky because the managers are new and there is a lag in terms of valuations. Investments occur early and the returns are realized later in the life of the investment. The Private Equity managers returned 0.32% for the quarter. Mr. Palmeri then concluded his comments.

The next item on the agenda was a review of the Cash, Overnight and Short-Term Investment Report by Ms. Counts. Ms Counts stated that as of April 30, 2011, there was $373.1 million in overnight and short term investments. She informed the committee that funds were transferred from the overnight investments to the short term pool a few months ago resulting in a significant increase in funds in the short term pool. Total return on overnight funds was only 0.07%. Attempts have been made to find better returns, but overnight rates are extremely low. Staff are reviewing options to improve overnight returns by investing in AAA rated prime money market funds. She informed the committee that this would require a change to the investment policy which currently prohibits investing in these funds. Ms. Counts reported that cash held at and managed by the state totals $164.4 million and total cash and operating investments were $537.5 million.

Mr. Peek questioned the funds held at the state and the low returns in overnight cash. Ms. Counts responded that we are reviewing our options to increase our returns but the restrictions imposed by the investment policy are limiting. Ms. Martin explained that House Bill 622 passed in 1982 defined certain revenues as public funds and mandated these funds be on deposit at the state. Mr. Stuckert responded that he had concerns that UK may not have enough liquidity and that the University should have two months
of operating expenses liquid. He also stated he is more concerned about preservation of capital than returns in the current markets. Mr. Butler pointed out that the cash balances also support the internal loan program and those are not short term investments. He also explained that the liquidity risks faced by the hospital operations and reimbursements and budget uncertainty present other cash flow challenges.

With no further business, the meeting adjourned at 10:50 a.m.

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Donna Counts
Office of the Treasurer
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I. General

The University of Kentucky Endowment ("Endowment") is an aggregation of funds comprised of gifts from donors and grants from the Commonwealth of Kentucky with the requirement they be held in perpetuity to generate income now and in the future. The income supports scholarships, chairs, professorships, basic research, as well as academic and public service programs, as defined by the individual endowment agreements. The Endowment is expected to provide fiscal stability since the principal is invested and income is generated year after year.

The University of Kentucky has a fiduciary responsibility to prudently manage and preserve the purchasing power of the Endowment, as well as the individual endowment funds, in order to evenly support present and future beneficiaries. This fiduciary responsibility constitutes both a legal and moral obligation to donors and the Commonwealth of Kentucky who intend that their gifts and grants provide support for the University in perpetuity.

The Endowment also includes other funds set aside by the Board of Trustees with the expectation that they be invested on a long-term basis.

II. Purpose of the Investment Policy

In general, the purpose of this policy is to outline a philosophy and attitude which will guide the management of the investment assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

This investment policy is set forth by the Investment Committee ("Committee") of the University of Kentucky Board of Trustees in order to:

a. Define and assign the responsibilities.

b. Establish a clear understanding of the investment goals and objectives of the Endowment assets.

c. Offer guidance and limitations regarding the investment of Endowment assets.

d. Establish a basis of evaluating investment results.

e. Manage the Endowment’s assets according to industry best practices and applicable laws.

The investment policy will be reviewed annually by the Committee and investment staff.

III. Roles and Responsibilities

Responsibilities of the Investment Committee

The Board of Trustees has established the Investment Committee with members appointed annually
by the Chair of the Board of Trustees. The Committee is responsible for the review and oversight of
the Endowment investments of the University of Kentucky and its affiliated corporations.
Governing Regulation II, A (6) (f) of the University of Kentucky sets forth the specific responsibilities
of the Investment Committee as follows:

Under delegation from the Board of Trustees, and consistent with KRS 164A.550
through 164A.630, the Investment Committee is responsible for review and oversight of
the endowment investment programs of the University and its affiliated corporations.
These responsibilities include: formulating and reviewing investment policies;
appointing, monitoring and evaluating investment managers and consultants; and
reviewing and approving plans for the general management of the endowment funds of
the University.

The membership of the Committee shall include five members from the Board of
Trustees. Each member shall be appointed by the Chair of the Board of Trustees. A
quorum of the Committee members must be present in order to conduct business.

In addition to voting members, the Investment Committee may, from time to time, have
the Chair of the Board of Trustees appoint, upon recommendation of the University
President, Community Advisory Members to assist it in its functions by providing
specialized advice and support. Said Community Advisory Members shall be selected
on the basis of their expertise in such areas as investment management and finance.
The appointments of Community Advisory Members to the Investment Committee shall
be for three years and may be reappointed for an unlimited number of three year terms.
The maximum number of Community Advisory Members authorized at any one time
shall be three (3).

The Investment Committee Chair reports to the Board of Trustees after each meeting of
the Committee on the performance results of endowment investments. Policies of the
Committee are implemented by the Office of the Treasurer in carrying out the day-to-day
operations of the University’s endowment funds.

Responsibilities of Investment Staff and Endowment Advisory Group

Investment Staff
Investment staff ("Staff") will consist of the University’s Vice President for Financial Operations and
Treasurer and the Assistant Treasurer for Investments. Staff is responsible for executing the policies
and decisions enacted by the Committee and the general daily activities and administration of the
Endowment assets. The Staff will prepare analysis and recommendations for the Committee on
development of policies and guidelines, selection of an appropriate long-term asset allocation, and
selecting an appropriate manager structure. The Staff will issue requests for proposals and provide
recommendations to the Committee as to the managers most appropriate for managing the
Endowment’s assets. The Staff will maintain summaries of the investment guidelines for the various
investment managers and periodically provide to the Committee.
Endowment Advisory Group
An Endowment Advisory Group of senior University administrators and faculty will be established 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.

Responsibilities of Investment Consultant

The Committee may engage an independent Investment Consultant (“Consultant”) to assist the Committee and Staff in developing policies and guidelines, selecting an appropriate long-term asset allocation, selecting an appropriate manager structure, identifying investment managers, evaluating investment performance, and offering other services as requested. The Consultant will prepare quarterly and annual assessments of investment performance that include results for the total endowment and each individual investment manager compared to appropriate market indices and manager universes. The Consultant will also periodically provide in-depth and detailed analysis of each manager’s portfolio.

IV. Delegation of Authority

The Committee may delegate the following investment related activities to qualified industry experts, but will be responsible for the selection and oversight of the vendors. Staff will assist the Committee with selection and oversight of the vendors and execute required contracts and applicable renewals.

Investment Custodian

The Committee will hire a Custodian for the University's endowment investments to establish and maintain direct account relationships with each investment manager and perform standard custodial functions, including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, distribution of income, and daily investment of cash. The Custodian will provide monthly account statements and other reports as requested by the Staff.

Investment Managers

The Committee will delegate the selection, buying and selling of individual securities to qualified industry experts. Each individual investment manager will exercise discretion over assets in accordance with specified investment guidelines.

Investment managers that utilize separate accounts to manage Endowment assets will adhere to specific investment manager guidelines established by Staff with the assistance of the Consultant. Each investment manager using a separate account is required to summarize its holdings and transactions on a monthly basis.

Investment managers that utilize a mutual fund investment structure, a commingled trust fund structure or a limited partnership structure will have discretion to manage the assets in accordance with the policies and guidelines outlined in the respective mutual fund’s prospectus, the commingled
trust fund’s offering memorandum or limited partnership’s private placement memorandum.
A summary of the investment manager structure and benchmarks is provided in Appendix 2.

V. Financial and Investment Objectives

The Investment Committee has established the following financial and investment objectives for the Endowment:

1. To preserve the purchasing power of the endowment assets and the related revenue stream over time to evenly allocate support between current and future beneficiaries (intergenerational equity).
2. To earn an average annual real return, after inflation and expenses, of at least 4.5% per year over full economic market cycles.

Kentucky Uniform Prudent Management of Institutional Funds Act (KRS 273.600 to 273.645)

Endowment assets will be managed by the Investment Committee in accordance with the provisions of the Kentucky Uniform Prudent Management of Institutional Funds Act (KRS 273.600 to 273.645), included in Appendix 1.

Spending Rate and Management Fee

The Investment Committee has established a target annual spending rate of 4.25% of the average market value of the Endowment over the preceding 60 months to establish financial equilibrium for the Endowment by creating a balance between annual spending and the expected real (after inflation) return on assets. As described below, the Endowment will be assessed an annual management fee of .25% of the current market value (assessed monthly) to support administrative costs. The target spending rate and management fee in concert with the target asset allocation policy are intended to support current and future program needs and allow the Endowment value to grow at a rate at least equal to annual inflation.

The above target spending rate and management fee policies will be phased in as follows:

- In FY 2010-11, the spending rate and management fee will be reduced from 4.5% and .5% to 4.375% and .375%, respectively.
- In FY 2011-12, the spending rate and management fee will be reduced to 4.25% and .25%, respectively.

The target spending rate and management fee established by the Investment Committee represent maximum amounts that can be withdrawn annually from individual endowment funds. The Vice
President for Financial Operations and Treasurer may reduce or suspend withdrawals from individual endowment funds that are underwater.

VI. Investment Policies

Diversification

The Committee will invest in different asset classes and engage multiple investment managers to ensure proper diversification of the Endowment. Investment diversification is essential to limit risks that include return volatility, the magnitude of potential losses, and manager underperformance. Equity investments will be diversified by market capitalization (company size), style (growth or value), industry, and country of domicile (as it will include non-U.S. based companies). Fixed income investments will be diversified by market sector, maturity, credit quality, and issuer, and country of domicile. Private equity investments will be diversified by strategy, including multiple venture capital, leveraged buyout, and special situation funds; by geographical allocation including U.S. and non-U.S. investments; and by vintage year of investment. Real Return Investments will be diversified by asset class and strategy. Absolute Return investments will be diversified by manager, investment strategy, and geographic location including U.S. and non-U.S. managers.

Real estate investments will be diversified by property type, geographic location, and investment style. Private equity investments will be diversified by strategy, including multiple venture capital, leveraged buyout, and special situation funds; by geographical allocation, including U.S. and non-U.S. investments, and by vintage year of investment. Real Return strategies will be diversified by asset class and manager. Absolute Return strategies will be diversified by manager, investment strategy, and geographic location including U.S. and non-U.S. managers.

In an effort to optimize and efficiently utilize due diligence research and diversification, within the alternative asset classes, which includes Private Equity, Real Return, Absolute Return and Real Estate, a “fund of funds” (“FOF”) investment structure will generally be used for Private Equity, Real Return and Absolute Return investments.

Asset Allocation

The Committee has established asset class targets and ranges as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Investment Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target Range</td>
</tr>
<tr>
<td>Broad U.S. Equities</td>
<td>20% 15-25%</td>
</tr>
<tr>
<td>Broad Non-U.S. Equities</td>
<td>20% 15-25%</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td><strong>40% 35-45%</strong></td>
</tr>
<tr>
<td>Private Equity</td>
<td>7% 5-9%</td>
</tr>
<tr>
<td>Real Return</td>
<td>10% 8-12%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>20% 15-25%</td>
</tr>
</tbody>
</table>

1 Underwater endowments are those in which the market value is less than the contributed value.
Rebalancing

The Committee intends to maintain the actual asset class allocations within the target ranges outlined above. Allocations relative to targets will be reviewed at least on a quarterly basis to determine if rebalancing transfers between asset classes are necessary. In general, Staff will direct new endowment gifts to undertarget asset classes.

Commitments to Private Equity and Real Estate

Staff, assisted by the Consultant, will complete annual forecasting and make appropriate commitments to successor funds of approved private equity and real estate managers to reach and maintain the approved policy allocation and ensure diversification across vintage year, strategy, geography, etc.

Liquidity

The Endowment is intended to provide a stream of annual income to the University in perpetuity. As a result, the Endowment has a long-term orientation. In addition, the withdrawal rate from the Endowment fund is well defined, predictable, and of modest size relative to the total assets. Staff, assisted by the Consultant, is responsible for managing the liquidity of the portfolio to fund spending distributions and capital calls while maintaining the appropriate market exposure.

Proxy Voting

The Committee delegates full authority for proxy voting to its investment managers for the securities under their discretionary authority and requires the investment managers to vote all proxies in the best interest of the Endowment. In addition, when requested, the managers will report to the Committee on their proxy-voting policies and activities on the Endowment's behalf.

Proxy voting related to governance issues regarding investment managers hired to manage Endowment assets, and their related investment legal structures, terms and conditions, will be voted on by the Staff in the best economic interest of the Endowment. The Staff may solicit assistance of the Consultant on governance issues.
Transaction Costs

The Committee requires the investment managers, in their capacity as fiduciaries, to manage the transactions costs they incur on the Endowment’s behalf in the best interests of the University. When requested, the managers will report to the Committee on the transactions costs incurred and the brokers used on the Endowment’s behalf.

Transition Management

Transitions between investment managers are an important and inevitable element of portfolio management, typically resulting from manager terminations or changes to the investment strategy of the portfolio. The optimal method to use in executing a transition may vary significantly from one transition to another based on the types of assets involved and the timeframe in question. Generally, the Endowment’s objective in a manager transition is to implement the change in a cost-effective, timely manner while maintaining the appropriate market exposure. It is imperative to note that the cost of transition is not commissions alone, but also bid/ask spread, market impact and opportunity cost. The market impact cost is the effect trading will have on the market price of the shares being traded. The opportunity cost, sometimes referred to as implementation shortfall, is the cost of market movements over the time it takes to trade. Efforts should be made to minimize the total cost rather than any single cost component. Selecting a transition manager can be done at the Staff’s discretion with the assistance of the Consultant. Use of futures contracts and exchange traded funds may be required in order to maintain appropriate market exposure during a transition.

VII. Performance Evaluation

Endowment performance will be monitored and reviewed over full market cycles, generally three to five years, at three levels; total Endowment, asset class and individual manager. All three levels will include a passive index and peer group measurement review. Performance will be reviewed on a gross and net return basis and will include risk and risk adjusted returns.

Performance Benchmarks

The total Endowment performance will be measured against:

1. CPI plus 4.5% real return


3. An Active Benchmark consisting of passive indexes reflecting the Endowments “actual” asset allocation percentages
4. A peer group universe of similar plans

The asset class performance will be measured against:

1. The asset class’ core passive index. See Appendix 2 for the Summary of Endowment Investment Manager Structure & Benchmarks.

2. A peer group universe of similar asset classes

The individual managers’ performance will be measured against:

1. The managers’ specific passive indexes. See Appendix 2 for the Summary of Endowment Investment Manager Structure & Benchmarks.

2. A peer group universe of similar investment styles

**Performance Expectations**

It is expected within each level the Endowment, the asset class, and the individual managers should exceed the passive index return and should be above median against the appropriate peer group universes over full market cycles.

It is expected that risk (and risk adjusted returns) will be in line with the risk associated with the specific passive index benchmarks over full market cycles.
APPENDIX 1
Kentucky Uniform Prudent Management of Institutional Funds Act
(KRS 273.600 to KRS 273.645)
273.600 Definitions for KRS 273.600 to 273.645.
In KRS 273.600 to 273.645:
(1) "Charitable purpose" means the relief of poverty, the advancement of education or religion, the promotion of health, the promotion of a governmental purpose, or any other purpose the achievement of which is beneficial to the community;
(2) "Endowment fund" means an institutional fund or part thereof that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. The term does not include assets that an institution designates as an endowment fund for its own use;
(3) "Gift instrument" means a record or records, including an institutional solicitation, under which property is granted to, transferred to, or held by an institution as an institutional fund;
(4) "Institution" means:
(a) A person, other than an individual, organized and operated exclusively for charitable purposes;
(b) A government or governmental subdivision, agency, or instrumentality, to the extent that it holds funds exclusively for a charitable purpose; or
(c) A trust that had both charitable and noncharitable interests, after all noncharitable interests have terminated;
(5) "Institutional fund" means a fund held by an institution exclusively for charitable purposes. The term does not include:
(a) Program-related assets;
(b) A fund held for an institution by a trustee that is not an institution; or
(c) A fund in which a beneficiary that is not an institution has an interest, other than an interest that could arise upon violation or failure of the purposes of the fund;
(6) "Person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, public corporation, government or governmental subdivision, agency, or instrumentality, or any other legal or commercial entity;
(7) "Program-related asset" means an asset held by an institution primarily to accomplish a charitable purpose of the institution and not primarily for investment; and
(8) "Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

Effective: July 15, 2010

273.605 Standard of conduct in managing and investigating institutional fund.
(1) Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, shall consider the charitable purposes of the institution and the purposes of the institutional fund.
(2) In addition to complying with duty of loyalty imposed by law other than in KRS 273.600 to 273.645, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.
(3) In managing and investing an institutional fund, an institution:
(a) May incur only costs that are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution; and
(b) Shall make a reasonable effort to verify facts relevant to the management and investment of the fund.
(4) An institution may pool two (2) or more institutional funds for purposes of management and investment.
(5) Except as otherwise provided by a gift instrument, the following rules apply:
(a) In managing and investing an institutional fund, the following factors, if relevant, shall be considered:
1. General economic conditions;
2. The possible effect of inflation or deflation;
3. The expected tax consequences, if any, of investment decisions or strategies;
4. The role that each investment or course of action plays within the overall investment portfolio of the fund;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the institution;
7. The needs of the institution and the fund to make distributions and to preserve capital; and
8. An asset's special relationship or special value, if any, to the charitable purposes of the institution;
(b) Management and investment decisions about an individual asset shall be made not in isolation but rather in the context of the institutional fund's portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution;
(c) Except as otherwise provided by law other than KRS 273.600 to 273.645, an institution may invest in any kind of property or type of investment consistent with this section; Page 2 of 2
(d) An institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification;
(e) Within a reasonable time after receiving property, an institution shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio in order to bring the institutional fund into compliance with the purposes, terms, and distribution requirements of the institution as necessary to meet other circumstances of the institution and the requirements of KRS 273.600 to 273.645; and
(f) A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

Effective: July 15, 2010

273.610 Appropriation for expenditure or accumulation of endowment -- Rules of construction.
(1) Subject to the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. In making a determination to appropriate or accumulate, the institution shall act in good faith,
with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:
(a) The duration and preservation of the endowment fund;
(b) The purposes of the institution and the endowment fund;
(c) General economic conditions;
(d) The possible effect of inflation or deflation;
(e) The expected total return from income and the appreciation of investments;
(f) Other resources of the institution; and
(g) The investment policy of the institution.
(2) To limit the authority to appropriate for expenditure or accumulate under subsection (1) of this section, a gift instrument must specifically state the limitation.
(3) Terms in a gift instrument designating a gift as an endowment, or a direction or authorization in the gift instrument to use only "income," "interest," "dividends," or "rents, issues, or profits," or "to preserve the principal intact," or words of similar import:
(a) Create an endowment fund of permanent duration unless other language in the gift instrument limits the duration or purpose of the fund; and
(b) Do not otherwise limit the authority to appropriate for expenditure or accumulate under subsection (1) of this section.

Effective: July 15, 2010

273.615 Delegation of management and investment functions.
(1) Subject to any specific limitation set forth in a gift instrument or in law other than KRS 273.600 to 273.645, an institution may delegate to an external agent the management and investment of an institutional fund to the extent that an institution could prudently delegate under the circumstances. An institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, in:
(a) Selecting an agent;
(b) Establishing the scope and terms of the delegation, consistent with the purposes of the institution and the institutional fund; and
(c) Periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the scope and terms of the delegation.
(2) In performing a delegated function, an agent owes a duty to the institution to exercise reasonable care to comply with the scope and terms of the delegation.
(3) An institution that complies with subsection (1) of this section is not liable for the decisions or actions of an agent to which the function was delegated.
(4) By accepting delegation of a management or investment function from an institution that is subject to the laws of the Commonwealth, an agent submits to the jurisdiction of the courts of the Commonwealth in all proceedings arising from or related to the delegation or the performance of the delegated function.
(5) An institution may delegate management and investment functions to its committees, officers, or employees as authorized by law of the Commonwealth other than KRS 273.600 to 273.645.

Effective: July 15, 2010
273.620 Release or modification of restrictions on management, investment, or purpose.
(1) If the donor consents in a record, an institution may release or modify, in whole or in part, a restriction contained in a gift instrument on the management, investment, or purpose of an institutional fund. A release or modification may not allow a fund to be used for a purpose other than a charitable purpose of the institution.
(2) The court, upon application of an institution, may modify a restriction contained in a gift instrument regarding the management or investment of an institutional fund if the restriction has become impracticable or wasteful, if it impairs the management or investment of the fund, or if, because of circumstances not anticipated by the donor, a modification of a restriction will further the purposes of the fund. The institution shall notify the Attorney General of the application, and the Attorney General shall be given an opportunity to be heard. To the extent practicable, any modification shall be made in accordance with the donor's probable intention.
(3) If a particular charitable purpose or a restriction contained in a gift instrument on the use of an institutional fund becomes unlawful, impracticable, impossible to achieve, or wasteful, the court, upon application of an institution, may modify the purpose of the fund or the restriction on the use of the fund in a manner consistent with the charitable purpose expressed in the gift instrument. The institution shall notify the Attorney General of the application, and the Attorney General shall be given an opportunity to be heard.
(4) If an institution determines that a restriction contained in a gift instrument on the management, investment, or purpose of an institutional fund is unlawful, impracticable, impossible to achieve, or wasteful, the institution, sixty (60) days after notification to the Attorney General, may release or modify the restriction, in whole or part, if:
(a) The institutional fund subject to the restriction has a total value of less than fifty thousand dollars ($50,000);
(b) More than twenty (20) years have elapsed since the fund was established; and
(c) The institution uses the property in a manner consistent with the charitable purposes expressed in the gift instrument.

Effective: July 15, 2010

273.625 Reviewing compliance with KRS 273.600 to 273.645.
Compliance with KRS 273.600 to 273.645 is determined in light of the facts and circumstances existing at the time a decision is made or action is taken, and not by hindsight.

Effective: July 15, 2010
History: Created 2010 Ky. Acts ch. 34, sec. 6, effective July 15, 2010.

273.630 Application of KRS 273.600 to 273.645 to existing institutional funds.
KRS 273.600 to 273.645 apply to an institutional fund existing on or established after July 15, 2010. As applied to institutional funds existing on July 15, 2010, KRS 273.600 to 273.645 govern only decisions made or actions taken on or after that date.

Effective: July 15, 2010

Effective: July 15, 2010

History: Created 2010 Ky. Acts ch. 34, sec. 8, effective July 15, 2010.

273.640 Uniformity of application and construction of the Kentucky Uniform Prudent Management of Institutional Funds Act.
In applying and construing this uniform act, consideration shall be given to the need to promote uniformity of the law with respect to its subject matter among states that enact it.

Effective: July 15, 2010

History: Created 2010 Ky. Acts ch. 34, sec. 9, effective July 15, 2010.

273.645 Short title for KRS 273.600 to 273.645.
KRS 273.600 to 273.645 may be cited as the Kentucky Uniform Prudent Management of Institutional Funds Act.

Effective: July 15, 2010

APPENDIX 2
Summary of Endowment Investment Manager Structure & Benchmarks
### UNIVERSITY OF KENTUCKY

**SUMMARY OF ENDOWMENT INVESTMENT MANAGER STRUCTURE AND BENCHMARKS**

<table>
<thead>
<tr>
<th>MANAGER NAME</th>
<th>HEADQUARTERS</th>
<th>INVESTMENT STRATEGY</th>
<th>POLICY TARGET</th>
<th>POLICY RANGE</th>
<th>BENCHMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Broad U.S. Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Street</td>
<td>Boston, MA</td>
<td>Passive Russell 1000 (Large-cap)</td>
<td>18.4%</td>
<td></td>
<td>Russell 1000 Index</td>
</tr>
<tr>
<td>Wellington</td>
<td>Boston, MA</td>
<td>Active Russell 2000 (Small-cap)</td>
<td>1.6%</td>
<td></td>
<td>Russell 2000 Index</td>
</tr>
<tr>
<td><strong>Total Broad U.S. Equity</strong></td>
<td></td>
<td></td>
<td>20.0%</td>
<td>15.0-25.0%</td>
<td>Dow Jones U.S. Total Stock Market Index</td>
</tr>
<tr>
<td><strong>Broad Non-U.S. Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Guardian</td>
<td>Los Angeles, CA</td>
<td>Active MSCI ACW ex-U.S. - Core</td>
<td>10.0%</td>
<td></td>
<td>MSCI All Country World ex-U.S. Index</td>
</tr>
<tr>
<td>Mondrian</td>
<td>London, ENG</td>
<td>Active MSCI ACW ex-U.S. - Value</td>
<td>5.0%</td>
<td></td>
<td>MSCI All Country World ex-U.S. Value Index</td>
</tr>
<tr>
<td>William Blair</td>
<td>Chicago, IL</td>
<td>Active MSCI ACW ex-U.S. - Growth</td>
<td>5.0%</td>
<td></td>
<td>MSCI All Country World ex-U.S. Growth Index</td>
</tr>
<tr>
<td><strong>Total Broad Non-U.S. Equity</strong></td>
<td></td>
<td></td>
<td>20.0%</td>
<td>15.0-25.0%</td>
<td>MSCI All Country World ex-U.S. Index</td>
</tr>
<tr>
<td><strong>TOTAL EQUITIES</strong></td>
<td></td>
<td></td>
<td>40.0%</td>
<td>35.0-45.0%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Private Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple Managers*</td>
<td></td>
<td>Private Equity Fund-of-Funds (&quot;FOF&quot;)</td>
<td>7.0%</td>
<td>5.0-9.0%</td>
<td>Venture Economics All Private Equity Index</td>
</tr>
<tr>
<td>Commonfund Capital</td>
<td>Wilton, CT</td>
<td>Private Equity Fund-of-Funds (&quot;FOF&quot;)</td>
<td>7.0%</td>
<td>5.0-9.0%</td>
<td>Venture Economics All Private Equity Index</td>
</tr>
<tr>
<td>Drum Capital</td>
<td>Stamford, CT</td>
<td>Private Equity Fund-of-Funds (&quot;FOF&quot;)</td>
<td>7.0%</td>
<td>5.0-9.0%</td>
<td>Venture Economics All Private Equity Index</td>
</tr>
<tr>
<td>Pantheon Ventures</td>
<td>San Francisco, CA</td>
<td>Private Equity Fund-of-Funds (&quot;FOF&quot;)</td>
<td>7.0%</td>
<td>5.0-9.0%</td>
<td>Venture Economics All Private Equity Index</td>
</tr>
<tr>
<td>Siguler Guff</td>
<td>New York, NY</td>
<td>Private Equity Fund-of-Funds (&quot;FOF&quot;)</td>
<td>7.0%</td>
<td>5.0-9.0%</td>
<td>Venture Economics All Private Equity Index</td>
</tr>
<tr>
<td>New Manager TBD</td>
<td>TBD</td>
<td>Private Equity Fund-of-Funds (&quot;FOF&quot;)</td>
<td>7.0%</td>
<td>5.0-9.0%</td>
<td>Venture Economics All Private Equity Index</td>
</tr>
<tr>
<td><strong>Total Private Equity</strong></td>
<td></td>
<td></td>
<td>7.0%</td>
<td>5.0-9.0%</td>
<td>Venture Economics All Private Equity Index</td>
</tr>
<tr>
<td><strong>Real Return:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIMCO</td>
<td>Newport Beach, CA</td>
<td>Real Return FOF (All Asset Authority)</td>
<td>6.0%</td>
<td></td>
<td>All Asset Composite Index</td>
</tr>
<tr>
<td>Wellington</td>
<td>Boston, MA</td>
<td>Real Return FOF (Diversified Inflation Hedges)</td>
<td>4.0%</td>
<td></td>
<td>Wellington Diversified Inflation Hedges Composite Index</td>
</tr>
<tr>
<td><strong>Total Real Return</strong></td>
<td></td>
<td></td>
<td>10.0%</td>
<td>8.0-12.0%</td>
<td>60%/All Asset Comp. Index/40% Wellington DIH Comp. Index</td>
</tr>
<tr>
<td><strong>Absolute Return:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grovenor</td>
<td>Chicago, IL</td>
<td>Core/Opportunistic Absolute Return FOF</td>
<td>12.0%</td>
<td></td>
<td>Hedge Fund Net Fund-of-Funds Multi-Strategy Index</td>
</tr>
<tr>
<td>GAM</td>
<td>London, ENG</td>
<td>Core Absolute Return FOF</td>
<td>5.0%</td>
<td></td>
<td>Hedge Fund Net Fund-of-Funds Multi-Strategy Index</td>
</tr>
<tr>
<td>Berens</td>
<td>New York, NY</td>
<td>Opportunistic Absolute Return FOF</td>
<td>3.0%</td>
<td></td>
<td>Hedge Fund Net Fund-of-Funds Multi-Strategy Index</td>
</tr>
<tr>
<td><strong>Total Absolute Return</strong></td>
<td></td>
<td></td>
<td>20.0%</td>
<td>15.0-25.0%</td>
<td>Hedge Fund Net Fund-of-Funds Multi-Strategy Index</td>
</tr>
<tr>
<td><strong>Real Estate:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UBS</td>
<td>Hartford, CT</td>
<td>Core Real Estate</td>
<td>4.0%</td>
<td>3.0-5.0%</td>
<td>National Council on Real Estate Fiduciaries Index - 1%</td>
</tr>
<tr>
<td>Multiple Managers*</td>
<td></td>
<td>Non-Core Real Estate</td>
<td>4.0%</td>
<td>3.0-5.0%</td>
<td>National Council on Real Estate Fiduciaries Index</td>
</tr>
<tr>
<td>Contrarian Capital</td>
<td>Greenwich, CT</td>
<td>Non-Core Real Estate</td>
<td>4.0%</td>
<td>3.0-5.0%</td>
<td>National Council on Real Estate Fiduciaries Index</td>
</tr>
<tr>
<td>TA Associates</td>
<td>Boston, MA</td>
<td>Non-Core Real Estate</td>
<td>4.0%</td>
<td>3.0-5.0%</td>
<td>National Council on Real Estate Fiduciaries Index</td>
</tr>
<tr>
<td>WestRiver Capital</td>
<td>New York, NY</td>
<td>Non-Core Real Estate</td>
<td>4.0%</td>
<td>3.0-5.0%</td>
<td>National Council on Real Estate Fiduciaries Index</td>
</tr>
<tr>
<td>Wrightwood Capital</td>
<td>Chicago, IL</td>
<td>Non-Core Real Estate</td>
<td>4.0%</td>
<td>3.0-5.0%</td>
<td>National Council on Real Estate Fiduciaries Index</td>
</tr>
<tr>
<td>New Manager TBD</td>
<td>TBD</td>
<td>Non-Core Real Estate</td>
<td>4.0%</td>
<td>3.0-5.0%</td>
<td>National Council on Real Estate Fiduciaries Index</td>
</tr>
<tr>
<td><strong>Total Real Estate</strong></td>
<td></td>
<td></td>
<td>8.0%</td>
<td>6.0-10.0%</td>
<td>National Council on Real Estate Fiduciaries Index</td>
</tr>
<tr>
<td><strong>TOTAL ALTERNATIVES</strong></td>
<td></td>
<td></td>
<td>45.0%</td>
<td>35.0-50.0%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Fixed Income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIMCO</td>
<td>Newport Beach, CA</td>
<td>Core-Plus Fixed Income</td>
<td>5.0%</td>
<td></td>
<td>Barclays Capital Aggregate Bond Index</td>
</tr>
<tr>
<td>PIMCO</td>
<td>Newport Beach, CA</td>
<td>Unconstrained Fixed Income</td>
<td>5.0%</td>
<td></td>
<td>3-Month LIBOR + 3%</td>
</tr>
<tr>
<td>Reams</td>
<td>Columbus, IN</td>
<td>Core-Plus Fixed Income</td>
<td>3.0%</td>
<td></td>
<td>Barclays Capital Aggregate Bond Index</td>
</tr>
<tr>
<td>Reams</td>
<td>Columbus, IN</td>
<td>Low Duration Fixed Income</td>
<td>2.0%</td>
<td></td>
<td>Barclays Capital 1-5 Year Government/Credit Index</td>
</tr>
<tr>
<td><strong>TOTAL FIXED INCOME</strong></td>
<td></td>
<td></td>
<td>15.0%</td>
<td>12.0-18.0%</td>
<td>Barclays Capital Aggregate Bond Index</td>
</tr>
<tr>
<td><strong>TOTAL POOLED INVESTMENTS</strong></td>
<td></td>
<td></td>
<td>100.0%</td>
<td></td>
<td>Policy Benchmark</td>
</tr>
</tbody>
</table>

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1. Investment strategy definitions located in Appendix 3 of the Endowment Investment Policy.
2. Multiple managers will be used to reach the target allocation for the investment strategy and target allocations for managers within this strategy will not be established.
3. The Committee has committed $1 million and $2 million to Chrysalis Ventures and Fort Washington, respectively, to enhance the total return for the Endowment and provide for leadership in economic development in the Commonwealth of Kentucky.
INVESTMENT STRATEGY DEFINITIONS

Broad U.S. Equity Strategies

- **Passive Russell 1000 (Large-Cap):** Passive strategy that invests in the large-cap segment of the U.S. equity universe. The Russell 1000 index includes approximately 1,000 of the largest securities based on market capitalization and is a subset of the Russell 3000 index, which is a broad U.S. equity market index. The Russell 1000 represents approximately 92% of the U.S equity market. The objective of a passive strategy is to match the return of the index.

- **Active Russell 2000 (Small-Cap):** Active strategy that invests in the small-cap segment of the U.S. equity universe. The Russell 2000 index includes approximately 2,000 of the smallest securities based on market capitalization and is a subset of the Russell 3000 index, which is a broad U.S. equity market index. The Russell 2000 represents approximately 8% of the U.S equity market. The objective of an active strategy is to exceed the return of the index.

Broad Non-U.S. Equity Strategy

- **Active MSCI All Country World ex-U.S.:** Active strategy that invests in stocks in the broad non-U.S. equity universe (i.e. companies domiciled in countries other than the U.S.). The MSCI All Country World ex-U.S. index consists of approximately 2,000 securities across 47 markets, with emerging markets representing approximately 18%. MSCI attempts to capture approximately 85% of the market capitalization in each country. The objective of an active strategy is to exceed the return of the index.
  - Core: Strategy designed to have broad exposure to style (growth vs. value) and sector.
  - Growth: Strategy focusing on stocks that offer better-than-average expected earnings or growth potential. Common characteristics typically include a low dividend yield and high price to book/earnings ratios.
  - Value: Strategy focusing on stocks that are considered to be undervalued as they trade at a lower price relative to fundamentals (i.e. dividends, earnings, sales, etc.). Common characteristics typically include a high dividend yield and low price to book/earnings ratios.

Private Equity Strategy

- **Private Equity Fund-of-Funds:** Strategy that invests in various venture capital and leveraged buyout partnerships in the U.S. and non U.S. countries. The fund-of-funds approach provides access to top-tier private equity partnerships and enhanced diversification. Assets invested in the strategy are illiquid with a typical investment time horizon of seven or more years.
  - Core: Fully diversified fund by manager, strategy and geography.
  - Opportunistic: Non-core fund designed to capture excess returns due to current market opportunities, such as distressed/ special situation funds, emerging markets funds, or other specialized and/or geographically concentrated funds.
Real Return Strategy

- **Real Return Fund-of-Funds**: Strategy that typically invests in various real return assets including treasury inflation protected securities (TIPS), commodities, currency, REITS, timber, infrastructure and global natural resources. Strategy can also include equity and fixed income investments, and involve global tactical asset allocation among the various asset classes/strategies. The objective of real return investments is to provide a hedge against inflation. A real return strategy targets a return exceeding inflation by a premium, such as C.P.I. plus 5%. The fund-of-funds approach provides instant diversification among various real return assets.

Absolute Return Strategy

- **Absolute Return Fund-of-Funds**: Strategy that invests in a diversified range of hedge funds. Hedge funds are private, unregulated investment partnerships that execute a broad range of investment strategies across a broad range of securities. The objective of absolute return investments is to provide consistent positive returns with relatively low correlation to other asset classes. The fund-of-funds approach provides access to professional expertise in selecting and monitoring individual hedge funds, access to high quality, institutional hedge funds and instant diversification. Assets invested in the strategy typically have quarterly liquidity, however managers usually reserve the right to suspend liquidations under poor economic and market conditions.
  - Core: Fully diversified fund by manager, strategy and geography.
  - Opportunistic: Non-core fund designed to capture excess returns due to current market opportunities, such as currency trading funds, emerging markets funds, or other specialized and/or geographically concentrated funds.

Real Estate Strategies

- **Core Real Estate**: Strategy that invests in high quality, stabilized properties in economically diversified metropolitan areas. Properties are substantially leased and provide predictable income and cash flow, with limited potential for significant capital appreciation. Strategy includes four major property types as follows: office, retail, residential and industrial. Assets invested in the strategy typically have quarterly liquidity, however managers usually reserve the right to suspend liquidations under poor economic and market conditions.

- **Non-Core Value-Added/Opportunistic Real Estate**: Value added and opportunistic real estate strategies:
  - Value Added: Strategy that invests in existing properties that require redevelopment, releasing and/or repositioning. Strategy includes the four major property types (office, retail, residential and industrial) plus lodging. Investment return is derived from both rental income and property appreciation. Assets invested in the strategy are illiquid with a typical investment time horizon of seven or more years.
opportunistic: Strategy that involves development properties and/or existing properties that require extensive redevelopment and releasing. Strategy involves all property types including niche sectors such as healthcare, senior housing, etc., and can include investment in properties outside the U.S. Investment return is derived mainly from property appreciation. Assets invested in the strategy are illiquid with a typical investment time horizon of seven or more years.

Fixed Income Strategies

- **Core-Plus Fixed Income**: Strategy that invests the majority of the portfolio in high quality, U.S. dollar denominated, investment grade fixed income securities similar to those in the Barclays Capital Aggregate Bond Index, including government/agency bonds, commercial and residential mortgage-backed bonds, asset-backed bonds and corporate bonds. Additionally, the strategy allows for investment in higher risk securities including non-investment grade, non-U.S. dollar denominated and emerging market bonds, but only to the extent allowed by the manager’s guidelines.

- **Unconstrained Fixed Income**: Absolute return-oriented strategy that invests primarily in high quality, U.S. dollar denominated, and investment grade fixed income securities without sector or instrument limitations. The investment opportunity set includes government/agency bonds, commercial and residential mortgage-backed bonds, asset-backed bonds, corporate bonds (both investment grade and high yield), non-U.S. and emerging market bonds and currency. The strategy is designed to offer the traditional benefits of a core bond approach but with higher alpha potential and the opportunity to mitigate downside risk to a greater degree than what is reasonably possible from traditional active fixed income management approaches.

- **Low Duration Fixed Income**: Strategy that invests in a diverse set of short-term, high quality bonds which seeks to achieve low volatility and attractive returns relative to its benchmark (typically the Merrill Lynch 1-3 Year Treasury Index or Barclays Capital 1-5 Year Government/Credit Index). Investments include mortgage-backed securities, treasuries, corporates, and international fixed income. Additionally, the strategy allows for investment in higher risk, non-investment grade securities, but only to the extent allowed by the manager’s guidelines. The strategy duration is typically less than three years.