

**Investment Committee**  
Board of Regents, State of Iowa

**Subject:** Investment and Cash Management Report for the Quarter Ended December 31, 2004

**Prepared by:** Andrea Anania

**Date Submitted:** March 2, 2005

**Recommended Action:**

Receive the Investment and Cash Management Report for the quarter ended December 31, 2004.

**Executive Summary:**

The Regent institutions maintain two investment portfolios — operating and endowment/Quasi-endowment. Both portfolios include restricted and unrestricted funds.

**Institutional Investment Portfolios**

Market Value (in thousands)

For the Quarters Ended December 31, 2003 and December 31, 2004

	<b><u>Operating</u></b>		<b><u>Endowment/ Quasi-Endowment</u></b>	
	<u>Dec 2003</u>	<u>Dec 2004</u>	<u>Dec 2003</u>	<u>Dec 2004</u>
University of Iowa <sup>1</sup>	\$531,366	\$610,744	\$285,332 <sup>2</sup>	\$291,711 <sup>2</sup>
Iowa State University	270,081	269,454	120,414 <sup>3</sup>	125,342 <sup>3</sup>
University of Northern Iowa	81,788	89,993	-	-
Iowa School for the Deaf	2,310	2,230	-	-
Iowa Braille & Sight Saving School	<u>377</u>	<u>557</u>	<u>-</u>	<u>-</u>
Total	<b>\$885,922</b>	<b>\$972,978</b>	<b>\$405,746</b>	<b>\$417,053</b>

<sup>1</sup> Includes UIHC.

<sup>2</sup> Includes UNI.

<sup>3</sup> Includes ISD and IBSSS.

As of December 31, 2004, the Regent combined operating and endowment portfolios totaled nearly \$1.4 billion.

**Operating Portfolio**

The market value of the combined operating portfolios, as reported by the Regent institutions, total \$973.0 million as of December 31, 2004, and represent a point in time during operations.

Internally and externally managed unrestricted operating portfolios as well as most internally managed restricted operating portfolios outperformed the Merrill Lynch 1-3 year Government/Corporate Index rate of 0.10%.

Endowment Portfolio

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment/quasi-endowment portfolio, which totaled \$417.1 million for the quarter.

The University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios totaled \$198.9 million and \$125.3 million, respectively, as of December 31, 2004.

The combined investment managers' returns for the quarter were 8.0% for SUI and 8.3% for ISU, while the blended asset allocation benchmark posted returns of 7.8 %.

The SUI quasi-endowment totaled \$92.8 million and returned 1.1% for the quarter ended December 31, 2004, which slightly outperformed the benchmark of 1.0%.

Wilshire reported that, for the quarter, Vanguard's net returns equaled its benchmark; Reams equaled or outperformed its benchmark; Dodge and Cox outperformed its benchmark; and Seneca, LSV, and Grantham, Mayo slightly underperformed their benchmarks.

Compliance

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and IBSSS for the quarter ended December 31, 2004, noted that investments were in compliance with respective Board and institutional investment policies.

The University of Iowa internal auditor indicated that the compliance reports for endowment investments and December 31, 2004, will be available at the June 2005 Investment Committee meeting.

For the quarter ended September 30, 2004, University of Iowa internal auditors reported that investment activity was found in compliance with Board policies except SUI and ISU Large Cap Index (Vanguard) and Large Cap Core (Invesco Equity) asset classes of the endowment fund were not in compliance with policy allowable ranges for specific fund manager allocations. This was a direct result from the transfer of the Invesco domestic equity portfolio into Vanguard, which was approved by the Board in February 2004.

Dashboard

At its December 2004, meeting, the Committee requested an overview of fund manager performance as illustrated below:

<u>Inception</u>	<u>Fund Manager</u>	<u>Assets (thousands)</u>	<u>Net Return 12/31/04</u>	<u>Benchmark 12/31/04</u>	<u>Difference</u>
<b>SUI</b>					
9/30/02	Vanguard	\$96,986	9.2%	9.2%	0.0%
6/30/02	Reams	28,533	1.0%	1.0%	0.0%
3/31/04	Dodge and Cox	27,945	1.2%	1.0%	0.2%
6/30/95	Seneca	20,135	14.8%	14.9%	-0.1%
3/31/04	Grantham, Mayo	14,260	15.2%	15.3%	-0.1%
	LSV	11,090	12.8%	13.6%	-0.8%
	<b>Total</b>	<b>\$198,949</b>			
<b>SUI-Quasi</b>					
9/30/01	Reams	\$45,756	1.1%	1.0%	0.1%
3/31/04	Dodge and Cox	47,006	1.2%	1.0%	0.2%
	<b>Total</b>	<b>\$92,762</b>			
<b>ISU</b>					
9/30/02	Vanguard	\$61,518	9.2%	9.2%	0.0%
6/30/02	Reams	16,366	1.0%	1.0%	0.0%
3/31/04	Dodge and Cox	14,325	1.2%	1.0%	0.2%
6/30/95	Seneca	14,836	14.8%	14.9%	-0.1%
3/31/04	Grantham, Mayo	10,092	15.2%	15.3%	-0.1%
6/30/02	LSV	8,205	13.1%	13.6%	-0.5%
	<b>Total</b>	<b>\$125,342</b>			

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## **Background and Analysis:**

The Board delegates the authority for monitoring institutional investment, treasury management practices, performance, and compliance with policy to the Investment Committee. The Board's policies identify broad investment strategy to be followed in the investment of the assets and any general limitations on the discretion given to the institutions' investment managers (both internal and external).

The institutions maintain two types of investment portfolios – operating and endowment. Both portfolios include unrestricted assets as well as assets restricted by donors, bond covenants, or funding agencies.

Board policy requires university internal auditors to verify operating investment transactions and holdings for compliance at their respective universities. Iowa School for the Deaf operating investments are reviewed by the University of Iowa internal auditors, while the Iowa Braille and Sight Saving School operating investments are reviewed by the Iowa State University internal auditors. The University of Iowa internal auditors also verify the endowment investment transactions and holdings for the Regent institutions.

### Investment Policy History

Since FY 1989, the Board has employed an investment advisor and fund managers to guide its active investments of endowment funds.

In December 2003, the Board approved an updated investment policy. (Regent Policy Manual §7.03, Investment Activity) and also moved to sever the investment relationships with Invesco and Alliance Bernstein.

In February 2004, the Board:

- Selected Grantham, Mayo, Van Otterloo & Co. as the new international equity fund manager.
- Selected Dodge and Cox as a new fixed income fund manager.
- Transferred Invesco's domestic equity portfolio to Vanguard, the Board's large capitalization index fund manager. (This action maintained compliance with the Board's overall investment policies. The portfolio would then be evaluated in several months, with an emphasis on the domestic equity component.)
- Provided the institutions with an option of splitting its fixed income portfolios between the two managers, given the relative size and risk of the portfolios.
- Selected BlackRock as a contingent fixed income manager, should a new fixed income manager be necessary within the next year, with the utilization of this manager subject to further approvals.

In September 2004, the Board approved immediate implementation of modifications to the investment policy (Chapter 7.03 - Investment Activity; Section F - Endowment Funds Investment Guidelines; and Subsection 5 - Asset Allocation Guidelines) and also approved the following changes to the institutional endowment portfolios:

- Selection of Goldman Sachs Asset Management as the new large capitalization domestic equity fund manager with an enhanced index philosophy.
- Selection of Lotsoff Capital Management as the large capitalization domestic equity fund manager with an active, fundamental, bottom-up philosophy.
- Termination of Vanguard, the Board's current large capitalization index fund manager. Modification to the manager allocation section of the Board's investment policy.
- Immediate modification to the manager allocation section of the Board's investment policy as illustrated on page 7.

In December, 2004, the Board approved:

- Termination of Seneca Capital Management, a U.S. stock portfolio fund manager with a mid-capitalization growth orientation.
- Selection of Artisan Partners as the new small capitalization fund manager with a growth-oriented, fundamental bottom-up approach.

In February, 2005, the Board gave final approval of investment policy changes regarding soft dollars.

**OPERATING  
PORTFOLIOS**

The primary goals for investment prudence of the operating portfolio include safety of principal, maintenance of liquidity to match expected liabilities, and a reasonable return. The operating portfolio is to be managed to ensure funds are available to support operational needs.

Since December 1996, the institutions have invested a portion of their unrestricted operating portfolios with BlackRock, an external fund manager. In January 2005, BlackRock acquired SSRM Holdings, Inc. from MetLife, Inc., and included both State Street Research & Management Co., which offered equity and fixed income products; and SSR Realty Advisors, which offered real estate equity products.

In March 2003, the Board authorized the optional use of Wellington Management Company as a short duration fixed income manager for institutional operating portfolios. The institutions manage the remaining operating funds utilizing banks and brokers services.

**Operating Portfolios**  
Market Value (in thousands)  
As of December 31, 2004

	<u>Internally Managed</u>		<u>Externally Managed</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>	<u>Wellington</u>	
SUI	\$163,656	\$130,045	\$158,231	\$158,812	\$610,744
ISU	127,028	71,661	70,765	N/I	269,454
UNI	40,140	30,837	19,016	N/I	89,993
ISD	1,979	8	243	N/I	2,230
IBSSS	<u>557</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>557</u>
Total	\$333,360	\$232,551	\$248,255	\$158,812	\$972,978

N/I No investments of this type.

Total rate of return measures all income and market valuation changes in the portfolios during the period. Rates of return for the quarter are provided in the following table. Table 1 on page 14 contains the rates for the current quarter and for the four previous quarters.

**Operating Portfolios**  
Quarterly Rates of Return  
For the Quarter Ended December 31, 2004

	<u>Unrestricted</u>				<u>Restricted</u>
	<u>Internal</u>	<u>BlackRock</u>	<u>Wellington</u>	<u>Combined</u>	<u>Internal</u>
SUI	0.42%	0.25%	0.52%	0.39%	0.19%
ISU	0.48%	0.29%	N/I	0.41%	0.06%
UNI	0.27%	0.28%	N/I	0.27%	0.17%
ISD	0.41%	0.29%	N/I	0.40%	0.39%
IBSSS	0.47%	N/I	N/I	0.47%	N/I

N/I No investments of this type.

The comparable industry standard rate of return for the quarter ended December 31, 2004, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 0.10%.

**Operating Investment Portfolios Summary**  
 Unrestricted, Restricted, BlackRock, and Wellington  
 For the Quarter Ended December 31, 2004

	<u>Market Value</u>	<u>Percent Market Value</u>
<b>University of Iowa</b>		
Money Market / Cash Equivalents	\$220,699,841	36.1%
U.S. Obligations	110,868,409	18.2%
Agency Securities	127,375,921	20.9%
Corporate Notes and Bonds	150,434,785	24.6%
Municipals	<u>1,364,297</u>	<u>0.2%</u>
Total	\$610,743,253	100.0%
<b>Iowa State University</b>		
Money Market / Cash Equivalents	\$56,564,359	21.0%
U.S. Obligations	57,621,453	21.4%
Agency Securities	117,479,904	43.6%
Corporate Notes and Bonds	37,318,435	13.8%
Municipals	<u>470,008</u>	<u>0.2%</u>
Total	\$269,454,159	100.0%
<b>University of Northern Iowa</b>		
Money Market / Cash Equivalents	\$29,363,582	32.6%
U.S. Obligations	16,507,949	18.4%
Agency Securities	36,306,790	40.3%
Corporate Notes and Bonds	7,735,530	8.6%
Municipals	<u>79,159</u>	<u>0.1%</u>
Total	\$89,993,010	100.0%
<b>Iowa School for the Deaf</b>		
Money Market / Cash Equivalents	\$2,014,175	90.3%
U.S. Obligations	18,664	0.8%
Agency Securities	68,384	3.1%
Corporate Notes and Bonds	128,002	5.7%
Municipals	<u>1,612</u>	<u>0.1%</u>
Total	\$2,230,837	100.0%
<b>Iowa Braille &amp; Sight Saving School</b>		
Money Market / Cash Equivalents	\$10,697	1.9%
Repurchase Agreements	<u>546,436</u>	<u>98.1%</u>
Total	\$557,133	100.0%
<b>Regent Composite</b>		
Money Market / Cash Equivalents	\$308,652,654	31.7%
U.S. Obligations	185,016,475	19.0%
Agency Securities	281,230,999	28.9%
Corporate Notes and Bonds	195,616,752	20.1%
Municipals	1,915,076	0.2%
Repurchase Agreements	<u>546,436</u>	<u>0.1%</u>
Total	\$972,978,392	100.0%

The top three investment categories for the combined Regent operating portfolios included Money Market / Cash Equivalents, Agency Securities, and Corporate Notes and Bonds.

**ENDOWMENT/  
QUASI-ENDOWMENT  
PORTFOLIOS**

Two primary endowment portfolios are maintained — the University of Iowa and Iowa State University. The University of Northern Iowa endowment portfolio is invested through the University of Iowa. The Iowa School for the Deaf and Iowa Braille and Sight Saving School endowment portfolios are invested through Iowa State University.

In recognition of their long-term charter, the Board's investment policy indicates that these funds shall be managed actively with the intention of obtaining the highest possible total return while accepting only prudent risk. These funds are to be managed to maintain and preserve, over time, the real value of the funds and shall consist of a prudent, diversified investment portfolio.

The Board of Regents employs an investment advisor and money managers to guide its policy of active, diversified investment management. Wilshire Associates has been the investment advisor to the Board and Regent institutions since May 1996.

Wilshire Associates assists with the evaluation of the Board's investment policies and provides quarterly endowment portfolio summary reports which review the allocation of endowment assets relative to the Board's policies, compare the returns of the portfolios to the established benchmarks, and evaluate individual fund manager performance.

The Board authorized the following fund managers for the Regent endowment portfolios (Listed by total market value. See page 15 for values):

*Vanguard*, authorized by the Board in September 2002, manages a large capitalization index portfolio. The Board terminated its relationship with Vanguard in September, 2004. The transition of funds to the new fund managers is in process.

*Reams Asset Management*, a market core fixed income manager, began handling SUI quasi-endowment funds in July 2001. In January 2002, the Board authorized the use of Reams for institutional endowments.

*Dodge & Cox*, a fixed income manager, was authorized by the Board in February 2004.

*Seneca Capital Management* has managed U.S. stock portfolios with a mid-capitalization growth orientation since May 1995. The Board terminated its relationship with Seneca in December, 2004. The transition of funds to the new fund managers is in process.

*Grantham, Mayo, Van Otterloo & Co. (Grantham, Mayo)*, an international equity fund manager, was authorized by the Board in February 2004.

*LSV Asset Management*, authorized by the Board in January 2002, manages small value domestic stock portfolios.

**ALLOCATION OF  
ENDOWMENT  
ASSETS**

The Investment Committee expects the endowments to be maintained close to the established asset allocation targets and periodically reviews its investment structure.

The Board approved specific manager allocations and ranges to assist institutional officials in maintaining the Board's asset allocation policy.

**Asset Allocation  
Policy**

Institutional officials are authorized to maintain the appropriate portfolio asset allocations, and if, at the end of a quarter, rebalancing is required, the institutional officials are to rebalance the portfolio during the following quarter.

**Asset Allocation Policy**

	<u>Target Range</u>	<u>Range</u>
Domestic Stocks (US equities)	63%	+/-5%
Domestic Bonds (US fixed income)	30%	+/-5%
International Stocks (foreign equities)	7%	+/-3%

The Board's target range for the asset allocation is plus or minus 5% of the established asset allocation policy for domestic equities and fixed income and plus or minus 3% for international equities.

**Manager Allocation  
Policy**

In February 2004, the Board allowed the institutions a choice on whether they split their endowment fixed income portfolios based on the relative size and risk of the portfolios.

In September 2004, the Board adopted the following manager allocations to generate the target endowment asset allocation when all managers are at policy targets (rounded to the nearest percent). The manager targets are intended to serve as a guide to the individual institutions in formulating asset mixes for their portfolios and may in the future be changed.

**Asset and Manager  
Allocations**

<u>Asset Class</u>	<u>Target</u>	<u>Allowable Range</u>	<u>Benchmark</u>
<u>U.S. Equities</u>	63%	58-68%	Wilshire 5000
Large Cap Core <u>(Active)</u>	24%	19-29%	S&P 500 Index
Large Cap <u>Enhanced</u> Index	24%	19-29%	S&P 500 Index
Mid Cap Growth	10%	8-12%	Russell 2500 Growth
Small Cap Value	5%	3-7%	Russell 2500 Value
<u>U.S. Bonds</u>	30%	25-35%	
Core	30%	25-35%	Lehman Aggregate
<u>International Equities</u>	7%	4-10%	MSCI EAFE
Other*	0%	0-15%	

\* Other asset classes to be added in the future.

Endowment  
Allocations

**Endowment Allocations**

Net of Fees  
December 31, 2004

	<u>University of Iowa</u>		<u>Iowa State University</u>	
MANAGER	Value (thousands)	Value (percent)	Value (thousands)	Value (percent)
<u>Domestic Stocks</u>				
Vanguard	\$96,986	48.8%	\$61,518	49.1%
Seneca	20,135	10.1%	14,836	11.8%
LSV Asset Mgmt.	11,090	5.6%	8,205	6.5%
Subtotal	\$128,211	64.5%	\$84,559	67.4%
<u>Domestic Bonds</u>				
Dodge and Cox	\$27,945	14.0%	\$14,325	11.4%
Reams	28,533	14.3%	16,366	13.1%
Subtotal	\$56,478	28.3%	\$30,691	24.5%
<u>International</u>				
Grantham, Mayo	\$14,260	7.2%	\$10,092	8.1%
Subtotal	\$14,260	7.2%	\$10,092	8.1%
Total Fund	\$198,949	100.0%	\$125,342	100.0%

*Assets are shown as invested.*

Asset and manager allocations for the endowment portfolios were within the Board-established target ranges with the exception of domestic bonds for ISU of 24.5%, which was slightly under the range of 25-35%.

SUI Quasi-  
Endowment

The quasi-endowment fund is 100% fixed income investments.

**University of Iowa – Quasi-Endowment (100% Fixed Income)**

December 31, 2004

	Value (thousands)	Value (percent)	Fees (thousands)	Net Returns	
				Quarter	One Year
Dodge and Cox	\$47,006	50.7%	\$35	1.2%	
Reams	45,756	49.3%	52	1.1%	4.6%
Total Fund	\$92,762	100.0%	\$87		
100% Lehman Aggregate.				1.0%	4.3%

There are no Board-established fund manager allocations target ranges for the quasi-endowment. Reams' net returns outperformed the benchmarks of 1.0% for the quarter and 4.3% for the year. Dodge and Cox's net returns outperformed the benchmark of 1.0% for the quarter. This is the third full quarter with Dodge and Cox.

**ENDOWMENT  
PERFORMANCE**

The following table compares the returns of the endowment portfolios for the period ended December 31, 2004, with the established benchmarks.

**Endowment Portfolios**  
Net of Fees  
As of December 31, 2004

	Assets (thousands)	Net Returns	
		Quarter	One Year
SUI	\$198,949	8.0%	9.5%
ISU	125,342	8.3%	9.7%
Asset Allocation Benchmark*		7.8%	10.6%
SUI Quasi-Endowment	<u>92,762</u>	1.1%	4.3%
Fixed Income Benchmark **		1.0%	4.3%
Total	\$417,053		

\* 63% Wilshire 5000, 30% Lehman Aggregate, 7% MSCI EAFE (N).

\*\* 100% Lehman Aggregate.

*University of Iowa  
Endowment*

The University of Iowa endowment assets totaled \$198.9 million as of December 31, 2004, an \$11.9 million increase over the previous quarter. For the quarter ended December 2004, investment gains totaled \$14.9 million, total contributions equaled \$154,000, and total distributions and fees amounted to \$3.1 million.

The endowment assets held by the University of Iowa earned a return of 8.0% for the quarter, outperforming the benchmark return of 7.8%. Returns for the endowment over the one-year period were 9.5%, which underperformed the benchmark of 10.6%.

*University of Iowa  
Quasi-Endowment*

The University of Iowa quasi-endowment assets totaled \$92.8 million as of December 31, 2004, a \$0.2 million decrease from the previous quarter. For the quarter ended December 31, 2004, investment gains totaled \$1.1 million, total contributions totaled \$87,000, and distributions and fees amounted to \$1.3 million.

The quasi-endowment earned a return of 1.1% for the quarter, slightly outperforming the benchmark of 1.0%. The return of 4.3% for the year equaled the benchmark.

*Iowa State  
University  
Endowment*

Iowa State University endowment assets totaled \$125.3 million as of December 31, 2004, a \$9.1 million increase over the previous quarter. For the quarter, investment gains totaled \$9.8 million, while total distributions and fees were \$1.6 million. Total contributions totaled \$1.0 million.

The Iowa State University endowment assets earned a return of 8.3% for the quarter, outperforming the policy benchmark return of 7.8%. The one-year return for ISU was 9.7%, which underperformed the benchmark of 10.6%.

**Vanguard**  
December 31, 2004

	Assets	Fees	Net Returns	
	(thousands)	(thousands)	Quarter	One Year
SUI	\$96,986	\$12	9.2%	10.9%
ISU	<u>61,518</u>	<u>8</u>	9.2%	10.9%
Total	\$158,504	\$20		
Benchmark: S&P 500			9.2%	10.9%

Vanguard  
Performance

Vanguard is a large cap index fund manager that was approved by the Board in September 2002 to provide diversification.

The Board terminated its relationship with Vanguard in September, 2004. The transition of funds to the new fund managers is in process.

Net returns for the quarter and for the year for both SUI and ISU equaled the S&P 500 benchmarks of 9.2% and 10.9%, respectively.

**Reams Asset Management**  
December 31, 2004

	Assets	Fees	Net Returns	
	(thousands)	(thousands)	Quarter	One Year
SUI	\$28,533	\$22	1.0%	4.6%
SUI – Quasi Endowment	45,756	52	1.1%	4.6%
ISU	<u>16,366</u>	<u>12</u>	1.0%	4.6%
Total	\$90,655	\$86		
Benchmark: Lehman Aggregate			1.0%	4.3%

Reams  
Performance

For the quarter, net returns of 1.0% for both the SUI and ISU endowments equaled the benchmark while net returns of 1.1% for the SUI quasi endowment slightly outperformed the benchmark of 1.0%.

For the year, net returns were 4.6% for all three endowments. All three outperformed the Lehman Aggregate benchmark of 4.3%.

Wilshire reported that the portfolio's average quality of bonds is AAA versus the Lehman Aggregate's average quality of AA. The portfolio has a duration of 4.12 years while the Lehman Aggregate has a duration of 4.34 years.

**Dodge and Cox**  
December 31, 2004

	Assets (thousands)	Fees (thousands)	Net Returns Quarter
SUI	\$27,945	\$31	1.2%
SUI – Quasi-Endowment	47,006	35	1.2%
ISU	<u>14,325</u>	<u>16</u>	1.2%
Total	\$89,276	\$82	
Benchmark: Lehman Aggregate			1.0%

Dodge and Cox  
Performance

Dodge and Cox was authorized by the Board in February 2004. For the quarter, net returns for all three endowments were 1.2%, which outperformed the benchmark of 1.0%.

Wilshire reported that both the Lehman Aggregate and the portfolio's average quality of bonds is AA. Lehman Aggregate has a duration of 4.34 years while the portfolio has a duration of 3.34 years.

**Seneca Capital Management**  
December 31, 2004

	Assets (thousands)	Fees (thousands)	Quarter	Net Returns One Year	Three Years
SUI	\$20,135	\$40	14.8%	7.4%	-2.0%
ISU	<u>14,836</u>	<u>28</u>	14.8%	7.7%	-2.4%
Total	\$34,971	\$68			
Benchmark: Russell 2500 Growth			14.9%	14.6%	5.9%

Seneca Performance

Seneca Capital Management manages U.S. equity portfolios with a mid-capitalization growth orientation.

The Board terminated its relationship with Seneca in December, 2004. The transition of funds to the new fund managers is in process.

For the quarter, Seneca Capital Management net returns were 14.8% for both the SUI and ISU endowments. These returns slightly underperformed the Russell 2500 Growth Index return of 14.9%.

For the one-year period, Seneca Capital Management net returns were 7.4% for SUI, and 7.7% for ISU. One-year returns significantly underperformed the Russell 2500 Growth Index of 14.6%. Three-year returns significantly underperformed the Russell 2500 Growth Index of 5.9%.

Wilshire reported that stock selection within the consumer discretionary, industrials, and energy sectors primarily contributed to the underperformance for the quarter. Overweighting to the materials sector detracted from performance while stock selection within the health care sector positively impacted performance.

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**Grantham, Mayo**  
December 31, 2004

	Assets (thousands)	Fees (thousands)	Net Returns Quarter
SUI	\$14,260	\$29	15.2%
ISU	<u>10,092</u>	<u>21</u>	15.2%
Total	\$24,352	\$50	
Benchmark: MSCI EAFE Index (N)			15.3%

Grantham, Mayo  
Performance

Net returns for the quarter of 15.2% for both the SUI and ISU endowments slightly underperformed the benchmark of 15.3%. This is the third quarter for Grantham, Mayo.

Wilshire reported that stock selection and sector weighting within Japan and Norway primarily contributed to the underperformance while an underweighting to Australia detracted from performance.

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**LSV Asset Management**  
December 31, 2004

	Assets (thousands)	Fees (thousands)	Net Returns	
			Quarter	One Year
SUI	\$11,090	\$20	12.8%	21.2%
ISU	<u>8,205</u>	<u>14</u>	13.1%	22.2%
Total	\$19,295	\$34		
Benchmark: Russell 2500 Value			13.6%	21.6%

LSV Asset Mgmt.  
Performance

LSV Asset Management has managed small value domestic stocks since January 2002.

Returns for the quarter underperformed the Russell 2500 Value benchmark of 13.6%. For the one-year period, net returns of 21.2% for SUI slightly underperformed the benchmark of 21.6% and net returns of 22.2% for ISU outperformed the benchmark.

Wilshire reported that stock selection within the financials, utilities, energy, and consumer discretionary sectors contributed to the underperformance for the quarter. An underweighting to financials and stock selection within the health care sector positively impacted performance.

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**Table 1  
Operating Portfolios  
Quarterly Rates of Return**

*Unrestricted Funds (Internal)*

	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>
University of Iowa	0.17%	0.43%	0.01%	0.44%	0.42%
Iowa State University	0.37%	0.48%	-0.02%	0.99%	0.48%
University of Northern Iowa	0.23%	0.62%	-0.99%	0.95%	0.27%
Iowa School for the Deaf	0.42%	0.41%	0.41%	0.41%	0.41%
Iowa Braille & Sight Saving School	0.24%	0.24%	0.24%	0.34%	0.47%

*BlackRock*

	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>
University of Iowa	0.15%	1.06%	-0.84%	1.18%	0.25%
Iowa State University	0.15%	1.00%	-0.85%	1.19%	0.29%
University of Northern Iowa	0.14%	1.03%	-0.84%	1.19%	0.28%
Iowa School for the Deaf	0.15%	1.00%	-0.85%	1.19%	0.29%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

*Wellington*

	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>
University of Iowa	0.35%	1.38%	-1.11%	1.25%	0.52%

N/I = No investments of this type.

*Combined Unrestricted Funds*

	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>
University of Iowa	0.21%	0.89%	-0.59%	0.98%	0.39%
Iowa State University	0.24%	0.76%	-0.48%	1.07%	0.41%
University of Northern Iowa	0.20%	0.76%	-0.91%	1.04%	0.27%
Iowa School for the Deaf	0.42%	0.46%	0.30%	0.50%	0.40%
Iowa Braille & Sight Saving School	0.24%	0.24%	0.24%	0.34%	0.47%

N/I = No investments of this type.

*Restricted Funds (Internal)*

	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>
University of Iowa	0.22%	1.01%	-0.89%	1.01%	0.19%
Iowa State University	0.05%	1.04%	-0.90%	1.03%	0.06%
University of Northern Iowa	0.01%	1.19%	-0.96%	1.16%	0.17%
Iowa School for the Deaf	0.38%	0.47%	0.27%	0.49%	0.39%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

*Benchmark: Merrill Lynch 1-3 year Government/Corporate Index*

	0.19%	1.12%	-1.13%	1.13%	0.10%
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**Table 2**  
**Endowment / Quasi-Endowment Portfolios**  
Market Value - Accrual Basis  
(In thousands)  
December 31, 2004

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Vanguard				
SUI	\$96,986	-	\$96,986	
ISU	<u>61,518</u>	-	<u>61,518</u>	
Total	<u>\$158,504</u>	-	<u>\$158,504</u>	38.0%
Reams Asset Mgmt.				
SUI	\$28,533	\$45,756	\$74,289	
ISU	<u>16,366</u>	-	<u>16,366</u>	
Total	<u>\$44,899</u>	<u>\$45,756</u>	<u>\$90,655</u>	21.8%
Dodge and Cox				
SUI	\$27,945	\$47,006	\$74,951	
ISU	<u>14,325</u>	-	<u>14,325</u>	
Total	<u>\$42,270</u>	<u>\$47,006</u>	<u>\$89,276</u>	21.4%
Seneca Capital Mgmt.				
SUI	\$20,135	-	\$20,135	
ISU	<u>14,836</u>	-	<u>14,836</u>	
Total	<u>\$34,971</u>	-	<u>\$34,971</u>	8.4%
Grantham, Mayo				
SUI	\$14,260	-	\$14,260	
ISU	<u>10,092</u>	-	<u>10,092</u>	
Total	<u>\$24,352</u>	-	<u>\$24,352</u>	5.8%
LSV				
SUI	\$11,090	-	\$11,090	
ISU	<u>8,205</u>	-	<u>8,205</u>	
Total	<u>\$19,295</u>	-	<u>\$19,295</u>	4.6%
TOTAL				
SUI	\$198,949	\$92,762	\$291,711	
ISU	<u>125,342</u>	-	<u>125,342</u>	
Total	<u>\$324,291</u>	<u>\$92,762</u>	<u>\$417,053</u>	100.0%

**Table 3**  
**Principal Demutualization Funds**  
(In thousands)  
December 31, 2004

SUI	\$47,761
ISU	26,479
UNI	7,683
ISD	321
IBSSS	186
Board Office	<u>54</u>
Total	\$82,484

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