

Investment Committee Memorandum
Board of Regents, State of Iowa

Subject: Performance Evaluation of External Investment Fund Managers

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Date Submitted: March 2, 2005

Recommended Action:

Review the annual performance of the following external fund managers of the Board:

1. BlackRock, operating portfolio, fixed income manager
2. Reams, endowment portfolio, fixed income manager
3. LSV, endowment portfolio, small value domestic equity manager

Executive Summary:

The Board employs an investment advisor and several money managers to guide its policy of active investment management for institutional funds as detailed in the Regent Policy Manual.

Investment Policy

The Board's investment policy stipulates that the external investment managers for the institutional portfolios shall meet with the Investment Committee, Board Office, and institutional representatives annually to review the investment outlook, structure of their portfolios, and past results.

The policy provides that the Board's investment advisor present annually a comprehensive evaluation of the performance of the Board's external fund managers.

Presentations

Wilshire Associates, the Board's investment advisor, will review the annual performance of the several external fund managers:

Representatives from external investment fund managers that have provided investment services for at least one full year will make presentations as identified on page 3 of this memorandum.

Operating Portfolio:

- BlackRock

Endowment Portfolio:

- LSV Asset Management
- Reams Asset Management

Background:

Investment Portfolios

As indicated in INV 2 — Investment and Cash Management Reports for the quarter ended December 31, 2004, the Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment.

- The market value of the combined operating portfolios, as reported by the Regent institutions for December 31, 2004, totaled \$973.0 million.
- The year-end endowment/quasi-endowment investment information, as reported by Wilshire Associates, totals \$417.1 million.

Board Policy

The Board's investment policy, in section 7.03 of the Regent Policy Manual, outlines specific reporting requirements for the Board's investment advisor and its fund managers.

Investment Advisor

The Board's investment advisor will present annually to the Investment Committee a comprehensive evaluation of the performance of the Board's external portfolio managers. The investment advisor's evaluation will include, at a minimum, all of the elements listed above for the investment managers' quarterly reports, as well as evaluations of the managers' performance including comparisons to performance of relevant market segment indices. The review will contain specific recommendations by the investment advisor with regard to maintaining or modifying investment strategies, and asset allocation, and continuing or terminating contracts with portfolio managers.

Each external fund manager is expected to review the investment outlook, structure of their portfolios and past results. At a minimum, the review will include:

- a. A review of the investment results achieved over recent time periods such as the prior quarter and year in relation to the managers' investment views and internal policies in effect prior to, and during the periods;
- b. The managers' current outlook for the economy and capital markets over the next 6-12 months;
- c. The internal investment policies that have been adopted in response to these expectations;
- d. The appropriateness of the present portfolio given the expectations and internal policy;
- e. A review of the guidelines given to the investment manager to determine if changes are necessary.
- f. Any substantive changes expected in the portfolio or in the organization prior to the next review setting.
- g. The amount of funds authorized for investment by the manager.

Analysis:

Operating Portfolio Since December 1996, the institutions have invested a portion of their unrestricted operating portfolios with BlackRock, an external fund manager.

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.

BlackRock BlackRock, as of December 31, 2004, managed \$248.3 million or 25.5% of the institutional operating portfolios.

It has outperformed its benchmark each quarter of calendar year 2004.

In January 2005, BlackRock acquired SSRM Holdings, Inc. from MetLife, Inc., which included both State Street Research & Management Co., which offered equity and fixed income products; and SSR Realty Advisors, which offered real estate equity products.

Endowment Portfolio

Reams Asset Management 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.

Reams manages \$90.7 million or 21.8% of the total endowment/quasi-endowment assets portfolio:

- Of the SUI quasi-endowment, Reams handles \$45.8 million representing 49.3% of the portfolio.
- Of the endowment portfolio, Reams manages 44.9 million or 13.8% of those funds.

More details about Reams' performance are contained on page 11 of INV 2 – Investment and Cash Management Reports for the quarter ended December 31, 2004.

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

LSV Asset Management invests \$19.3 million of Regent assets representing 4.6% of the endowment portfolio.

More details about LSV's performance are contained on page 13 of INV 2 – Investment and Cash Management Reports for the quarter ended December 31, 2004.

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EXTERNAL INVESTMENT FUND MANAGER PRESENTATIONS

MARCH 14, 2005

10:15 A.M. – 10:45 A.M.	Wilshire
10:50 A.M. – 11:20 A.M.	BlackRock, Marcy Rappaport, Vice President
11:25 A.M. – 11:55 A.M.	Reams, Tom Fink, Managing Director, Fixed Income
12:00 P.M. – 12:30 P.M.	LSV Asset Management, Keith Bruch, Director – Client Portfolio Services

Required Presentation Topics

1. **Organization**
 - ⇒ Ownership history, personnel changes
 - ⇒ Assets managed and investment products offered
2. **Product**
 - ⇒ Investment philosophy/decision process
 - ⇒ Portfolio characteristics
 - ⇒ Risk/return characteristics – absolute and relative to appropriate benchmark
 - ⇒ Assets managed - history / future plans
3. **Board of Regents, State of Iowa Portfolio Performance Review**
 - ⇒ Performance versus objectives
 - ⇒ Drivers of performance
 - ⇒ Future plans
4. **Clients Gained/Lost**