

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

**Subject:** Policy Manual Change – Initial Common Stock Offerings

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**Date Submitted:** March 2, 2005

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**Recommended Action:**

Recommend that the Board approve the immediate modification of the Board's investment policy regarding initial common stock offerings sold to the public as detailed below.

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**Executive Summary:**

Current Board of Regents investment policy (§7.03F) restricts each endowment portfolio to no more than 5% of initial common stock offerings (IPO's).

Wilshire Associates, the universities, and the Board Office are recommending that modifications be made to the investment policy to allow each portfolio to have no more than 8% of the portfolio invested in initial common stock offerings.

The number of IPOs is increasing in the mid-capitalization and small capitalization markets, and is quickly becoming part of the standard equity benchmarks.

The overall policy benchmark for equities, the Wilshire 5000, currently has 3.7% weighting in securities that fall under the IPO criteria as listed in the Board's guidelines. Increasing the Board's policy authorization to 8% allows the managers to effectively overweight the benchmark by just under 5% which Wilshire finds acceptable.

It also allows the manager to match the benchmark if this overall benchmark weighting exceeds 5%. If fund managers are restricted to less than the benchmark weight, the managers would be forced to take unnecessary excess risk relative to the benchmark.

F. Endowment Funds Investment Guidelines

3. General Restrictions and Other Provisions

d. The following restrictions shall apply to each individual endowment portfolio and shall be measured by the total market value of each endowment:

- 1) Except for Treasury or Agency debentures, pass-through or REIMCs, no more than 5% of the portfolio shall be invested in securities of a single issuer.
- 2) No more than ten percent of any outstanding issue shall be held.
- 3) No more than ~~five~~eight percent of the portfolio shall be invested in initial common stock offerings sold to the public within the prior 12 months.
- 4) No more than one percent of the portfolio shall be invested in any initial offering of common stock.
- 5) Common and preferred stocks and convertible bonds shall not normally comprise more than 70 percent of the total value of all endowment funds.
- 6) No more than ten percent of the portfolio shall be invested in an international equities fund, as specified by the Board.