Chair Evans called the meeting to order at 8:30 p.m.

Approve Minutes from March 19, 2009 Committee Meeting

MOVED by DOWNER, SECONDED by HARKIN, to approve the minutes of the March 19, 2009, meeting. Motion APPROVED by GENERAL CONSENT.


Mark Brubaker and Mike Dudkowski of Wilshire Consulting presented the report. Mr. Dudkowski said there were three areas to cover: 1) investment performance through the fourth quarter of 2008, 2) an update for 2009, and 3) an update on the implementation of the asset allocation policy approved last fall.

Mr. Dudkowski directed attention to the Operating Accounts for the externally-managed funds with BlackRock, Wellington and Commonfund, noting that through the fourth quarter, fixed income markets traded very little. Anything other than treasuries was challenged in terms of performance; exposure to credit securities, as well as non-agency mortgage-backed securities hurt diversified portfolios in this current environment.

Moving to the long-term endowment pool, Mr. Dudkowski commented that effective at the end of January, managers with LSV, small cap value, and Artisan, small cap growth were replaced by Delaware, a small cap core (blend) portfolio. The primary driver for the change was the failure to meet performance values and objectives.

For the year, overall portfolio performance was down approximately 27%, which is consistent with what is seen across the board with a lot of large institutional portfolios - down between 25-39% in
the environment of 2008. There were very few places to invest that would have made a substantial difference; diversification did not work as normal. Mr. Brubaker noted that the surprising issue was the downturn of the fixed income market.

Mr. Dudkowski drew attention to the real asset and private equity section of the report, commenting on the valuation lag as these are not publically traded on a daily basis. The updated performance for the private real estate index at the end of the fourth quarter of 2008 was -8.3%. The quasi-endowment results, comprised of two managers, Dodge & Cox, and Reams Asset Management, continue to struggle on performance, however there is an embedded yield (some with a substantial premium of 400-500 basis points) that will be captured over time as the market stabilizes. One final highlight was on private equity commitments; Mr. Dudkowski noted total commitments made for SUI was $10.6M and ISU had 6.75M. Under the new asset allocation strategy, we will increase exposure into private real assets and private equity to capture inefficiencies and value-add that skilled managers can produce in this market.

Mr. Dudkowski updated the Committee on the 2009 market year to date, noting some positive developments. Mr. Brubaker added that we will probably not return to “normal” for several years as a function of the loss of the major broker dealers.

Update on Asset Allocation Implementation and areas of focus.

Mr. Dudkowski led the discussion on implementation, noting that Wilshire, members of the Committee and representatives from the institutions had meetings to discuss which areas of the asset allocation plan to focus on – manager selection, entrance into new areas where we may not have exposure – as we migrate towards the new asset allocation strategy. One example is international equities where we will increase the size of that investment, but before rebalancing to the new policies, we should increase the number of fund managers involved. On the private equities allocation, which involves an 8-10 year commitment, we want to identify managers with whom we are comfortable. Within public equities, we are looking at additional index management, both in large cap U.S. equities and international equities. Another consideration is active international management; to be decided as yet is whether index management or active management best complements the existing management with GMO. Finally, the focus on private real assets will assist in diversification, as well as add an asset category with some hedge against inflation. A list of candidates for the focus outlined has been compiled and interviews will soon be conducted. Recommendations will be brought to the committee over the next couple of months.

Finally, one area very important to the institutions is that of Operating Assets. A few years back, Wilshire conducted a money market operating review. An updated project is being conducted for the management of those shorter term monies.

Chair Jack Evans asked if there were any questions and President Miles asked when the report would be done. Mr. Dudkowski replied that he anticipates having an initial draft towards the end of April.

New Business

Chair Jack Evans asked university financial officers to comment on how these markets have affected their operating revenues in terms of endowment income.

Doug True answered that SUI’s foundation and university endowments pay out a total of about
$41M in the current year to support operations within the university; scholarships, research efforts and faculty. This is down about $1M from FY 2008, and projections based on no improvement or nominal improvement in the market will yield about $38M in FY 2010. The modest decrease is due to a three-year averaging of performance.

Warren Madden added that ISU has a similar rolling 12 quarter moving average that minimizes short-term effects. The current best projections for next year is that payout rates will be down about 10% from where markets have been, assuming no large movement of the market. The foundation is focusing on fundraising for student aid and the hope is for a net decrease of only $2-3M.

President Allen agreed that UNI’s income calculation is similar to other two universities, and that the operating endowment will be down about $200,000. The challenge is with the foundation endowment which is down about 30% and affects the ability to fund committed scholarships. UNI is working through these issues to ensure they can be maintained.

Chair Jack Evans noted that Wilshire will be holding meetings on the asset allocation plan implementation and invitations to participate in interviews will be extended to all Regents.

Meeting adjourned at 9:00 a.m.