

Contact: Brad Berg

RECOMMENDATION REGARDING FUND MANAGER

Action Requested: Receive the recommendation from Wilshire Associates to retain LSV Asset Management.

Executive Summary: The Board authorized investments with LSV Asset Management (LSV) in January 2002 for mid cap value domestic stock portfolios. At its March 2007 meeting, the Board requested an evaluation and recommendations for a possible replacement fund manager due to LSV's low performance.

The Board's investment advisor, Wilshire Associates, along with university personnel and the Board Office, met with LSV representatives on May 30. Three other fund manager candidates were also interviewed on that date. From information received during those meetings, it was decided to evaluate anticipated positive June 30 returns before a final recommendation was prepared.

A conference call was held on July 12 to discuss the returns for the quarter ended June 30 and an overall recommendation regarding LSV or an alternative fund manager.

As detailed in the attached letter from Wilshire, the consensus recommendation from Wilshire, university personnel, and the Board Office is to retain LSV.



TO: Board of Regents, State of Iowa
FROM: Wilshire Associates (“Wilshire”)
SUBJECT: LSV Asset Management Recommendation
DATE: July 17, 2007

Background

The purpose of this memorandum is to recommend retention of LSV Asset Management (“LSV”) as manager of small and mid cap value stocks for the portfolios of University of Iowa and Iowa State University. This recommendation follows concern expressed by the Board of Regents (“the Board”) for performance that was below expectations. The Board also inquired about the availability of suitable alternatives to LSV for managing small capitalization value stocks.

Staff and Wilshire conducted interviews with LSV and three other small cap value managers on May 30, 2007. The three candidates besides LSV were selected collaboratively with staff input following review of an investment manager search presentation showing detailed analysis of ten highly ranked managers according to Wilshire’s investment manager research. These three candidates included OFI Institutional, PanAgora Asset Management, and Pzena Investment Management. The following table provides summary information for these managers:

Firm	Primary Location	Ownership	Investment Approach	Comments
OFI Institutional	Bellefonte, PA	Subsidiary of Oppenheimer	Quantitative	
PanAgora Asset Mgmt	Boston, MA	Subsidiary of Power Financial	Quantitative	New parent company; Development of investment team incentive/retention program in progress but not finalized
Pzena Investment Mgmt	New York, NY	Majority owned by employees	Fundamental	Strategy previously unavailable due to product closure

LSV Summary and Discussion

LSV employs an investment process that relies on behavioral finance concepts built into its quantitative investment model to produce investment returns that outperform value benchmarks. James Owens, Partner and Director of Client Portfolio Services at LSV, reviewed this approach at the interviews on May 30. He also demonstrated that the organization remains stable with no major changes. Joseph Lakonishok, Ph.D., who is the founding partner, remains actively involved in the business with no changes to his role expected. LSV augmented its research staff with five hirings from academia in an effort to ensure ongoing enhancement of the factors in their investment model.

LSV began its first full quarter on June 30, 2002, recently reaching a five-year anniversary on June 30, 2007. Poor performance in 2006 is attributed to the REIT sector. Both an underweighting to the sector as a whole and poor stock selection within the REIT sector contributed to this recent poor performance. LSV recognizes that this sector presents unique challenges to their model, and as performance indicates, their

model is less predictive in this area than other segments of the market. As a matter of risk management and tracking error control, LSV has enhanced their approach to accommodate REIT stocks.

Performance since inception of the LSV portfolio is shown below. Thus far in 2007, performance has rebounded, outperforming the Russell 2500 Value Index by over 4%. In addition, risk over the history of the accounts has been lower than that of the benchmark (16.1% versus 16.8% for the Russell 2500 Value Index).

	Total Return %								
	<u>2Q 2007</u>	<u>YTD 2007</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
University of Iowa (Net)	5.6	10.4	18.7	14.8	13.6	13.5	6.6	21.3	35.8
Iowa State University (Net)	6.0	11.2	18.9	15.4	14.0	13.6	7.4	22.4	35.6
Russell 2500 Value Index	2.9	6.1	18.4	16.1	15.8	20.2	7.7	21.6	44.9

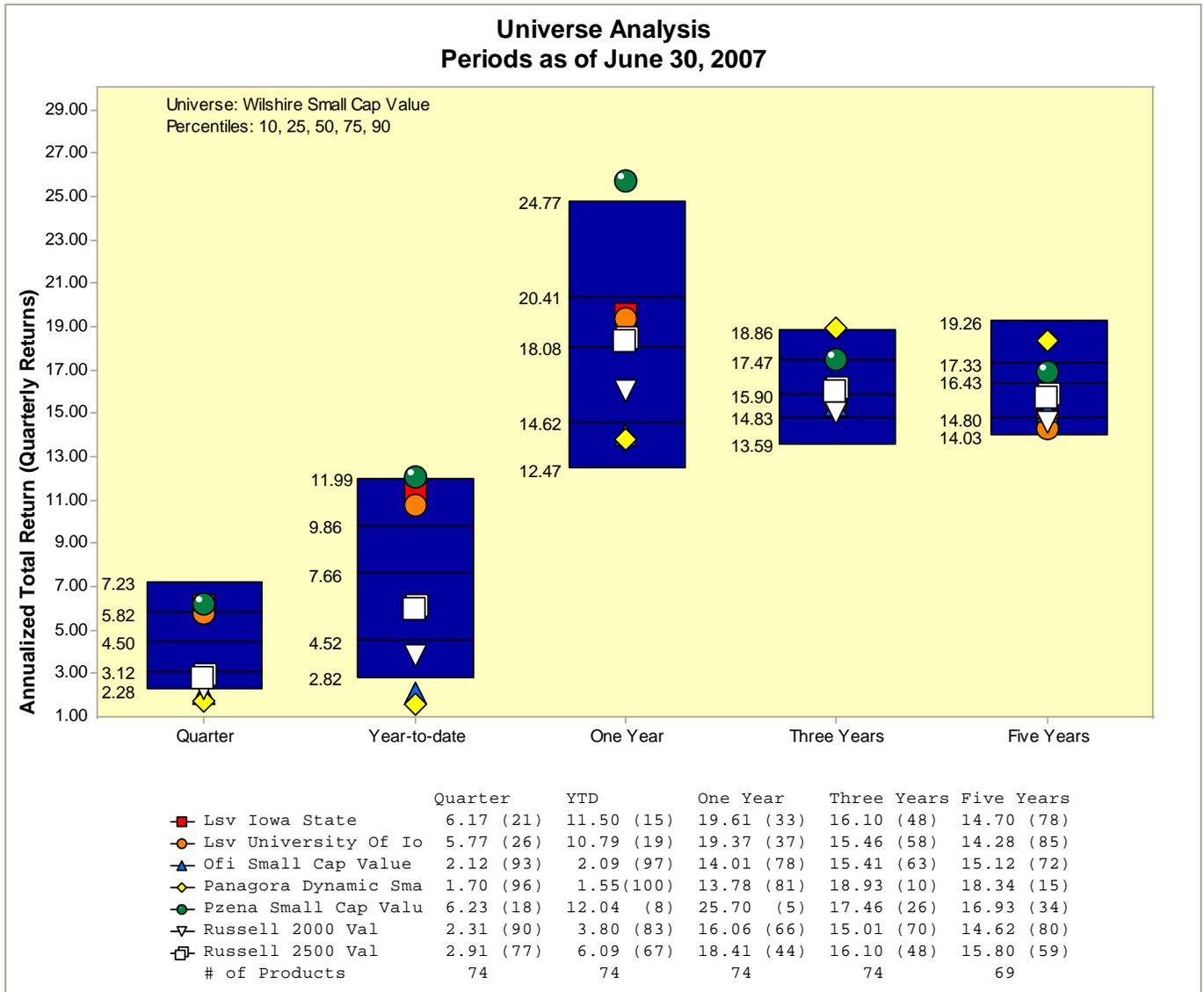
Cumulative periods greater than one year are annualized and shown as of June 30, 2007.

Recommendation

Wilshire recommends retaining LSV Asset Management for the small/mid cap value portfolio assignment for the following reasons:

1. The investment process remains sound, continues to be implemented consistently, and has not undergone any material change since the time of hire.
2. The organization is stable and has experienced no detrimental turnover of professionals.
3. Investment manager outperformance is cyclical and even high quality investment managers demonstrate periods of underperformance. The duration of underperformance often depends on the market environment. Wilshire's qualitative research confirms the overall quality of LSV as an organization. While high quality alternatives to LSV exist, there's a risk of changing to a new manager that is just about to depart a period of outperformance. Recent results demonstrate that a rebound in LSV's performance may have already begun. If that proves to be the case, then it could be an inopportune time in their performance cycle to invoke change.

Appendix – Small Cap Value Manager Universe Comparison



*Performance shown here is gross of investment management fees so that it is comparable across managers.
Percentile rankings are shown in parentheses.*