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**INVESTMENT AND CASH MANAGEMENT REPORT FOR THE
QUARTER ENDED JUNE 30, 2005**

Recommended Action: Receive the Investment and Cash Management Report for the quarter ended June 30, 2005.

Executive Summary: The Regent institutions maintain two investment portfolios — operating and endowment/Quasi-endowment.

Institutional Investment Portfolios				
Market Value (in thousands)				
For the Quarters Ended June 30, 2004 and June 30, 2005				
	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Jun 2004</u>	<u>Jun 2005</u>	<u>Jun 2004</u>	<u>Jun 2005</u>
University of Iowa ¹	\$554,600	\$626,133	\$271,439 ²	\$292,567 ²
Iowa State University	288,995	251,314	109,087 ³	151,324 ³
University of Northern Iowa	61,822	54,629	-	-
Iowa School for the Deaf	2,297	2,363	-	-
Iowa Braille & Sight Saving School	<u>587</u>	<u>842</u>	<u>-</u>	<u>-</u>
Total	\$908,301	\$935,281	\$380,526	\$443,891

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of June 30, 2005, the Regent combined operating and endowment portfolios totaled nearly \$1.4 billion.

External manager, Blackrock, outperformed the Merrill Lynch 1-3 year Government/Corporate Index rate of 1.23%, while Wellington and internally managed operating portfolios underperformed the benchmark.

The combined endowment managers' returns for the quarter were 2.2% for SUI and 2.4% for ISU, while the blended asset allocation benchmark posted returns of 2.3%.

The SUI quasi-endowment returned 2.5% for the quarter ended June 30, 2005, which underperformed the benchmark of 3.0%.

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and IBSSS for the quarter ended June 30, 2005, noted that investments were in compliance with respective Board and institutional investment policies.

The University of Iowa internal auditor reported that operating and endowment fund activity for SUI's operating and endowment activities, ISU's endowment, and ISD's operating portfolio for the quarter ended March 31, 2005, was in compliance with Board policies, except for certain asset classes of ISU's endowment, which were outside the allowable policy ranges. Board policy requires treasurers to rebalance during the following quarter. The June 30, 2005, compliance reports will be available at the next Investment Committee meeting.

An overview of endowment fund manager performance is illustrated below:

<u>Inception</u>	<u>Fund Manager</u>	<u>Assets (thousands)</u>	<u>Net Return 6/30/05</u>	<u>Benchmark 6/30/05</u>	<u>Perf. Variance</u>
SUI					
3/31/04	Dodge and Cox	\$28,875	2.0	3.0	-1.0
6/30/02	Reams	29,140	2.9	3.0	-0.1
3/31/05	Lotsoff Capital	48,285	1.7	1.4	0.3
3/31/05	Goldman Sachs	47,819	1.8	1.4	0.4
3/31/05	Artisan	20,615	5.8	3.5	2.3
3/31/04	Grantham, Mayo	13,974	-1.3	-1.0	-0.3
6/30/02	LSV	<u>11,327</u>	3.6	5.3	-1.7
	Total	\$200,035			
SUI-Quasi					
3/31/04	Dodge and Cox	\$46,515	2.0	3.0	-1.0
9/30/01	Reams	<u>46,017</u>	2.9	3.0	-0.1
	Total	\$92,532			
ISU					
3/31/04	Dodge and Cox	\$20,432	2.0	3.0	-1.0
6/30/02	Reams	19,740	2.9	3.0	-0.1
3/31/05	Lotsoff Capital	37,621	1.8	1.4	0.4
3/31/05	Goldman Sachs	37,903	2.0	1.4	0.6
3/31/05	Artisan	16,032	5.6	3.5	2.1
3/31/04	Grantham, Mayo	11,153	-1.3	-1.0	-0.3
6/30/02	LSV	<u>8,443</u>	4.1	5.3	-1.2
	Total	\$151,324			

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). Board policy requires university internal auditors to verify operating investment transactions and holdings for compliance at their respective universities.

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 assists with the evaluation of the Board's investment policies and provides quarterly endowment portfolio summary reports.

The Board authorized the following fund managers:

- For the Regent operating portfolios (See page 4 for values):

BlackRock, a fixed income manager, was authorized by the Board in February 2004.

Wellington, a short duration fixed income manager, was authorized by the Board in March 2003.

- For the Regent endowment portfolios (See page 9 for values):

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

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.

Lotsoff Capital Management, a large capitalization domestic equity fund manager, was authorized by the Board in September 2004.

Goldman Sachs Asset Management, a large capitalization domestic equity fund manager, was authorized by the Board in September 2004.

Artisan Partners, a small capitalization fund manager, was authorized by the Board in December 2004.

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

LSV Asset Management manages mid cap value domestic stock portfolios and was authorized by the Board in January 2002.

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.

Operating Portfolios

Market Value (in thousands)

As of June 30, 2005

	<u>Internally Managed</u>		<u>Externally Managed</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>	<u>Wellington</u>	
SUI	\$162,882	\$162,599	\$150,187	\$150,525	\$626,133
ISU	117,229	62,525	71,560	N/I	251,314
UNI	13,938	21,440	19,251	N/I	54,629
ISD	2,111	6	246	N/I	2,363
IBSSS	<u>842</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>842</u>
Total	\$296,942	\$246,570	\$241,244	\$150,525	\$935,281

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 8 contains the rates for the current quarter and for the four previous quarters.

Operating Portfolios

Quarterly Rates of Return

For the Quarter Ended June 30, 2005

	<u>Unrestricted</u>			<u>Combined</u>	<u>Restricted</u>
	<u>Internal</u>	<u>BlackRock</u>	<u>Wellington</u>		<u>Internal</u>
SUI	0.76%	1.24%	1.16%	1.10%	0.88%
ISU	1.17%	1.26%	N/I	1.20%	0.94%
UNI	1.00%	1.24%	N/I	1.14%	0.99%
ISD	0.41%	1.26%	N/I	0.50%	0.57%
IBSSS	0.70%	N/I	N/I	0.70%	N/I

N/I No investments of this type.

The comparable industry standard rate of return for the quarter ended June 30, 2005, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 1.23%.

External manager, Blackrock, outperformed the benchmark, while Wellington and internally managed operating portfolios underperformed the benchmark.

Operating Investment Portfolios Summary
Unrestricted, Restricted, BlackRock, and Wellington
For the Quarter Ended June 30, 2005

	<u>Market Value</u>	<u>Percent Market Value</u>
University of Iowa		
Money Market / Cash Equivalents	\$222,770,544	35.6%
U.S. Obligations	98,293,760	15.7%
Agency Securities	125,805,721	20.1%
Corporate Notes and Bonds	177,901,227	28.4%
Municipals	<u>1,362,319</u>	<u>0.2%</u>
Total	\$626,133,571	100.0%
Iowa State University		
Money Market / Cash Equivalents	\$36,374,026	14.5%
U.S. Obligations	59,515,034	23.7%
Agency Securities	113,084,041	45.0%
Corporate Notes and Bonds	41,870,782	16.6%
Municipals	<u>469,276</u>	<u>0.2%</u>
Total	\$251,313,159	100.0%
University of Northern Iowa		
Money Market / Cash Equivalents	\$7,487,214	13.7%
U.S. Obligations	11,898,037	21.8%
Agency Securities	24,659,901	45.2%
Corporate Notes and Bonds	10,504,811	19.2%
Municipals	<u>79,036</u>	<u>0.1%</u>
Total	\$54,628,999	100.0%
Iowa School for the Deaf		
Money Market / Cash Equivalents	\$2,123,651	89.8%
U.S. Obligations	23,591	1.0%
Agency Securities	70,248	3.0%
Corporate Notes and Bonds	143,616	6.1%
Municipals	<u>1,610</u>	<u>0.1%</u>
Total	\$2,362,716	100.0%
Iowa Braille & Sight Saving School		
Money Market / Cash Equivalents	\$17,054	2.0%
Repurchase Agreements	<u>825,219</u>	<u>98.0%</u>
Total	\$842,273	100.0%
Regent Composite		
Money Market / Cash Equivalents	\$268,772,489	28.7%
U.S. Obligations	169,730,422	18.2%
Agency Securities	263,619,911	28.2%
Corporate Notes and Bonds	230,420,436	24.6%
Municipals	1,912,241	0.2%
Repurchase Agreements	<u>825,219</u>	<u>0.1%</u>
Total	\$935,280,718	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 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.

Endowment Portfolios
Asset Class 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%

Endowment Portfolios
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 (Active)	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 Portfolios
Allocations Net of Fees
June 30, 2005

	<u>University of Iowa</u>		<u>Iowa State University</u>	
	<u>Value</u> <small>(thousands)</small>	<u>Value</u> <small>(percent)</small>	<u>Value</u> <small>(thousands)</small>	<u>Value</u> <small>(percent)</small>
MANAGER				
<u>Domestic Stocks</u>				
Artisan	\$20,615	10.3%	\$16,032	10.6%
Goldman Sachs	47,819	23.9%	37,903	25.0%
Lotsoff Capital	48,285	24.1%	37,621	24.9%
LSV	11,327	5.7%	8,443	5.6%
Subtotal	\$128,046	64.0%	\$99,999	66.1%
<u>Domestic Bonds</u>				
Dodge and Cox	\$28,875	14.4%	\$20,432	13.5%
Reams	29,140	14.6%	19,740	13.0%
Subtotal	\$58,015	29.0%	\$40,172	26.5%
<u>International</u>				
Grantham, Mayo	\$13,974	7.0%	\$11,153	7.4%
Subtotal	\$13,974	7.0%	\$11,153	7.4%
Total Fund	\$200,035	100.0%	\$151,324	100.0%

Assets are shown as invested.

Asset and manager allocations for the endowment portfolios were within the Board-established target ranges.

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

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

June 30, 2005

	Value	Value	Fees	Net Returns	
	(thousands)	(percent)	(thousands)	Quarter	One Year
Dodge and Cox	\$46,515	50.3%	\$52	2.0%	5.6%
Reams	46,017	49.7%	35	2.9%	6.6%
Total Fund	\$92,532	100.0%	\$87		
100% Lehman Aggregate.				3.0%	6.8%

There are no Board-established fund manager allocations target ranges for the quasi-endowment. Both Dodge and Cox and Reams' net returns underperformed the benchmarks for the quarter and for the year.

Endowment Portfolios

Performance Net of Fees

As of June 30, 2005

	Assets	Net Returns	
	(thousands)	Quarter	One Year
SUI	\$200,035	2.2%	8.8%
ISU	151,324	2.4%	9.3%
Asset Allocation Benchmark*		2.3%	8.3%
SUI Quasi-Endowment	92,532	2.5%	6.0%
Fixed Income Benchmark **		3.0%	6.8%
Total	\$443,891		

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

** 100% Lehman Aggregate.

<i>University of Iowa Endowment</i>	<u>Sep 2004</u>	<u>Dec 2004</u>	<u>Mar 2005</u>	<u>Jun 2005</u>
Assets - Qtr.	\$187.0 million	\$198.9 million	\$197.0 million	\$200.0 million
Gains/Losses - Qtr.	-\$9,000	\$14.9 million	-\$1.9 million	\$4.6 million
Fees/Distributions - Qtr.	\$2.7 million	\$3.1 million	\$175,000	\$1.9 million
Contributions - Qtr.	\$818,000	\$154,000	\$246,000	\$248,000
Returns - Quarter	-0.6%	8.0%	-0.9%	2.2%
Benchmark - Quarter	-0.2%	7.8%	-1.6%	2.3%
Returns - Year	10.4%	9.5%	6.4%	8.8%
Benchmark - Year	12.0%	10.6%	6.0%	8.3%

<i>University of Iowa Quasi-Endowment</i>	<u>Sep 2004</u>	<u>Dec 2004</u>	<u>Mar 2005</u>	<u>Jun 2005</u>
Assets - Quarter	\$93.0 million	\$92.8 million	\$91.5 million	\$92.5 million
Gains/Losses - Qtr.	\$2.9 million	\$1.1 million	-\$590,000	\$2.3 million
Fees/Distributions - Qtr.	\$1.3 million	\$1.3 million	\$785,000	\$1.4 million
Contributions - Qtr.	\$35,000	\$87,000	\$86,000	\$87,000
Returns - Quarter	3.1%	1.1%	-0.7%	2.5%
Benchmark - Quarter	3.2%	1.0%	-0.5%	3.0%
Returns - Year	3.9%	4.3%	1.0%	6.0%
Benchmark - Year	3.7%	4.3%	1.2%	6.8%

<i>Iowa State University Endowment</i>	<u>Sep 2004</u>	<u>Dec 2004</u>	<u>Mar 2005</u>	<u>Jun 2005</u>
Assets - Qtr.	\$116.2 million	\$125.3 million	\$150.6 million	\$151.3 million
Gains/Losses - Qtr.	-\$867,000	\$9.8 million	-\$2.4 million	\$3.7 million
Fees/Distributions - Qtr.	\$90,000	\$1.6 million	\$4.3 million	\$165,000
Contributions - Qtr.	\$53,000	\$1.0 million	\$31.9 million	-\$2.8 million
Returns - Quarter	-0.8%	8.3%	-0.6%	2.4%
Benchmark - Quarter	-0.2%	7.8%	-1.6%	2.3%
Returns - Year	10.6%	9.7%	6.8%	9.3%
Benchmark - Year	12.0%	10.6%	6.0%	8.3%

Table 1
Operating Portfolios
Quarterly Rates of Return

Unrestricted Funds (Internal)

	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>	<u>03/31/05</u>	<u>6/30/05</u>
University of Iowa	0.01%	0.44%	0.42%	0.52%	0.76%
Iowa State University	-0.02%	0.99%	0.48%	0.08%	1.17%
University of Northern Iowa	-0.99%	0.95%	0.27%	0.23%	1.00%
Iowa School for the Deaf	0.41%	0.41%	0.41%	0.41%	0.41%
Iowa Braille & Sight Saving School	0.24%	0.34%	0.47%	0.57%	0.70%

BlackRock

	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>	<u>03/31/05</u>	<u>6/30/05</u>
University of Iowa	-0.84%	1.18%	0.25%	-0.04%	1.24%
Iowa State University	-0.85%	1.19%	0.29%	-0.06%	1.26%
University of Northern Iowa	-0.84%	1.19%	0.28%	0.03%	1.24%
Iowa School for the Deaf	-0.85%	1.19%	0.29%	-0.06%	1.26%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

Wellington

	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>	<u>03/31/05</u>	<u>6/30/05</u>
University of Iowa	-1.11%	1.25%	0.52%	-0.11%	1.16%

Combined Unrestricted Funds

	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>	<u>03/31/05</u>	<u>6/30/05</u>
University of Iowa	-0.59%	0.98%	0.39%	0.09%	1.10%
Iowa State University	-0.48%	1.07%	0.41%	0.04%	1.20%
University of Northern Iowa	-0.91%	1.04%	0.27%	0.16%	1.14%
Iowa School for the Deaf	0.30%	0.50%	0.40%	0.36%	0.50%
Iowa Braille & Sight Saving School	0.24%	0.34%	0.47%	0.57%	0.70%

Restricted Funds (Internal)

	<u>6/30/04</u>	<u>9/30/04</u>	<u>12/31/04</u>	<u>03/31/05</u>	<u>6/30/05</u>
University of Iowa	-0.89%	1.01%	0.19%	0.17%	0.88%
Iowa State University	-0.90%	1.03%	0.06%	0.00%	0.94%
University of Northern Iowa	-0.96%	1.16%	0.17%	-0.04%	0.99%
Iowa School for the Deaf	0.27%	0.49%	0.39%	0.34%	0.57%
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

	-1.13%	1.13%	0.10%	-0.28%	1.23%
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Table 2
Endowment / Quasi-Endowment Portfolios
Market Value - Accrual Basis
(In thousands)
June 30, 2005

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Dodge and Cox				
SUI	\$28,875	\$46,515	\$75,390	
ISU	<u>20,432</u>	-	<u>20,432</u>	
Total	\$49,307	\$46,515	\$95,822	21.6%
Reams Asset Mgmt.				
SUI	\$29,140	\$46,017	\$75,157	
ISU	<u>19,740</u>	-	<u>19,740</u>	
Total	\$48,880	\$46,017	\$94,897	21.4%
Lotsoff Capital				
SUI	\$48,285	-	\$48,285	
ISU	<u>37,621</u>	-	<u>37,621</u>	
Total	\$85,906	-	\$85,906	19.4%
Goldman Sachs				
SUI	\$47,819	-	\$47,819	
ISU	<u>37,903</u>	-	<u>37,903</u>	
Total	\$85,722	-	\$85,722	19.3%
Artisan				
SUI	\$20,615	-	\$20,615	
ISU	<u>16,032</u>	-	<u>16,032</u>	
Total	\$36,647	-	\$36,647	8.3%
Grantham, Mayo				
SUI	\$13,974	-	\$13,974	
ISU	<u>11,153</u>	-	<u>11,153</u>	
Total	\$25,127	-	\$25,127	5.6%
LSV				
SUI	\$11,327	-	\$11,327	
ISU	<u>8,443</u>	-	<u>8,443</u>	
Total	\$19,770	-	\$19,770	4.4%
TOTAL				
SUI	\$200,035	\$92,532	\$292,567	
ISU	<u>151,324</u>	-	<u>151,324</u>	
Total	\$351,359	\$92,532	\$443,891	100.0%

Table 3
Principal Demutualization Funds
(In thousands)
June 30, 2005

University of Iowa	\$46,726
Iowa State University	26,008
University of Northern Iowa	7,537
Iowa School for the Deaf	309
Iowa Braille and Sight Saving School	178
Board Office	<u>52</u>
Total	\$80,810