

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

**Subject:** Investment and Cash Management Report for the Quarter Ended September, 2004

**Prepared by:** Andrea Anania

**Date Submitted:** December 1, 2004

**Recommended Action:**

Receive the Investment and Cash Management Report for the quarter ended September 30, 2004.

**Executive Summary:**

The Regent institutions maintain two investment portfolios — operating and endowment/Quasi-endowment. Both portfolios include restricted and unrestricted funds.

**Institutional Investment Portfolios**

Market Value (in thousands)

For the Quarters Ended September 30, 2003 and September 30, 2004

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Sep 2003</u>	<u>Sep 2004</u>	<u>Sep 2003</u>	<u>Sep 2004</u>
University of Iowa <sup>1</sup>	\$510,521	\$593,089	\$271,950 <sup>2</sup>	\$279,955 <sup>2</sup>
Iowa State University	310,342	281,826	110,165 <sup>3</sup>	116,205 <sup>3</sup>
University of Northern Iowa	75,224	80,005	-	-
Iowa School for the Deaf	1,595	2,014	-	-
Iowa Braille & Sight Saving School	146	544	-	-
Total	<b>\$897,828</b>	<b>\$957,478</b>	<b>\$382,115</b>	<b>\$396,160</b>

<sup>1</sup> Includes UIHC.

<sup>2</sup> Includes UNI.

<sup>3</sup> Includes ISD and IBSSS.

As of September 30, 2004, the Regent combined operating and endowment portfolios total nearly \$1.4 billion.

**Operating Portfolio**

The market value of the combined operating portfolios, as reported by the Regent institutions, total \$957.5 million as of September 30, 2004, and represent a point in time during operations.

The internally managed restricted operating portfolios all underperformed the Merrill Lynch 1-3 year Government/Corporate Index rate of 1.13%, while the two external fund managers outperformed the rate.

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Endowment  
Portfolio

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment/quasi-endowment portfolio, which totaled \$396.2 million for the quarter.

The University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios totaled \$187.0 million and \$116.2 million, respectively, as of September 30, 2004.

The combined investment managers' returns for the quarter were -0.6% for SUI and -0.8% for ISU, while the blended asset allocation benchmark posted returns of -0.2%.

The SUI quasi-endowment totaled \$93.0 million and returned 3.1% for the quarter ended September 30, 2004, which slightly underperformed the benchmark of 3.2%.

The ISU 1993 Trust, which had been separately invested, was combined with the ISU endowment on March 31, 2004, to reduce administrative costs. The University still maintains the Trust's separate identity within its endowment portfolio.

Wilshire reported that, for the quarter, Vanguard's net returns equaled its benchmark; Reams and Grantham, Mayo outperformed their benchmarks; and Dodge and Cox, Seneca, and LSV underperformed their benchmarks.

Compliance

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and IBSSS for the quarter ended September 30, 2004, were in compliance with respective Board and institutional investment policies.

University of Iowa compliance reports for endowment investments and operating portfolio investments for SUI and ISD for the quarter ended September 30, 2004, will be available at the March 2005 Investment Committee meeting.

For the quarter ended June 30, 2004, University of Iowa internal auditors reported that investment activity was found in compliance with Board policies except SUI and ISU Large Cap Index (Vanguard) and Large Cap Core (Invesco Equity) asset classes of the endowment fund were not in compliance with policy allowable ranges for specific fund manager allocations. This was a direct result from the transfer of the Invesco domestic equity portfolio into Vanguard, which was approved by the Board in February 2004.

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**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).

The institutions maintain two types of investment portfolios – operating and endowment. Both portfolios include unrestricted assets as well as assets restricted by donors, bond covenants, or funding agencies.

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Board policy requires university internal auditors to verify operating investment transactions and holdings for compliance at their respective universities. Iowa School for the Deaf operating investments are reviewed by the University of Iowa internal auditors, while the Iowa Braille and Sight Saving School operating investments are reviewed by the Iowa State University internal auditors. The University of Iowa internal auditors also verify the endowment investment transactions and holdings for the Regent institutions.

Investment Policy  
History

Since FY 1989, the Board has employed an investment advisor and fund managers to guide its active investments of endowment funds.

In December 2003, the Board approved an updated investment policy. (Regent Policy Manual §7.03, Investment Activity) and also moved to sever the investment relationships with Invesco and Alliance Bernstein.

In February 2004, the Board:

- Selected Grantham, Mayo, Van Otterloo & Co. as the new international equity fund manager.
- Selected Dodge and Cox as a new fixed income fund manager.
- Transferred Invesco's domestic equity portfolio to Vanguard, the Board's large capitalization index fund manager. (This action maintained compliance with the Board's investment policies. The portfolio would then be evaluated in several months, with an emphasis on the domestic equity component.)
- Provided the institutions with an option of splitting its fixed income portfolios between the two managers, given the relative size and risk of the portfolios.
- Selected BlackRock as a contingent fixed income manager, should a new fixed income manager be necessary within the next year, with the utilization of this manager subject to further approvals.

In September 2004, the Board approved immediate implementation of modifications to the investment policy (Chapter 7.03 - Investment Activity; Section F - Endowment Funds Investment Guidelines; and Subsection 5 - Asset Allocation Guidelines) and also approved the following changes to the institutional endowment portfolios:

- Selection of Goldman Sachs Asset Management as the new large capitalization domestic equity fund manager with an enhanced index philosophy.
- Selection of Lotsoff Capital Management as the large capitalization domestic equity fund manager with an active, fundamental, bottom-up philosophy.
- Termination of Vanguard, the Board's current large capitalization index fund manager. Modification to the manager allocation section of the Board's investment policy.
- Immediate modification to the manager allocation section of the Board's investment policy as illustrated on page 7.

**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.

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.

**Operating Portfolios**  
Market Value (in thousands)  
As of September 30, 2004

	<u>Internally Managed</u>		<u>Externally Managed</u>		<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>	<u>Wellington</u>	
SUI	\$177,224	\$99,939	\$157,881	\$158,045	\$593,089
ISU	134,578	56,861	90,387	N/I	281,826
UNI	31,746	29,294	18,965	N/I	80,005
ISD	1,766	6	242	N/I	2,014
IBSSS	<u>544</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>544</u>
	\$345,858	\$186,100	\$267,475	\$158,045	\$957,478

Total

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

**Operating Portfolios**  
Quarterly Rates of Return  
For the Quarter Ended September 30, 2004

	<u>Unrestricted</u>			<u>Combined</u>	<u>Restricted</u>
	<u>Internal</u>	<u>BlackRock</u>	<u>Wellington</u>		<u>Internal</u>
SUI	0.44%	1.18%	1.25%	0.98%	1.01%
ISU	0.99%	1.19%	N/I	1.07%	1.03%
UNI	0.95%	1.19%	N/I	1.04%	1.16%
ISD	0.41%	1.19%	N/I	0.50%	0.49%
IBSSS	0.34%	N/I	N/I	0.34%	N/I

N/I No investments of this type.

The comparable industry standard rate of return for the quarter ended September 30, 2004, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 1.13%.

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**Operating Investment Portfolios Summary**  
 Unrestricted, Restricted, BlackRock, and Wellington  
 For the Quarter Ended September 30, 2004

	<u>Market Value</u>	<u>Percent Market Value</u>
<b>University of Iowa</b>		
Money Market / Cash Equivalents	\$213,895,023	36.1%
U.S. Obligations	135,698,106	22.9%
Agency Securities	102,271,013	17.2%
Corporate Notes and Bonds	139,852,355	23.6%
Municipals	<u>1,372,163</u>	<u>0.2%</u>
Total	\$593,088,660	100.0%
<b>Iowa State University</b>		
Money Market / Cash Equivalents	\$84,363,310	29.9%
U.S. Obligations	70,651,512	25.1%
Agency Securities	90,155,336	32.0%
Corporate Notes and Bonds	36,183,603	12.8%
Municipals	<u>472,772</u>	<u>0.2%</u>
Total	\$281,826,533	100.0%
<b>University of Northern Iowa</b>		
Money Market / Cash Equivalents	\$25,347,053	31.7%
U.S. Obligations	19,842,657	24.8%
Agency Securities	27,619,594	34.5%
Corporate Notes and Bonds	7,115,516	8.9%
Municipals	<u>79,625</u>	<u>0.1%</u>
Total	\$80,004,445	100.0%
<b>Iowa School for the Deaf</b>		
Money Market / Cash Equivalents	\$1,793,416	89.0%
U.S. Obligations	85,224	4.2%
Agency Securities	37,267	1.9%
Corporate Notes and Bonds	96,926	4.8%
Municipals	<u>1,266</u>	<u>0.1%</u>
Total	\$2,014,099	100.0%
<b>Iowa Braille &amp; Sight Saving School</b>		
Money Market / Cash Equivalents	\$10,697	2.0%
Repurchase Agreements	<u>533,108</u>	<u>98.0%</u>
Total	\$543,805	100.0%
<b>Regent Composite</b>		
Money Market / Cash Equivalents	\$325,409,499	34.0%
U.S. Obligations	226,277,499	23.6%
Agency Securities	220,083,210	23.0%
Corporate Notes and Bonds	183,248,400	19.1%
Municipals	1,925,826	0.2%
Repurchase Agreements	<u>533,108</u>	<u>0.1%</u>
Total	\$957,477,542	100.0%

The top three investment categories for the combined Regent operating portfolios included Money Market / Cash Equivalents, U.S. Obligations, and Agency Securities.

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**ENDOWMENT/  
QUASI-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.

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 Associates assists with the evaluation of the Board's investment policies and provides quarterly endowment portfolio summary reports which review the allocation of endowment assets relative to the Board's policies, compare the returns of the portfolios to the established benchmarks, and evaluate individual fund manager performance.

The Board authorized the following fund managers for the Regent endowment portfolios (Listed by total market value. See page 14 for values):

*Vanguard*, authorized by the Board in September 2002, manages a large capitalization index portfolio.

*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.

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

*Seneca Capital Management* has managed U.S. stock portfolios with a mid-capitalization growth orientation since May 1995.

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

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

The Board moved to sever its investment relationships with Alliance Bernstein and Invesco in December 2003. The transition of funds to the new fund managers selected in September 2004 is in process.

**ALLOCATION OF  
ENDOWMENT  
ASSETS**

The Investment Committee expects the endowments to be maintained close to the established asset allocation targets and periodically reviews its investment structure.

The Board approved specific manager allocations and ranges to assist institutional officials in maintaining the Board's asset allocation policy.

**Asset Allocation  
Policy**

Institutional officials are authorized to maintain the appropriate portfolio asset allocations, and if, at the end of a quarter, rebalancing is required, the institutional officials are to rebalance the portfolio during the following quarter.

**Asset 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%

The Board's target range for the asset allocation is plus or minus 5% of the established asset allocation policy for domestic equities and fixed income and plus or minus 3% for international equities.

**Manager Allocation  
Policy**

In February 2004, the Board allowed the institutions a choice on whether they split their endowment fixed income portfolios based on the relative size and risk of the portfolios.

In September 2004, the Board adopted the following manager allocations to generate the target endowment asset allocation when all managers are at policy targets (rounded to the nearest percent). The manager targets are intended to serve as a guide to the individual institutions in formulating asset mixes for their portfolios and may in the future be changed.

**Asset and 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 Enhanced 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  
Allocations

**Endowment Allocations**  
Net of Fees  
September 30, 2004

MANAGER	<u>University of Iowa</u>		<u>Iowa State University</u>	
	Value (thousands)	Value (percent)	Value (thousands)	Value (percent)
<u>Domestic Stocks</u>				
Vanguard	\$88,782	47.5%	\$56,315	48.5%
Seneca	17,513	9.4%	12,900	11.1%
LSV Asset Mgmt.	<u>10,887</u>	<u>5.8%</u>	<u>7,239</u>	<u>6.2%</u>
Subtotal	\$117,182	62.7%	\$76,454	65.8%
<u>Domestic Bonds</u>				
Dodge and Cox	\$27,890	14.9%	\$15,012	12.9%
Reams	<u>\$28,220</u>	<u>15.1%</u>	<u>\$16,187</u>	<u>13.9%</u>
Subtotal	\$56,110	30.0%	\$31,199	26.8%
<u>International</u>				
Grantham, Mayo	<u>\$13,700</u>	<u>7.3%</u>	<u>\$8,552</u>	<u>7.4%</u>
Subtotal	\$13,700	7.3%	\$8,552	7.4%
Total Fund	\$186,992	100.0%	\$116,205	100.0%

*Assets are shown as invested.*

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

As explained on page 3, the Board approved changes to the investment policy, including the hiring of new fund managers. The new managers had not been hired as of the quarter ended September 30, 2004. Interviews for the selection of the Small Cap Fund Manager were conducted in the Board Office on November 19, 2004. See INV 2 for more information.

SUI Quasi-  
Endowment

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

**University of Iowa – Quasi-Endowment (100% Fixed Income)**  
September 30, 2004

	Value (thousands)	Value (percent)	Fees (thousands)	Net Returns	
				Quarter	One Year
Dodge and Cox	\$46,492	50.0%	\$52	2.7%	4.6%
Reams	<u>46,471</u>	<u>50.0%</u>	<u>35</u>	3.4%	
Total Fund	\$92,963	100.0%	\$87		
100% Lehman Aggregate.				3.2%	3.7%

There are no Board-established fund manager allocations target ranges for the quasi-endowment. Reams' net returns outperformed the benchmarks of 3.2% for the quarter and 3.7% for the year. Dodge and Cox's net returns underperformed the benchmark for the quarter. This is the second full quarter with Dodge and Cox.

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**ENDOWMENT  
PERFORMANCE**

The following table compares the returns of the endowment portfolios for the period ended September 30, 2004, with the established benchmarks.

**Endowment Portfolios**  
Net of Fees  
As of September 30, 2004

	Assets (thousands)	Net Returns	
		Quarter	One Year
SUI	\$186,992	-0.6%	10.4%
ISU	116,205	-0.8%	10.6%
Asset Allocation Benchmark*		-0.2%	12.0%
SUI Quasi-Endowment	<u>92,963</u>	3.1%	3.9%
Fixed Income Benchmark **		3.2%	3.7%
Total	\$396,160		

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

\*\* 100% Lehman Aggregate.

*University of Iowa  
Endowment*

The University of Iowa endowment assets totaled \$187.0 million as of September 30, 2004, a \$2.8 million decrease from the previous quarter. For the quarter ended September 30, 2004, investment losses totaled \$9,000, total contributions equaled \$818,000, and total distributions and fees amounted to \$2.7 million.

The endowment assets held by the University of Iowa earned a return of -0.6% for the quarter, underperforming the benchmark return of -0.2%. Returns for the endowment over the one-year period were 10.4%, which underperformed the benchmark of 12.0%.

*University of Iowa  
Quasi-Endowment*

The University of Iowa quasi-endowment assets totaled \$93.0 million as of September 30, 2004, a \$1.6 million increase over the previous quarter. For the quarter ended September 30, 2004, investment gains totaled \$2.9 million, total contributions totaled \$35,000, and distributions and fees amounted to \$1.3 million.

The quasi-endowment earned a return of 3.1% for the quarter, slightly underperforming the benchmark of 3.2%. The return of 3.9% for the year outperformed the benchmark of 3.7%.

*Iowa State  
University  
Endowment*

Iowa State University endowment assets totaled \$116.2 million as of September 30, 2004, a \$0.9 million decrease from the previous quarter. For the quarter, investment losses totaled \$867,000, while total distributions and fees were \$90,000. Total contributions totaled \$53,000.

The Iowa State University endowment assets earned a return of -0.8% for the quarter, underperforming the policy benchmark return of -0.2%. The one-year return for ISU was 10.6%, which underperformed the benchmark of 12.0%.

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**Vanguard**  
September 30, 2004

	Assets	Fees	Net Returns	
	(thousands)	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$88,782	\$11	-1.9%	13.8%
ISU	<u>56,315</u>	<u>7</u>	-1.9%	13.8%
Total	\$145,097	\$18		
Benchmark: S&P 500			-1.9%	13.9%

Vanguard  
Performance

Vanguard is a large cap index fund manager that was approved by the Board in September 2002 to provide diversification.

Net returns for the quarter for both SUI and ISU equaled the S&P 500 benchmark of -1.9%. Net returns for the year slightly underperformed the benchmark of 13.9%.

**Reams Asset Management**  
September 30, 2004

	Assets	Fees	Net Returns	
	(thousands)	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$28,220	\$21	3.5%	4.7%
SUI – Quasi-Endowment	46,471	35	3.4%	4.6%
ISU	<u>16,187</u>	<u>12</u>	3.5%	4.7%
Total	\$90,878	\$68		
Benchmark: Lehman Aggregate			3.2%	3.7%

Reams  
Performance

For the quarter, net returns were 3.5% for the SUI and ISU endowments and 3.4% for the SUI quasi endowment. All three outperformed the Lehman Aggregate benchmark of 3.2%.

For the year, net returns were 4.7% for the SUI and ISU endowments and 4.6% for the SUI quasi endowment. All three outperformed the Lehman Aggregate benchmark of 3.7%.

**Dodge and Cox**  
September 30, 2004

	Assets (thousands)	Fees (thousands)	Net Returns <u>Quarter</u>
SUI	\$27,890	\$31	2.7%
SUI – Quasi-Endowment	46,492	52	2.7%
ISU	<u>15,012</u>	<u>17</u>	2.7%
Total	\$89,394	\$100	
Benchmark: Lehman Aggregate			3.2%

Dodge and Cox  
Performance

Dodge and Cox was authorized by the Board in February 2004. For the quarter, net returns for all three endowments were 2.7%, which underperformed the benchmark of 3.2%.

**Seneca Capital Management**  
September 30, 2004

	Assets (thousands)	Fees (thousands)	<u>Quarter</u>	Net Returns <u>One Year</u>	<u>Three Years</u>
SUI	\$17,513	\$35	-6.1%	2.3%	-1.1%
ISU	<u>12,900</u>	<u>24</u>	-6.1%	2.2%	-1.5%
Total	\$30,413	\$59			
Benchmark: Russell 2500 Growth			-5.6%	11.7%	9.2%

Seneca Performance

Seneca Capital Management manages U.S. equity portfolios with a mid-capitalization growth orientation.

For the quarter, Seneca Capital Management net returns were -6.1% for both the SUI and ISU endowments. These returns underperformed the Russell 2500 Growth Index return of -5.6%.

For the one-year period, Seneca Capital Management net returns were 2.3% for SUI, and 2.2% for ISU. One-year returns significantly underperformed the Russell 2500 Growth Index of 11.7%. Three-year returns significantly underperformed the Russell 2500 Growth Index of 9.2%.

Wilshire reported that stock selection within the consumer staples, health care, and energy sectors primarily contributed to the underperformance for the quarter. Underweighting to the financials sector detracted from performance while stock selection within the information technology sector positively impacted performance.

**Grantham, Mayo**  
September 30, 2004

	Assets (thousands)	Fees (thousands)	Net Returns Quarter
SUI	\$13,700	\$28	0.2%
ISU	<u>8,552</u>	<u>18</u>	0.2%
Total	\$22,252	\$46	
Benchmark: MSCI EAFE Index (N)			-0.3%

Grantham, Mayo  
Performance

For the quarter, a net return of 0.2% for both the SUI and ISU endowments outperformed the benchmark of -0.3%. This is the second quarter for Grantham, Mayo.

**LSV Asset Management**  
September 30, 2004

	Assets (thousands)	Fees (thousands)	Net Returns Quarter	One Year
SUI	\$10,887	\$19	0.2%	23.2%
ISU	<u>7,239</u>	<u>13</u>	0.1%	23.3%
Total	\$18,126	\$32		
Benchmark: Russell 2500 Value			0.3%	24.6%

LSV Asset Mgmt.  
Performance

LSV Asset Management has managed small value domestic stocks since January 2002.

Returns for the quarter underperformed the Russell 2500 Value benchmark of 0.3%. Returns for the year underperformed the benchmark of 24.6%.

Wilshire reported that stock selection within the consumer staples sector contributed to the underperformance for the quarter. An underweighting to financials and an overweighting to consumer staples detracted from performance. Stock selection within the consumer discretionary sector positively impacted performance.

**Table 1**  
**Operating Portfolios**  
**Quarterly Rates of Return**

*Unrestricted Funds (Internal)*

	<u>9/30/03</u>	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>
University of Iowa	0.32%	0.17%	0.43%	0.01%	0.44%
Iowa State University	0.40%	0.37%	0.48%	-0.02%	0.99%
University of Northern Iowa	0.10%	0.23%	0.62%	-0.99%	0.95%
Iowa School for the Deaf	0.42%	0.42%	0.41%	0.41%	0.41%
Iowa Braille & Sight Saving School	0.25%	0.24%	0.24%	0.24%	0.34%

*Restricted Funds (Internal)*

	<u>9/30/03</u>	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>
University of Iowa	-0.13%	0.22%	1.01%	-0.89%	1.01%
Iowa State University	0.17%	0.05%	1.04%	-0.90%	1.03%
University of Northern Iowa	0.21%	0.01%	1.19%	-0.96%	1.16%
Iowa School for the Deaf	0.42%	0.38%	0.47%	0.27%	0.49%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

*BlackRock*

	<u>9/30/03</u>	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>
University of Iowa	0.42%	0.15%	1.06%	-0.84%	1.18%
Iowa State University	0.45%	0.15%	1.00%	-0.85%	1.19%
University of Northern Iowa	0.47%	0.14%	1.03%	-0.84%	1.19%
Iowa School for the Deaf	0.45%	0.15%	1.00%	-0.85%	1.19%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

*Wellington*

	<u>9/30/03</u>	<u>12/31/03</u>	<u>3/31/04</u>	<u>6/30/04</u>	<u>9/30/04</u>
University of Iowa	0.40%	0.35%	1.38%	-1.11%	1.25%

N/I = No investments of this type.

**Table 2**  
**Endowment / Quasi-Endowment Portfolios**  
Market Value - Accrual Basis  
(In thousands)  
September 30, 2004

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Vanguard				
SUI	\$88,782	-	\$88,782	
ISU	<u>56,315</u>	-	<u>56,315</u>	
Total	\$145,097	-	\$145,097	36.6%
Reams Asset Mgmt.				
SUI	\$28,220	\$46,471	\$74,691	
ISU	<u>16,187</u>	-	<u>16,187</u>	
Total	\$44,407	\$46,471	\$90,878	22.9%
Dodge and Cox				
SUI	\$27,890	\$46,492	\$74,382	
ISU	<u>15,012</u>	-	<u>15,012</u>	
Total	\$42,902	\$46,492	\$89,394	22.6%
Seneca Capital Mgmt.				
SUI	\$17,513	-	\$17,513	
ISU	<u>12,900</u>	-	<u>12,900</u>	
Total	\$30,413	-	\$30,413	7.7%
Grantham, Mayo				
SUI	\$13,700	-	\$13,700	
ISU	<u>8,552</u>	-	<u>8,552</u>	
Total	\$22,252	-	\$22,252	5.6%
LSV				
SUI	\$10,887	-	\$10,887	
ISU	<u>7,239</u>	-	<u>7,239</u>	
Total	\$18,126	-	\$18,126	4.6%
TOTAL				
SUI	\$186,992	\$92,963	\$279,955	
ISU	<u>116,205</u>	-	<u>116,205</u>	
Total	\$303,197	\$92,963	\$396,160	100.0%

---

**Table 3**  
**Principal Demutualization Funds**  
(In thousands)  
September 30, 2004

SUI	\$44,844
ISU	24,752
UNI	7,205
ISD	298
IBSSS	172
Board Office	<u>50</u>
Total	\$77,321

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Wilshire Consulting Group

Mark Brubaker, CFA	Managing Director
Marc Friedberg, CFA	Vice President
Michael J. Dudkowski	Senior Associate
Danielle A. London, CFA	Senior Analyst



**Board of Regents, State of Iowa**

**Executive Summary of Investment Performance**

**Third Quarter 2004**



# Capital Markets Review

Third Quarter 2004

## *Market Observations*

A number of factors plagued the market during the third quarter, leading to the U.S. stock market's first down quarter since March of 2003. First, oil prices remained high on supply fears, which were further compounded by Hurricane Ivan's path through the Gulf of Mexico. Additionally, a 'soft patch' in the economy produced an increase in the number of corporate earnings warnings. Furthermore, the daily news reports served as a steady reminder of the conflict in Iraq. Although both the Democrat and Republican conventions passed without incident, concerns over terrorist attacks ahead of the U.S. presidential election remain. All these factors weighed on the market during the third quarter.

The Federal Reserve made two ¼-point hikes, bringing the Fed Funds rate to 1.75%. Even in the face of these hikes, the 10-year U.S. Treasury hovered around 4.10% - down approximately ½ percent during the quarter. The Fed also believes that the economy's 'soft patch' has passed. Oil prices approached nearly \$50 a barrel at quarter-end, surpassing previous highs reached in early August. Worldwide, the global economy continues to grow at a healthy pace. U.S. GDP growth in the second quarter was revised upward to 3.30% (prior estimate was 2.80%). The IMF estimates global GDP growth at 5.00% this year versus 3.90% in 2003.

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Employment continued to improve as the U.S. economy created 227,000 jobs in July & August. Unemployment fell from 5.60% in June to 5.40% in August. Meanwhile, a Commerce Department report showed that year over year home sales comparisons were down for the past three months - the first such string of declines in more than two years. Durable goods orders showed solid gains, while overall orders decreased by -0.50% in August, weighed down by low demand for airplanes. However, manufacturing orders rose 2.3%, their largest increase since March. Finally, despite rising energy prices, inflation remained low and the CPI was up 2.7% for the year ending August 2004.

## *US Stock Market*

Despite rallying from mid-quarter lows of -6.00%, the U.S. stock market posted its first quarterly loss in six quarters (DJW 5000 -1.83%). Growth stocks, across the capitalization spectrum, led the retreat with the Wilshire Large Growth and Small Growth indices off -4.73% and -5.41%, respectively. Large cap value securities bucked the market's general downward trend as the Wilshire Large Value index finished the quarter up 1.22%. On the positive side, higher dividend paying stocks, such as utilities and REITs, performed well. The utility sector was up 6.10%, while REITs rebounded from a second quarter pullback (DJW REIT +8.28%).



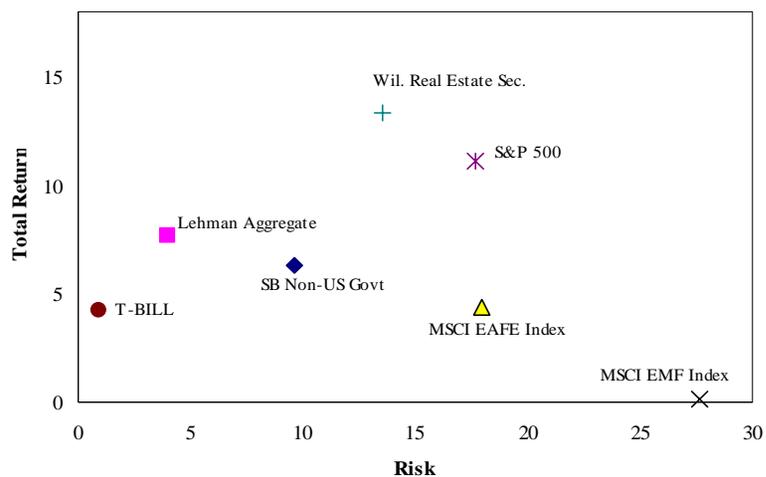
# Market Review

## Major Asset Class Returns

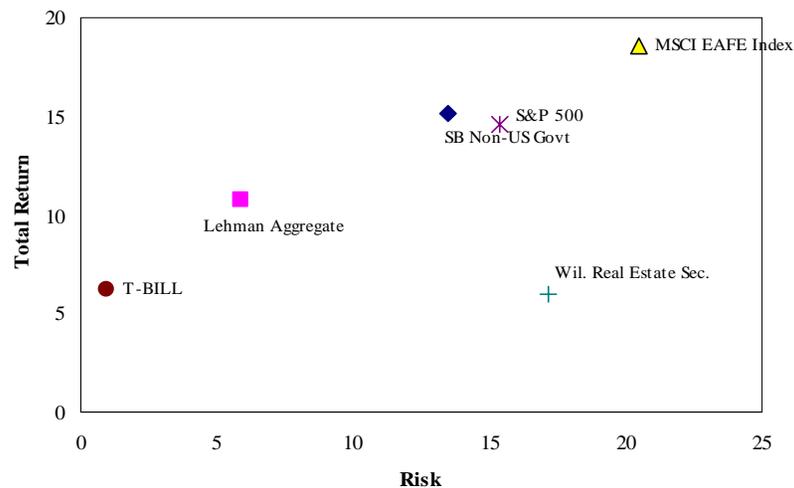
(%)

	QTR	YTD	1 yr	3 yr	5 yr	10yr
<b>Equity</b>						
Dow Jones - Wilshire 5000 (Full Cap)	-1.8	2.1	14.8	6.1	-0.1	10.7
Standard and Poor's 500	-1.9	1.5	13.9	4.0	-1.3	11.1
International Stock (MSCI ACWI X US)	1.0	5.2	23.2	11.4	0.5	4.3
Emerging Markets (MSCI EMF)	8.3	7.4	26.5	26.0	6.0	0.1
Dow Jones - Wilshire Real Estate Securities	8.2	15.7	26.5	19.8	18.7	13.3
<b>Fixed Income</b>						
Lehman Aggregate Bond	3.2	3.4	3.7	5.9	7.5	7.7
International Bonds (Citigroup Non-US)	3.3	1.4	8.2	12.1	6.3	6.3
Treasury Bills (91 Day)	0.4	0.8	1.1	1.5	3.1	4.3
<b>Consumer Price Index</b>						
	0.1	3.0	2.5	2.1	2.5	2.4

Risk versus Return ( 9/30/94 - 9/30/04)



Risk versus Return ( 9/30/84 - 9/30/94)



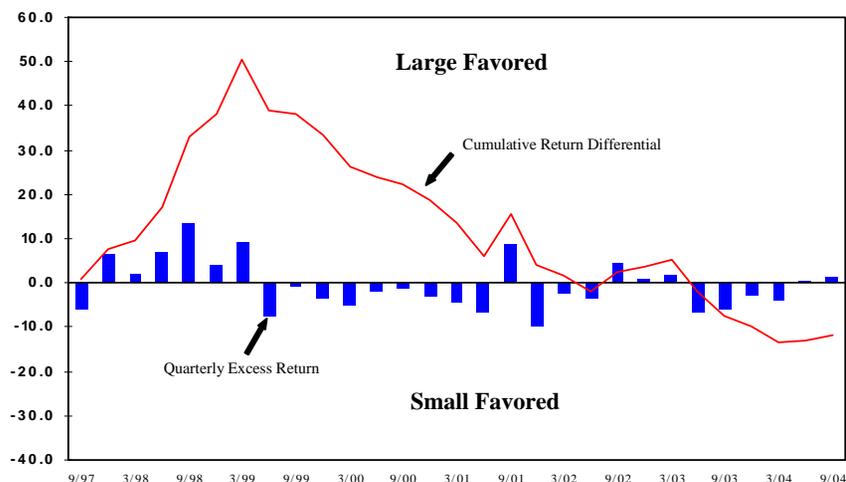


# Domestic Equity Markets

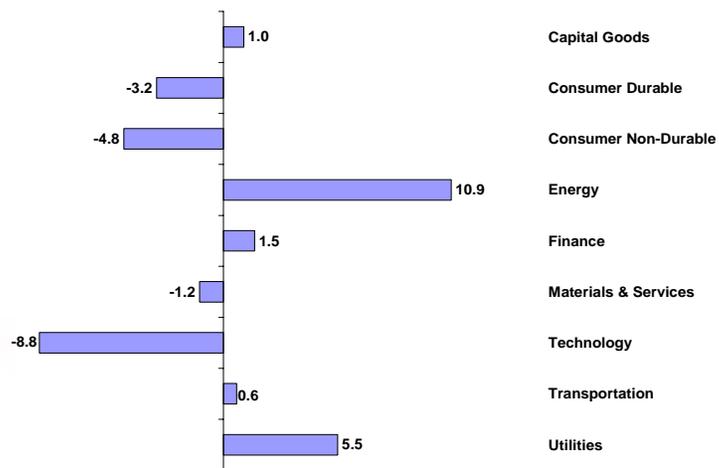
## US Equity Returns

	QTR	YTD	1 yr	3 yr	5 yr	10yr
Dow Jones - Wilshire 4500	-1.7	4.0	18.2	13.7	4.0	10.2
Dow Jones - Wilshire 5000	-1.8	2.1	14.8	6.1	-0.1	10.7
Wilshire Internet Index	-13.0	-7.4	11.0	3.9	-18.8	N/A
Wilshire Large Cap 750	-1.7	1.7	14.0	4.7	-1.3	10.8
Wilshire Small Cap 1750	-3.1	3.9	19.6	14.6	8.0	11.0
Wilshire Micro Cap 2500	-5.2	-0.1	18.3	29.4	20.6	17.1
Wilshire Venture Capital	-23.3	-17.3	-3.9	1.1	-10.5	11.1
Wilshire Large Growth	-4.7	-1.5	7.7	2.0	-6.9	8.8
Wilshire Large Value	1.3	5.0	20.5	7.5	2.6	11.6
Wilshire Mid Growth	-4.2	1.8	13.5	9.7	2.6	9.6
Wilshire Mid Value	-0.2	6.9	24.9	17.6	14.4	14.8
Wilshire Small Growth	-5.4	1.0	13.8	9.5	-1.6	6.3
Wilshire Small Value	0.8	6.7	25.4	19.1	14.2	13.4

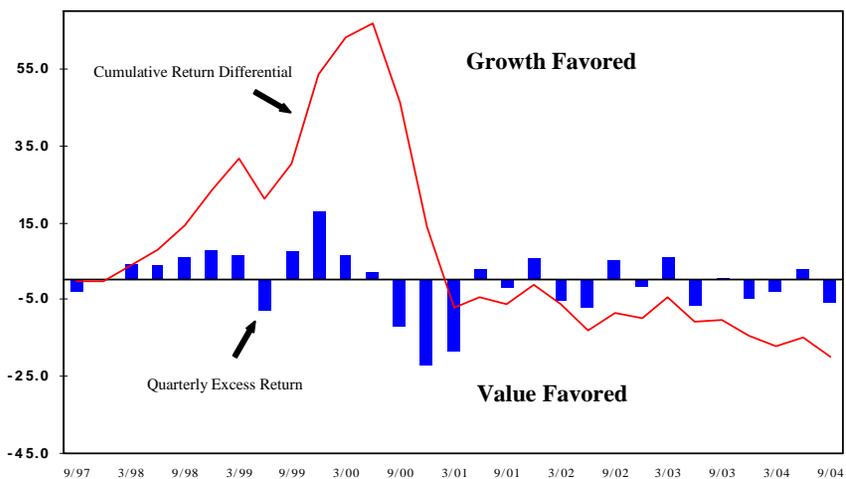
## Small Cap vs. Large Cap Quarterly Returns



## Wilshire 5000 Quarterly Sector Returns



## Value vs. Growth Stocks Quarterly Returns



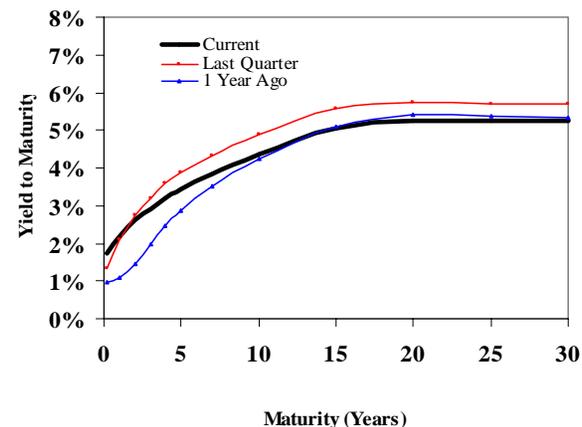


# Fixed Income

## Fixed Income

	QTR	YTD	1 yr	3 yr	5 yr	10yr
Lehman Aggregate	3.2	3.4	3.7	5.9	7.5	7.7
Lehman ABS	2.2	2.6	3.0	5.0	7.2	7.1
Lehman Credit	4.2	3.9	4.4	7.7	8.4	8.3
Lehman Gov't	3.1	3.0	2.5	5.3	7.2	7.4
Lehman Gov / Credit	3.6	3.4	3.4	6.3	7.7	7.8
Lehman Long Treasury	6.4	4.9	4.9	7.6	9.3	9.6
Lehman Mortgage	2.6	3.4	4.4	5.1	7.0	7.5
Lehman Agency	2.7	2.7	2.4	5.2	7.2	7.5
First Boston High Yield	4.5	7.1	13.3	14.3	7.7	8.1
Salomon Bros World Gov't Bond	3.3	1.7	7.0	10.6	6.8	6.8
Salomon Bros Non-US Bond	3.3	1.4	8.2	12.1	6.3	6.3
Lehman US TIPS	3.8	5.8	7.5	9.8	10.3	N/A

## Treasury Yield Curve



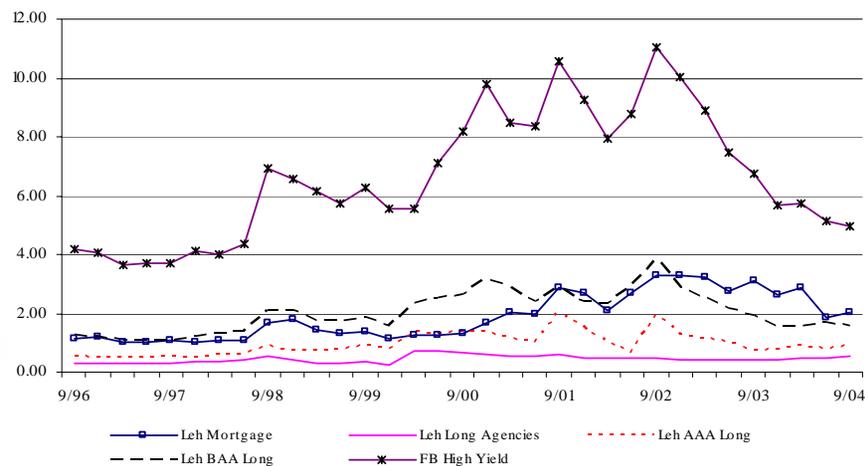
## Market Commentary

The Federal Reserve continued its course of gradually raising interest rates with two ¼ point hikes to the Fed Funds rate, bringing the key rate to 1.75%. The bond market rallied throughout the quarter as the 10-year U.S. Treasury note, which entered the quarter near 4.60%, fell to 4.10% (Leh Agg +3.20%). This contributed to a dramatic flattening of the yield curve, as the spread between the 12-month treasury bill and 10-year treasury note dropped from over 250 basis points at the quarter's beginning to approximately 200 basis points by quarter-end. Credit spreads, already at historically low levels, continued to fall across the ratings spectrum, reflecting a decent fiscal position for many companies. And, while the U.S. treasury yield curve flattened, suggesting a slowing economy, the credit market signaled investor confidence in economic stability.

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## Yield Spread To Treasuries





## International Equity Markets

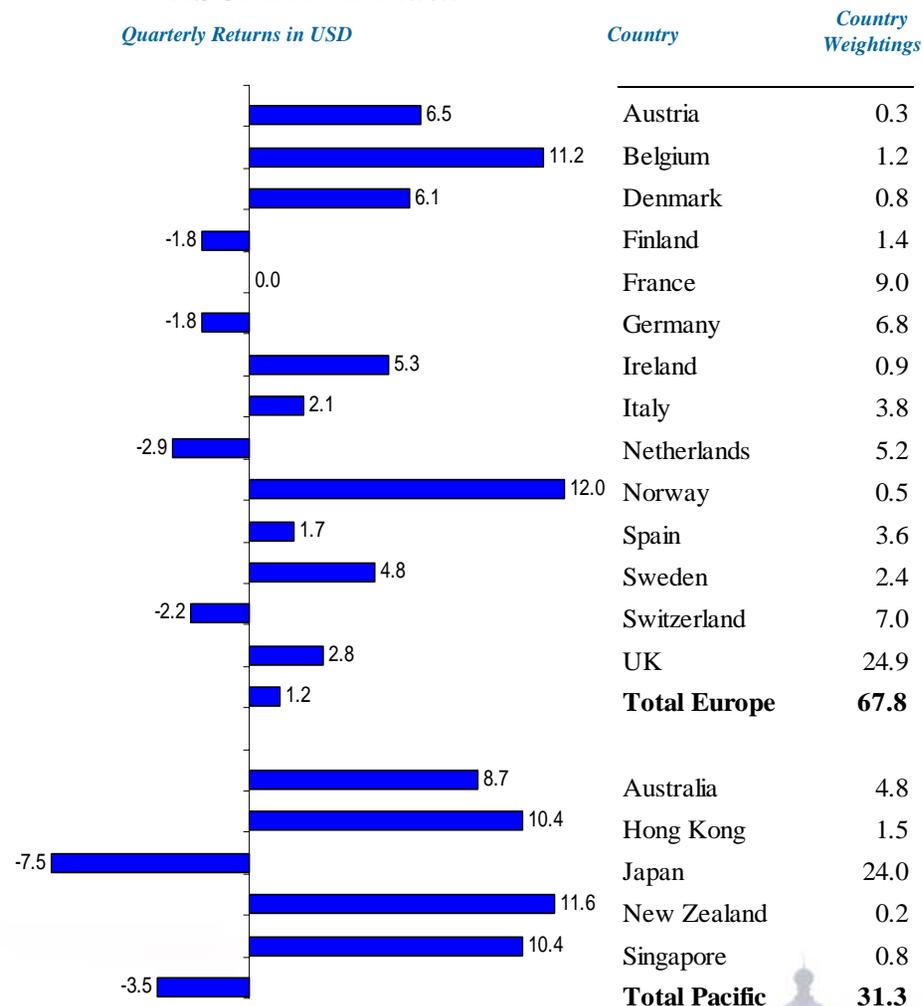
Equity (in U.S. \$)	QTR	YTD	1 yr	3 yr	5 yr	10yr
Non U.S. (ACWI X U.S)	1.0	5.2	23.1	11.4	0.5	4.3
Developed (EAFE)	-0.3	4.3	22.1	9.1	-0.9	4.0
Emerging (EMF)	8.1	7.4	26.5	25.9	6.0	0.1
Europe	1.2	4.3	25.5	9.1	0.3	9.0
Pacific	-3.5	4.4	14.6	9.2	-3.4	-2.2
France	0.0	3.1	26.4	8.3	0.6	9.0
Germany	-1.8	-2.7	27.8	7.6	-2.4	6.1
Japan	-7.5	2.5	11.0	5.5	-6.1	-3.7
United Kingdom	2.8	6.2	25.5	8.2	-0.1	8.7
<b>Currencies (% change)</b>						
Euro vs Dollar	2.1	-1.5	6.7	10.9	3.1	N/A
Yen vs Dollar	-1.0	-2.8	1.4	2.6	-0.7	-1.1
Pound vs Dollar	-0.2	1.1	8.9	7.2	1.9	1.4

### Market Commentary

Despite benefiting from positive currency movement, results across other developed equity markets were also negative in the third quarter (MSCI EAFE -1.03% Local, -0.28% USD). As with the U.S. market, this reflected the first negative quarter since the first quarter of 2003. The Pacific region lagged Europe (MSCI Pacific -3.50%), led by a decline of -7.47% in Japan. In contrast, the emerging markets posted excellent results (MSCI EM +8.14%), as India and Indonesia returned 16.21% and 20.00% respectively.

### MSCI EAFE Index

Quarterly Returns in USD



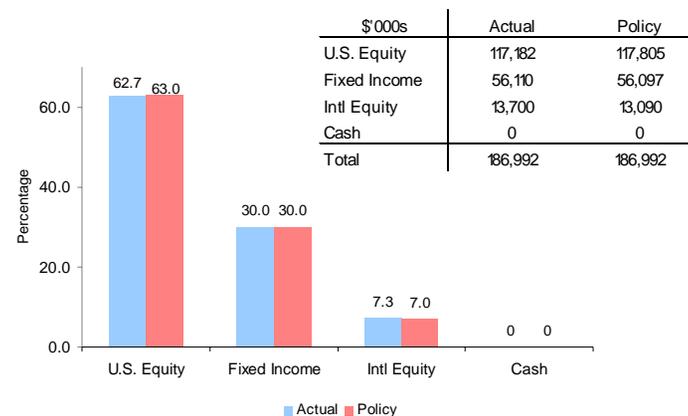
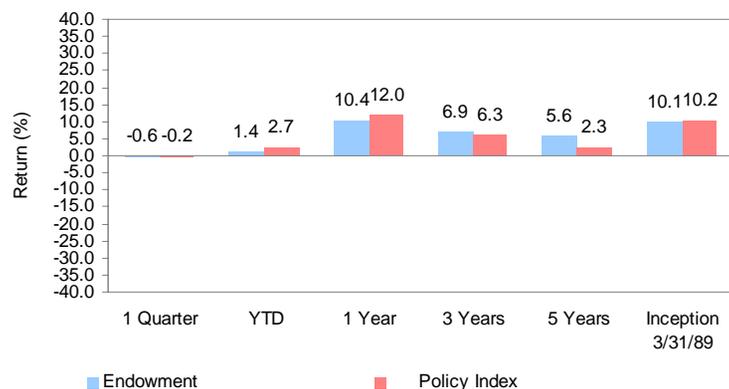


# Total Fund Results

# The University of Iowa Endowment

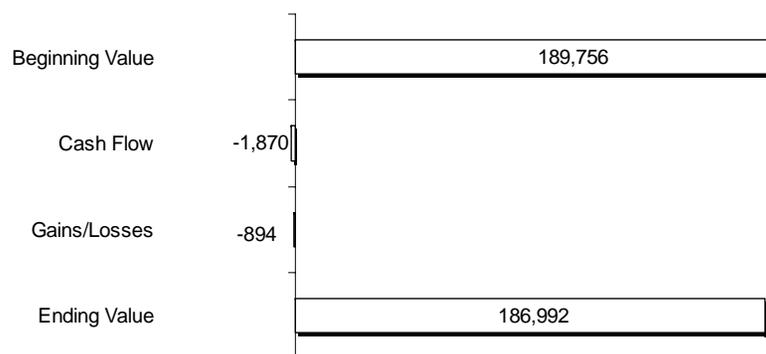
## Investment Performance

## Asset Allocation vs. Policy



	\$'000s	Actual	Policy
U.S. Equity		117,182	117,805
Fixed Income		56,110	56,097
Intl Equity		13,700	13,090
Cash		0	0
<b>Total</b>		<b>186,992</b>	<b>186,992</b>

## Quarter Results (\$'000)



- The University of Iowa Endowment assets totaled \$187.0 million at the close of the third quarter.
- During the quarter, investment losses totaled \$9,000.
- Total contributions totaled \$818,000.
- Total distributions and fees totaled \$2.7 million.
- The Endowment fund returned -0.55% for the third quarter, underperforming the benchmark by 0.33%.



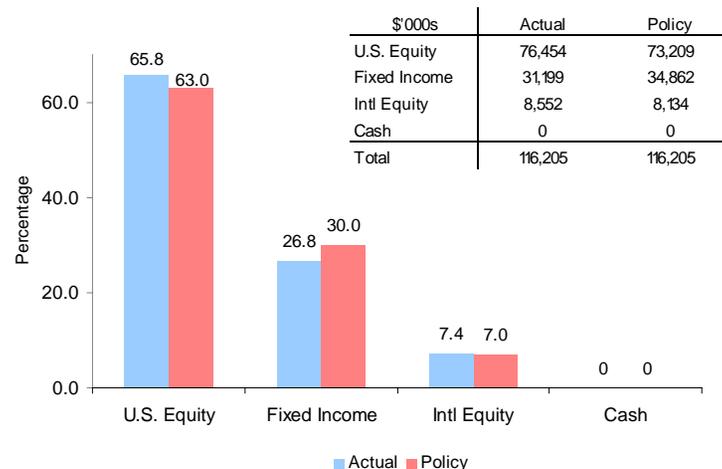
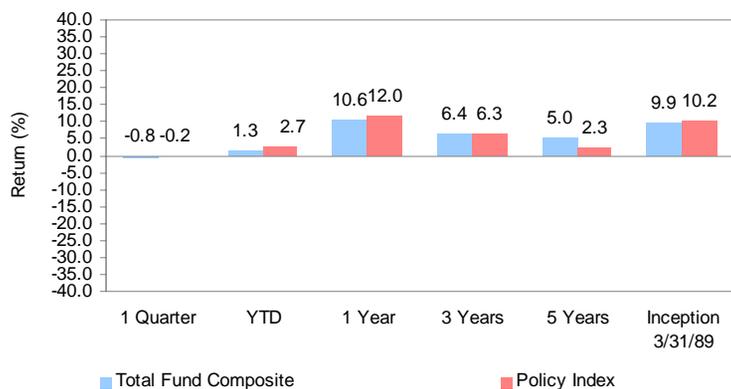


# Total Fund Results

# Iowa State University Endowment

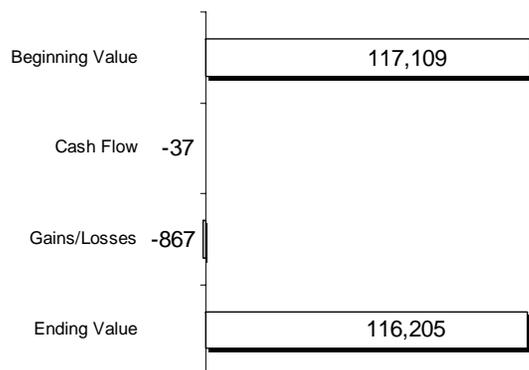
## Investment Performance

## Asset Allocation vs. Policy



## Quarter Results

(\$'000)



- The Iowa State Endowment assets totaled \$116.2 million at the close of the third quarter.
- During the quarter, investment losses totaled \$867,000.
- Total contributions were \$53,000.
- Total fees and distributions were \$90,000.
- The Endowment fund returned -0.82% for the third quarter, underperforming the benchmark by 0.60%.





# Total Fund Results

## University of Iowa

	\$'000	Qtr %	YTD %	1 Yr %	3 Yrs %	5 Yrs %	Inception %
Domestic Equity Composite (3/31/89) <i>Wilshire 5000</i>	117,182	-2.3 -1.8	-0.1 2.1	12.0 14.8	3.0 6.1	1.8 -0.1	11.2 11.1
Fixed Income Composite (3/31/89) <i>Custom Policy*</i>	56,110	3.1 3.2	3.2 3.4	3.9 3.7	5.2 5.9	6.9 7.4	8.0 8.2
Int'l Equity Composite (9/30/94) <i>MSCI EAFE (N)</i>	13,700	0.2 -0.3	6.7 4.3	24.1 22.1	14.1 9.1	4.8 -0.9	5.3 4.0
<b>Total Endowment (3/31/89)</b> <i>Policy Index**</i>	<b>186,992</b>	<b>-0.6</b> -0.2	<b>1.4</b> 2.7	<b>10.4</b> 12.0	<b>6.9</b> 6.3	<b>5.6</b> 2.3	<b>10.1</b> 10.2

\* 6/94 -- 6/01 100% Lehman Govt / Credit  
9/01 -- Present 100% Lehman Aggregate

\*\* 6/89 -- 6/99 60% S&P 500 30% Lehman Govt / Credit 10% MSCI EAFE (n)  
9/99 -- 6/01 63% S&P 500 30% Lehman Govt / Credit 7% MSCI EAFE (n)  
9/01 -- 3/02 63% S&P 500 30% Lehman Aggregate 7% MSCI EAFE (n)  
3/02 -- Present 63% Wilshire 5000 30% Lehman Aggregate 7% MSCI EAFE (n)

## Iowa State

	\$'000	Qtr %	YTD %	1 Yr %	3 Yrs %	5 Yrs %	Inception %
Domestic Equity Composite (3/31/89) <i>Wilshire 5000</i>	76,454	-2.4 -1.8	0.1 2.1	12.1 14.8	2.8 6.1	2.0 -0.1	11.0 11.1
Fixed Composite (3/31/89) <i>Custom Policy*</i>	31,199	3.1 3.2	3.2 3.4	4.0 3.7	5.3 5.9	6.9 7.4	7.4 8.2
Int'l Equity Composite (9/30/94) <i>MSCI EAFE (N)</i>	8,552	0.2 -0.3	6.1 4.3	22.7 22.1	13.1 9.1	4.3 -0.9	5.0 4.0
<b>Total Endowment (3/31/89)</b> <i>Policy Index**</i>	<b>116,205</b>	<b>-0.8</b> -0.2	<b>1.3</b> 2.7	<b>10.6</b> 12.0	<b>6.4</b> 6.3	<b>5.0</b> 2.3	<b>9.9</b> 10.2

\* 6/94 -- 6/01 100% Lehman Govt / Credit  
9/01 -- Present 100% Lehman Aggregate

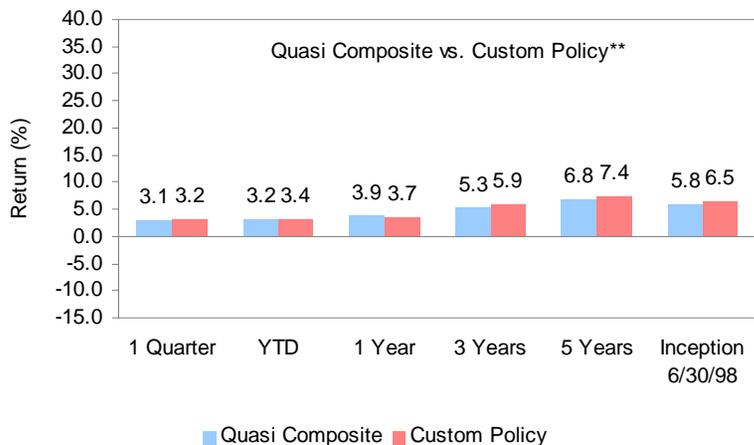
\*\* 6/89 -- 6/99 60% S&P 500 30% Lehman Govt / Credit 10% MSCI EAFE (n)  
9/99 -- 6/01 63% S&P 500 30% Lehman Govt / Credit 7% MSCI EAFE (n)  
9/01 -- 3/02 63% S&P 500 30% Lehman Aggregate 7% MSCI EAFE (n)  
3/02 -- Present 63% Wilshire 5000 30% Lehman Aggregate 7% MSCI EAFE (n)



# Total Fund Results

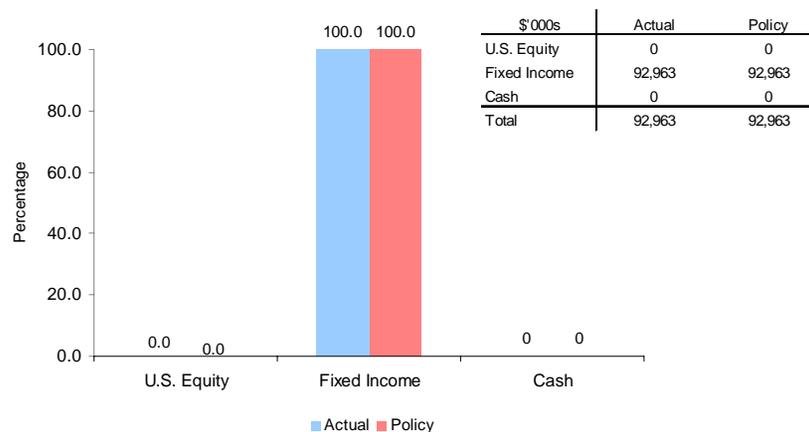
# University of Iowa Quasi-Endowment

## Investment Performance



\* 6/94 -- 6/01 100% Lehman Govt / Credit  
 9/01 -- Present 100% Lehman Aggregate

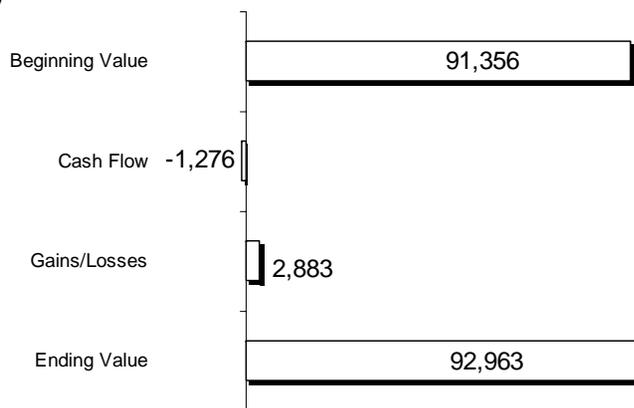
## Asset Allocation



\$'000s	Actual	Policy
U.S. Equity	0	0
Fixed Income	92,963	92,963
Cash	0	0
<b>Total</b>	<b>92,963</b>	<b>92,963</b>

## Quarter Results

(\$'000)



- The Quasi Endowment portfolio returned 3.06% during the third quarter, underperforming the benchmark by 0.14%.
- The Quasi total fund has total assets of \$93.0 million.
- Total contributions were \$35,000.
- Total distributions and fees totaled \$1.3 million.
- The Quasi fund had investment gains of \$2.9 million.





## Quasi Endowment Review

	\$'000	Investment Fee \$'000	Comp %	Qtr %	YTD %	1 Yr %	3 Yrs %	5 Yrs %	Inception %
Dodge & Cox (3/31/04)	46,492	52	50.0%						
Net of Fee Return				2.7	--	--	--	--	0.6
<i>Lehman Aggregate</i>				3.2	--	--	--	--	0.7
Reams Asset Management Quasi (9/30/01)	46,471	35	50.0%						
Net of Fee Return				3.4	3.6	4.6	5.2	--	5.2
<i>Lehman Aggregate</i>				3.2	3.4	3.7	5.9	--	5.9
<b>Quasi Composite (6/30/98)</b>	<b>92,963</b>	<b>87</b>	<b>100%</b>	<b>3.1</b>	<b>3.2</b>	<b>3.9</b>	<b>5.3</b>	<b>6.8</b>	<b>5.8</b>
<i>Custom Policy**</i>				3.2	3.4	3.7	5.9	7.4	6.5

\*\* 9/98 -- 6/01    100% Lehman Govt / Credit  
 9/01 -- Present    100% Lehman Aggregate





## Domestic Equity Composite Review

### Manager Returns – University of Iowa

University of Iowa	\$'000	Investment Fee \$'000	Comp %	Qtr %	YTD %	1 Year %	3 Years %	5 Years %	Inception %
Vanguard S&P 500 Index (9/30/02) Net of Fee Return <i>S&amp;P 500</i>	88,782	11	75.8%	-1.9 -1.9	1.5 1.5	13.8 13.9	-- --	-- --	18.9 19.0
Seneca Capital Mgmt. (6/30/95) Net of Fee Return <i>Russell 2500 Growth</i>	17,513	35	14.9%	-6.1 -5.6	-6.4 -0.3	2.3 11.7	-1.1 9.2	0.7 1.5	9.2 6.9
LSV Asset Mgm't (6/30/02) Net of Fee Return <i>Russell 2500 Value</i>	10,887	19	9.3%	0.2 0.3	7.7 7.0	23.2 24.6	-- --	-- --	10.9 13.7
<b>Domestic Equity Composite (3/31/89)</b> <i>Wilshire 5000</i>	<b>117,182</b>	<b>65</b>	<b>100%</b>	<b>-2.3</b> -1.8	<b>-0.1</b> 2.1	<b>12.0</b> 14.8	<b>3.0</b> 6.1	<b>1.8</b> -0.1	<b>11.2</b> 11.1

### Manager Returns – Iowa State University

Iowa State University	\$'000	Investment Fee \$'000	Comp %	Qtr %	YTD %	1 Year %	3 Years %	5 Years %	Inception %
Vanguard S&P 500 Index (9/30/02) Net of Fee Return <i>S&amp;P 500</i>	56,315	7	73.7%	-1.9 -1.9	1.5 1.5	13.8 13.9	-- --	-- --	18.9 19.0
Seneca Capital Mgmt. (6/30/95) Net of Fee Return <i>Russell 2500 Growth</i>	12,900	24	16.9%	-6.1 -5.6	-6.2 -0.3	2.2 11.7	-1.5 9.2	0.9 1.5	9.2 6.9
LSV Asset Mgm't (6/30/02) Net of Fee Return <i>Russell 2500 Value</i>	7,239	13	9.5%	0.1 0.3	8.3 7.0	23.3 24.6	-- --	-- --	11.0 13.7
<b>Domestic Equity Composite (3/31/89)</b> <i>Wilshire 5000</i>	<b>76,454</b>	<b>44</b>	<b>100.0%</b>	<b>-2.4</b> -1.8	<b>0.1</b> 2.1	<b>12.1</b> 14.8	<b>2.8</b> 6.1	<b>2.0</b> -0.1	<b>11.0</b> 11.1

Note: We are having difficulty with historical gross of fee return data. Wilshire will provide gross of fee returns once all discrepancies are resolved

Board of Regents, State of Iowa

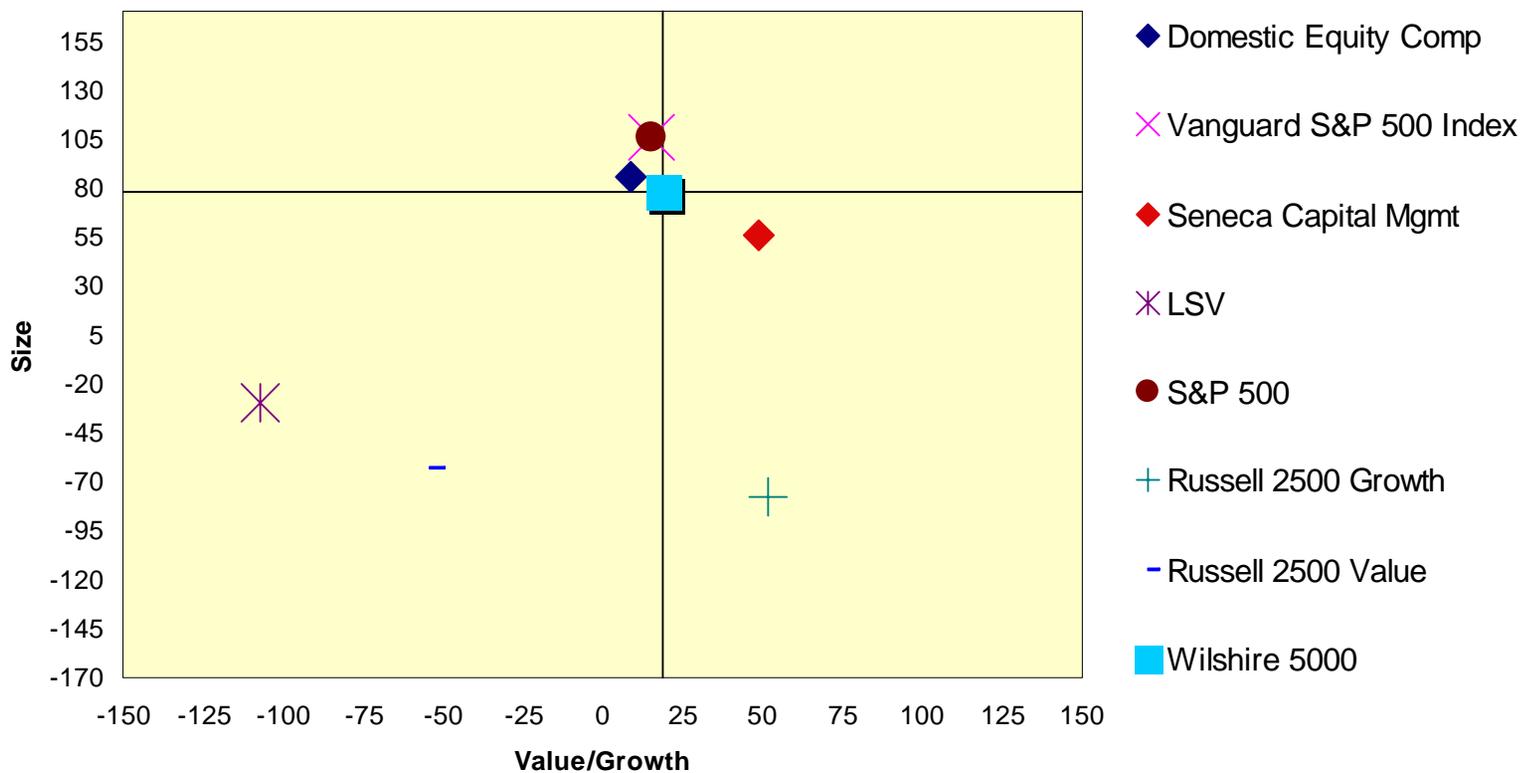
Wilshire Consulting Group • Executive Summary of Investment Performance • Third Quarter 2004





# Domestic Equity Composite Review

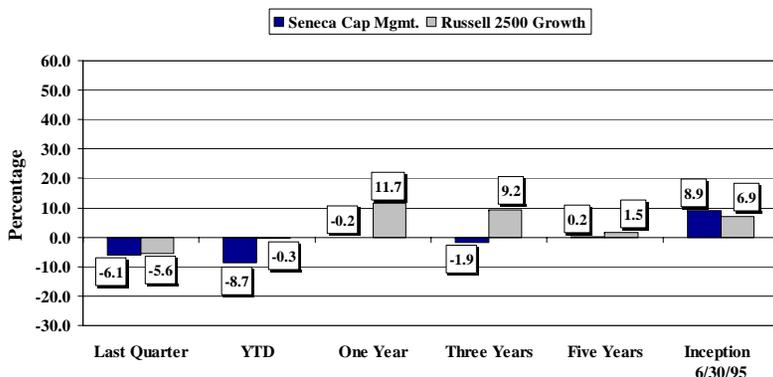
## Style Map



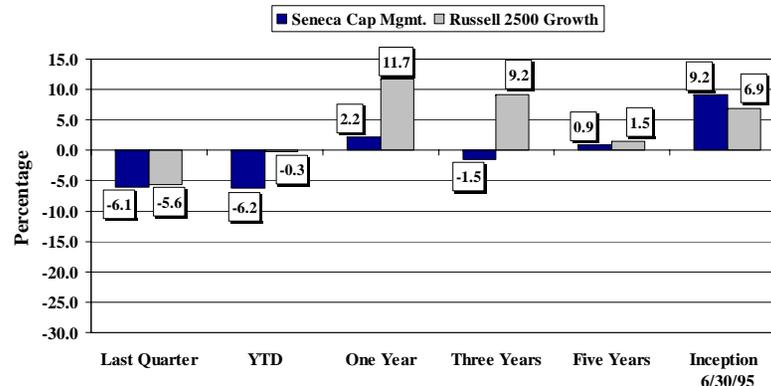


# Domestic Equity Review -- Seneca Capital Management

## University of Iowa -- Value Added (Vs. Russell 2500 Growth)



## Iowa State University -- Value Added (Vs. Russell 2500 Growth)



### Attribution

- Stock selection within the consumer staples, health care and energy sectors was a primary contributor to the portfolio's underperformance for the quarter.
- An underweighting to the financials sector also detracted from the portfolio's performance.
- Stock selection within the information technology sector had a positive impact on performance.

### Manager Overview

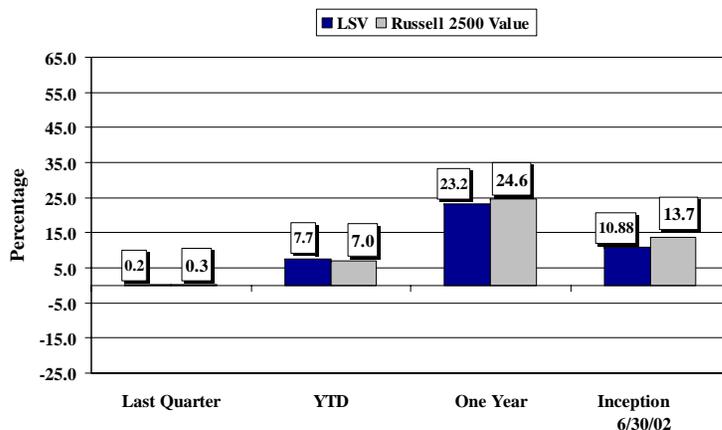
- **Style:** Middle Capitalization Growth Equity
- **Construction Process:** Capitalization weighted
- **Investment Philosophy:** Active - Bottom up
- **Selection Method:** Fundamental Earnings Forecast



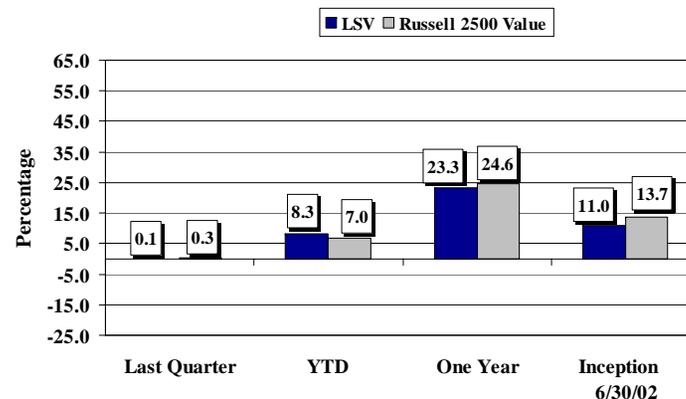


# Domestic Equity Review -- LSV Asset Management

## University of Iowa -- Value Added (Vs. Russell 2500 Value)



## Iowa State University -- Value Added (Vs. Russell 2500 Value)



### Attribution

- Stock selection within the consumer staples sector contributed to LSV's underperformance for the quarter.
- An underweighting to financials and an overweighting to consumer staples also detracted from performance.
- Stock selection within the consumer discretionary sector had a positive impact on performance.

### Manager Overview

- **Style:** Mid Capitalization Value Equity
- **Construction Process:** Optimization
- **Investment Philosophy:** Active - Bottom up
- **Selection Method:** Quantitative valuation





# International Equity Composite Review

## University of Iowa -- Manager Returns

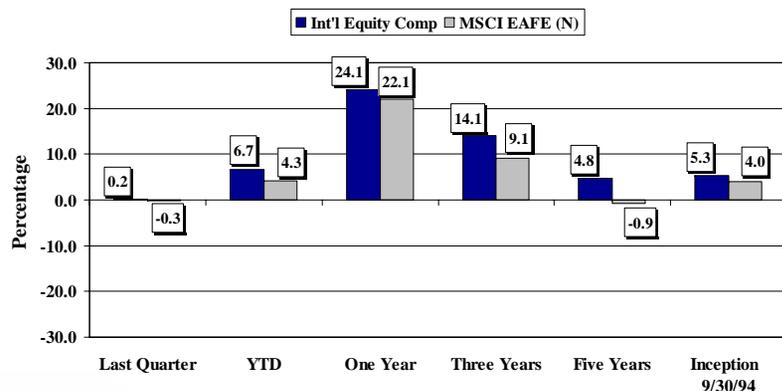
University of Iowa	\$'000 Investment	Fee \$'000	Qtr %	YTD %	1 Yr %	3 Yrs %	5 Yrs %	Inception %
GMO Foreign Fund (3/31/04) Net of Fee Return MSCI EAFE Index (N)	13,700	28	0.2 -0.3	-- --	-- --	-- --	-- --	1.0 -0.1
<b>Int'l Equity Composite (9/30/94)</b> MSCI EAFE Index (N)	<b>13,700</b>	<b>28</b>	<b>0.2</b> -0.3	<b>6.7</b> 4.3	<b>24.1</b> 22.1	<b>14.1</b> 9.1	<b>4.8</b> -0.9	<b>5.3</b> 4.0

## Iowa State University -- Manager Returns

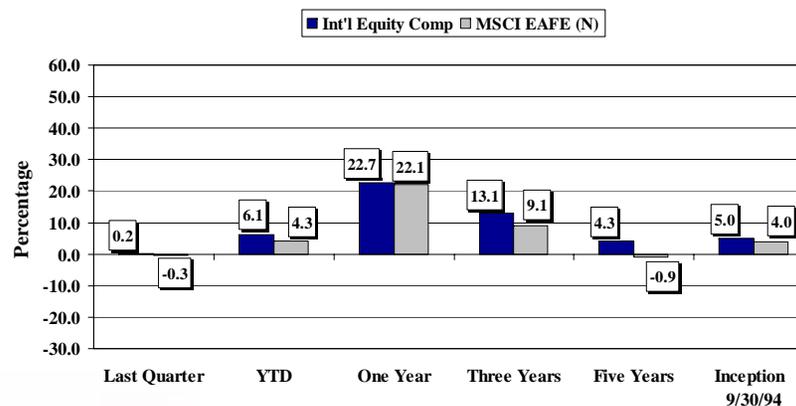
Iowa State University	\$'000 Investment	Fee \$'000	Qtr %	YTD %	1 Yr %	3 Yrs %	5 Yrs %	Inception %
GMO Foreign Fund (3/31/04) Net of Fee Return MSCI EAFE Index (N)	8,552	18	0.2 -0.3	-- --	-- --	-- --	-- --	1.0 -0.1
<b>Int'l Equity Composite (9/30/94)</b> MSCI EAFE Index (N)	<b>8,552</b>	<b>18</b>	<b>0.2</b> -0.3	<b>6.1</b> 4.3	<b>22.7</b> 22.1	<b>13.1</b> 9.1	<b>4.3</b> -0.9	<b>5.0</b> 4.0

Note: We are having difficulty with historical gross of fee return data. Wilshire will provide gross of fee returns once all discrepancies are resolved

## University of Iowa -- Value Added (Vs. MSCI EAFE (N))

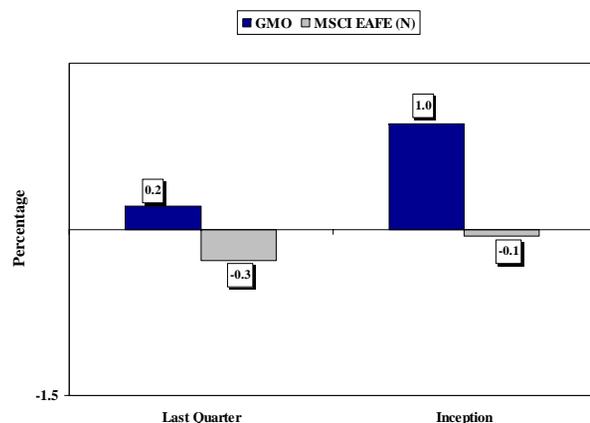


## Iowa State University -- Value Added (Vs. MSCI EAFE (N))



## International Equity Review -- GMO

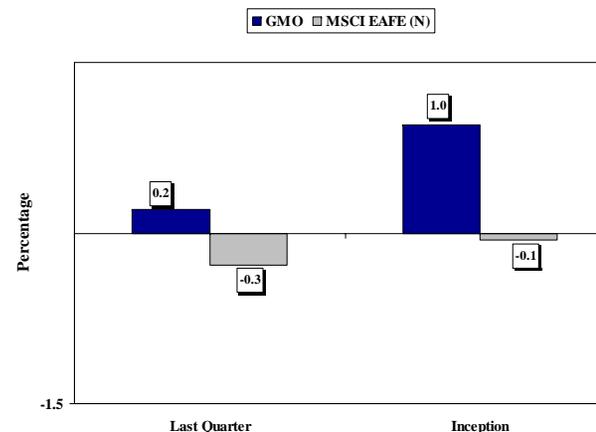
### University of Iowa -- Value Added (Vs. MSCI EAFE Index)



### Attribution

- GMO outperformed the benchmark by 0.49% in the third quarter.
- Stock selection within the Germany, along with an overweighting to Bermuda, Norway, India and Brazil was the primary contributor to the outperformance.
- An underweighting to Australia detracted from the performance of the portfolio.

### Iowa State University -- Value Added (Vs. MSCI EAFE Index)



### Manager Overview

- **Style:** International Value Equity
- **Construction Process:** Valuation measures
- **Investment Philosophy:** Active - Bottom up
- **Selection Method:** Fundamental Earnings Forecast





## Fixed Income Composite Review

University of Iowa	\$'000 Investment Fee \$'000	Comp %	Qtr %	YTD %	1 Yr %	3 Yrs %	5 Yrs %	Inception %
Dodge & Cox Income Fund (3/31/04) Net of Fee Return <i>Lehman Aggregate</i>	27,890	31	49.7%	2.7 3.2	-- --	-- --	-- --	0.6 0.7
Reams Asset Mgm't (6/30/02) Net of Fee Return <i>Lehman Aggregate</i>	28,220	21	50.3%	3.5 3.2	3.6 3.4	4.7 3.7	-- --	4.7 4.5
<b>Fixed Income Composite (3/31/89)</b> <i>Custom Policy**</i>	<b>56,110</b>	<b>52</b>	<b>100%</b>	<b>3.1</b> 3.2	<b>3.2</b> 3.4	<b>3.9</b> 3.7	<b>5.2</b> 5.9	<b>6.9</b> 7.4

\*\* 6/94 -- 6/01 100% Lehman Govt / Credit  
9/01 -- Present 100% Lehman Aggregate

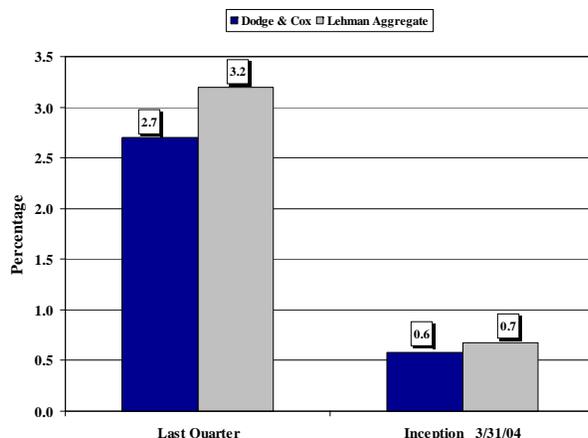
Iowa State University	\$'000 Investment Fee \$'000	Comp %	Qtr %	YTD %	1 Yr %	3 Yrs %	5 Yrs %	Inception %
Dodge & Cox Income Fund (3/31/04) Net of Fee Return <i>Lehman Aggregate</i>	15,012	17	48.1%	2.7 3.2	-- --	-- --	-- --	0.6 0.7
Reams Asset Mgm't (6/30/02) Net of Fee Return <i>Lehman Aggregate</i>	16,187	12	51.9%	3.5 3.2	3.6 3.4	4.7 3.7	-- --	4.9 4.5
<b>Fixed Income Composite (3/31/89)</b> <i>Custom Policy**</i>	<b>31,199</b>	<b>29</b>	<b>100%</b>	<b>3.1</b> 3.2	<b>3.2</b> 3.4	<b>4.0</b> 3.7	<b>5.3</b> 5.9	<b>6.9</b> 7.4

\*\* 6/94 -- 6/01 100% Lehman Govt / Credit  
9/01 -- Present 100% Lehman Aggregate



## Fixed Income Review – Dodge & Cox

### University of Iowa -- Value Added (Vs. Lehman Aggregate)

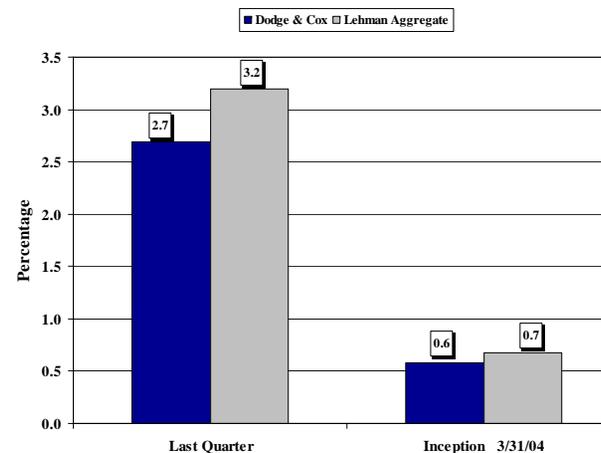


### Attribution

- Dodge & Cox underperformed the benchmark by 0.50% in the third quarter.
- The average quality of bonds within the portfolio is AA, versus the Lehman Aggregate's average quality of AAA.
- The portfolio has a duration of 3.38 years, versus the Lehman Aggregate's duration of 4.45 years.

### Iowa State University -- Value Added (Vs. Lehman Aggregate)

(Vs.)



### Manager Overview

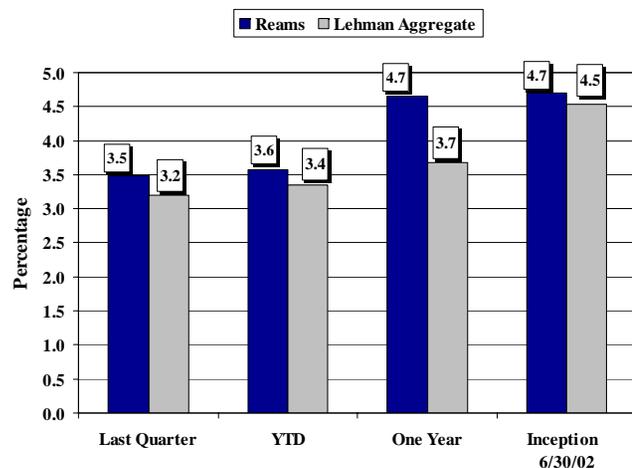
- **Style:** Market Core
- **Construction Process:** Build Portfolios with Higher Yield than Market Portfolio
- **Investment Philosophy:** Active - Bottom up
- **Selection Method:** Quantitative and Qualitative valuation





## Fixed Income Review -- Reams Asset Management

### University of Iowa -- Value Added (Vs. Lehman Aggregate)

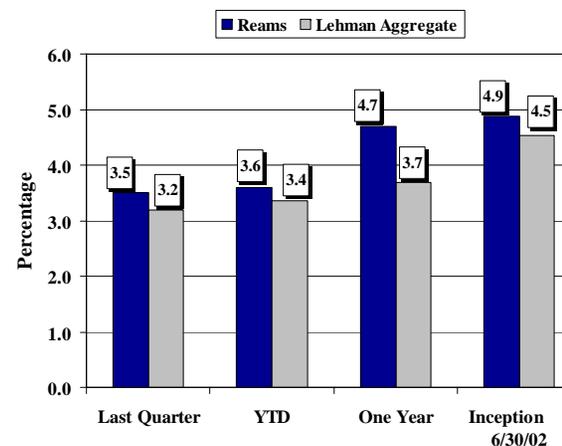


### Attribution

- Reams outperformed the benchmark by 0.28% in the third quarter.
- The average quality of bonds within the portfolio is AAA, versus the Lehman Aggregate's average quality of AAA.
- The portfolio has a duration of 2.49 years, versus the Lehman Aggregate's duration of 4.45 years.

### Iowa State University -- Value Added (Vs. Lehman Aggregate)

(Vs.)



### Manager Overview

- **Style:** Market Core
- **Construction Process:** Optimization
- **Investment Philosophy:** Active - Bottom up
- **Selection Method:** Quantitative and Qualitative valuation



# Appendix

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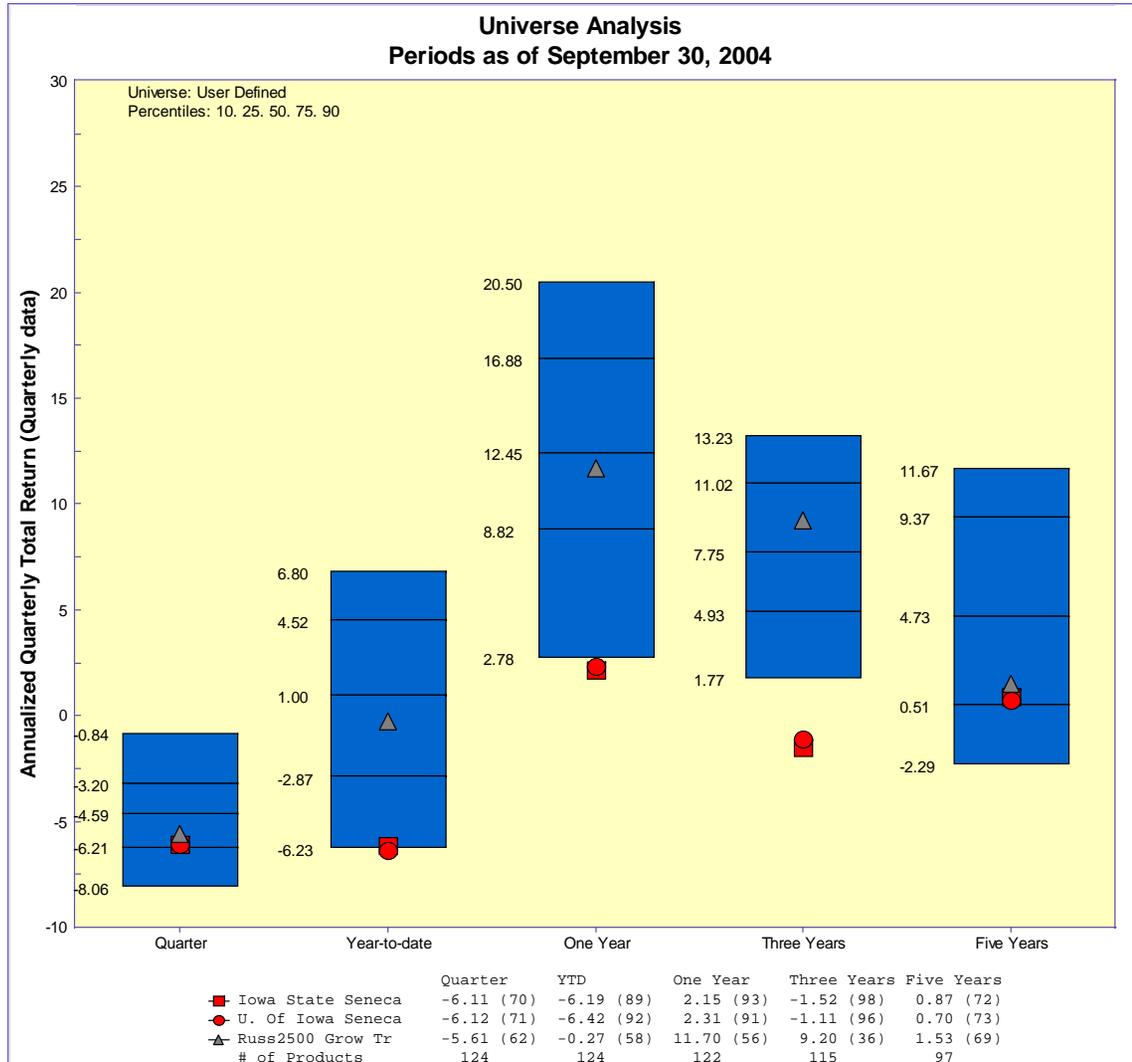
Manager Detail



# Domestic Equity Manager Detail - Seneca Capital Management

## Performance Comparison

Active Mid Growth U.S. Equity Portfolios



Board of Regents, State of Iowa

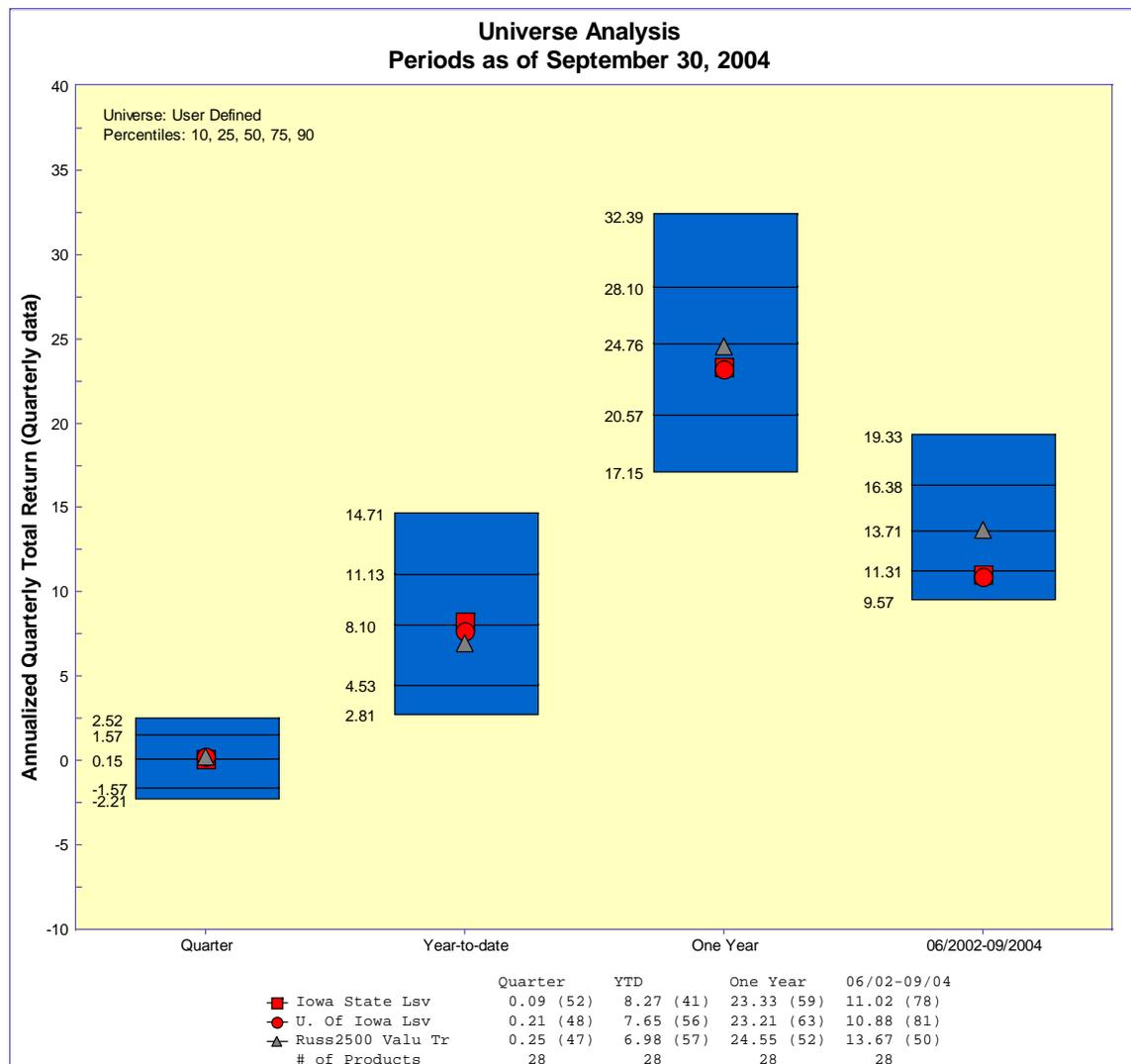
Wilshire Consulting Group • Executive Summary of Investment Performance • Third Quarter 2004





# Domestic Equity Manager Detail - LSV Asset Management

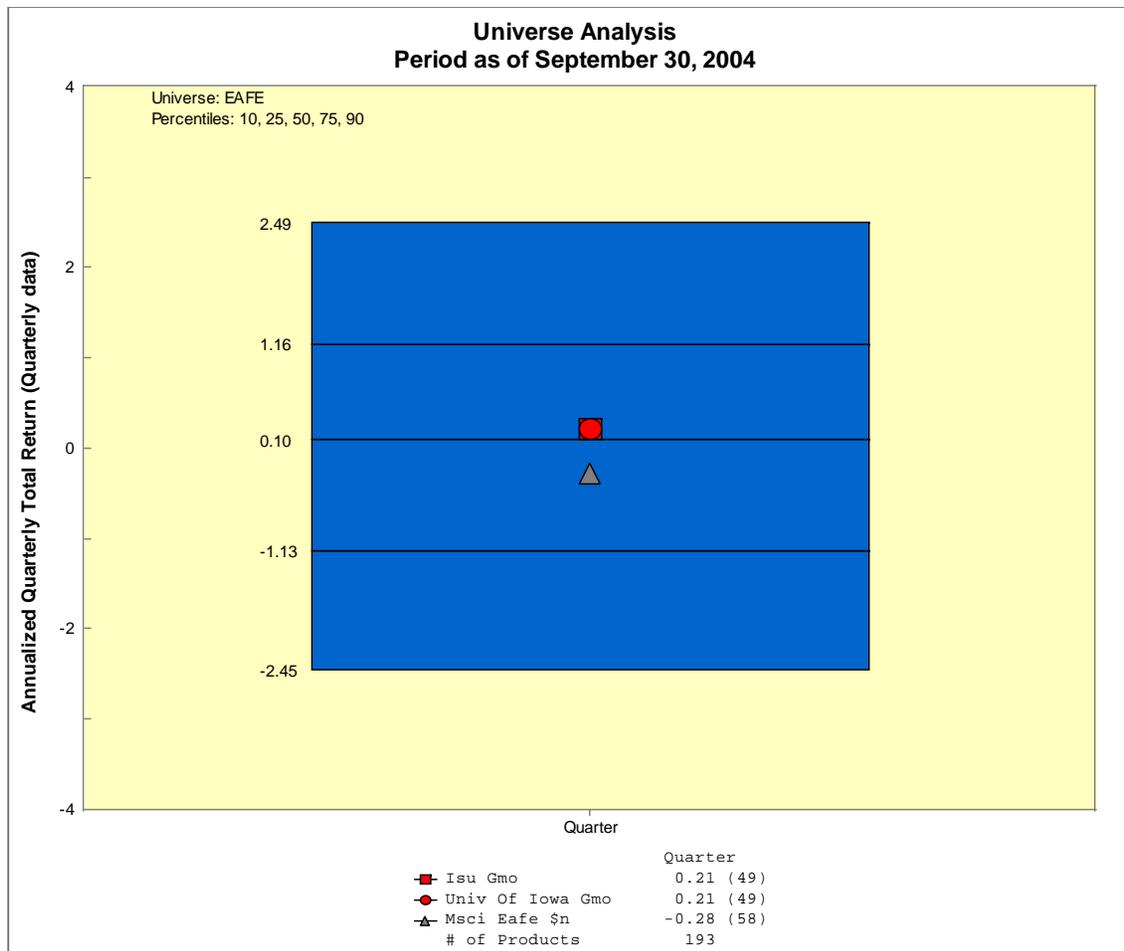
## Performance Comparison Active Mid Value U.S. Equity Portfolios





# International Equity Manager Detail - GMO

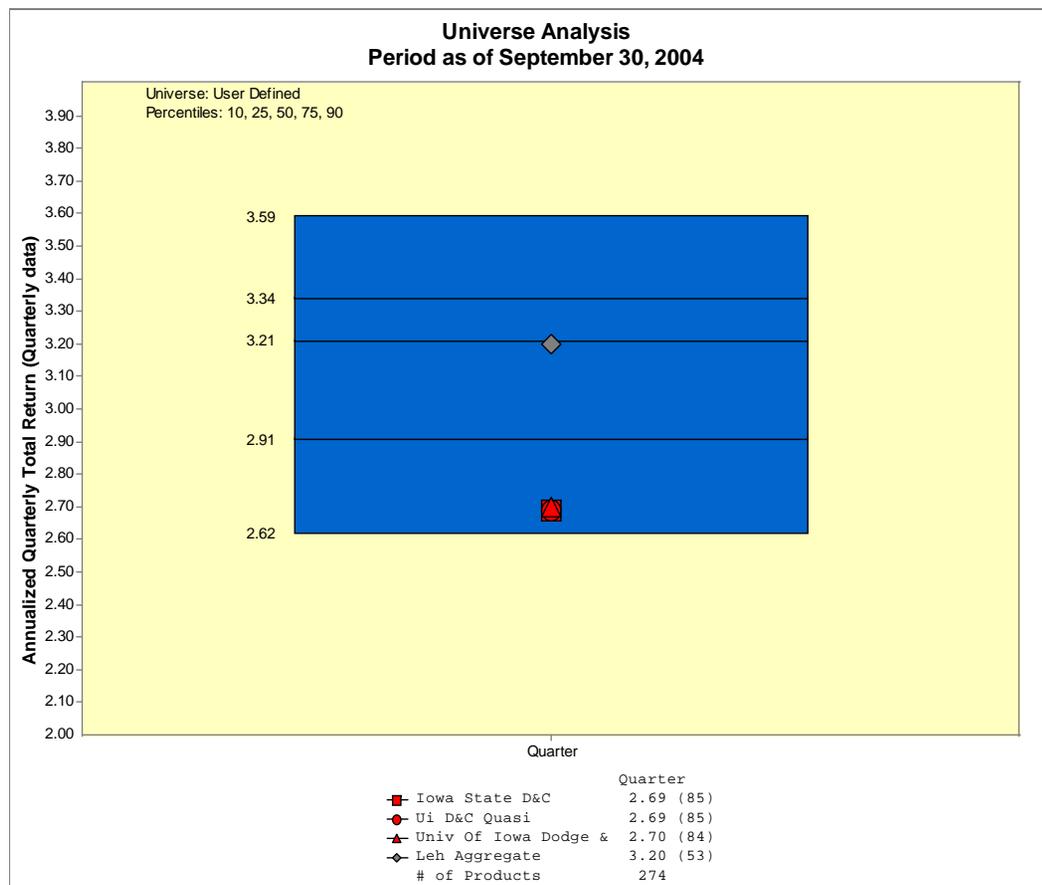
## Performance Comparison Active EAFE International Equity Portfolios





# Fixed Income Manager Detail – Dodge & Cox

## Performance Comparison Active Market Core Fixed Income Portfolios



\*\* 9/98 -- 6/01      100% Lehman Govt / Credit  
9/01 -- Present     100% Lehman Aggregate



# Fixed Income Manager Detail – Reams Asset Management

