

Investment Committee Memorandum
Board of Regents, State of Iowa

Subject: Performance Review of Wilshire Associates
Prepared by: Pamela M. Elliott
Date Submitted: December 1, 2004

Recommended Action:

Recommend the Board accept that Wilshire Associates' performance has met the requirements of the Board's policies.

Executive Summary:

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.

In July 2001, the Board authorized the issuance of requests for proposal (RFP) for the Board's investment advisor. In November 2001, the Board approved the selection of Wilshire Associates as its investment advisor.

In December 2003, the Board updated its investment policies, which include specifics on an annual review of its investment advisor. Wilshire's investment advisor services to the Board have met the outlined criteria established by the Regent policies.

Wilshire Associates has provided a document identifying its value-added activities for the Board as well as benchmarking their services to the Board against Wilshire's best practices.

According to the Board's investment policy, a competitive Request for Proposal (RFP) process shall occur no less than every five years. The next scheduled time to initiate the RFP process for the Board's investment advisor would occur during spring 2006.

Background:

Board Policies The following are excerpts from the Regent Policy Manual Section 7.03, Investment Activity considered pertinent to the review of Wilshire Associates:

A. Introduction ... The objective of the Board's investment policy is to ensure compliance with investment practices that preserve principal, ensure liquidity sufficient for anticipated needs, and maintain purchasing power of its investable assets. ...

This policy statement identifies the 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 investment policy contains the Board's objectives of satisfying certain needs for both operating and endowment funds. ...

The institutions, and any designated external investment agents, shall exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in their own affairs. ...

E. Operating
Funds
Investment
Guidelines

1. Overview

For investment purposes, operating funds are defined as those general use and restricted funds not included in the institutions' endowment portfolio. The operating portfolio shall consist of investments which are needed to meet underlying cash requirements of the institutions.

2. Fund Objectives

The primary goals of investment prudence shall be based in the following order of priority:

- a. Safety of principal.
- b. Maintaining the necessary liquidity to match expected liabilities.
- c. Obtaining a reasonable return.

The operating portfolio shall be managed to ensure funds are available to support operational needs.

F. Endowment
Funds
Investment
Guidelines

1. Overview

The endowment funds of the institutions, in recognition of their long-term charters, shall be managed with the intention of obtaining the highest possible total return (current income plus net realized and unrealized appreciation), while adhering to the Investment Policy set by the Board. The real value of the endowment funds should be preserved over time; that is, a sufficient portion of total return should be reinvested on average over time to keep pace with cost increases or to sustain program objectives.

The endowment income should be sufficient to meet the reasonable spending needs of the various endowment funds. These funds should be invested in an Endowment Portfolio consisting of authorized investments defined in this policy statement.

The Board endorses a long-term approach to managing the endowment assets but believes this should not be viewed as justification for exposing the endowment assets to levels of volatility that might significantly affect the principal value of the endowments.

2. Fund Objectives

- a. In recognition of their long-term charters, these funds shall be managed actively with the intention of obtaining the highest possible total return (current income plus a net realized and unrealized appreciation) while accepting only prudent risk.
- b. These funds shall be managed to maintain and preserve over time the real (i.e., net of inflation) value of the funds.
- c. Investment policy must be integrated with the spending policy of the endowment fund. The purpose of the spending rate formula is to provide a stable income stream that keeps pace with inflation and does not degrade the real value of the corpus of the endowment over time. ...
- d. The fund shall consist of a prudent, diversified investment portfolio.

- G. Selection of External Providers
1. Investment Advisor
Selection of external Investment Advisors shall take place in accordance with [Policy Manual Section 7.05.E.8], Professional Service Contracts. For the Investment Advisor, a competitive Request for Proposal (RFP) process shall occur no less than every five years.
- J. Performance Evaluation Standards
- Analysis of performance will always be within the context of the prevailing investment environment. Specific performance indices will be selected for each institution's operating assets and endowment assets, and incorporated into the investment guideline statements prepared for each institution. The investment performance of the institutional portfolios will be evaluated relative to, and be expected to exceed, the following standards:
- For all portfolios:
1. Each investment manager strategy will be evaluated against the established benchmark for that component asset class.
 2. The entire portfolio return will be evaluated against a weighted average benchmark using the strategic asset allocation within this policy statement.
- The aspects of each manager relationship will be monitored through frequent oral and written contacts by each manager and through quarterly performance evaluations. Qualitative assessments will focus on organizational and staff stability, adherence to investment philosophy and process, asset/client turnover, and the quality of client service.
- A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events will generally cause the outside manager to be reviewed, depending on the impact of the event or issue:
- A significant change in firm ownership and/or structure.
 - The loss of one or several key personnel.
 - A significant loss of clients and/or assets under management.
 - A profound shift in the firm's philosophy or process.
 - A significant and persistent lack of responsiveness to client requests.
 - A change in the Board's asset allocation which eliminates the need for a particular manager's investment style or strategy.
 - Chronic violations of the investment guidelines outlined in this Policy Statement.
- The Investment Advisor and each Investment Manager are responsible for monitoring and reporting on any qualitative issues.

K. Reporting Requirements

4. Investment Advisor

The Board's investment advisor will present annually to the Investment Committee a comprehensive evaluation of the performance of the Board's external portfolio managers. The investment advisor's evaluation will include, at a minimum, all of the elements listed above for the investment managers' quarterly reports, as well as evaluations of the managers' performance including comparisons to performance of relevant market segment indices. The review will contain specific recommendations by the investment advisor with regard to maintaining or modifying investment strategies, and asset allocation, and continuing or terminating contracts with portfolio managers.

The Board's investment advisor shall prepare reports on all invested funds no less frequently than quarterly and collaborate as needed with the vice president for finance and treasurer of each institution and the Board Office regarding any changes required to the report content or format. The report format developed by the Board Office and institutional treasurers shall contain information requested by the Investment Committee. The objective of the reports shall be to assist the Investment Committee in assessing the performance of each institution's portfolios.

L. Policy Review

These policies are approved by the Board of Regents and are effective upon Board approval, and are provided to the president, vice president for finance, treasurer and other appropriate officials at each institution. It is the intention of the Board to review these policies formally with the vice presidents for finance/ treasurers, investment advisor, and any external managers annually to reaffirm their relevancy or revise them as appropriate. Board members, the Investment Committee and the institutions may suggest revisions as changes are warranted.

Analysis:

Overall

The portfolio is in compliance with the Board's investment policies, including objectives, investment parameters, fund manager performance reviews, and reporting requirements.

Wilshire is conducting its duties with the same style and discipline which led to its original appointment.

Wilshire is applying the same or better resources and commitment for which it was originally chosen.

The interests of the Board and its institutions are being appropriately safeguarded.

Wilshire has provided the Board with reliable and well-researched advice.

Annual Activities

Within the last year, Wilshire Associates has assisted the Board with investment related activities greater than historical levels including:

- Substantial modifications of investment policy
- Terminations and selections of numerous fund managers, including negotiating fees and expediting portfolio transitions

Wilshire's Self Assessment

Wilshire has prepared the attached PowerPoint presentation documenting its value-added activities for the Board as well as benchmarking services provided to the Board against Wilshire's best practices.



Board of Regents, State of Iowa

Wilshire Review

December 15, 2004

Mark Brubaker, CFA
Managing Director

Marc Friedberg, CFA
Vice President



Investment Consulting Division: Deep Resources

Investment Consulting
Julia Bonafede, CFA, Senior Managing Director

Consultants

Consulting Resources

Pittsburgh

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David Lindberg, CFA, Vice President
Amy Hemphill, Senior Associate
Luke O'Neill, Associate
John Chong, Associate
Dino Alfonso, Analyst
Jana Stipanovich, Analyst
Kevin Lavelle, Analyst
Kristin Yata, Analyst
Bryce Papoff, Analyst

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Casey Swercheck, Analyst
Charly Choo, Associate
Mangala Murphy, Analyst
Danny Ng, Analyst
Vu Chu, Analyst

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Jim Neill, CFA, Vice President
Michael Rush, CFA, Senior Associate
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Kian Hoomayoonfar, Analyst
William Wong, Associate
Farzad Mukhi, Analyst
Raymond Wang, Analyst
John Dashtara, Analyst

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John Noh, Senior Associate
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Al Kim, CFA, Associate
Paul Teng, Associate
Aye Aung, Associate
Min Young Kim, Analyst
Kassy Lee, Analyst

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Michael Schlachter, CFA, Managing Director
Brian Johnson, CFA, Senior Associate
Shana Mulkerin, Senior Associate
Sandra Stein, CFA, Senior Associate
Helen Chong, Senior Analyst
Eugene Shin, Analyst
Adam Cheng, Analyst
Omid Aftekhari, Analyst

Howard Yata, Managing Director
Maggie Ralbovsky, CFA, Vice President
Paul Von Steenburg, CFA, Senior Associate
Erin La, Senior Analyst
Esmeralda Del Bosque, Associate
Vardges Markosyan, Senior Analyst
Henry Lim, Analyst
Christina Barren, Analyst
Thao Nguyen, Analyst
Ryan Smith, Analyst

Investment Research (3 Professionals)

Steve Foresti, Managing Director
Ben Yang, Senior Associate
Thomas Toth, Associate

Asset Allocation (2 Professionals)

Dimitry Mindlin, ASA, Vice President

Performance Measurement (Data Group)

Russell J. Walker, Vice President

Manager Research (13 Professionals)

Chip Castille, Managing Director

Compass Technology (12 Professionals)

Charley Stunkard, CFA, Managing Director
Mark Williams, Managing Director

Securities & Index Database Technology Support (firm wide shared resource) 12 professionals

Marketing & Communications (2 professionals)

Sharon Horn, Senior Associate

Manager Research & Monitoring

- **Dedicated full-time specialists**
- **Proprietary databases and in person manager meetings produce top quality analysis**

Chip Castille, Managing Director

Qualitative Research

**Douglas Davies, Vice President
Non-U.S. Equity, Non-U.S. Fixed Income**

**Daniel Johnedis, CFA, CIC, Vice President
High Yield, REIT, Hedge Funds**

**Ben Lavine, CFA, Vice President
U.S. Equity, U.S. Fixed Income**

**Jason Thomas, PhD., CFA, Vice President
U.S. Equity**

**Josh Emanuel, Associate
Non-U.S. Equity, Non-U.S. Fixed Income**

**Tyler Dritz, Associate
Fund-of-Funds**

Dedicated Hedge Fund Professionals

Quantitative Research

**Chris Tessman, Associate
Jerry Hsu, Senior Analyst
Tina Lee, Senior Analyst
Eva Bautista, Analyst
Sandra Pippin, Analyst
Mike Lawrence, Analyst**



Wilshire Review

Board of Regents, State of Iowa

Investment Component	Wilshire Criteria	Status	Comments
Total Fund	Asset mix suitable for the portfolio's purpose		(+) Performed Asset Allocation Study (2002) (+) Performed Spending Policy Review (2002-3)
	Broad asset class diversification		(+) Portfolio has adequate diversification across major asset classes (-) Reduced Int'l equity exposure in 2002 from 10% to 7%. (*) Portfolio's expected risk / return profile would benefit from increasing int'l equity exposure and including additional asset classes that are currently restricted by the guidelines (private equity, high yield bonds, etc.)
	Regular rebalancing to maintain desired risk profile		
Domestic Equity	Structured to maintain style and size neutrality		(+) Reduced growth bias by hiring small value product (LSV) in 2002.
	Appropriate level of residual risk		
	Use of qualified institutional quality managers		(+) Hired LSV (6/2002), Lotsoff Capital (contract pending), Goldman Sachs (contract pending), Artison Partners Small Growth (Pending)
	Suitable use of active / passive strategies		(+) > 50% of large cap assets in passive or structured (low tracking error) strategies.
	Appropriate # of managers		
	Unambiguous benchmark for each manager		

Key:	fully complies with Wilshire's Best Practices
	partially complies with Wilshire's Best Practices
	does not comply with Wilshire's Best Practices



Wilshire Review

Board of Regents, State of Iowa

International Equity	Structured to provide exposure to all non-U.S. markets		(+) Broad diversification with current Int'l Equity Manager and revised policy (4q/2003)
	Appropriate level of residual risk		
	Use of qualified institutional quality managers		(+) Hired GMO upon AllianceBernstein termination 3/2004.
	Suitable use of active strategies		(+) 100% actively managed.
	Appropriate # of managers		(+) Consolidated all international equity investments with GMO 2004.
	Unambiguous benchmark for each manager		(+) MSCI EAFE
Fixed Income	Duration target suitable for the portfolio's purpose		(+) Managers generally maintain market duration in the aggregate.
	Structured to provide exposure to all market segments		(+) Diversified across investment grade bond market () restricted in ability to invest in high yield bonds
	Appropriate level of residual risk		
	Use of qualified institutional quality managers		(+) Hired Reams (9/2002) (+) Hired Dodge & Cox upon termination of Invesco (3/2004)
	Suitable use of active strategies		(+) 100% actively managed
	Appropriate # of managers		
	Unambiguous benchmark for each manager		(+) Manager benchmarks are appropriate.
Other	Conduct thorough quarterly performance reviews		
	Maintain a well-articulated Investment Policy Statement		(+) New policy revised 4q/2003.
	Maintain well-articulated manager guidelines		(+) Guidelines revised and customized per manager
	Have each active manager present a review annually		
	Investment education		

Key:	fully complies with Wilshire's Best Practices
	partially complies with Wilshire's Best Practices
	does not comply with Wilshire's Best Practices



Value Added Activity Report: An Extension of Staff

2002

- Asset Allocation Review – Analysis of the Plans' Asset Allocation Mix
- Asset Allocation and Investment Structure Work
 - Discontinued use of balanced portfolio to reduce relative risk and increase ability to monitor performance
 - Introduce S&P 500 Index for risk control, fee savings, and reduction of manager specific risk
 - Introduced small cap value (LSV) to reduce growth bias in the portfolio
 - Fixed Income Manager Search (Hired Reams) for diversification & reduction of manager specific risk
- Performance Measurement, Manager Monitoring & Review
- Spending Policy Analysis & Simulation

2003

- Spending Policy Analysis & Simulation – Supplemental Information and Analysis
- Short Duration Fixed Income Manager Search for Operating Portfolios
- Investment Policy Statement Development and Review for Endowment and Operating Portfolios
 - Allowed for increased diversity with appropriate risk controls
 - Clearer delineation of Operating and Endowment portfolios
 - Enhanced the clarity of the document
- Performance Measurement, Manager Monitoring & Review



Value Added Activity Report: An Extension of Staff

2004

- Expedited Portfolio Transition
- Conducted International Equity Search (Grantham, Mayo Von Otterloo)
- Conducted Fixed Income Manager Search (Dodge & Cox)
- Conducted Large Cap Core Manager Search & Optimal Structure (Lotsoff Capital & Goldman Sachs)
- Conducted Small Cap Growth Manager Search (Pending)
- Performance Measurement, Manager Monitoring & Review

Ongoing Services

- Performance Reporting / Reconciliation / Portfolio Analytics/ Universe Comparisons
- Fee Negotiation
- Custom Investment Manager Guideline Development & Review
- Topical Consulting
- Access to Wilshire Research
- Participation in Wilshire's Annual Client Conference



Asset Growth (from 3/31/96 – 9/30/04)

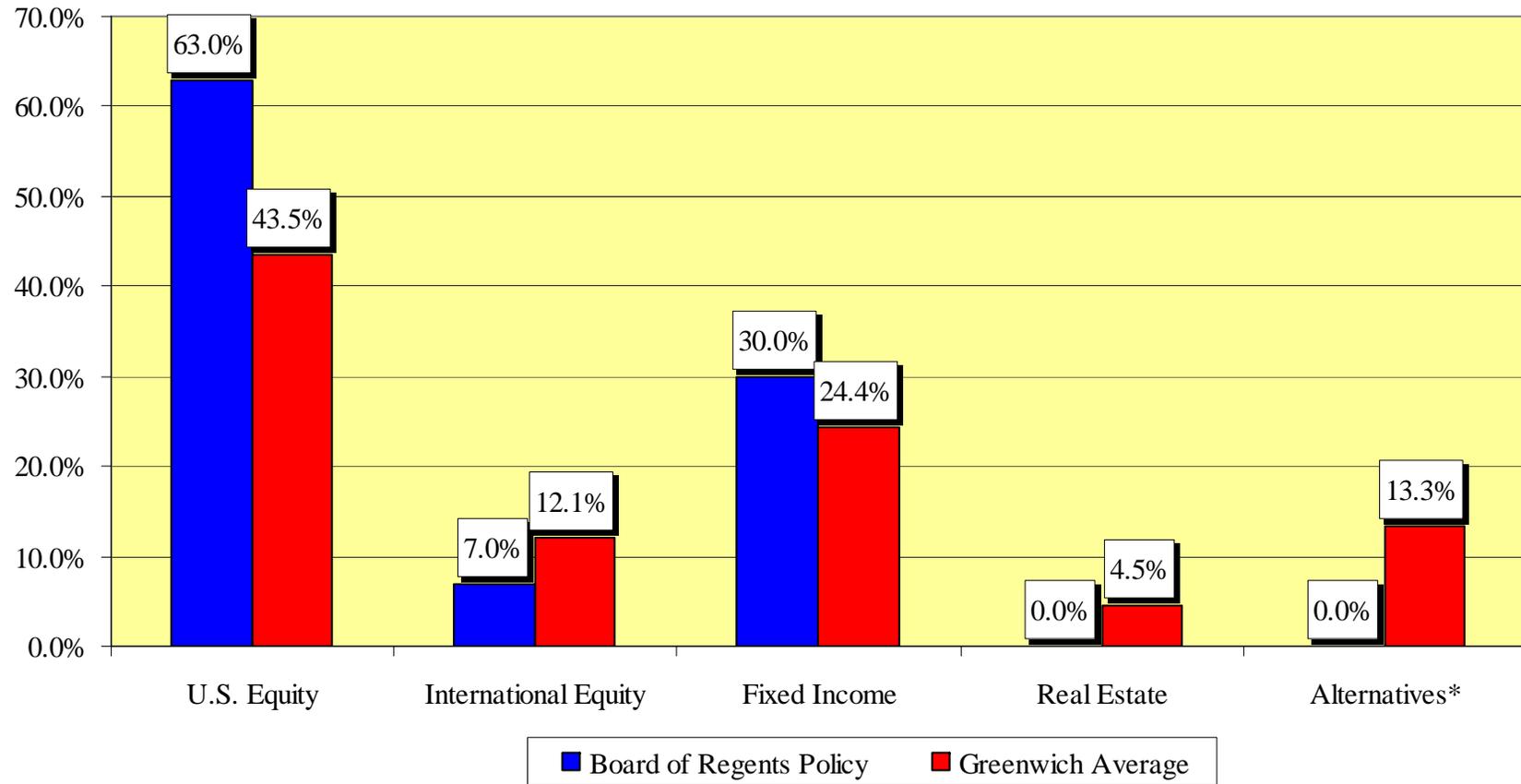
	University of Iowa Endowment	University of Iowa Quasi*	Iowa State University Endowment	Total Combined Assets
Beginning Assets	\$ 33,742	\$ 16,997	\$ 55,114	\$ 105,853
Net Cash Flows	\$ 34,763	\$ 39,702	\$ (49,906)	\$ 24,559
Investment Gain	\$ 118,486	\$ 36,265	\$ 110,997	\$ 265,748
Ending Assets	\$ 186,992	\$ 92,963	\$ 116,205	\$ 396,160

* The quasi endowment's time period is from 3/31/97 – 9/30/04)



Asset Allocation Comparison to Greenwich Study

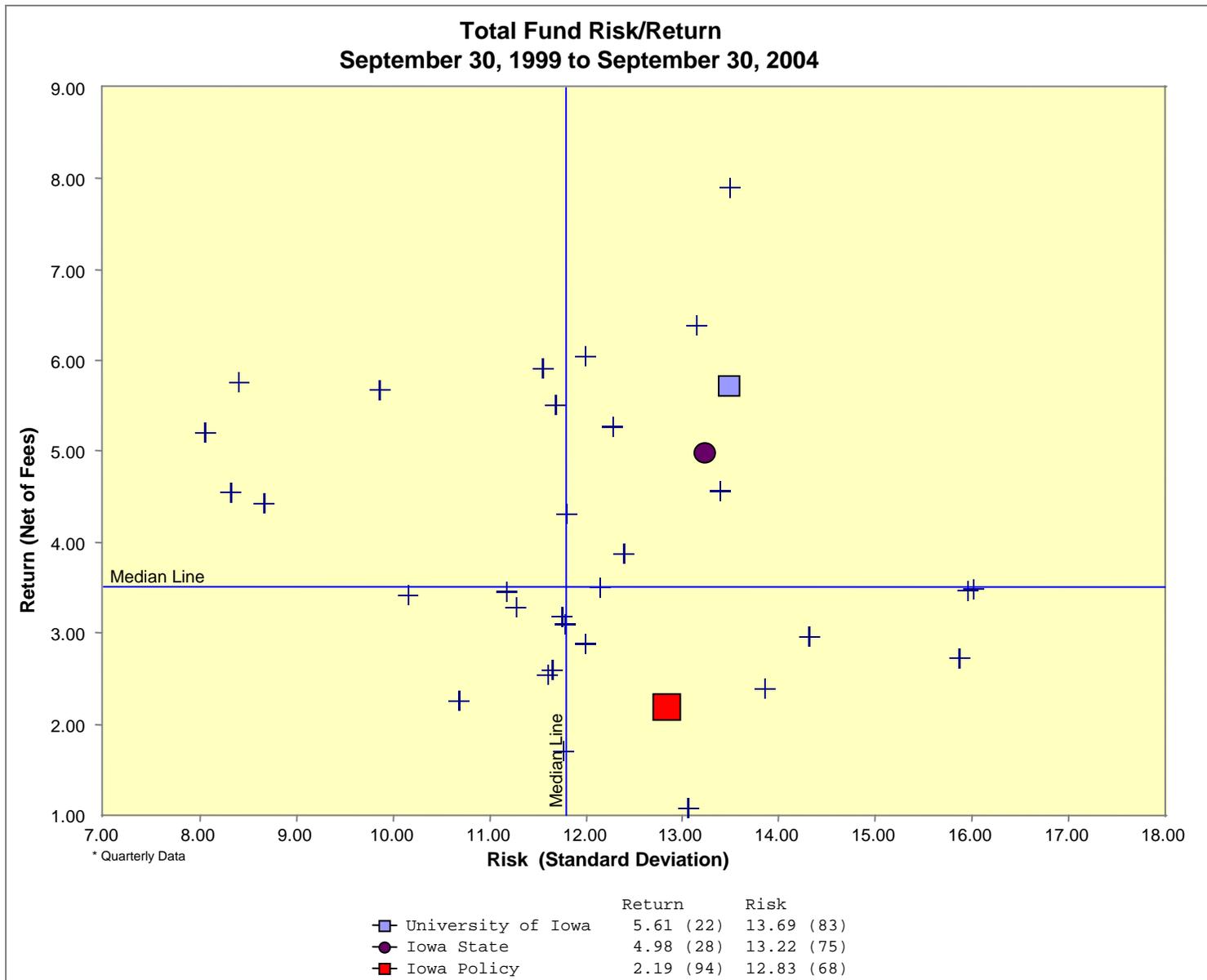
Board of Regents Policy vs. Greenwich Average (2003 Endowment & Foundations \$250-500 Million)



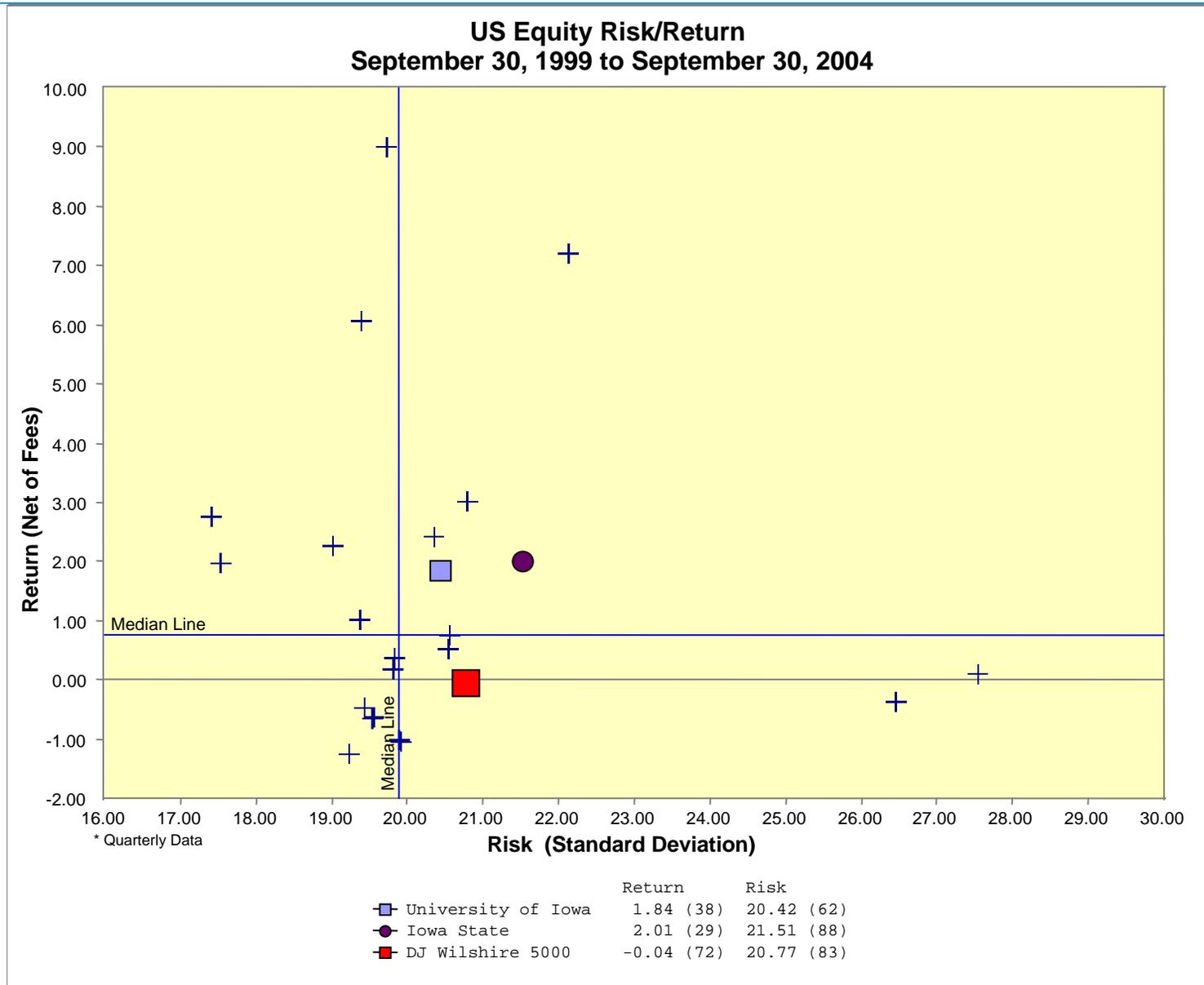
* Alternatives consist of private equity and hedge funds



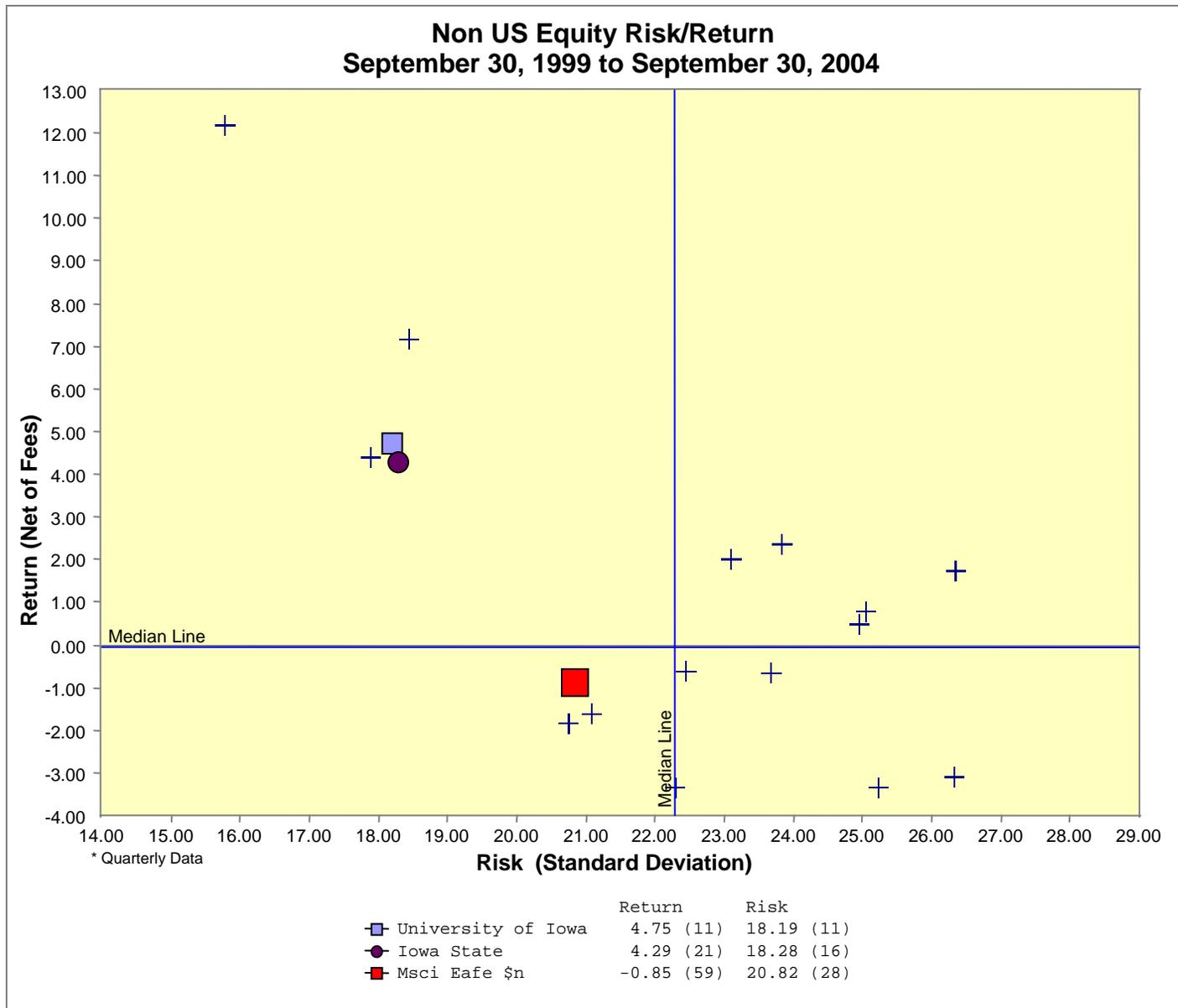
Total Fund vs. Wilshire Foundation\Endowment Total Fund Universe



US Equity vs. Wilshire Foundation\Endowment US Equity



Non-US Equity vs. Wilshire Foundation\Endowment Non-US Equity



US Fixed Income vs. Wilshire Foundation\Endowment US Fixed Income

