

BOARD OF REGENTS
BANKING COMMITTEE

June 20, 2002

The Banking Committee of the Board of Regents met on Thursday, June 20, 2002, at Iowa State University, Ames, Iowa.

Those present were:

Banking Committee members: Regents David Fisher (chair), Amir Arbisser, Mary Ellen Becker, David Neil, and Owen Newlin.

Others in attendance were:

Institutional representatives: Mary Sue Coleman, Douglas True, Ann Madden Rice, Cynthia Bartels, Gregory Geoffroy, Ben Allen, Warren Madden, Mark Chidister, Brad Dye, Joan Thompson, Sheryl Rippke, Robert Koob, Tom Schellhardt, Gary Shontz, Jim Heuer and Luann Woodward;

Mark Brubaker, Wilshire Associates;

Barry Fick, Springsted; and

Board Office: Pamela Elliott, Joan Racki, Deb Hendrickson, and Barb Briggie.

Regent Fisher called the meeting to order at 8:45 a.m.

APPROVE MINUTES OF THE MAY 2002 BANKING COMMITTEE MEETING.

MOTION: Regent Neil moved to approve the minutes of the May 15, 2002, Banking Committee meeting, as written. Regent Becker seconded the motion.
MOTION CARRIED UNANIMOUSLY.

RESOLUTION AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF UNIVERSITY OF IOWA FACILITIES CORPORATION (MEDICAL EDUCATION AND BIOMEDICAL RESEARCH FACILITY PROJECT) \$7,810,000 REVENUE BONDS, SERIES 2002.

Vice President True stated that this was the final piece of funding for construction of the Medical Education and Biomedical Research Facility. Early that afternoon, the University of Iowa Facilities Corporation will act to authorize the bonds.

Mr. Fick stated that bids would be received at 10:00 a.m. The bond market remains favorable and he anticipated receipt of a favorable interest rate.

Regent Fisher noted that the Board's legal advisors were not in attendance. He asked that the recommended action be approved, pending any comments they might have.

MOTION: Regent Arbisser moved to recommend that the Board adopt A Resolution Authorizing and Approving the Execution and Delivery of the Ground Lease and the Lease and 2002 Amendments thereto, the Indenture, the Second Supplemental Indenture, the Bond Purchase Agreement, the Tax Exemption Certificate and the Continuing Disclosure Certificate, and Authorizing and Providing for the Issuance of University of Iowa Facilities Corporation (Medical Education and Biomedical Research Facility Project) \$7,810,000 Revenue Bonds, Series 2002, and Providing for the Payment Thereof. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR THE SALE OF \$7,000,000 ACADEMIC BUILDING REVENUE PROJECT NOTES, SERIES ISU 2002.

Vice President Madden stated that the proposal would change the funding source for the \$7 million the legislature deappropriated in the last special session for the construction of Hoover Hall. The \$7 million appropriation was transferred back into the general fund to help address the state budget shortfall. The legislature also authorized the issuance of Academic Building Revenue Bonds to replace the appropriation. The legislature will also appropriate the funds to pay off the debt in the following year (FY 2004). Therefore, it was recommended that Project Notes be issued to provide interim financing. He said that, if everything proceeds as proposed, this would be a relatively short financing.

Mr. Fick stated that these would be short-term notes (18 months) which can be called any time after 12 months. He said the project notes were a viable alternative to money market funds for investors. Springsted has been in contact with underwriters and rating agencies, and favorable responses are expected.

President Newlin asked if this process will cost Iowa State University more money to build the building. Vice President Madden said there will be administrative costs for the note

issuance. Some interest will also be paid on the notes. The interest cost can be paid from the tuition replacement appropriation, which would be increased modestly. To the extent the state meets its obligation, the state will incur some additional cost, but it should not require additional Iowa State University funds.

MOTION: Regent Neil moved to recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of \$7,000,000 Academic Building Revenue Project Notes, Series I.S.U. 2002. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

COSTS OF BOND ISSUANCE.

Associate Director Racki stated that the continuing report on the cost of bond issuances included costs for the Student Union Revenue Bonds, Series U.N.I. 2002.

Regent Fisher thanked Associate Director Racki for the good report.

ACTION: Regent Fisher stated the Banking Committee received the report on the issuance costs related to the Student Union Revenue Bonds, Series U.N.I. 2002, by general consent.

INVESTMENT AND CASH MANAGEMENT REPORT FOR FY 2002, THIRD QUARTER.

Director Elliott stated that the Regent institutions maintain two investment portfolios – operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds. As of March 31, 2002, total Regent combined operating and endowment portfolios were almost \$1.2 billion. The market value of the combined operating portfolios totaled \$875.9 million. The university operating investment portfolios performed in line with comparable industry standards. She said Wilshire Associates prepared the summary report on the endowment portfolio which totals \$324 million. The combined investment managers' returns for the University of Iowa and Iowa State University endowment portfolios were 1.0% and 0.9% respectively for the quarter. Wilshire reported that performance of the investment managers was close to their respective benchmarks.

Director Elliott stated that, at its January 2002 meeting, the Board adopted policy changes as a result of a comprehensive review of its investment policy and a significant endowment investment pursuant to the Principal demutualization. The investment policy changes were not implemented during this quarter due to uncertainty of anticipated legislative action. As of March 31, 2002, the Principal demutualization proceeds were retained in short-term liquid assets. HF 2623 of the 2002 regular legislative session required the Board of Regents to transfer \$30 million of these proceeds to the state general fund. She said the benchmarks and asset allocation do not reflect any change in the policy adopted in January because the Principal demutualization proceeds have not yet been invested.

Regent Fisher asked if the \$30 million had been given to the state. Director Elliott responded affirmatively.

Regent Becker said she did not understand the difference between the following two statements in the meeting materials that 1) as of March 31, 2002, total Regent combined operating and endowment portfolios was almost \$1.2 billion, and (2) the market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$875.9~~35.3~~ million. Director Elliott responded that those are two different portfolios. Each institution basically manages its own operating portfolio, the combination of which total \$875.9 million. The endowment portfolios, which total \$324 million, are managed by external fund managers. These two total the \$1.2 billion. Institutional officials self report performance of the operating portfolios to the Banking Committee.

Mr. Brubaker presented a summary of the market review, as provided in Wilshire's materials. He said the S&P 500 at the end of March was relatively flat. The equities market had a rough "go" of it. The EAFE (Europe, Asia and the Far East) index was up roughly the same as the U.S. for the quarter.

President Newlin asked how far back one would have to go before EAFE looks good. Mr. Brubaker responded that one would have to go back at least 20 years. In the 1970s, international stocks outperformed U.S. stocks. In the 1980s, international stocks dramatically outperformed U.S. stocks. In the 1990s, the trend was dramatically reversed. He stated that if two factors were removed – the Japan effect, which is 5 percent/year, and the impact of changes in exchange rates – international stocks would have had higher returns than U.S. stocks for the past 10 years. He said the 1990s was an incredibly unusual period for U.S. stocks. Wilshire Associates feels strongly that today international stocks are priced more attractively than U.S. stocks. He said the EAFE is weighted 20 percent to Japan today. In the late-1980s, Japan was 60 percent of the EAFE index. Iowa's Regent universities' portfolios are under-weighted in international equities relative to their peers, which has been helpful. Year-to-date through the preceding day, the S&P

index was down 6 percent and the international index was down 4.2 percent. He said the international equities have played a diversifying role in the university portfolios and have reduced the risk. Wilshire Associates continues to strongly favor international stocks.

Mr. Brubaker next stated that emerging markets have experienced a tremendous rebound. He noted that the markets do not move in tandem except that, in the 1990s, technology and telecom equities did so. He anticipates a more normal environment going forward. Fixed income returns were basically flat for the quarter. He stated that what was weighing down the U.S. equity market is a total mistrust of corporate management, which he anticipates will continue until reforms are made and trust is restored.

President Newlin asked if reform will be done by the industry or by the courts. Mr. Brubaker said he believed that it would be a combination of both.

With regard to total fund results, Mr. Brubaker said relative returns have been excellent, to which all of the Board's managers contributed. Invesco, Seneca and Sanford Bernstein all outperformed their benchmarks. He said the long-term results have been excellent. With no exceptions, all of the managers have done a good job. He then presented a summary of the quarterly results for each of the portfolios, as provided by Wilshire Associates for this meeting.

Wilshire Associates is working on issues with respect to clarifying the state's statutes and the State Treasurer's investment policies regarding real estate investments. Mr. Brubaker said the desire is to get clarification before making investments to Barclays Global Investors and LSV Asset Management.

President Newlin asked if there are any other state entities that have invested in real estate. Mr. Brubaker said he did not know, although IPERS does have an exclusion.

Director Elliott responded that options are being reviewed, including seeking advice from the Attorney General's office.

ACTION: Regent Fisher stated the Banking Committee received the investment and cash management reports for the quarter ended March 31, 2002, by general consent.

COLLEGE OF DESIGN COMPUTER LEASE PROGRAM (ISU).

Vice President Madden stated that, a year ago, Iowa State University's College of Design began a computer leasing program, which was very successful. There were no student defaults. Participation is voluntary. He said certain software packages are placed on the

personal computers at quite a savings to the students. University officials have worked out financing arrangements through U.S. Bank.

Regent Fisher asked if the computers are purchased by the students. Vice President Madden responded that the computers are leased to students. At the end of the student's academic career, the title transfers to the student for \$1. In order to get the software licensing, it must be leased to the students. He noted that the College of Design is moving to a wireless environment where students can operate their machines anywhere in the building.

President Newlin asked if students can access computer-aided design on the computers. Vice President Madden responded affirmatively.

Vice President Madden stated that University officials are considering expanding the computer leasing program to other parts of the University. He noted that the computers are competitively bid. Dell and Apple computers are currently being used. Apple has come out with a new version of the Macintosh. Students can choose which computer to lease.

President Geoffroy noted that an important component of the program is that the lease cost is allowable for student financial aid.

Regent Fisher said it was a good program.

MOTION: Regent Neil moved to approve a taxable loan of up to \$750,000 through US Bank for the purchase of up to 250 Dell and Apple laptop computers and program specific software, for the purpose of leasing computers to students. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

INTERNAL AUDIT REPORTS.

Director Elliott stated that this month's report included new audit reports from Iowa State University and the status of internal audit follow up. She noted that next month, the Banking Committee will be presented with the internal audit plans for next year and progress on the current year's plan.

Director Rippke stated that five internal audits for Iowa State University were presented, as follows: Department of Agricultural and Biosystems Engineering, Department of Electrical and Computer Engineering, Department of Residence Accounting, NCAA

receivables Office. She noted that the Receivables Office audit
The internal auditors will continue to follow-up on the remaining


Gregory S. Nichols
Executive Director

Director Rippke was comfortable with the management's
...e responded affirmatively. She said that if she does not get a
sufficient response, the auditor goes "up the ladder" a little bit.

Regent Fisher asked if Director Rippke has fewer staff because of the budget difficulties.
Director Rippke responded affirmatively. In addition to herself, there are two auditors and
an assistant. The office has been reduced by one auditor position.

ACTION: Regent Fisher stated the Banking Committee, by general consent, (1) received
the following five internal audit reports from Iowa
State University: Department of Agricultural and
Biosystems Engineering, Department of Electrical
and Computer Engineering, Department of
Residence Accounting, NCAA Compliance Part 3,
and Receivables Office; and (2) received the report
on the status of the internal audit follow-up reports,
which included three follow-up reports.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 9:19 a.m. on June 20, 2002.


Pamela M. Elliott
Director, Business and Finance


Gregory S. Nichols
Executive Director