

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Investment and Cash Management Report for the Quarter Ended September 30, 2003
Date: December 4, 2003

Recommended Action:

Receive the Investment and Cash Management Reports for the quarter ended September 30, 2003.

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, 2002 and September 30, 2003

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Sep 2002</u>	<u>Sep 2003</u>	<u>Sep 2002</u>	<u>Sep 2003</u>
University of Iowa ¹	\$528,668	\$510,521	\$253,094 ²	\$271,950 ²
Iowa State University	290,915	310,342	96,836 ³	110,165 ³
University of Northern Iowa	73,921	75,224	-	-
Iowa School for the Deaf	2,572	1,595	-	-
Iowa Braille & Sight Saving School	<u>752</u>	<u>146</u>	<u>-</u>	<u>-</u>
Total	<u>\$896,828</u>	<u>\$897,828</u>	<u>\$349,930</u>	<u>\$382,115</u>

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of September 30, 2003, the Regent combined operating and endowment portfolios total \$1.3 billion.

Operating

The market value of the combined operating portfolios, as reported by the Regent institutions, total \$897.8 million as of September 30, 2003, and represent a point in time during operations. The universities operating, restricted, and unrestricted portfolios were a mix of underperformance and outperformance compared to industry standards. The two external fund managers for the operating portfolios, BlackRock and Wellington, outperformed and equaled industry standards, respectively.

Endowment

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment/quasi-endowment portfolio, which totaled \$382.1 million for the quarter.

The University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios totaled \$177.6 million and \$110.2 million, respectively, as of September 30, 2003. The combined investment managers' returns for the quarter were 2.3% for SUI and 2.2% for ISU, while the blended asset allocation benchmark posted returns of 2.9%. The SUI endowment portfolio had investment gains of \$4.1 million for the quarter while ISU had gains of \$2.4 million.

The SUI quasi-endowment totaled \$94.4 million and returned -0.1% for the quarter ended September 30, 2003, which slightly outperformed the benchmark of -0.2%.

Wilshire reported that, for the quarter, Reams outperformed its benchmark; Invesco (stocks) and Vanguard equaled or were comparable to their benchmarks; and Invesco (bonds), Alliance Bernstein, Seneca, and LSV Asset Management underperformed their benchmarks.

Investment Issues One corporate bond held by Reams Asset Management, which has been below investment grade, was downgraded further as of the quarter ended September 30, 2003. Reams continues to hold the bond.

The University of Iowa internal auditors reported that:

- SUI's operating portfolio was not within the maturity allocation ranges currently in place in the Board's investment policy; and
- Seven securities totaling \$4.9 million were purchased for the operating portfolio that exceed the maximum maturity term of the current policy. These investments would comply with the proposed changes to the investment policy initially presented to the Board for consideration in October 2003 and for approval this month. (See G.D. 6.)

The internal auditors verified that remaining investment purchases and holdings for the quarter ended September 30, 2003, were in compliance with respective Board and institutional investment policies.

National Investment Issues In response to the recent publicity regarding trading scandals, Wilshire has issued a report on industry trading practices and issues specific to two of the Board of Regents' portfolio managers, Alliance Capital and Invesco. (See Attachment A.)

- Alliance Capital is currently the subject of a regulatory investigation for mutual fund trading practices. (See Attachment B.)
 - Invesco has been charged with improper mutual fund trading. Wilshire reports that there is no reason to believe that the institutional management group or the portfolios being managed for the Board of Regents by Invesco is affected by this activity. A detailed manager research report on Invesco is in process.
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Background and Analysis:

The Board delegates the authority for monitoring institutional investment and treasury management practices and performance to the Banking 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 policy of the Board of Regents is to maintain the financial health of the institutions it governs by ensuring compliance with investment practices that preserve principal, ensure liquidity sufficient for anticipated needs, and maintain purchasing power of investment assets.

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.

As required by Board policy, university internal auditors verified operating investment transactions and holdings for compliance at their respective universities. Iowa School for the Deaf operating investments were reviewed by the University of Iowa internal auditors, while the Iowa Braille and Sight Saving School operating investments were reviewed by the Iowa State University internal auditors. The University of Iowa internal auditors also verified 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. Wilshire Associates has been the Board's investment advisor since May 1996.

The Banking Committee established an asset allocation policy of 63% equities, 30% fixed income, and 7% international equities with specific investment manager allocations and target ranges. The policy is reviewed annually.

**OPERATING
PORTFOLIOS**

Board policies permit the institutions to invest operating funds in short-term, cash equivalent investments such as U.S. government bills, money market accounts, and secure commercial paper, as well as U.S. government notes, agency securities, and corporate notes with maturities not to exceed 63 months.

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, 2003

	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>	<u>Wellington</u>	<u>Total</u>
SUI	\$238,226	\$80,803	\$140,692	\$50,800	\$510,521
ISU	112,399	88,996	108,947	N/I	310,342
UNI	31,957	24,587	18,680	N/I	75,224
ISD	1,351	5	239	N/I	1,595
IBSSS	<u>146</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>146</u>
	\$384,079	\$194,391	\$268,558	\$50,800	\$897,828

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 14 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, 2003

	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>	<u>Wellington</u>
SUI	0.32%	-0.13%	0.42%	0.40%
ISU	0.40%	0.17%	0.45%	N/I
UNI	0.10%	0.21%	0.47%	N/I
ISD	0.42%	0.42%	0.45%	N/I
IBSSS	0.25%	N/I	N/I	N/I

N/I No investments of this type.

The comparable industry standard rates of return for the quarter ended September 30, 2003, include the Merrill Lynch 1-3 year Government/Agency Index rate of 0.41% and the 91-day T-bill rate of 0.24%.

Operating Investment Portfolios Summary
Unrestricted, Restricted, BlackRock, and Wellington
For the Quarter Ended September 30, 2003

	<u>Market Value</u>	<u>Percent Market Value</u>
University of Iowa		
Money Market / Cash Equivalents	\$196,376,992	38.5%
U.S. Obligations	101,251,750	19.8%
Agency Securities	130,071,190	25.5%
Corporate Notes and Bonds	81,877,828	16.0%
Municipals	<u>943,309</u>	<u>0.2%</u>
Total	\$510,521,069	100.0%
Iowa State University		
Money Market / Cash Equivalents	\$105,059,826	33.9%
U.S. Obligations	104,135,514	33.6%
Agency Securities	71,490,678	23.0%
Corporate Notes and Bonds	29,050,719	9.3%
Municipals	<u>605,194</u>	<u>0.2%</u>
Total	\$310,341,931	100.0%
University of Northern Iowa		
Money Market / Cash Equivalents	\$20,128,982	26.8%
U.S. Obligations	20,248,707	26.9%
Agency Securities	28,615,658	38.1%
Corporate Notes and Bonds	6,124,774	8.1%
Municipals	<u>106,322</u>	<u>0.1%</u>
Total	\$75,224,443	100.0%
Iowa School for the Deaf		
Money Market / Cash Equivalents	\$1,368,971	85.8%
U.S. Obligations	123,547	7.8%
Agency Securities	37,550	2.3%
Corporate Notes and Bonds	63,631	4.0%
Municipals	<u>1,326</u>	<u>0.1%</u>
Total	\$1,595,025	100.0%
Iowa Braille & Sight Saving School		
Money Market / Cash Equivalents	\$10,697	7.3%
Repurchase Agreements	<u>135,373</u>	<u>92.7%</u>
Total	\$146,070	100.0%
Regent Composite		
Money Market / Cash Equivalents	\$322,945,468	36.0%
U.S. Obligations	225,759,518	25.1%
Agency Securities	230,215,076	25.7%
Corporate Notes and Bonds	117,116,952	13.0%
Municipals	1,656,151	0.1%
Repurchase Agreements	<u>135,373</u>	<u>0.1%</u>
Total	\$897,828,538	100.0%

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

**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.

Board policies permit endowment funds to be invested in investment grade, long-term fixed income securities and high quality equities that may produce both income and growth, with a targeted return to exceed inflation by 2% to 3% for bonds, by 4% to 6% for domestic stocks, and by 7% for foreign stocks (after exchange transactions and currency conversions).

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 has authorized the following fund managers for the Regent endowment portfolios:

Invesco, a Regent fund manager since April 1989, manages large capitalization core domestic equity portfolios and market core domestic fixed income portfolios separately. Until January 2002, Invesco had managed balanced portfolios of U.S. equity and fixed income.

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

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

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

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.

Alliance Bernstein has managed the international value equity portfolios since June 1999.

**ALLOCATION OF
ENDOWMENT
ASSETS**

The Banking 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.

Asset Allocations

Endowment Asset Allocations

Net of Fees

September 30, 2003

Investments	<u>University of Iowa</u>		<u>Iowa State University</u>		Target Range (percent)
	Value (thousands)	Value (percent)	Value (thousands)	Value (percent)	
U.S. Stocks	\$109,530	61.7%	\$71,922	65.3%	63%(+/-5%)
U.S. Bonds	55,624	31.3%	29,914	27.1%	30%(+/-5%)
International Stocks	<u>12,417</u>	<u>7.0%</u>	<u>8,329</u>	<u>7.6%</u>	<u>7%(+/-3%)</u>
Total Fund	\$177,571	100.0%	\$110,165	100.0%	100%

Asset allocations of the endowment portfolios were within the Board-established target ranges.

SUI Quasi-
Endowment

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

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

September 30, 2003

	Value (thousands)	Value (percent)	<u>Returns</u>	
			<u>Quarter</u>	<u>One Year</u>
Invesco	\$47,617	50.5%	-0.6%	4.8%
Reams	<u>46,762</u>	<u>49.5%</u>	<u>0.5%</u>	<u>5.3%</u>
Total Fund	\$94,379	100.0%	-0.1%	5.1%
100% Lehman Aggregate.			-0.2%	5.4%

There is no Board-established fund manager allocations target ranges for the quasi-endowment. Invesco underperformed the quarterly and yearly benchmarks of -0.2% and 5.4%, respectively. Reams outperformed the quarterly benchmark and was close to the yearly benchmark.

Manager Allocation
Policy

The following manager allocations, adopted by the Board in January 2002, generate the target endowment asset allocation when all managers are at policy targets (rounded to the nearest percent). The manager targets are designed to maintain the allocations within domestic equities and domestic bonds.

<u>Manager</u>	<u>Style</u>	<u>Policy</u>	<u>Rebalancing Ranges</u>
Domestic Stocks			
Invesco	Large Core	35%	+/-5%
Vanguard	Large Index	13%	+/-3%
Seneca	Mid Growth	10%	+/-2%
LSV Asset Management	Small Value	<u>5%</u>	+/-2%
Total		63%	+/-5%
Domestic Bonds			
Invesco	Core	15%	+/-5%
Reams	Core	<u>15%</u>	+/-5%
Total		30%	+/-5%
International Stocks			
Alliance Bernstein	Value	<u>7%</u>	+/-3%
Total		7%	+/-3%
Total Fund		100%	

The manager allocations of the endowment portfolios were within the Board-established target ranges.

Manager Allocations

Endowment Manager Allocations

Net of Fees
September 30, 2003

MANAGER	<u>University of Iowa</u>		<u>Iowa State University</u>	
	<u>Value (thousands)</u>	<u>Value (percent)</u>	<u>Value (thousands)</u>	<u>Value (percent)</u>
<u>Domestic Stocks</u>				
Invesco	\$60,976	34.3%	\$38,351	34.8%
Vanguard	22,771	12.8%	15,167	13.8%
Seneca	16,983	9.6%	12,557	11.4%
LSV Asset Mgmt.	<u>8,800</u>	<u>5.0%</u>	<u>5,847</u>	<u>5.3%</u>
Total	\$109,530	61.7%	\$71,922	65.3%
<u>Domestic Bonds</u>				
Invesco	\$27,794	15.6%	\$14,479	13.1%
Reams	<u>27,830</u>	<u>15.7%</u>	<u>15,435</u>	<u>14.0%</u>
Subtotal	\$55,624	31.3%	\$29,914	27.1%
<u>International</u>				
Alliance Bernstein	\$12,417	7.0%	\$8,329	7.6%
Total Fund	\$177,571	100.0%	\$110,165	100.0%

Assets are shown as invested.

**ENDOWMENT
PERFORMANCE**

The following table compares the returns of the endowment portfolios for the period ended September 30, 2003, with the established benchmarks.

Endowment Portfolios			
Net of Fees			
As of September 30, 2003			
	<u>Assets</u>	<u>Returns</u>	
	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$177,571	2.3%	19.2%
ISU	110,165	2.2%	18.9%
Asset Allocation Benchmark*		2.9%	19.9%
SUI Quasi-Endowment	<u>94,379</u>	-0.1%	5.1%
Fixed Income Benchmark **		-0.2%	5.4%
Total	\$382,115		

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

** 100% Lehman Aggregate.

*University of Iowa
Endowment*

The University of Iowa endowment assets totaled \$177.6 million as of September 30, 2003, a \$1.8 million increase over the previous quarter. For the quarter ended September 30, 2003, investment gains totaled \$4.1 million, net contributions equaled \$5.1 million, and net distributions and fees amounted to \$7.4 million.

The endowment assets held by the University of Iowa earned a return of 2.3% for the quarter, underperforming the benchmark return of 2.9%. Returns for the endowment over the one-year period were 19.2%, which underperformed the benchmark of 19.9%.

*University of Iowa
Quasi-Endowment*

The University of Iowa quasi-endowment assets totaled \$94.4 million as of September 30, 2003, a \$1.2 million decrease from the previous quarter. For the quarter ended September 30, 2003, investment losses totaled \$27,000, net contributions totaled \$44,000, and net distributions and fees amounted to \$1.3 million.

The quasi-endowment earned a return of -0.1% for the quarter, slightly outperforming the benchmark of -0.2%. The return of 5.1% for the year underperformed the benchmark of 5.4%.

*Iowa State
University
Endowment*

Iowa State University endowment assets totaled \$110.2 million as of September 30, 2003, a \$1.1 million increase over the previous quarter. For the quarter, investment gains totaled \$2.4 million, while net distributions and fees were \$3.5 million. Net contributions totaled \$2.2 million.

The Iowa State University endowment assets earned a return of 2.2% for the quarter underperforming the policy benchmark return of 2.9%. The one-year return for ISU was 18.9%, which underperformed the benchmark of 19.9%.

Investment
Managers

Invesco
Net of Fees
September 30, 2003

	Assets (thousands)	Returns		
		Quarter	One Year	Three Years
SUI				
U.S. Stocks	\$60,976	2.6%	27.1%	-5.7%
U.S. Bonds	<u>27,794</u>	-0.5%	4.8%	8.2%
	\$88,770			
SUI Quasi-Endowment				
U.S. Bonds	\$47,617	-0.6%	4.8%	8.0%
ISU				
U.S. Stocks	30,888	2.5%	26.6%	-5.8%
U.S. Bonds	<u>10,208</u>	-0.5%	5.0%	8.2%
	\$41,096			
ISU 93 Trust				
U.S. Stocks	7,463	2.5%	27.2%	-5.7%
U.S. Bonds	<u>4,271</u>	-0.5%	4.8%	8.3%
	\$11,734			
Total	<u>\$189,217</u>			
Benchmark – U.S. Stocks ¹		2.6%	24.4%	-10.2%
Benchmark – U.S. Bonds ²		-0.2%	5.4%	9.0%

1 S&P 500.

2 100% Lehman Aggregate.

Invesco
Performance

Invesco manages the Regent portfolio of U.S. stocks and U.S. bonds separately, as approved by the Board in January 2002.

Stocks

For the quarter ended September 30, 2003, Invesco's performance in U.S. stocks included returns of 2.6% for the SUI endowment, 2.5% for the ISU endowment, and 2.5% for the ISU 93 Trust. These returns equaled or were close to the benchmark of 2.6%.

Wilshire reported that stock selection within the materials, financials and health care sectors primarily contributed to the portfolio's underperformance for the quarter. Underweighting to the consumer staples and utilities sectors positively affected performance. Underweighting to the information technology sector detracted from performance.

For the year ended September 30, 2003, Invesco's performance in U.S. stocks included returns of 27.1% for the SUI endowment, 26.6% for the ISU endowment, and 27.2% for the ISU 93 Trust. These returns all outperformed the benchmark of 24.4%.

Bonds

For the quarter ended September 30, 2003, Invesco's U.S. bond performance included returns of -0.5% for the SUI endowment, -0.6% for the SUI quasi-endowment, -0.5% for the ISU endowment, and -0.5% for the ISU 93 Trust. These returns all underperformed the benchmark of -0.2%.

For the year ended September 30, 2003, Invesco's U.S. bond performance included returns of 4.8% for the SUI endowment, 4.8% for the SUI quasi-endowment, 5.0% for the ISU endowment, and 4.8% for the ISU 93 Trust. These returns all underperformed the benchmark of 5.4%.

Vanguard			
Net of Fees			
September 30, 2003			
	<u>Assets</u>	<u>Returns</u>	
	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$22,771	2.6%	24.6%
ISU	<u>15,167</u>	2.6%	24.4%
Total	\$37,938		
Benchmark: S&P 500		2.6%	24.4%

Vanguard performance

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

Returns for both SUI and ISU equaled or slightly outperformed the S&P 500 benchmarks of 2.6% and 24.4%, respectively.

This was the first full year for investments with Vanguard.

Seneca Capital Management				
Net of Fees				
September 30, 2003				
	<u>Assets</u>	<u>Returns</u>		
	(thousands)	<u>Quarter</u>	<u>One Year</u>	<u>Three Years</u>
SUI	\$16,983	2.5%	18.0%	-19.5%
ISU	10,564	2.3%	17.5%	-20.6%
ISU 93 Trust	<u>1,993</u>	2.4%	18.0%	-20.3%
Total	\$29,540			
Benchmark: Russell 2500 Growth		10.0%	41.5%	-12.7%

Seneca performance

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

For the quarter, Seneca Capital Management returned 2.5% for the SUI endowment, 2.3% for the ISU endowment, and 2.4% for the ISU 93 Trust. These returns significantly underperformed the Russell 2500 Growth Index return of 10.0%.

For the one-year period, Seneca Capital Management returned 18.0% for SUI, 17.5% for ISU and 18.0% for the ISU 93 Trust. One-year returns significantly underperformed the Russell 2500 Growth Index of 41.5%. Three-year returns underperformed the Russell 2500 Growth Index of -12.7%.

Wilshire reported that stock selection within the consumer discretionary, and industrials and health care sectors primarily contributed to Seneca's underperformance for the quarter. Adding to the portfolio's performance was stock selection within the financials sector. Overweighting to the energy and consumer discretionary sectors detracted from performance.

LSV Asset Management

Net of Fees

September 30, 2003

	<u>Assets</u>	<u>Returns</u>	
	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$8,800	6.3%	25.6%
ISU	<u>5,847</u>	6.0%	25.4%
Total	\$14,647		
Benchmark: Russell 2500 Value		7.8%	31.2%

LSV Asset Mgmt.
performance

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

Returns for the quarter and for the year underperformed the Russell 2500 Value benchmarks of 7.8% and 31.2%, respectively.

Wilshire reported that stock selection within the materials, information technology and health care sectors, along with an underweighting to the information technology sector primarily contributed to the portfolio's underperformance. Overweighting to the utilities and consumer discretionary sectors detracted from performance.

Reams Asset Management

Net of Fees

September 30, 2003

	<u>Assets</u>	<u>Returns</u>	
	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$27,830	0.4%	4.8%
SUI – Quasi-Endowment	46,762	0.5%	5.3%
ISU	<u>15,435</u>	0.3%	5.1%
Total	\$90,027		
Benchmark: Lehman Aggregate		-0.2%	5.4%

Reams
performance

For the quarter, Reams returned 0.4% for the SUI endowment, 0.5% for the SUI quasi-endowment, and 0.3% for the ISU endowment. These returns outperformed the Lehman Aggregate benchmark of -0.2%.

For the year, Reams returned 4.8% for the SUI endowment, 5.3% for the SUI quasi-endowment, and 5.1% for the ISU endowment. These returns underperformed the Lehman Aggregate benchmark of 5.4%.

Alliance Bernstein
Net of Fees
September 30, 2003

	Assets	Returns		
	(thousands)	<u>Quarter</u>	<u>One Year</u>	<u>Three Years</u>
SUI	\$12,417	6.2%	33.2%	1.3%
ISU	<u>8,329</u>	6.2%	32.0%	0.7%
Total	\$20,746			
Benchmark: MSCI EAFE (N)		8.1%	26.0%	-8.7%

Alliance Bernstein
performance

Alliance Bernstein manages an international equity portfolio that utilizes a value philosophy and intensive research in constructing portfolios.

Returns for the quarter were 6.2% for both the SUI and the ISU endowments. Both underperformed the MSCI EAFE (N) Index of 8.1%. Returns for the year of 33.2% for SUI and 32.0% for ISU. Both significantly outperformed the MSCI EAFE (N) Index benchmark of 26.0%. Three year returns outperformed the MSCI EAFE (N) Index of -8.7%.

Wilshire reported that stock selection within Japan, an underweighting to Hong Kong and Japan, and an overweighting to France primarily contributed to the portfolio's underperformance. Stock selection within the United Kingdom and sector weightings within Sweden, Ireland, and France negatively impacted performance for the quarter.

Table 1
Operating Portfolios
Quarterly Rates of Return

<i>Unrestricted Funds</i>					
	<u>9/30/02</u>	<u>12/31/02</u>	<u>3/31/03</u>	<u>6/30/03</u>	<u>9/30/03</u>
University of Iowa	1.51%	0.83%	0.50%	0.56%	0.32%
Iowa State University	1.12%	0.62%	0.44%	0.44%	0.40%
University of Northern Iowa	1.43%	0.82%	0.58%	0.78%	0.10%
Iowa School for the Deaf	0.42%	0.42%	0.41%	0.41%	0.42%
Iowa Braille & Sight Saving School	0.42%	0.37%	0.29%	0.30%	0.25%
<i>Restricted Funds</i>					
	<u>9/30/02</u>	<u>12/31/02</u>	<u>3/31/03</u>	<u>6/30/03</u>	<u>9/30/03</u>
University of Iowa	2.01%	0.83%	0.67%	0.89%	-0.13%
Iowa State University	1.43%	0.62%	0.63%	0.75%	0.17%
University of Northern Iowa	2.33%	0.55%	0.64%	0.95%	0.21%
Iowa School for the Deaf	0.69%	0.52%	0.39%	0.51%	0.42%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I
N/I = No investments of this type.					
<i>BlackRock</i>					
	<u>9/30/02</u>	<u>12/31/02</u>	<u>3/31/03</u>	<u>6/30/03</u>	<u>9/30/03</u>
University of Iowa	2.73%	0.97%	0.76%	1.05%	0.42%
Iowa State University	2.59%	0.94%	0.75%	1.05%	0.45%
University of Northern Iowa	2.74%	1.02%	0.75%	1.03%	0.47%
Iowa School for the Deaf	2.59%	0.94%	0.70%	1.00%	0.45%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I
N/I = No investments of this type.					
<i>Wellington</i>					
	<u>9/30/02</u>	<u>12/31/02</u>	<u>3/31/03</u>	<u>6/30/03</u>	<u>9/30/03</u>
University of Iowa	N/I	N/I	N/I	N/I	0.40%
N/I = No investments of this type.					

Table 2
Endowment / Quasi-Endowment Portfolios
Market Value - Accrual Basis
(In thousands)
September 30, 2003

Portfolio Manager	Endowment Market Value	1993 Trust Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Invesco					
SUI	\$88,770	-	\$47,617	\$136,387	
ISU	<u>41,096</u>	<u>\$11,734</u>	<u>-</u>	<u>52,830</u>	
Total	\$129,866	\$11,734	\$47,617	\$189,217	49.5%
Vanguard					
SUI	\$22,771	-	-	\$22,771	
ISU	<u>15,167</u>	-	-	<u>15,167</u>	
Total	\$37,938	-	-	\$37,938	10.0%
Seneca Capital Mgmt.					
SUI	\$16,983	-	-	\$16,983	
ISU	<u>10,564</u>	<u>\$1,993</u>	-	<u>12,557</u>	
Total	\$27,547	\$1,993	-	\$29,540	7.7%
LSV Asset Mgmt.					
SUI	\$8,800	-	-	\$8,800	
ISU	<u>5,847</u>	-	-	<u>5,847</u>	
Total	\$14,647	-	-	\$14,647	3.8%
Reams Asset Mgmt.					
SUI	\$27,830	-	\$46,762	\$74,592	
ISU	<u>15,435</u>	-	<u>-</u>	<u>15,435</u>	
Total	\$43,265	-	\$46,762	\$90,027	23.6%
Alliance Bernstein					
SUI	\$12,417	-	-	\$12,417	
ISU	<u>8,329</u>	-	-	<u>8,329</u>	
Total	\$20,746	-	-	\$20,746	5.4%
TOTAL					
SUI	\$177,571	-	\$94,379	\$271,950	
ISU	<u>96,438</u>	<u>\$13,727</u>	<u>-</u>	<u>110,165</u>	
Total	\$274,009	\$13,727	\$94,379	\$382,115	100.0%

Table 3 Principal Demutualization Funds (In thousands) September 30, 2003	
SUI	\$43,086
ISU	23,473
UNI	6,880
ISD	276
IBSSS	157
Board Office	<u>48</u>
Total	\$73,920



Event	<i>Trading Probe</i>
Impact	<i>Material</i>
Action	<i>Monitor</i>
Opinion	<i>Neutral</i>
Date	<i>November 2003</i>
<p>Alliance Capital General Facts</p> <p>Headquarters: New York, NY Total Assets: \$438 billion Ownership: Majority owned by AXA Financial Inc., a unit of AXA SA.</p>	
<p>Michael Poremba Associate (310) 260-7302 mporemba@wilshire.com</p>	

Alliance Capital - Trading Probe

Alliance Capital is currently the subject of a regulatory investigation by the SEC and New York State Attorney General related to mutual fund trading practices. In addition, Alliance is conducting its own internal investigation. Alliance has communicated the significant developments of these investigations with four separate press releases, which are summarized as follows:

- 9/30/03: Alliance Capital acknowledged contact with the SEC and New York State Attorney General. In addition, Alliance suspended two employees, including the portfolio manager of the Technology Fund and an executive involved with selling hedge fund products
- 11/6/03: Alliance Capital confirmed it received a Wells notice from the SEC informing it that the SEC intended to recommend that an enforcement action be brought against the firm based on market timing transactions.
- 11/10/03: Alliance Capital announced the resignations of John Carifa and Michael Laughlin. Mr. Carifa was President, COO, and Director of Alliance Capital and served as Chairman of the Board of its mutual funds. Mr. Laughlin resigned as Chairman of Alliance Capital's mutual fund distribution unit.
- 11/14/03: Alliance has recorded a third quarter charge of \$190 million to cover restitution, litigation and other costs associated with the investigation. In addition, Alliance announced the resignation of the formerly suspended employees: Gerald Malone, PM of the Technology mutual fund, and Charles Schaffran, a hedge fund sales executive.

In a series of due diligence meetings with Alliance Capital - including a November 12, 2003 meeting with Lew Sanders, CEO of Alliance Capital - Alliance has communicated that the trading practices were confined to the mutual fund division and do not impact the institutional products, or any investment professionals on the institutional side.

SUMMARY: At this point, Wilshire is comfortable with the leadership provided by Lew Sanders and hasn't seen any evidence that the institutional business was directly impacted. However, the investigation is ongoing and the impact of sanctions and penalties, additional personnel changes, and client retention is potentially significant. Wilshire will continue to monitor events and facts as they unfold and communicate any material changes to our outlook.



To: Board of Regents, State of Iowa
Cc: Pam Elliott
From: Marc E. Friedberg
Phone: (412) 434-1580
Date: December 2, 2003
Subject: *Trading Probes*

Background:

In the past several months, there has been a great deal of publicity regarding mutual fund industry practices and allegations of impropriety among some specific firms. As your consultant, we continue to monitor these activities to ascertain the potential impact to our clients' portfolios. In this document we provide a review of these issues specific to The Board of Regents, State of Iowa's portfolio managers along with Wilshire's assessment.

Manager Review:

Alliance Capital Management:

The SEC and the Office of the New York Attorney General is investigating the firm with regards to short term trading in mutual funds. Alliance, in conducting their own investigation, has identified a number of market timing relationships. Alliance has taken has asked for, and received, the resignations of top level executives that were knowledgeable about the trading activity. None of the people that have left Alliance as a result of their investigations have been directly involved in the management of the institutional portfolios.

Wilshire is taking the issues surrounding the Alliance investigations very seriously, as our clients extensively use Alliance Bernstein products. Lew Sanders, CEO of Alliance Bernstein was in our offices on November 12th to discuss the current issues surrounding the investigations. Attached to this document, we provide a detailed assessment of the situation prepared by Wilshire's Manager Research Group.

Invesco:

On December 2nd, The New York Attorney General's office and the SEC charge Invesco Funds Group and its chief executive with allowing hedge funds to make improper trades



in its mutual funds. Amvescap Plc, Invesco's parent company, announced that it would fight any charges filed against it. Amvescap will be one of the first firms to formally contest the regulatory civil actions rather than seek a settlement; the firm states that the action is "unwarranted" and that they plan to demonstrate any fund trading practices were consistent with compliance standards established by the prospectus and internal policies.

Wilshire is also taking the issues surrounding the Invesco charges very seriously, as our clients extensively use Invesco's products. Wilshire conducted a conference call on December 1st with John Rogers, CEO of Invesco Institutional to address our concerns regarding the impending charges.

It appears that these allegations are focused on the Invesco Funds Group. There is no reason to believe that the institutional management group or the portfolios being managed for the Board of Regents, State of Iowa is affected by this activity.

LSV Asset Management:

There are no issues at this time.

Reams Asset Management:

There are no issues at this time.

Seneca Capital:

There are no issues at this time.

Vanguard:

There are no issues at this time.

Wilshire's Assessment:

In circumstances where improper activity directly impacts a client's account, we have recommended termination. At this point, we do not see any evidence that the institutional business at either firm has been directly impacted. We do not see a need to recommend the termination of their or any of the Board of Regents, State of Iowa's accounts as a result of the recent issues surrounding mutual fund trading at this time. We are watching very closely any changes within Alliance and Invesco that may have a negative impact on the Board of Regents, State of Iowa's investment portfolio.