

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: BlackRock Investment Update
Date: February 12, 2001

Recommended Action:

Recommend the Board approve that BlackRock continue holding the Southern California Edison Investments.

Executive Summary:

The Regent institutions, under the governance of the Board, control two broad categories of investments – operating assets and endowment assets. The Board delegates to its Banking Committee the authority for review of investment and treasury management activities of the institutions. Since December 1996, the institutions have invested a portion of their unrestricted operating portfolios with BlackRock, an external fund manager. The institutions manage the remaining operating funds.

In November 2000, BlackRock purchased a bond issued by Southern California Edison (SoCalEd) in the operating account portfolios of the University of Iowa, Iowa State University, and the University of Northern Iowa. Currently, this security is trading at very distressed levels due to the rapidly rising cost of energy and the inability of utility companies in California to pass along the increases to customers. Standard & Poor's and Moody's have downgraded the bond to BBB- and Baa3, respectively, the lowest credit ratings in the investment grade category.

The SoCalEd bond matures on November 3, 2003, and represents less than 0.5% of the total Regent assets in each operating account. The Regent guidelines for the portfolio state that "securities must be rated investment grade or better by a nationally recognized credit rating agency at the time of purchase", but are silent as to the course of action should a security be downgraded after purchase. In the likely event that the SoCalEd bond is downgraded to below investment grade status, BlackRock recommends Board approval to continue to hold the bond because BlackRock considers it to be "money good", even under a bankruptcy scenario.

The Board's investment advisor, Wilshire and Associates, has reviewed BlackRock's recommendation and concurs with BlackRock. Wilshire and Associates will continue to monitor this situation.