

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Quarterly Investment and Cash Management Report  
**Date:** January 6, 2003

**Recommended Action:**

Receive the Investment and Cash Management Reports for the quarter ended September 30, 2002.

**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)

As of September 30, 2002

	<b><u>Operating</u></b>	<b><u>Endowment/ Quasi-Endowment</u></b>
University of Iowa <sup>1</sup>	\$528,668	\$253,094 <sup>2</sup>
Iowa State University	290,915	96,836 <sup>3</sup>
University of Northern Iowa	73,921	-
Iowa School for the Deaf	2,572	-
Iowa Braille & Sight Saving School	<u>752</u>	<u>-</u>
Total	\$896,828	\$349,930

<sup>1</sup> Includes UIHC.<sup>2</sup> Includes UNI.<sup>3</sup> Includes ISD and IBSSS.

As of September 30, 2002, total Regent combined operating and endowment portfolios were over \$1.2 billion.

**Operating**

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$896.8 million. The university operating portfolios performed in line with industry standards while BlackRock outperformed the same standards.

**Endowment**

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment / Quasi endowment portfolio, which totaled \$349.9 million.

The combined investment managers' returns for the University of Iowa (excluding the Quasi-endowment) and Iowa State University endowment portfolios were -11.5% and -11.3%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -10.6% for the quarter.

The Quasi endowment totaled \$94.4 million and returned 3.9% as of September 30, 2002. The return underperformed the benchmark of 4.6%.

Wilshire reported that the five endowment investment managers were comparable to their respective benchmarks.

Endowment Policy Implementation      In January 2002, the Board implemented a new endowment investment policy due to the significant demutualization proceeds. Because of the uncertainty of anticipated legislative actions, full implementation of the new Board policy was delayed at the direction of the Board Office. September 30, 2002, was the first quarter that the investment policy was implemented.

- Investment Issues
- One corporate bond held by Reams Asset Management was downgraded below investment grade. Reams indicated that the downgrade is believed to be associated with a bank line renewal process and not a result of fundamental deterioration in the company's long-term credit profile. Wilshire recommended that the investment be retained for the near term.
  - Two items at Iowa State University fell outside of the asset allocation policy as set forth in the Board policy. The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter. The University plans to rebalance during the quarter ending December 31, 2002.

The internal auditors verified that remaining investment purchases and holdings during the year ended September 30, 2002, were in compliance with respective Board and institutional investment policies.

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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.

**Implementation  
Issues**

As reported to the Board at its September 2002 meeting, the implementation of the Board's investment policy was delayed at the direction of the Board Office due to the uncertainty of anticipated legislative action.

Because of provisions of Iowa law, the institutions were unable to sign the investment agreement with the large index manager selected in January 2002. At its September 2002 meeting, the Board approved Vanguard as its new large capitalization index fund manager.

The Principal proceeds were distributed among the fund managers during the quarter ended September 30, 2002. A small residual of Principal funds remained in cash at the end of the quarter.

The Board's new endowment investment policy was fully implemented during the quarter ended September 30, 2002.

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**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. The institutions manage the remaining operating funds utilizing banks and brokers services.

**Operating Portfolios**  
Market Value (in thousands)  
As of September 30, 2002

	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>	<u>Total</u>
SUI	\$348,414	\$79,292	\$100,962	\$528,668
ISU	173,710	75,660	41,545	290,915
UNI	37,563	25,297	11,061	73,921
ISD	2,336	5	231	2,572
IBSSS	<u>752</u>	<u>N/I</u>	<u>N/I</u>	<u>752</u>
Total	\$562,775	\$180,254	\$153,799	\$896,828

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, 2002

	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>
SUI	1.51%	2.01%	2.73%
ISU	1.12%	1.43%	2.59%
UNI	1.43%	2.33%	2.74%
ISD	0.42%	0.69%	2.59%
IBSSS	0.42%	N/I	N/I

N/I No investments of this type.

The comparable industry standard rates of return for the quarter ended September 30, 2002, include the Merrill Lynch 1-3 year Government/Agency Index rate of 2.3% and the 91-day T-bill rate of 0.5%. Table 2 on page 15 contains investment yields for the current quarter and for the four previous quarters.

**Operating Investment Portfolios Summary**  
Unrestricted, Restricted, and BlackRock  
For the Quarter Ended September 30, 2002

	<u>Market Value</u>	<u>Percent Market Value</u>
<b>University of Iowa</b>		
Money Market / Cash Equivalents	\$161,050,420	30.4%
U.S. Obligations	99,144,697	18.8%
Agency Securities	229,427,893	43.4%
Mortgage-Backed	482,846	0.1%
Asset-Backed	<u>38,561,933</u>	<u>7.3%</u>
Total	\$528,667,789	100.0%
<b>Iowa State University</b>		
Money Market / Cash Equivalents	\$97,921,108	33.6%
U.S. Obligations	56,791,434	19.5%
Agency Securities	122,059,267	42.0%
Other – Mostly Corporate	<u>14,143,195</u>	<u>4.9%</u>
Total	\$290,915,004	100.0%
<b>University of Northern Iowa</b>		
Money Market / Cash Equivalents	\$17,202,562	23.2%
U.S. Obligations	18,994,915	25.7%
Agency Securities	33,701,355	45.6%
Other - Mostly Corporate	<u>4,021,852</u>	<u>5.5%</u>
Total	\$73,920,684	100.0%
<b>Iowa School for the Deaf</b>		
Money Market / Cash Equivalents	\$2,357,387	91.7%
U.S. Obligations	105,659	4.1%
Agency Securities	30,074	1.1%
Other - Mostly Corporate	<u>78,588</u>	<u>3.1%</u>
Total	\$2,571,708	100.0%
<b>Iowa Braille &amp; Sight Saving School</b>		
Money Market / Cash Equivalents	\$13,779	1.8%
Repurchase Agreements	<u>738,147</u>	<u>98.2%</u>
Total	\$751,926	100.0%
<b>Regent Composite</b>		
Money Market / Cash Equivalents	\$278,545,256	31.0%
U.S. Obligations	175,036,705	19.6%
Agency Securities	385,218,589	42.9%
Other - Mostly Corporate	18,243,635	2.0%
Mortgage-Backed	482,846	0.1%
Asset-Backed	38,561,933	4.3%
Repurchase Agreements	<u>738,147</u>	<u>0.1%</u>
Total	\$896,827,111	100.0%

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

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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.

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*, the second 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 its endowments.

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

Endowment funds were distributed to Reams, LSV, and Vanguard during the quarter ended September 30, 2002.

**ALLOCATION OF  
ENDOWMENT  
ASSETS**

The Banking Committee maintains the endowment asset allocation close to the established targets and periodically reviews its investment structure.

The Board approved designated specific manager allocations and ranges to assist the 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, 2002

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	\$96,691	60.9%	\$54,906	56.7%	63%(+/-5%)
U.S. Bonds	51,295	32.3%	35,544	36.7%	30%(+/-5%)
International Stocks	10,730	6.8%	6,372	6.6%	<u>7%(+/-3%)</u>
Cash	<u>28</u>	<u>0.0%</u>	<u>14</u>	<u>0.0%</u>	
Total Fund	\$158,744	100.0%	\$96,836	100.0%	100%

The asset allocations of the endowment portfolio for the University of Iowa were within the Board-established target ranges. Iowa State University's U.S. Stocks were 1.3% lower than the target range and U.S. Bonds were 1.7% higher than the target range.

The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter. ISU plans to rebalance during the quarter ending December 31, 2002.

SUI Quasi-  
Endowment

The Quasi-Endowment fund is 100% fixed income investments. The University's Quasi I fund, which was half stocks and half bonds, was merged with the University's regular endowment fund during the quarter ended March 31, 2002.

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

September 30, 2002

	Value (thousands)	Value (percent)	Returns	
			Quarter	One Year
Invesco	\$49,892	52.9%	4.6%	7.8%
Reams	44,458	47.1%	2.9%	5.6%
Total Fund	\$94,350	100.0%	3.9%	7.0%
100% Lehman Aggregate			4.6%	8.6%

There is no Board-established fund manager allocations target ranges for the Quasi-Endowment.

Manager  
Allocation Policy

The following manager allocations, adopted by the Board in January 2002, generate the new target endowment asset allocation when all managers are at policy targets (rounded to the nearest percent). The specific 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	5%	+/-2%
Total		63%	+/-5%
Domestic Bonds			
Invesco	Core	15%	+/-5%
Reams	Core	15%	+/-5%
Total		30%	+/-5%
International Stocks			
Alliance Bernstein	Value	7%	+/-3%
Total		7%	+/-3%
Total Fund		100%	

Manager  
Allocations

**Endowment Manager Allocations**  
Net of Fees  
September 30, 2002

MANAGER	University of Iowa		Iowa State University	
	Value (thousands)	Value (percent)	Value (thousands)	Value (percent)
<u>Domestic Stocks</u>				
Invesco	\$52,088	32.8%	\$30,175	31.1%
Vanguard	21,483	13.5%	12,177	12.6%
Seneca	15,461	9.8%	8,696	9.0%
LSV Asset Mgmt.	<u>7,659</u>	<u>4.8%</u>	<u>3,858</u>	<u>4.0%</u>
Total	\$96,691	60.9%	\$54,906	56.7%
<u>Domestic Bonds</u>				
Invesco	\$25,870	16.3%	\$20,867	21.5%
Reams	25,425	<u>16.0%</u>	14,677	<u>15.2%</u>
Subtotal	\$51,295	32.3%	\$35,544	36.7%
<u>International</u>				
Alliance Bernstein	\$10,730	6.8%	\$6,372	6.6%
<u>Cash</u>				
	\$28	0.0%	\$14	0.0%
Total Fund	\$158,744	100.0%	\$96,836	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, 2002, with the established benchmarks. The portfolios were behind the benchmark for the quarter and for the year.

**Endowment Portfolios**  
Net of Fees  
As of September 30, 2002

	Assets (thousands)	Returns	
		Quarter	One Year
SUI	\$158,716	-11.5%	-10.7%
ISU	96,822	-11.3%	-11.7%
Asset Allocation Benchmark*		-10.6%	-10.6%
SUI Quasi Endowment	94,350	3.9%	7.0%
Fixed Income Benchmark **		4.6%	8.6%
Cash	<u>42</u>		
Total	\$349,930		

\* 63% S&P 500, 30% Lehman Aggregate, 7% MSCI EAFE.

\*\* 100% Lehman Aggregate.

*University of Iowa Endowment* The University of Iowa endowment assets totaled \$158.7 million as of September 30, 2002, a \$30.3 million increase over the previous quarter. For the quarter ended September 30, 2002, investment losses totaled \$17.4 million, net contributions equaled \$22.4 million while net distributions and fees amounted to \$25.0 million. Principal Financial demutualization proceeds of \$50.3 million were added to the portfolio.

The endowment assets held by the University of Iowa earned a return of -11.5% for the quarter, underperforming the benchmark return of -10.6% by 0.9%. Returns for the endowment over the one-year period were -10.7%, which were just under the benchmark of -10.6%.

*University of Iowa Quasi Endowment* The University of Iowa Quasi endowment assets totaled \$94.4 million as of September 30, 2002, a \$2.6 million increase over the previous quarter. For the quarter ended September 30, 2002, investment gains totaled \$3.7 million, net contributions equaled \$10.0 million while net distributions and fees amounted to \$11.2 million.

The Quasi endowment earned a return of 3.9% for the quarter and 7.0% for the year. Both were lower than their respective benchmarks of 4.6% and 8.6%.

*Iowa State University Endowment* Iowa State University endowment assets totaled \$96.8 million as of September 30, 2002, a \$14.4 million increase over the previous quarter. For the quarter, investment losses totaled \$10.6 million, while net distributions and fees were \$8.4 million. Net contributions totaled \$9.1 million. Principal Financial demutualization proceeds of \$24.2 million were added to the portfolio.

The Iowa State University endowment assets earned a return of -11.3% for the quarter underperforming the policy benchmark return of -10.6%. The one-year return for ISU was -11.7%, which was lower than the one-year benchmark of -10.6%.

Investment Managers	Invesco Net of Fees September 30, 2002			
	Assets (thousands)	Quarter	Returns One Year	Three Years
SUI				
U.S. Stocks	\$52,088	-19.9%	-22.5%	-11.5%
U.S. Bonds	<u>25,870</u>	4.5%	7.3%	8.8%
	<b>\$77,958</b>			
SUI Quasi Endowment				
U.S. Bonds	<b>49,892</b>	4.6%	7.8%	8.7%
ISU				
U.S. Stocks	24,254	-20.2%	-22.5%	-11.4%
U.S. Bonds	<u>15,846</u>	4.7%	7.3%	8.6%
	<b>\$40,100</b>			
ISU 93 Trust				
U.S. Stocks	5,921	-20.1%	-22.7%	-11.8%
U.S. Bonds	<u>5,021</u>	4.9%	7.7%	8.9%
	<b>\$10,942</b>			
<b>Total</b>	<b>\$178,892</b>			
Benchmark – U.S. Stocks <sup>1</sup>		-17.3%	-20.5%	-12.9%
Benchmark – U.S. Bonds <sup>2</sup>		4.6%	8.6%	9.4%

1 S&P 500.

2 100% Lehman Aggregate.

Invesco Performance Invesco now 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, 2002, Invesco's performance in U.S. stocks included returns of -19.9% for the SUI endowment, -20.2% for the ISU endowment, and -20.1% for the ISU 93 Trust. These returns underperformed the benchmark of -17.3%.

Wilshire reported that stock selection within the industrials and materials sectors had a positive impact on the portfolio while underweighting to the health care and consumer staples sectors and overweighting to the telecommunication sector had a negative impact on the portfolio's performance. Stock selection within the consumer discretionary, financials, and information technology sectors detracted from performance.

For the year ended September 30, 2002, Invesco's performance in U.S. stocks included returns of -22.5% for the SUI endowment, -22.5% for the ISU endowment, and -22.7% for the ISU 93 Trust. These returns significantly outperformed the benchmark of -20.5%.

Bonds For the quarter ended September 30, 2002, Invesco's U.S. bond performance included returns of 4.5% for the SUI endowment, 4.6% for the SUI Quasi endowment, 4.7% for the ISU endowment, and 4.9% for the ISU 93 Trust. These returns were close to the benchmark of 4.6%.

For the year ended September 30, 2002, Invesco's U.S. bond performance included returns of 7.3% for the SUI endowment, 7.8% for the SUI Quasi endowment, 7.3% for the ISU endowment, and 7.7% for the ISU 93 Trust. These returns underperformed the benchmark of 8.6%.

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**Vanguard**  
Net of Fees  
September 30, 2002

	<u>Assets</u> (thousands)
SUI	\$21,483
ISU	<u>12,177</u>
Total	\$33,660

Benchmark: S&P 500

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

This was the first partial quarter for investments with Vanguard; therefore, no benchmark is reported. The investment was made after the Board approved the selection of Vanguard as a new index fund manager at its September 19, 2002 meeting.

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**Seneca Capital Management**

Net of Fees

September 30, 2002

	<u>Assets</u>	<u>Returns</u>		
	<u>(thousands)</u>	<u>Quarter</u>	<u>One Year</u>	<u>Three Years</u>
SUI	\$15,461	-20.2%	-19.9%	-5.0%
ISU	7,019	-20.9%	-20.4%	-4.5%
ISU 93 Trust	<u>1,677</u>	-20.4%	-20.2%	-4.4%
Total	\$24,157			
Benchmark: Wilshire Mid Cap Growth Index		-13.0%	-11.5%	-8.7%

Seneca performance

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

For the quarter, Seneca Capital Management returned -20.2% for the SUI endowment, -20.9% for the ISU endowment, and -20.4% for the ISU 93 Trust. These returns underperformed the Wilshire Mid Cap Growth Index return of -13.0%.

Wilshire reported that stock and sector selection contributed to Seneca's underperformance for the quarter. Underperformance was primarily due to stock selection within the consumer discretionary and health care sectors and to an overweighting to the information technology sector. Positive contributors include stock selection within and an underweighting to the industrials sector.

For the one-year period, Seneca Capital Management returned -19.9% for SUI, -20.4% for ISU and -20.2% for the ISU 93 Trust; all underperformed the Wilshire Mid Cap Growth Index of 11.5%. The three-year returns all outperformed the Wilshire Mid Cap Growth Index.

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**LSV Asset Management**

Net of Fees

September 30, 2002

	<u>Assets</u>	<u>Returns</u>
	<u>(thousands)</u>	<u>Quarter</u>
SUI	\$7,659	-18.5%
ISU	<u>3,858</u>	-18.2%
Total	\$11,517	
Benchmark: Russell 2500 Value		-18.4%

LSV Asset Mgmt. performance

LSV Asset Management manages small value domestic stocks.

This was the first quarter for investments with LSV. Returns for the quarter were close to the Russell 2500 Value benchmark of -18.4%. No benchmark is reported for the year.

Underweighting to the consumer discretionary sector and overweighting to the financials sector contributed to performance.

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**Reams Asset Management**

Net of Fees

September 30, 2002

	<u>Assets</u>	<u>Returns</u>	
	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$25,425	2.5%	–
SUI – Quasi Endowment	44,458	2.9%	5.6%
ISU	<u>14,677</u>	3.7%	–
Total	\$84,560		
Benchmark: Lehman Aggregate		4.6%	8.6%

Reams  
performance

This was the fifth quarter for the University of Iowa's Quasi endowment investments with Reams. Returns for the quarter and for the year, 2.9% and 5.6%, were lower than their benchmarks, 4.6% and 8.6%, respectively.

This was the first full quarter for endowment investments with Reams. Returns for the University of Iowa of 2.5% and Iowa State University of 3.7% were lower than the benchmark of 4.6%.

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**Alliance Bernstein**

Net of Fees

September 30, 2002

	<u>Assets</u>	<u>Returns</u>	
	(thousands)	<u>Quarter</u>	<u>One Year</u>
SUI	\$10,730	–18.7%	–9.9%
ISU	<u>6,372</u>	–19.3%	–10.6%
Total	\$17,102		
Benchmark: MSCI EAFE Index		–19.7%	–15.5%

Alliance Bernstein  
performance

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

Wilshire reported returns for the quarter of –18.7% for the SUI endowment and –19.3% for the ISU endowment, which outperformed the MSCI EAFE Index of –19.7%. Wilshire reported returns for the year of –9.9% for SUI and –10.6% for ISU, which significantly outperformed the MSCI EAFE benchmark of –15.5%.

Positive contributors to the outperformance include stock selection within Japan, the Netherlands, Canada, and European countries. Stock selection within and an overweighting to France primarily detracted from performance for the quarter.

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

*Unrestricted Funds*

	<u>9/30/01</u>	<u>12/31/01</u>	<u>3/31/02</u>	<u>6/30/02</u>	<u>9/30/02</u>
University of Iowa	2.19%	0.74%	0.16%	2.06%	1.51%
Iowa State University	2.64%	0.63%	0.22%	2.11%	1.12%
University of Northern Iowa	1.94%	0.68%	0.10%	1.90%	1.43%
Iowa School for the Deaf	1.51%	1.56%	1.00%	0.80%	0.42%
Iowa Braille & Sight Saving School	0.86%	0.52%	0.41%	0.42%	0.42%

*Restricted Funds*

	<u>9/30/01</u>	<u>12/31/01</u>	<u>3/31/02</u>	<u>6/30/02</u>	<u>9/30/02</u>
University of Iowa	1.80%	0.65%	0.41%	1.64%	2.01%
Iowa State University	2.07%	0.77%	0.15%	1.58%	1.43%
University of Northern Iowa	2.55%	0.72%	0.26%	1.53%	2.33%
Iowa School for the Deaf	1.71%	1.44%	0.87%	1.03%	0.69%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

*BlackRock*

	<u>9/30/01</u>	<u>12/31/01</u>	<u>3/31/02</u>	<u>6/30/02</u>	<u>9/30/02</u>
University of Iowa	3.69%	0.50%	0.23%	2.62%	2.73%
Iowa State University	3.62%	0.46%	0.17%	2.59%	2.59%
University of Northern Iowa	3.69%	0.51%	0.22%	2.56%	2.74%
Iowa School for the Deaf	3.62%	0.46%	0.17%	2.59%	2.59%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

**Table 2**  
**Operating Portfolios**  
**Quarterly Current Yield**

*Unrestricted Funds*

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	<u>9/30/01</u>	<u>12/31/01</u>	<u>3/31/02</u>	<u>6/30/02</u>	<u>9/30/02</u>
University of Iowa	4.92%	4.37%	4.19%	3.75%	3.57%
Iowa State University	4.75%	4.62%	4.44%	3.90%	3.34%
University of Northern Iowa	3.74%	3.82%	3.30%	3.85%	3.16%
Iowa School for the Deaf	5.60%	6.04%	2.17%	1.96%	1.65%
Iowa Braille & Sight Saving School	3.27%	1.78%	1.66%	1.69%	1.69%

*Restricted Funds*

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	<u>9/30/01</u>	<u>12/31/01</u>	<u>3/31/02</u>	<u>6/30/02</u>	<u>9/30/02</u>
University of Iowa	5.17%	3.79%	3.98%	3.46%	3.65%
Iowa State University	4.89%	4.61%	4.06%	3.95%	3.22%
University of Northern Iowa	5.69%	4.51%	4.74%	4.35%	4.32%
Iowa School for the Deaf	6.78%	5.75%	3.50%	4.09%	2.73%
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

*BlackRock*

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	<u>9/30/01</u>	<u>12/31/01</u>	<u>3/31/02</u>	<u>6/30/02</u>	<u>9/30/02</u>
University of Iowa	5.53%	5.51%	5.40%	4.91%	4.73
Iowa State University	5.55%	5.64%	5.32%	4.81%	4.60
University of Northern Iowa	5.69%	5.67%	5.51%	4.99%	4.72
Iowa School for the Deaf	5.55%	5.64%	5.32%	4.81%	4.60
Iowa Braille & Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I = No investments of this type.

**Table 3**  
**Endowment / Quasi-Endowment Portfolios**  
Market Value - Accrual Basis  
(In thousands)  
September 30, 2002

Portfolio Manager	Endowment Market Value	1993 Trust Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Invesco					
SUI	\$77,958	-	\$49,892	\$127,850	
ISU	<u>40,100</u>	<u>\$10,942</u>	<u>-</u>	<u>51,042</u>	
Total	\$118,058	\$10,942	\$49,892	\$178,892	51.1%
Reams Asset Mgmt.					
SUI	\$25,425	-	\$44,458	\$69,883	
ISU	<u>14,677</u>	<u>-</u>	<u>-</u>	<u>4,677</u>	
Total	\$40,102	-	\$44,458	\$84,560	24.2%
Vanguard					
SUI	\$21,483	-	-	\$21,483	
ISU	<u>12,177</u>	<u>-</u>	<u>-</u>	<u>12,177</u>	
Total	\$33,660	-	-	\$33,660	9.6%
Seneca Capital Mgmt.					
SUI	\$15,461	-	-	\$15,461	
ISU	<u>7,019</u>	<u>\$1,677</u>	<u>-</u>	<u>8,696</u>	
Total	\$22,480	\$1,677	-	\$24,157	6.9%
Alliance Bernstein					
SUI	\$10,730	-	-	\$10,730	
ISU	<u>6,372</u>	<u>-</u>	<u>-</u>	<u>6,372</u>	
Total	\$17,102	-	-	\$17,102	4.9%
LSV Asset Mgmt.					
SUI	\$7,659	-	-	\$7,659	
ISU	<u>3,858</u>	<u>-</u>	<u>-</u>	<u>3,858</u>	
Total	\$11,517	-	-	\$11,517	3.3%
Cash					
SUI	\$28	-	-	\$28	
ISU	<u>14</u>	<u>-</u>	<u>-</u>	<u>14</u>	
Total	\$42	-	-	\$42	0.0%
<b>TOTAL</b>					
SUI	\$158,744	-	\$94,350	\$253,094	
ISU	<u>89,238</u>	<u>\$7,598</u>	<u>-</u>	<u>96,836</u>	
Total	\$247,982	\$7,598	\$94,350	\$349,930	100.0%

<b>Table 4</b>	
<b>Principal Demutualization Funds</b>	
(In thousands)	
September 30, 2002	
SUI	\$50,290
ISU	<u>24,229</u>
Total	\$74,519