

BOARD OF REGENTS  
BANKING COMMITTEE

June 12, 2001

The Banking Committee of the Board of Regents met on Tuesday, June 12, 2001, at Iowa State University, Ames, Iowa.

Those present were:

Banking Committee members: Regents David Fisher (chair), Mary Ellen Becker (arrived at 11:16 a.m.), and Owen Newlin.

Others in attendance were:

Regent Sue Nieland;

Institutional representatives: Mary Sue Coleman, Douglas True, Ann Madden Rice, Cynthia Bartels, Richard Seagrave, Warren Madden, Joan Thompson, Sheryl Rippke, Robert Koob, Eunice Dell, Gary Shontz, William Johnson;

Barry Fick, Springsted, Inc.;

Ken Haynie, Ahlers law firm;

Marc Friedberg, Wilshire Associates;

Board Office: Frank Stork, Pamela Elliott, Joan Racki (arrived at 11:28 a.m.), Deb Hendrickson and Barb Briggie.

Regent Fisher called the meeting to order at 11:13 a.m.

**APPROVE MINUTES OF THE MAY 2001 BANKING COMMITTEE MEETING.**

MOTION: Regent Newlin moved to approve the minutes of the May 16, 2001, Banking Committee meeting, as written. Regent Becker seconded the motion.  
MOTION CARRIED UNANIMOUSLY.

**QUARTERLY CASH AND INVESTMENT REPORT – MARCH 31, 2001.**

Director Elliott stated that the Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. As of March 31, 2001, total Regent combined operating and endowment portfolios exceeded \$1 billion. She said the market value of the combined operating portfolios totaled \$862.3 million while the endowment portfolio was \$284.9 million.

Director Elliott introduced Marc Friedberg of Wilshire Associates, the Board's investment advisor, to present the quarterly performance report on the endowment portfolio.

Mr. Friedberg first presented a broad review of the capital market. Graphs of risk versus return for the last two decades provided an illustration of why the managers do not try to time the market.

President Newlin suggested that there be consistency in the symbols used on the various charts included in Wilshire's materials. Mr. Friedberg agreed.

Mr. Friedberg reviewed returns of the domestic equity markets, fixed income and international equity markets through March 31, 2001. He then presented total fund results for the period ended March 31, 2001. The Iowa State University endowment assets totaled \$90.7 million at the close of the quarter. Investment losses totaled \$5.4 million, with total contributions of \$92,000. Total fees and distributions were \$1.5 million. The endowment fund returned -5.6 percent for the quarter, outperforming the benchmark by 1.9 percent. The University of Iowa endowment assets totaled \$85 million at the close of the quarter. Investment losses totaled \$5 million, with total contributions of \$1.7 million. Net distributions and fees were \$2.7 million. The endowment fund returned -5.5 percent for the quarter, outperforming the benchmark by 2 percent. The University of Iowa quasi-endowment portfolio returned 0.6 percent during the first quarter. The total fund has assets of \$109.2 million. Net contributions were \$11.6 million and net distribution and fees totaled \$4.3 million. The quasi-endowment had investment gains of \$683,000.

Mr. Friedberg presented a domestic equity composite review along with a style map. He said equal weighting is given to growth and value although there is a value bias in the portfolios. He stated it was an interesting quarter in a very interesting year. International equities markets followed the lead of the U.S. In terms of asset allocation, the Regent investments were in the right places at the right time.

Regent Fisher asked if the returns were net of fees. Mr. Friedberg responded affirmatively.

With regard to the performance of Seneca Capital Management, which manages U.S. equity portfolios with a mid-capitalization growth orientation, the returns were -16.5 percent for the University of Iowa endowment and -17.5 percent for the Iowa State University endowment for the quarter. These returns exceeded the Wilshire Mid Cap Growth Index return of -22.8 percent and underperformed the S&P 400 Mid Cap Index, which returned -10.8 percent for the quarter. Mr. Friedberg stated that sector

weighting primarily contributed to the outperformance of the Wilshire Mid Cap Growth index. Stock selection within the energy sector contributed highly to the outperformance. Stock selection within the technology sector detracted from the performance.

With regard to the performance of Sanford Bernstein, which manages an international equity portfolio that utilizes a value philosophy and intensive research in constructing portfolios, returns of -7.7 percent for the University of Iowa and -9.1 percent for Iowa State University for the quarter outperformed the -13.7 percent return of the MSCI EAFE benchmark. Three-year data are not available since Sanford Bernstein began managing the international equity component of the portfolio in June 1999. Mr. Friedberg stated that stock selections contributed mostly to the performance. Stock selections within the United Kingdom had the largest positive effect, while selections in Italy had the most negative effect.

With regard to the performance of Invesco, which manages a balanced portfolio of U.S. equity and fixed income markets and applies a core value approach to equity investing, and a yield curve and sector selection approach to fixed income, returns were -2.5 percent for the University of Iowa endowment, the Iowa State University endowment, and the Iowa State University 93 Trust during the quarter. These returns outperformed the balanced benchmark of -5.5 percent. For the one-year period, the University of Iowa endowment, the Iowa State University endowment, and the Iowa State University 93 Trust earned -0.5 percent, -0.6 percent, and -0.3 percent, respectively. Returns for the year outperformed the balanced benchmark of -8.4 percent. Mr. Friedberg stated that sector selection and stock selection primarily contributed to the outperformance. Stock selections within the technology sectors contributed the most to the outperformance. Stock selection within the capital goods sector detracted from the performance.

Regent Fisher thanked Mr. Friedberg for the good report.

**ACTION:** Regent Fisher stated the Banking Committee received the Investment and Cash Management Reports for the quarter ended March 31, 2001, by general consent.

### **SELECTION OF FINANCIAL ADVISOR AND PROVIDER OF ARBITRAGE REBATE SERVICES.**

Director Elliott stated that the current contract with the Board's financial advisor, Springsted, expires on August 31, 2001. By contract amendment during the last five-year period, the responsibility for arbitrage rebate calculation services was transferred

from Ahlers Law Firm, the Board's bond counsel, to Springsted, the Board's financial advisor. A separate Request for Proposal was established for arbitrage rebate calculation services since not all bond counsel or financial advisor firms provide this service. In December 2000, the Board authorized the distribution of RFPs for financial advisor and provider of arbitrage rebate services.

Four proposals for financial advisor and three for arbitrage rebate services were submitted to the Board. The selection committees, comprised of Banking Committee members, University representatives, and Board Office staff, reviewed the proposals and interviewed the candidates.

President Newlin stated that the financial advisor selection committee had selected Springsted, Inc.

MOTION: Regent Newlin moved to recommend the Board approve the selection of Springsted, Inc., as the Board's financial advisor. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

Regent Fisher congratulated Barry Fick on the selection of his firm as the Board's financial advisor. Mr. Fick thanked the Banking Committee members for the selection of Springsted, Inc., and said he looked forward to the continued relationship.

President Newlin challenged Mr. Fick to perform even better under the new contract. Mr. Fick said he accepted the challenge and would respond in an appropriate fashion.

Director Elliott stated that Berens-Tate Consulting Group was selected by the selection committee after the interview process as provider of arbitrage rebate services.

MOTION: Regent Newlin moved to approve the selection of Berens-Tate Consulting Group as provider of arbitrage rebate services. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

MOTION: Regent Newlin moved to recommend the Board authorize the Executive Director to execute the contracts on behalf of the Board. Regent Fisher seconded the motion. MOTION CARRIED UNANIMOUSLY.

**SELECTION OF A NEW FIXED INCOME MANAGER.**

Regent Fisher stated that, in May 2001, the Board authorized a search process for the selection of a new fixed income manager. Wilshire Associates identified three qualified fixed income manager candidates to be interviewed: BlackRock, Western Asset Management, and Reams Asset Management. A screening team consisting of Banking Committee members, and representatives of the universities and the Board Office conducted the interviews. Since Invesco currently handles all of the institutional endowments fixed income investments, they were invited to visit with the screening team prior to the interviews of the identified candidates.

The screening team conducted the interviews on the evening of June 5, 2001. Regent Fisher stated that the selection committee recommended bringing in Reams Asset Management as the second fixed income manager.

Vice President True stated that University of Iowa officials would like to have Reams in place by June 30 but, if that is not possible, then by September 30.

Regent Fisher asked for a motion that Director Elliott, Vice President True and Vice President Madden, if need be, negotiate a contract with Reams Asset Management as a new fixed income manager.

MOTION:

Regent Becker moved to recommend that the Board approve the selection of Reams Asset Management as a new fixed income manager and that Director Elliott, Vice President True and Vice President Madden, if need be, negotiate a contract. Regent Newlin seconded the motion.  
MOTION CARRIED UNANIMOUSLY.

Regent Fisher stated that the selection process had been a good one. He believes that Reams will have a positive impact on fixed income management.

**ICE ARENA FACILITY REVENUE NOTE FUND AUDIT.**

Vice President Madden stated that an independent audit was conducted on the Ice Arena Facility Revenue Note Funds of Iowa State University for the fiscal year ended June 30, 2000, as required by the note covenant. No findings were reported.

**ACTION:** Regent Fisher stated the Board received the audit on the Ice Arena Facility Revenue Note Funds of Iowa State University for the fiscal year ended June 30, 2000, by general consent.

**INTERNAL AUDIT REPORTS.**

Director Elliott stated that seven completed internal audit reports were presented, four of which were new and three of which were follow-up. Two of the four new Iowa State University audits require additional follow-up: Extension Distribution Center and Residence Hall Convenience Stores. With regard to the status of internal audit follow-up, she said there were 19 internal audit reports that have previously been presented to the Banking Committee, of which 16 still require follow-up.

Director Rippke stated that two of the internal audits had no reportable findings. The audit with the most findings was that of the residence halls convenience stores. Good progress is being made in the area of enhanced reporting.

Regent Fisher stated that, as chair of the Banking Committee, he visited with each of the internal auditors to discuss procedures, processes and concerns. They had a good dialogue. He said there was nothing to report of any consequence.

**ACTION:** Regent Fisher stated the Banking Committee, by general consent, (1) received the following internal audit reports from Iowa State University: Extension Distribution Center, International Agriculture Programs, Residence Hall Convenience Stores and Special Audit of the Office of the President, and (2) received the report on the status of internal audit follow-up.

**ADJOURNMENT.**

The meeting of the Regents Banking Committee adjourned at 11:50 a.m. on June 12, 2001.

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Pamela M. Elliott  
Director, Business and Finance

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Frank J. Stork  
Executive Director

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