

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Investment and Cash Management Reports for the Quarter ended December 31, 2000  
**Date:** March 12, 2001

**RECOMMENDED ACTION**

Receive the Investment and Cash Management Reports for the quarter ended December 31, 2000.

**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 (Thousands of Dollars)  
As of December 31, 2000**

	<b><u>Operating</u></b>	<b><u>Endowment/ Quasi-Endowment</u></b>
University of Iowa <sup>1</sup>	\$510,635	\$192,255 <sup>2</sup>
Iowa State University	225,897	97,452 <sup>3</sup>
University of Northern Iowa	66,802	-
Iowa School for the Deaf	1,992	-
Iowa Braille and Sight Saving School	<u>701</u>	<u>-</u>
Total	\$806,027	\$289,707

<sup>1</sup> Includes UIHC.

<sup>2</sup> Includes UNI.

<sup>3</sup> Includes ISD and IBSSS.

As of December 31, 2000, total Regent combined operating and endowment portfolios exceeded \$1 billion for the fourth quarter in a row.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$806.0 million. The university operating investment portfolios performed in line with the comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$289.7 million. The combined investment manager returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios are -1.7% and -1.7%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -3.8% for the quarter. Wilshire reported that the three endowment investment managers were close to their respective benchmarks.

The endowment asset allocations for Iowa State University' portfolio were outside the policy ranges for equities and fixed income. The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter.

University internal auditors verified that investment purchases of the institutional portfolios during the quarter ended December 31, 2000, and holdings were in compliance with respective Board and institutional investment policies.

### **BACKGROUND**

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.

University internal auditors verified operating investment transactions for compliance at their respective universities. Iowa School for the Deaf investments were reviewed by the University of Iowa internal auditors, while the Iowa Braille and Sight Saving School investments were reviewed by the Iowa State University internal auditors. The University of Iowa internal auditors also verify the endowment investment transactions for the Regent institutions.

### **OPERATING PORTFOLIO**

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 remaining operating funds are managed by the institutions.

### **ENDOWMENT/QUASI-ENDOWMENT PORTFOLIO**

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.

The University of Iowa also has two separately maintained quasi-endowment portfolios. Quasi I is a mix of equity and fixed income, while Quasi II is only fixed income.

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.

The money managers for the Regent endowment portfolios include:

*Invesco*, which the Board has authorized to manage a balanced portfolio investing in U.S. equity and fixed income markets since April 1989;

*Seneca Capital Management*, which the Board has authorized to manage U.S. equity portfolios with a mid-capitalization growth orientation since May 1995; and

*Sanford Bernstein*, which the Board has authorized to manage its international equity portfolio in June 1999.

#### **ASSET ALLOCATION**

In May 1997, the Banking Committee adopted a process to manage the endowment asset allocation close to the established targets and agreed to review annually the investment structure. In FY 1997, a benchmark with the asset mix of 60% domestic equities, 30% bonds, and 10% international equities was used to reflect the Regent asset allocation policy. In April 1999, the Board approved a new asset allocation policy of 63% domestic equities, 30% fixed income, and 7% international equities, beginning with the quarter ended September 30, 1999.

The Board's current target range for the asset allocation is plus or minus 10% of the established asset allocation policy for domestic equities and fixed income and plus or minus 3% for international equities. 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.

In April 1999, the Board also approved the designation of specific manager allocations and ranges to assist the institutional officials in maintaining the Board's asset allocation policy.

#### **Manager Allocation Policy**

	<u>Target Range</u>	<u>Range</u>
Invesco	74%	+/- 7%
Domestic Equities (US stocks)	58% of 74%	+5% to -10% around 58%
Fixed Income (bonds)	42% of 74%	+10% to -5% around 42%
Seneca (US mid-cap stocks)	19%	+/- 4%
Sanford Bernstein (foreign stocks)	7%	+/- 3%

The manager allocations generate the 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 for large-cap/small-cap mix approximately equal to the broad market (70% large-cap and 30% small-cap.)

The Board has authorized the establishment of two separately maintained quasi-endowments as investment options for the University of Iowa. Quasi I has an asset allocation mix of 50% equity and 50% fixed income investments, plus or minus 10%, approved by the Board in June 1999. The asset mix for the Quasi I portfolio had previously been 58% equity and 42% fixed income, plus or minus 10%.

Quasi II, established in April 1998, allows the University of Iowa to retain a quasi-endowment pool with 100% fixed income investments.

## **PERFORMANCE**

### **OPERATING PORTFOLIOS**

For the quarter ended December 31, 2000, the institutions reported the following:

<b>Operating Portfolios</b>				
<b>Market Value (Thousands of Dollars)</b>				
<b>As of December 31, 2000</b>				
	<b><u>Unrestricted</u></b>	<b><u>Restricted</u></b>	<b><u>BlackRock</u></b>	<b><u>Total</u></b>
University of Iowa	356,283	100,232	54,120	510,635
Iowa State University	133,154	65,552	27,191	225,897
University of Northern Iowa	25,691	31,422	9,689	66,802
Iowa School for the Deaf	1,784	5	203	1,992
Iowa Braille and Sight Saving School	<u>701</u>	<u>N/I</u>	<u>N/I</u>	<u>701</u>
Total	517,613	197,211	91,203	806,027

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; historical rates are presented in Table 1 on page 9.

<b>Operating Portfolios</b>			
<b>Rates of Return</b>			
<b>For the Quarter Ended December 31, 2000</b>			
	<b><u>Unrestricted</u></b>	<b><u>Restricted</u></b>	<b><u>BlackRock</u></b>
University of Iowa	2.40%	1.90%	2.70%
Iowa State University	2.84%	2.00%	2.73%
University of Northern Iowa	2.00%	2.23%	2.73%
Iowa School for the Deaf	1.38%	1.53%	2.73%
Iowa Braille and Sight Saving School	1.55%	N/I	N/I

N/I No investments of this type.

The comparable industry standard rates of return for the quarter ended December 31, 2000, include the Merrill Lynch 1-3 year Government/Agency Index rate of 2.79% and the 91-day T-bill rate of 1.63%. The university operating investment portfolios generally performed in line with the comparable industry standards for the quarter. Table 2 on page 10 contains current investment yields for the current quarter and four previous quarters.

**ENDOWMENT/QUASI-ENDOWMENT PORTFOLIOS**

The following table represents the returns of the endowment portfolios for the quarter ended December 31, 2000:

**Endowment Portfolios  
(Net of Fees)  
As of December 31, 2000**

	Assets (Thousands)	Returns	
		Quarter	One Year
SUI	\$91,018	-1.7%	8.1%
ISU	97,452	-1.7%	7.0%
Asset Allocation Benchmark *		-3.8%	-3.5%
SUI Quasi I	49,157	1.8%	4.3%
Balanced Benchmark **		-1.7%	1.1%
SUI Quasi II	<u>52,080</u>	4.4%	11.6%
Fixed Income Benchmark		4.4%	11.8%
Total	\$289,707		

\* From 7/1/99 → 63% S&P 500 Index + 30% Lehman Government/Corporate Bond Index + 7% MSCI EAFE Index to reflect the new Board asset allocation policy.

\*\* From 7/1/99 → 50% S&P 500 Index + 50% Lehman Government/Corporate Bond Index.

**Endowment Asset Allocation  
Net of Fees  
As of December 31, 2000**

Investments	University of Iowa		Iowa State University		Target Range (percent)
	Value (Thousands)	Value (percent)	Value (Thousands)	Value (percent)	
U.S. Stocks (equities)	\$51,411	56.5%	\$47,847	49.1%	63%(+/- 10%)
U.S. Bonds (fixed income)	34,644	38.1%	42,555	43.7%	30%(+/- 10%)
International Stocks (equities)	<u>4,963</u>	<u>5.5%</u>	<u>7,050</u>	<u>7.2%</u>	7%(+/- 3%)
Total Fund	\$91,018	100.0%	\$97,452	100.0%	100%

**Endowment Manager Allocations  
Net of Fees  
As of December 31, 2000**

Investment Managers	University of Iowa		Iowa State University		Target Range (percent)
	Value (Thousands)	Value (percent)	Value (Thousands)	Value (percent)	
Invesco	\$69,288	76.6%	\$73,307	75.2%	74%(+/- 7%)
Seneca	16,767	17.9%	17,095	17.5%	19%(+/- 4%)
Sanford Bernstein	<u>4,963</u>	<u>5.5%</u>	<u>7,050</u>	<u>7.2%</u>	<u>7% (+/- 3%)</u>
Total	\$91,018	100.0%	\$97,452	100.0%	100%

### *University of Iowa Endowment*

The University of Iowa endowment assets (excluding quasi-endowment assets) totaled \$91.0 million as of December 31, 2000, a \$1.2 million dollar decrease from the previous quarter.

For the quarter ended December 31, 2000, investment losses totaled \$1.5 million, net contributions equaled \$1.5 million while net distributions and fees amounted to \$1.2 million.

The endowment assets held by the University of Iowa earned a return of  $-1.7\%$  for the quarter, outperforming the benchmark by  $2.1\%$ .

Returns for the endowment over the one-year period were  $8.1\%$ , which were more than double the benchmark of  $-3.5\%$ .

The overall asset allocation for the SUI endowment portfolio was within the target range. All of the managers were within policy targets.

The University of Iowa quasi-endowments had a total market value of \$101.2 million as of December 31, 2000.

- Quasi I, with \$49.2 million, earned  $1.8\%$  for the quarter and  $4.3\%$  for the one-year period. Its benchmark earned  $-1.7\%$  for the quarter and  $1.1\%$  for the one-year period.
- Quasi II, with \$52.1 million, had a  $4.4\%$  return for the quarter and an  $11.6\%$  return for the year. Its benchmark earned  $4.4\%$  for the quarter and  $11.8\%$  for the one-year period.

### *Iowa State University Endowment*

Iowa State University endowment assets totaled \$97.5 million as of December 31, 2000, a \$1.6 million decrease from the previous quarter.

For the quarter, investment losses were \$1.6 million, while net distributions and fees were \$177,000. Net contributions totaled \$101,000.

The Iowa State University endowment assets earned a return of  $-1.7\%$  for the quarter outperforming the policy benchmark return of  $-3.8\%$  by  $2.1\%$ . The one-year returns for ISU were  $7.0\%$ , which were nearly triple the one-year benchmark of  $-3.5\%$ .

The asset allocations for the ISU portfolio were outside the policy ranges for equities and fixed income. The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter.

*Investment Manager Performance*

<b>INVESCO</b>				
<b>(Net of Fees)</b>				
<b>December 31, 2000</b>				
	<b>Assets</b>	<b>Returns</b>		
	<b>(Thousands)</b>	<b>Quarter</b>	<b>One Year</b>	<b>Three Years</b>
SUI	\$69,288	1.4%	2.5%	7.9%
ISU	59,012	1.3%	3.0%	8.0%
ISU 93 Trust	14,295	1.5%	3.0%	7.9%
Balanced Benchmark <sup>1</sup>		-2.7%	-0.6%	10.3%
SUI Quasi I	49,157	1.8%	4.3%	8.6%
Balanced Benchmark <sup>2</sup>		-1.7%	1.1%	10.7%
SUI Quasi II	<u>52,080</u>	4.4%	11.6%	-
Balanced Benchmark <sup>3</sup>		4.4%	11.8%	-
Total	\$243,832			

<sup>1</sup> From 7/1/97 → 58% S&P index + 42% Lehman Government /Corporate Bond Index.

<sup>2</sup> From 7/1/99 → 50% S&P index + 50% Lehman Government/Corporate Bond Index.

<sup>3</sup> From 4/98 → 100% Lehman Government/Corporate Bond Index.

Invesco 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.

Invesco returned 1.4% for the SUI endowment, 1.3% for the ISU endowment, and 1.5% for the ISU 93 Trust during the quarter. These returns all outperformed the balanced benchmark of -2.7%. For the one-year period, the SUI endowment, the ISU endowment, and the ISU 93 Trust earned 2.5%, 3.0%, and 3.0%, respectively. Returns for the year all outperformed the balanced benchmark of -0.6%.

**Seneca Capital Management  
(Net of Fees)  
December 31, 2000**

	<b>Assets</b>	<b>Returns</b>		
	<u>(Thousands)</u>	<u>Quarter</u>	<u>One Year</u>	<u>Three Years</u>
SUI	\$16,767	-14.0%	14.1%	29.9%
ISU	13,808	-15.1%	18.7%	31.3%
ISU 93 Trust	<u>3,287</u>	-15.0%	19.0%	30.6%
Total	\$33,862			
S&P 400 Mid Cap Index		-3.8%	17.6%	17.0%
Mid Cap Growth Index		-21.0%	-15.4%	14.4%

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

Seneca Capital Management returned -14.0% for the SUI endowment and -15.1% for the ISU endowment during the quarter. These returns exceeded the Wilshire Mid Cap Growth Index return of -21.0% and underperformed the S&P 400 Mid Cap which returned -3.8% for the quarter.

Seneca's outperformance against the Wilshire Mid Cap Growth Index for the quarter was primarily due to sector weighting and trading selections.

For the one-year period, Seneca Capital Management returned 14.1% for SUI and 18.7% for ISU, which were comparable to the S&P 400 Mid Cap Index and the Mid Cap Growth Index; the three-year returns were almost double those indexes.

**Sanford Bernstein  
(Net of Fees)  
December 31, 2000**

	<b>Assets</b>	<b>Returns</b>	
	<u>(Thousands)</u>	<u>Quarter</u>	<u>One Year</u>
SUI	\$4,963	3.6%	-2.3%
ISU	<u>7,050</u>	4.7%	-1.3%
Total	\$12,013		
MSCI EAFE Index		-2.7%	14.2%

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

Returns for the quarter outperformed the -2.7% 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.

Outperformance during the quarter was mainly attributable to sector and stock selection in Germany, France, and the United Kingdom.

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

<b><i>Unrestricted Funds</i></b>					
	<b><u>12/31/99</u></b>	<b><u>3/31/00</u></b>	<b><u>6/30/00</u></b>	<b><u>9/30/00</u></b>	<b><u>12/31/00</u></b>
University of Iowa	0.88%	1.23%	1.64%	1.90%	2.40%
Iowa State University	0.75%	1.11%	1.87%	2.26%	2.84%
University of Northern Iowa	1.10%	1.34%	1.70%	1.78%	2.00%
Iowa School for the Deaf	1.08%	1.11%	1.18%	1.18%	1.38%
Iowa Braille and Sight Saving School	1.28%	1.35%	1.50%	1.58%	1.55%

<b><i>Restricted Funds</i></b>					
	<b><u>12/31/99</u></b>	<b><u>3/31/00</u></b>	<b><u>6/30/00</u></b>	<b><u>9/30/00</u></b>	<b><u>12/31/00</u></b>
University of Iowa	0.89%	1.37%	1.52%	1.77%	1.90%
Iowa State University	1.00%	1.29%	1.48%	1.69%	2.00%
University of Northern Iowa	0.73%	1.23%	1.59%	1.83%	2.23%
Iowa School for the Deaf	1.00%	1.15%	1.22%	1.31%	1.53%
Iowa Braille and Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I No investments of this type.

<b><i>BlackRock</i></b>					
	<b><u>12/31/99</u></b>	<b><u>3/31/00</u></b>	<b><u>6/30/00</u></b>	<b><u>9/30/00</u></b>	<b><u>12/31/00</u></b>
University of Iowa	0.76%	1.43%	1.76%	2.30%	2.70%
Iowa State University	0.78%	1.42%	1.70%	2.31%	2.73%
University of Northern Iowa	0.73%	1.44%	1.75%	2.32%	2.73%
Iowa School for the Deaf	0.78%	1.44%	1.76%	2.31%	2.73%
Iowa Braille and 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**

<b><i>Unrestricted Funds</i></b>					
	<b><u>12/31/99</u></b>	<b><u>3/31/00</u></b>	<b><u>6/30/00</u></b>	<b><u>9/30/00</u></b>	<b><u>12/31/00</u></b>
University of Iowa	5.82%	5.94%	6.07%	6.11%	6.11%
Iowa State University	5.99%	6.03%	6.34%	6.34%	6.24%
University of Northern Iowa	5.58%	6.02%	6.50%	6.37%	6.39%
Iowa School for the Deaf	4.27%	4.71%	4.73%	4.55%	5.59%
Iowa Braille and Sight Saving School	4.28%	5.76%	6.77%	6.25%	6.29%

<b><i>Restricted Funds</i></b>					
	<b><u>12/31/99</u></b>	<b><u>3/31/00</u></b>	<b><u>6/30/00</u></b>	<b><u>9/30/00</u></b>	<b><u>12/31/00</u></b>
University of Iowa	5.68%	5.86%	6.13%	6.08%	6.03%
Iowa State University	5.26%	5.60%	5.73%	5.85%	5.74%
University of Northern Iowa	5.89%	5.94%	6.09%	6.09%	6.03%
Iowa School for the Deaf	3.87%	4.68%	4.91%	5.13%	6.08%
Iowa Braille and Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I No investments of this type.

<b><i>BlackRock</i></b>					
	<b><u>12/31/99</u></b>	<b><u>3/31/00</u></b>	<b><u>6/30/00</u></b>	<b><u>9/30/00</u></b>	<b><u>12/31/00</u></b>
University of Iowa	6.10%	6.13%	6.28%	6.23%	6.23%
Iowa State University	6.10%	6.12%	6.26%	6.25%	6.20%
University of Northern Iowa	6.17%	6.17%	6.26%	6.29%	6.25%
Iowa School for the Deaf	6.10%	6.12%	6.26%	6.25%	6.20%
Iowa Braille and Sight Saving School	N/I	N/I	N/I	N/I	N/I

N/I No investments of this type.

**Table 3**  
**Endowment Market Value of Institutional Portfolios**  
**Accrual Basis**  
**(Thousands of Dollars)**  
**December 31, 2000**

	Endowment Market <u>Value</u>	Quasi- Endowment <u>Market</u> <u>Value</u>	1993 Trust <u>Market</u> <u>Value</u>	Total Market <u>Value</u>	Percent of Total
INVESCO					
SUI	\$69,288	\$101,237	\$ -	\$170,525	
ISU	<u>59,012</u>	<u>-</u>	<u>14,295</u>	<u>73,307</u>	
Total	\$128,300	\$101,237	\$14,295	\$243,832	84.2%
 Seneca Capital Management					
SUI	16,767	-	-	16,767	
ISU	<u>13,808</u>	<u>-</u>	<u>3,287</u>	<u>17,095</u>	
Total	\$30,575	-	\$3,287	\$33,862	11.7%
 Sanford Bernstein					
SUI	4,963	-	-	4,963	
ISU	<u>7,050</u>	<u>-</u>	<u>-</u>	<u>7,050</u>	
Total	\$12,013	-	-	\$12,013	4.1%
 TOTAL					
SUI	91,018	\$101,237	-	192,255	
ISU	<u>79,870</u>	<u>-</u>	<u>17,582</u>	<u>97,452</u>	
Total	\$170,888	\$101,237	\$17,582	\$289,707	100.0%