

MEMORANDUM

To Board of Regents
From: Board Office
Subject: Final Approval of the Change in Investment Policy for Soft Dollars Revision
Date: January 19, 2005

Recommended Action:

Give final approval to revision of Board's investment policies regarding soft dollars as outlined in this memorandum.

Executive Summary:

The changes to section 7.03.H. in the Board of Regents Policy Manual were reviewed and discussed during the Investment Committee's meeting in December 2004. Modifications were approved by the Board.

No changes were requested by the Board during the first reading of the section at its December 2004 meeting.

Final Approval Give final approval to the following changes for section 7.03.H of the Board of Regents Investment Policy to include a soft dollar policy.

H. Execution of Transactions

Execution of transactions will seek to achieve a balance between reduction of commission costs and "best price."

The institutions shall not do business with any brokerage firm that mandates binding arbitration as the only recourse for settlement of a disputed claim.

External portfolio managers and The institutions and the brokers with whom they execute transactions shall exercise their best efforts in minimizing transaction costs and market impact while achieving executions at competitive prices.

The external portfolio managers may, within policies and guidelines determined by the Investment Committee and the institutions and approved by the Board, have full discretion to buy, sell, invest, and reinvest in investment assets on behalf of the institutions. With respect to the Board's investment accounts, the external portfolio managers use of soft dollar trades to acquire products or services to be used in the administration of the fund, are permissible only if the trade provides best execution and price. External portfolio managers

shall report soft dollar policies and practices to the Board's investment advisor. If soft dollar trades occur within the Board's investment accounts, the Board's investment advisor will monitor the external portfolio manager soft dollar policies and practices to ensure an appropriate relationship to the management of the Board's investment account. Any issues relative to soft dollar policies and practices shall be a part of the Board's investment advisor's annual comprehensive evaluation of the performance of the Board's external portfolio manager.

The institutions shall regularly solicit competitive bids from two or more brokers before executing transactions, and shall require that the brokers provide confirmations of trades to the treasurers except in the following circumstances:

- a. The security is a new offering of direct obligations of the U.S. government or agencies of the U.S. government.
- b. The security is maturing within one year from the purchase date.

Background:

With increased disclosure and scrutiny of soft dollar practices, the policy revision is recommended in order to clarify the Board's position on soft dollars. The Securities Exchange Commission (SEC) has defined the term "soft dollars" to mean products and services, other than execution of transactions, that a fund manager receives from a broker in exchange for the external portfolio manager's direction of transactions to the broker. "Products and services" is generally defined as research services that assist fund managers in the performance of their investment decision making.

Current Board policy seeks to achieve a balance between reduction of commission costs and "best price." The proposed policy change acknowledges that best execution may occur through block transactions with volume discounts that generate soft dollars. The policy revision reemphasizes best execution and price, and if applicable, the monitoring of external portfolio manager soft dollar policies and practices by the Board's investment advisor.


Jean A. Friedrich

Approved: 
Gregory S. Nichols