

Contact: Pam Elliott Cain

FUND MANAGER ISSUES

Action Requested: Receive the report on issues affecting two of the Board's external fund managers and recommend that the Board transition from Artisan Partners' separate account to Artisan Partners' mutual fund.

Executive Summary: In accordance with the Board's investment policy, qualitative issues related to external investment fund managers are to be monitored by the investment advisor, Wilshire Associates, and reported to the Investment Committee.

Dodge & Cox

In early January 2006, Wilshire Associates reported to the Board Office a change in senior management at Dodge & Cox effective December 31, 2005. Dodge & Cox is a fixed income manager selected by the Board in February 2004.

Wilshire Associates reports that they have no immediate concerns regarding the changes but will continue to monitor for any organizational changes. Wilshire is not recommending any Board action at this time

Artisan Partners

At its September 2005 meeting, the Board authorized the following changes to investment asset allocation instruments within its portfolio:

- Decreased U.S. equity allocation from 63% to 45%
- Increased international equity allocation from 7% to 15%
- Added a high yield fixed income allocation of 5%
- Added a real estate allocation of 5%
- Added a private equity allocation of 5%

Wilshire Associates has determined that to accomplish the shift in assets, the allocation to each U.S. equity manager will be decreased. Artisan Partners is a small growth capitalization investment fund manager that was authorized by the Board in December 2004. The University of Iowa's Artisan account will decrease from approximately \$17.1 million to \$12.6 million while Iowa State University's Artisan account will decrease from approximately \$17.7 million to \$9.2 million.

The Board currently employs Artisan's small cap growth portfolio through a separate account. The separate account structure was originally chosen based on the increased flexibility and the ability to customize the guidelines if needed at the same expected cost. Artisan's stated minimum account size for separate accounts is \$20 million. At these lower asset levels, Artisan's portfolio management team has indicated to Wilshire Associates that it is unable to efficiently run the portfolios as separate accounts. The portfolio management team would not be able to purchase round lots of securities for a portfolio of this size, which would cause dispersion between the University of Iowa and Iowa State University's portfolios, as well as dispersion from Artisan's composite portfolio. Higher levels of cash would be held in each portfolio as a result.

Wilshire has provided the following analysis:

- Artisan’s institutional mutual fund (Artisan Small Cap Fund) is run by the same portfolio management team, with the same philosophy and process as their separate account portfolios.
- Performance and characteristics for the two investment vehicles are very similar. The performance for the separate account does not include custody costs while the mutual fund performance does net out those costs.

**Net of Fee Performance Comparison
(Periods Ending December 31, 2005)**

	Quarter	Since Inception (3/31/05)
Board of Regents Artisan Small Cap Growth	-0.20%	12.36%
Artisan Small Cap Fund	-0.12%	12.12%

**Characteristics Comparison
(As of December 31, 2005)**

	Median Market Cap (\$mm)	Weighted Average Market Cap (\$mm)	Weighted Average Harmonic P/E (2006E)	Weighted Average Growth Rate (3-5 yrs)	Number of Securities
Board of Regents Artisan Small Cap Growth	915.1	1,020.2	17.2	19.2	82
Artisan Small Cap Fund	915.1	1,020.0	17.2	19.2	82

- Artisan’s mutual fund is offered at a fee of 1.16%, with a 1% management fee and 0.16% custody of assets fee. In the existing arrangement, the Board of Regents pays a 1.0% management fee on the separate account. Custody fees are paid separately to Wells Fargo, which Wilshire Associates expects to range from 0.15% to 0.20%. Wilshire Associates does not believe the change in investment vehicles will have a meaningful impact on overall fees.
- The Artisan Small Cap Fund utilizes the same portfolio management team, philosophy and process, with a similar overall fee structure.

Wilshire Associates recommends that the Board of Regents transition from Artisan’s separate account to Artisan’s mutual fund.