

Contact: Pam Elliott Cain

REPORT ON ANNUAL PERFORMANCE REVIEW OF EXTERNAL FUND MANAGERS

Action Requested: Receive a report on the annual evaluation on several external fund managers.

Executive Summary: The Board of Regents employs an investment advisor and external fund managers to guide its policy of active, diversified investment management.

In accordance with Board policy, each manager is expected to meet with representatives of the Investment Committee, Board Office, and institutions annually to review the investment outlook, structure of their portfolios, and past results. Each manager is judged on the basis of individual performance relative to the guidelines contained in this policy.

On Friday, March 3, 2006, the Investment Committee Chair and representatives from the Board Office, Wilshire Associates, and universities met with the following external fund managers:

- BlackRock, a fixed income manager investing a portion of the operating portfolio since the quarter ended December 31, 1996.
- Wellington, a short duration fixed income manager, initially invested Regent operating fund April 30, 2003.
- Dodge & Cox is a fixed income manager for the Regent endowment portfolio as of March 31, 2004.
- Reams Asset Management, a market core fixed income manager, began handling SUI quasi-endowment funds September 30, 2001 and other endowment funds June 30, 2002.
- Grantham, Mayo, Van Otterloo & Co. (Grantham, Mayo), an international equity fund manager, first quarter as a Regent fund manager was March 31, 2004.
- LSV Asset Management manages mid cap value domestic stock portfolios and began investing Regent assets June 30, 2002.

Three new domestic equity managers (Lotsoff, Goldman Sachs, and Artisan) began investing Regent funds March 31, 2005. These managers will be individually evaluated once they have completed four full quarters.

The universities are currently working on funding the three managers authorized by the Board in November 2005 – Post Advisory (high-yield bonds); Principal Group (real estate); and Lehman (private equity).

Results of reviews:

- An inconsistent policy treatment among investment vehicles was noted by one of the managers. A policy modification was recommended by Wilshire (Item 7d).
- With the various investment policy changes over the last year, Wilshire agreed to provide a complete set of updated Regent guidelines to each of the managers.
- Wilshire will continue to closely monitor underperformance and make recommendations for manager changes to the Investment Committee as warranted.