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INVESTMENT AND CASH MANAGEMENT REPORT
FOR THE QUARTER ENDED DECEMBER 31, 2006

Recommended Action: Receive the Investment and Cash Management Report for the quarter ended December 31, 2006.

Executive Summary: The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment.

Institutional Investment Portfolios
Market Value
(in thousands)
As of December 31, 2005, and December 31, 2006

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Dec 2005</u>	<u>Dec 2006</u>	<u>Dec 2005</u>	<u>Dec 2006</u>
University of Iowa ¹	\$635,603	\$700,736	\$296,844 ²	\$353,407 ²
Iowa State University	304,383	279,867	161,082 ³	173,031 ³
University of Northern Iowa	97,452	105,204	-	-
Iowa School for the Deaf	1,611	1,482	-	-
Iowa Braille & Sight Saving School	<u>678</u>	<u>721</u>	-	-
Total	\$1,039,727	\$1,088,010	\$457,926	\$526,438

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of December 31, 2006, the Regent combined operating and endowment portfolios totaled over \$1.6 billion.

The Merrill Lynch 1-3 year Government/Corporate Index rate for the quarter was 1.02%. All managers outperformed the benchmark.

The combined endowment managers' returns for the quarter were 5.6% for SUI and 5.3% for ISU, while the blended asset allocation benchmark posted returns of 5.8%.

The SUI quasi-endowment returned 1.7% for the quarter ended December 31, 2006, which outperformed the benchmark of 1.2%.

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and IBSSS for the quarter ended December 31, 2006, noted that investments were in compliance with respective Board and institutional investment policies.

The University of Iowa internal auditor reported that operating and endowment fund activity for SUI's operating and endowment activities, ISU's endowment, and ISD's operating portfolio for the quarter ended September 30, 2006, was in compliance with Board policies. The December 31, 2006, compliance reports will be available at the next Audit/Compliance and Investment Committee meeting.

**Endowment Fund Manager Performance Overview
For the Quarter Ended December 31, 2006**

<u>Inception</u>	<u>Fund Manager</u>	<u>Assets (thousands)</u>	<u>Net Return 12/31/06</u>	<u>Benchmark 12/31/06</u>	<u>Performance Variance</u>
University of Iowa					
6/30/02	Reams	\$29,434	1.2%	1.2%	0.0%
3/31/04	Dodge and Cox	30,436	1.7%	1.2%	0.5%
3/31/05	Goldman Sachs	53,140	6.1%	6.7%	-0.6%
3/31/05	Lotsoff Capital	52,554	6.2%	6.7%	-0.5%
3/31/04	Grantham, Mayo	41,183	10.5%	10.4%	0.1%
3/31/05	Artisan	12,310	6.0%	8.8%	-2.8%
6/30/02	LSV	12,970	8.2%	9.1%	-0.9%
3/31/06	Post Advisory	13,462	3.9%	4.2%	-0.3%
12/31/05	Principal Group	13,210	4.3%	4.5%	-0.2%
12/31/06	Lehman Brothers	<u>1,320</u>	--	7.2%	--
	Total	\$260,019			
University of Iowa Quasi Endowment					
3/31/04	Dodge and Cox	\$48,422	1.7%	1.2%	0.5%
9/30/01	Reams	<u>44,966</u>	1.6%	1.2%	0.4%
	Total	\$93,388			
Iowa State University					
6/30/02	Reams	\$20,783	1.2%	1.2%	0.0%
3/31/04	Dodge and Cox	20,158	1.7%	1.2%	0.5%
3/31/05	Goldman Sachs	33,397	5.1%	6.7%	-1.6%
3/31/05	Lotsoff Capital	33,332	6.2%	6.7%	-0.5%
3/31/04	Grantham, Mayo	27,780	10.5%	10.4%	0.1%
3/31/05	Artisan	9,404	6.0%	8.8%	-2.8%
6/30/02	LSV	9,271	7.8%	9.1%	-1.3%
3/31/06	Post Advisory	8,891	3.9%	4.2%	-0.3%
12/31/05	Principal Group	9,190	4.3%	4.5%	-0.2%
12/31/06	Lehman Brothers	<u>825</u>	--	7.2%	--
	Total	\$173,031			

Background and Analysis:

The Board delegates the authority for monitoring institutional investment, treasury management practices, performance, and compliance with policy to the Audit/Compliance and Investment Committee. The Board's policies identify broad investment strategy to be followed in the investment of the assets and any general limitations on the discretion given to the institutions' investment managers (both internal and external). Board policy requires university internal auditors to verify operating investment transactions and holdings for compliance at their respective universities.

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. Wilshire assists with the evaluation of the Board's investment policies and provides quarterly endowment portfolio summary reports.

The Board authorized the following fund managers (See page 8 for values):

Artisan Partners, a small capitalization fund manager, was authorized by the Board in December 2004.

BlackRock, a fixed income manager, was authorized by the Board in February 1996.

Commonfund, a short-term manager, was authorized by the Board in September 2005.

Dodge & Cox, a fixed income manager, was authorized by the Board in February 2004.

Goldman Sachs Asset Management, a large capitalization domestic equity fund manager, was authorized by the Board in September 2004.

Grantham, Mayo, Van Otterloo & Co. (Grantham, Mayo), an international equity fund manager, was authorized by the Board in February 2004.

Lehman Brothers Asset Management, a private equity manager, was authorized by the Board in November 2005.

Lotsoff Capital Management, a large capitalization domestic equity fund manager, was authorized by the Board in September 2004.

LSV Asset Management manages mid cap value domestic stock portfolios and was authorized by the Board in January 2002.

Post Advisory (a subsidiary of Iowa's Principal Financial Group), a high-yield bonds manager, was authorized by the Board in November 2005.

Principal Group (based in Iowa), a real estate manager, was authorized by the Board in November 2005.

Reams Asset Management, a market core fixed income manager, began handling SUI quasi-endowment funds in July 2001. In January 2002, the Board authorized the use of Reams for institutional endowments.

Wellington, a short duration fixed income manager, was authorized by the Board in March 2003.

In November 2001, the Board established an endowment with proceeds from the demutualization of Principal Mutual Holding Company for the benefit of employees and the institutions. The balances of the proceeds are reported on a quarterly basis.

**Principal Demutualization Funds
(in thousands)
As of December 31, 2006**

University of Iowa	\$51,445
Iowa State University	28,766
University of Northern Iowa	8,363
Iowa School for the Deaf	360
Iowa Braille and Sight Saving School	190
Board Office	58
Total	\$89,182

OPERATING PORTFOLIOS

The primary goals for investment prudence of the operating portfolio include safety of principal, maintenance of liquidity to match expected liabilities, and a reasonable return. The operating portfolio is to be managed to ensure funds are available to support operational needs.

**Market Value
(in thousands)
As of December 31, 2006**

	<u>Internally Managed</u>		<u>Externally Managed</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>BlackRock</u>	<u>Wellington</u>	<u>Commonfund</u>	
SUI	\$249,523	\$121,928	\$151,576	\$152,370	\$25,339	\$700,736
ISU	129,782	72,059	N/I	N/I	78,026	279,867
UNI	56,338	28,435	N/I	N/I	20,431	105,204
ISD	1,213	8	N/I	N/I	261	1,482
IBSSS	<u>721</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>721</u>
Total	\$437,577	\$222,430	\$151,576	\$152,370	\$124,057	\$1,088,010

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.

**Quarterly Rates of Return
For the Quarter Ended December 31, 2006**

	<u>Unrestricted</u>					<u>Restricted</u>
	<u>Internal</u>	<u>BlackRock</u>	<u>Wellington</u>	<u>Commonfund</u>	<u>Combined</u>	<u>Internal</u>
SUI	1.33%	1.19%	1.09%	1.52%	1.23%	1.21%
ISU	1.25%	N/I	N/I	1.45%	1.33%	1.16%
UNI	1.22%	N/I	N/I	1.44%	1.28%	1.11%
ISD	1.32%	N/I	N/I	1.45%	1.34%	1.36%
IBSSS	1.27%	N/I	N/I	N/I	1.27%	N/I
Total						

N/I = No investments of this type.

The comparable industry standard rate of return for the quarter ended December 31, 2006, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 1.02%. All fund managers outperformed the benchmark.

Operating Investment Summary
Unrestricted, Restricted, BlackRock, Wellington, and Commonfund
(in thousands)
As of December 31, 2006

	<u>Market Value</u>	<u>Percent Market Value</u>
University of Iowa		
Money Market / Cash Equivalents	\$271,590	38.7%
Agency Securities	115,676	16.5%
Corporate Notes and Bonds	181,874	26.0%
U.S. Obligations	105,813	15.1%
Commonfund	25,339	3.6%
Municipals	<u>444</u>	<u>0.1%</u>
Total	\$700,736	100.0%
Iowa State University		
Money Market / Cash Equivalents	\$50,635	18.0%
Agency Securities	104,830	37.5%
U.S. Obligations	46,376	16.6%
Commonfund	<u>78,026</u>	<u>27.9%</u>
Total	\$279,867	100.0%
University of Northern Iowa		
Money Market / Cash Equivalents	\$35,139	33.4%
Agency Securities	36,331	34.5%
U.S. Obligations	13,303	12.7%
Commonfund	<u>20,431</u>	<u>19.4%</u>
Total	\$105,204	100.0%
Iowa School for the Deaf		
Money Market / Cash Equivalents	\$1,221	82.4%
Commonfund	<u>261</u>	<u>17.6%</u>
Total	\$1,482	100.0%
Iowa Braille & Sight Saving School		
Money Market / Cash Equivalents	\$24	3.3%
Repurchase Agreements	<u>697</u>	<u>96.7%</u>
Total	\$721	100.0%
Regent Composite		
Money Market / Cash Equivalents	\$358,609	32.9%
Agency Securities	256,837	23.6%
Corporate Notes and Bonds	181,874	16.7%
U.S. Obligations	165,492	15.2%
Commonfund	124,057	11.4%
Municipals	444	0.1%
Repurchase Agreements	<u>697</u>	<u>0.1%</u>
Total	\$1,088,010	100.0%

The top three investment categories for the combined Regent operating portfolios included Money Market / Cash Equivalents, Agency Securities, and Corporate Notes and Bonds.

ENDOWMENT PORTFOLIOS

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 the Iowa Braille and Sight Saving School endowment portfolios are invested through Iowa State University.

In recognition of their long-term charter, the Board's investment policy indicates that these funds shall be managed actively with the intention of obtaining the highest possible total return while accepting only prudent risk. These funds are to be managed to maintain and preserve, over time, the real value of the funds and shall consist of a prudent, diversified investment portfolio.

**Endowment Asset Class Allocation Policy
As of December 31, 2006**

	<u>Target</u>	<u>Range</u>
Domestic Stocks (U.S. equities)	45%	-5/+15%
Domestic Bonds (U.S. fixed income)	30%	+/-5%
International Stocks (foreign equities)	15%	+/-5%
Real Estate	5%	+/-5%
Private Equity	5%	-5/+2%

**Endowment Manager Allocations*
As of December 31, 2006**

<u>Asset Class</u>	<u>Target</u>	<u>Allowable Range</u>	<u>Benchmark</u>
<u>U.S. Equities</u>	45%	40-60%	Wilshire 5000
Large Cap Core	80%	75-85%	S&P 500 Index
Large Cap Index	0%	n/a	n/a
Small / Mid Cap Growth	10%	5-15%	Russell 2500 Growth
Small / Mid Cap Value	10%	5-15%	Russell 2500 Value
<u>U.S. Bonds</u>	30%	25-35%	Lehman Aggregate
Investment Grade Core	83%	75-100%	Lehman Aggregate
High Yield (<i>new</i>)	17%	0-25%	Merrill Lynch HY Master II
<u>International Equities</u>	15%	10-20%	MSCI EAFE
International Developed (<i>new</i>)	95%	95-100%	MSCI EAFE
International Emerging Markets (<i>new</i>)	5%	0-5%	MSCI Emerging Markets
<u>Real Estate</u> (<i>new</i>)	5%	0-10%	NACREIF
<u>Private Equity</u> (<i>new</i>)	5%	0-7%	Wilshire 5000

*Approved at the September 2005 meeting.

**Endowment Allocations
Net of Fees
As of December 31, 2006**

MANAGER	<u>University of Iowa</u>			<u>Iowa State University</u>		
	<u>Value (thousands)</u>	<u>Value (percent)</u>	<u>Fees (thousands)</u>	<u>Value (thousands)</u>	<u>Value (percent)</u>	<u>Fees (thousands)</u>
<u>Domestic Stocks</u>						
Artisan	\$12,310	4.8%	\$35	\$9,404	5.4%	\$26
Goldman Sachs	53,140	20.4%	48	33,397	19.3%	34
Lotsoff Capital	52,554	20.2%	45	33,332	19.3%	29
LSV	12,970	5.0%	21	9,271	5.4%	16
Subtotal	\$130,974	50.4%	\$149	\$85,404	49.4%	\$105
<u>Domestic Bonds</u>						
Dodge and Cox	\$30,436	11.7%	\$34	\$20,158	11.6%	\$23
Reams	29,434	11.3%	18	20,783	12.0%	16
Post Advisory	13,462	5.2%	20	8,891	5.1%	13
Subtotal	\$73,332	28.2%	\$72	\$49,832	28.7%	\$52
<u>International</u>						
Grantham, Mayo	\$41,183	15.8%	\$84	\$27,780	16.1%	\$57
<u>Real Estate</u>						
Principal Group	\$13,210	5.1%	*	\$9,190	5.3%	*
<u>Private Equity</u>						
Lehman Brothers	\$1,320	0.5%	*	\$825	0.5%	*
Total Fund	\$260,019	100.0%	\$305	\$173,031	100.0%	\$214

*No fees reported as of December 31, 2006.

The quasi-endowment fund is 100% fixed income investments. There are no Board-established fund manager allocations target ranges for the quasi-endowment.

**University of Iowa Quasi-Endowment (100% Fixed Income)
As of December 31, 2006**

	Value (thousands)	Value (percent)	Fees (thousands)	Net Returns	
				Quarter	One Year
Dodge and Cox	\$48,422	51.9%	\$54	1.7%	5.2%
Reams	44,966	48.1%	28	1.6%	4.8%
Total Fund	\$93,388	100.0%	\$82		
100% Lehman Aggregate.				1.2%	4.3%

**Endowment Performance
Net of Fees
As of December 31, 2006**

	Assets (thousands)	Net Returns	
		Quarter	One Year
SUI	\$260,019	5.6%	13.3%
ISU	173,031	5.3%	13.0%
Asset Allocation Benchmark*		5.8%	13.6%
SUI Quasi-Endowment	93,388	1.7%	5.0%
Fixed Income Benchmark **		1.2%	4.3%
Total	\$526,438		

* 50% Wilshire 5000, 30% Lehman Aggregate, 15% MSCI EAFE (n), 5% NCREIF Property Index.

** 100% Lehman Aggregate.

<i>University of Iowa Endowment</i>	<u>Mar 2006</u>	<u>Jun 2006</u>	<u>Sep 2006</u>	<u>Dec 2006</u>
Assets - Quarter	\$238.2 million	\$231.8 million	\$247.1 million	\$260.0 million
Gains/Losses - Quarter	\$9.9 million	-\$2.1 million	\$9.4 million	\$14.1 million
Fees/Distributions - Quarter	\$1.5 million	\$4.3 million	\$0.4 million	\$2.5 million
Contributions - Quarter	\$23.7 million	\$0	\$6.4 million	\$1.3 million
Returns - Quarter	4.4%	-1.0%	3.9%	5.6%
Benchmark - Quarter	3.9%	-0.7%	4.1%	5.8%
Returns - Year	12.9%	9.3%	9.0%	13.3%
Benchmark - Year	11.6%	8.3%	9.4%	13.6%

<i>University of Iowa Quasi-Endowment</i>	<u>Mar 2006</u>	<u>Jun 2006</u>	<u>Sep 2006</u>	<u>Dec 2006</u>
Assets - Quarter	\$89.0 million	\$86.8 million	\$93.0 million	\$93.4 million
Gains/Losses - Quarter	-\$247,000	\$107,000	\$3.4 million	\$1.6 million
Fees/Distributions - Quarter	\$1.3 million	\$2.3 million	\$1.2 million	\$1.2 million
Contributions - Quarter	\$33,000	\$0	\$4.0 million	\$0
Returns - Quarter	-0.4%	0.0%	3.6%	1.7%
Benchmark - Quarter	-0.6%	-0.1%	3.8%	1.2%
Returns - Year	2.6%	0.1%	3.8%	5.0%
Benchmark - Year	2.3%	-0.8%	3.7%	4.3%

<i>Iowa State University Endowment</i>	<u>Mar 2006</u>	<u>Jun 2006</u>	<u>Sep 2006</u>	<u>Dec 2006</u>
Assets - Quarter	\$167.5 million	\$159.5 million	\$164.6 million	\$173.0 million
Gains/Losses - Quarter	\$7.4 million	-\$1.5 million	\$6.0 million	\$9.0 million
Fees/Distributions - Quarter	\$901,000	\$6.9 million	\$1.3 million	\$1.6 million
Contributions - Quarter	\$120,000	\$344,000	\$0.3 million	\$1.0 million
Returns - Quarter	4.5%	-0.9%	3.6%	5.3%
Benchmark - Quarter	3.9%	-0.7%	4.1%	5.8%
Returns - Year	13.3%	9.6%	8.9%	13.0%
Benchmark - Year	11.6%	8.3%	9.4%	13.6%

Endowment / Quasi-Endowment Portfolios
Market Value - Accrual Basis
(in thousands)
As of December 31, 2006

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Dodge and Cox				
SUI	\$30,436	\$48,422	\$78,858	
ISU	<u>20,158</u>	-	<u>20,158</u>	
Total	\$50,594	\$48,422	\$99,016	18.8%
Reams Asset Management				
SUI	\$29,434	\$44,966	\$74,400	
ISU	<u>20,783</u>	-	<u>20,783</u>	
Total	\$50,217	\$44,966	\$95,183	18.1%
Goldman Sachs				
SUI	\$53,140	-	\$53,140	
ISU	<u>33,397</u>	-	<u>33,397</u>	
Total	\$86,537	-	\$86,537	16.5%
Lotsoff Capital				
SUI	\$52,554	-	\$52,554	
ISU	<u>33,332</u>	-	<u>33,332</u>	
Total	\$85,886	-	\$85,886	16.3%
Grantham, Mayo				
SUI	\$41,183	-	\$41,183	
ISU	<u>27,780</u>	-	<u>27,780</u>	
Total	\$68,963	-	\$68,963	13.1%
Principal Group				
SUI	\$13,210	-	\$13,210	
ISU	<u>9,190</u>	-	<u>9,190</u>	
Total	\$22,400	-	\$22,400	4.3%
Post Advisory				
SUI	\$13,462	-	\$13,462	
ISU	<u>8,891</u>	-	<u>8,891</u>	
Total	\$22,353	-	\$22,353	4.2%
LSV				
SUI	\$12,970	-	\$12,970	
ISU	<u>9,271</u>	-	<u>9,271</u>	
Total	\$22,241	-	\$22,241	4.2%
Artisan				
SUI	\$12,310	-	\$12,310	
ISU	<u>9,404</u>	-	<u>9,404</u>	
Total	\$21,714	-	\$21,714	4.1%
Lehman Brothers				
SUI	\$1,320	-	\$1,320	
ISU	<u>825</u>	-	<u>825</u>	
Total	\$2,145	-	\$2,145	0.4%
TOTAL				
SUI	\$260,019	\$93,388	\$353,407	
ISU	<u>173,031</u>	-	<u>173,031</u>	
Total	\$433,050	\$93,388	\$526,438	100.0%