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INVESTMENT AND CASH MANAGEMENT REPORT
FOR THE QUARTER ENDED MARCH 31, 2007

Recommended Action: Receive the Investment and Cash Management Report for the quarter ended March 31, 2007.

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

Institutional Investment Portfolios
Market Value
(in thousands)
As of March 31, 2006, and March 31, 2007

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Mar 2006</u>	<u>Mar 2007</u>	<u>Mar 2006</u>	<u>Mar 2007</u>
University of Iowa ¹	\$663,729	\$733,582	\$327,206 ²	\$357,302 ²
Iowa State University	339,502	336,002	167,488 ³	175,203 ³
University of Northern Iowa	92,130	102,038	-	-
Iowa School for the Deaf	1,920	1,706	-	-
Iowa Braille & Sight Saving School	449	980	-	-
Total	\$1,097,730	\$1,174,308	\$494,694	\$532,505

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of March 31, 2007, 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 1.44%. External managers BlackRock, Wellington, and Commonfund outperformed the benchmark.

The combined endowment managers' returns for the quarter were 1.6% for both SUI and ISU, while the blended asset allocation benchmark posted returns of 1.9%.

The SUI quasi-endowment returned 1.5% for the quarter ended March 31, 2007, which equaled the benchmark of 1.5%.

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and IBSSS for the quarter ended March 31, 2007, 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 December 31, 2006, was in compliance with Board policies. The March 31, 2007, compliance reports will be available at the next Board meeting.

**Endowment Fund Manager Performance Overview
For the Quarter Ended March 31, 2007**

<u>Inception</u>	<u>Fund Manager</u>	<u>Assets (thousands)</u>	<u>Net Return 3/31/07</u>	<u>Benchmark 3/31/07</u>	<u>Performance Variance</u>
University of Iowa					
6/30/02	Reams	\$29,880	1.5%	1.5%	0.0%
3/31/04	Dodge and Cox	30,871	1.4%	1.5%	-0.1%
3/31/05	Goldman Sachs	52,840	0.0%	0.7%	-0.7%
3/31/05	Lotsoff Capital	52,811	0.5%	0.7%	-0.2%
3/31/04	Grantham, Mayo	42,338	3.8%	4.1%	-0.3%
3/31/05	Artisan	12,364	0.4%	2.5%	-2.1%
6/30/02	LSV	13,563	4.6%	3.1%	1.5%
3/31/06	Post Advisory	13,858	2.9%	2.7%	0.2%
12/31/05	Principal Group	13,565	2.8%	3.6%	-0.8%
12/31/06	Lehman Brothers	<u>1,575</u>	-2.8%	1.4%	-4.2%
	Total	\$263,665			
University of Iowa Quasi Endowment					
3/31/04	Dodge and Cox	\$47,986	1.4%	1.5%	-0.1%
9/30/01	Reams	<u>45,651</u>	1.5%	1.5%	0.0%
	Total	\$93,637			
Iowa State University					
6/30/02	Reams	\$21,106	1.5%	1.5%	0.0%
3/31/04	Dodge and Cox	20,686	1.4%	1.5%	-0.1%
3/31/05	Goldman Sachs	32,846	-0.1%	0.7%	-0.8%
3/31/05	Lotsoff Capital	32,987	0.5%	0.7%	-0.2%
3/31/04	Grantham, Mayo	28,824	3.8%	4.1%	-0.3%
3/31/05	Artisan	9,446	0.4%	2.5%	-2.1%
6/30/02	LSV	9,736	4.8%	3.1%	1.7%
3/31/06	Post Advisory	9,152	2.9%	2.7%	0.2%
12/31/05	Principal Group	9,436	2.8%	3.6%	-0.8%
12/31/06	Lehman Brothers	<u>984</u>	-2.8%	1.4%	-4.2%
	Total	\$175,203			

Background and Analysis:

The Board monitors institutional investment, treasury management practices, performance, and compliance with policy. 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 March 31, 2007**

University of Iowa	\$51,588
Iowa State University	28,592
University of Northern Iowa	8,398
Iowa School for the Deaf	353
Iowa Braille and Sight Saving School	183
Board Office	58
Total	\$89,172

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 March 31, 2007**

	<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	\$263,200	\$110,881	\$153,730	\$154,743	\$51,028	\$733,582
ISU	180,192	66,601	N/I	N/I	89,209	336,002
UNI	53,173	28,137	N/I	N/I	20,728	102,038
ISD	1,433	8	N/I	N/I	265	1,706
IBSSS	980	N/I	N/I	N/I	N/I	980
Total	\$498,978	\$205,627	\$153,730	\$154,743	\$161,230	\$1,174,308

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 March 31, 2007**

	<u>Internal</u>	<u>BlackRock</u>	<u>Unrestricted</u>			<u>Combined</u>	<u>Restricted</u>
			<u>Wellington</u>	<u>Commonfund</u>	<u>Internal</u>		
SUI	1.30%	1.48%	1.54%	1.46%	1.43%	1.30%	
ISU	1.34%	N/I	N/I	1.48%	1.39%	1.23%	
UNI	1.29%	N/I	N/I	1.45%	1.33%	1.28%	
ISD	1.29%	N/I	N/I	1.47%	1.32%	1.31%	
IBSSS	1.25%	N/I	N/I	N/I	1.25%	N/I	
Total							

N/I = No investments of this type.

The comparable industry standard rate of return for the quarter ended March 31, 2007, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 1.44%. External managers BlackRock, Wellington, and Commonfund outperformed the benchmark.

Operating Investment Summary
Unrestricted, Restricted, BlackRock, Wellington, and Commonfund
(in thousands)
As of March 31, 2007

	<u>Market Value</u>	<u>Percent Market Value</u>
University of Iowa		
Money Market / Cash Equivalents	\$291,391	39.7%
Agency Securities	107,120	14.6%
Corporate Notes and Bonds	186,047	25.3%
Commonfund	51,028	7.0%
U.S. Obligations	97,549	13.3%
Municipals	<u>447</u>	<u>0.1%</u>
Total	\$733,582	100.0%
Iowa State University		
Money Market / Cash Equivalents	\$120,193	35.8%
Agency Securities	100,115	29.8%
Commonfund	79,169	23.5%
U.S. Obligations	<u>36,525</u>	<u>10.9%</u>
Total	\$336,002	100.0%
University of Northern Iowa		
Money Market / Cash Equivalents	\$47,566	46.6%
Agency Securities	28,388	27.8%
Commonfund	20,728	20.3%
U.S. Obligations	<u>5,356</u>	<u>5.3%</u>
Total	\$102,038	100.0%
Iowa School for the Deaf		
Money Market / Cash Equivalents	\$1,441	84.5%
Commonfund	<u>265</u>	<u>15.5%</u>
Total	\$1,706	100.0%
Iowa Braille & Sight Saving School		
Money Market / Cash Equivalents	\$11	1.1%
Repurchase Agreements	<u>969</u>	<u>98.9%</u>
Total	\$980	100.0%
Regent Composite		
Money Market / Cash Equivalents	\$460,602	39.2%
Agency Securities	235,623	20.0%
Corporate Notes and Bonds	186,047	15.8%
Commonfund	151,190	12.9%
U.S. Obligations	139,430	11.9%
Repurchase Agreements	969	0.1%
Municipals	<u>447</u>	<u>0.1%</u>
Total	\$1,174,308	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 March 31, 2007**

	<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 March 31, 2007**

<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 March 31, 2007**

MANAGER	<u>University of Iowa</u>			<u>Iowa State University</u>		
	<u>Value</u> (thousands)	<u>Value</u> (percent)	<u>Fees</u> (thousands)	<u>Value</u> (thousands)	<u>Value</u> (percent)	<u>Fees</u> (thousands)
<u>Domestic Stocks</u>						
Artisan	\$12,364	4.7%	\$35	\$9,446	5.4%	\$27
Goldman Sachs	52,840	20.0%	50	32,846	18.7%	34
Lotsoff Capital	52,811	20.0%	47	32,987	18.8%	29
LSV	13,563	5.1%	23	9,736	5.6%	17
Subtotal	\$131,578	49.8%	\$155	\$85,015	48.5%	\$107
<u>Domestic Bonds</u>						
Dodge and Cox	\$30,871	11.7%	\$35	\$20,686	11.8%	\$23
Reams	29,880	11.4%	19	21,106	12.0%	16
Post Advisory	13,858	5.3%	21	9,152	5.2%	13
Subtotal	\$74,609	28.4%	\$75	\$50,944	29.0%	\$52
<u>International</u>						
Grantham, Mayo	\$42,338	16.1%	\$87	\$28,824	16.5%	\$59
<u>Real Estate</u>						
Principal Group	\$13,565	5.1%	*	\$9,436	5.4%	*
<u>Private Equity</u>						
Lehman Brothers	\$1,575	0.6%	\$53	\$984	0.6%	\$33
Total Fund	\$263,665	100.0%	\$370	\$175,203	100.0%	\$251

*No fees reported as of March 31, 2007.

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 March 31, 2007**

	Value	Value	Fees	Net Returns	
	(thousands)	(percent)	(thousands)	Quarter	One Year
Dodge and Cox	\$47,986	51.2%	\$54	1.4%	6.7%
Reams	<u>45,651</u>	<u>48.8%</u>	<u>28</u>	1.5%	7.1%
Total Fund	\$93,637	100.0%	\$82		
100% Lehman Aggregate.				1.5%	6.6%

**Endowment Performance
Net of Fees
As of March 31, 2007**

	Assets	Net Returns	
	(thousands)	Quarter	One Year
SUI	\$263,665	1.6%	10.2%
ISU	175,203	1.6%	9.9%
Asset Allocation Benchmark*		1.9%	11.5%
SUI Quasi-Endowment	<u>93,637</u>	1.5%	6.9%
Fixed Income Benchmark **		1.5%	6.6%
Total	\$532,505		

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

** 100% Lehman Aggregate.

<i>University of Iowa Endowment</i>	<u>Jun 2006</u>	<u>Sep 2006</u>	<u>Dec 2006</u>	<u>Mar 2007</u>
Assets - Quarter	\$231.8 million	\$247.1 million	\$260.0 million	\$263.7 million
Gains/Losses - Quarter	-\$2.1 million	\$9.4 million	\$14.1 million	\$4.5 million
Fees/Distributions - Quarter	\$4.3 million	\$0.4 million	\$2.5 million	\$1.5 million
Contributions - Quarter	\$0	\$6.4 million	\$1.3 million	\$0.6 million
Returns - Quarter	-1.0%	3.9%	5.6%	1.6%
Benchmark - Quarter	-0.7%	4.1%	5.8%	1.9%
Returns - Year	9.3%	9.0%	13.3%	10.2%
Benchmark - Year	8.3%	9.4%	13.6%	11.5%

<i>University of Iowa Quasi-Endowment</i>	<u>Jun 2006</u>	<u>Sep 2006</u>	<u>Dec 2006</u>	<u>Mar 2007</u>
Assets - Quarter	\$86.8 million	\$93.0 million	\$93.4 million	\$93.6 million
Gains/Losses - Quarter	\$107,000	\$3.4 million	\$1.6 million	\$1.5 million
Fees/Distributions - Quarter	\$2.3 million	\$1.2 million	\$1.2 million	\$1.2 million
Contributions - Quarter	\$0	\$4.0 million	\$0	\$0
Returns - Quarter	0.0%	3.6%	1.7%	1.5%
Benchmark - Quarter	-0.1%	3.8%	1.2%	1.5%
Returns - Year	0.1%	3.8%	5.0%	6.9%
Benchmark - Year	-0.8%	3.7%	4.3%	6.6%

<i>Iowa State University Endowment</i>	<u>Jun 2006</u>	<u>Sep 2006</u>	<u>Dec 2006</u>	<u>Mar 2007</u>
Assets - Quarter	\$159.5 million	\$164.6 million	\$173.0 million	\$175.2 million
Gains/Losses - Quarter	-\$1.5 million	\$6.0 million	\$9.0 million	\$3.0 million
Fees/Distributions - Quarter	\$6.9 million	\$1.3 million	\$1.6 million	\$1.5 million
Contributions - Quarter	\$344,000	\$0.3 million	\$1.0 million	\$0.6 million
Returns - Quarter	-0.9%	3.6%	5.3%	1.6%
Benchmark - Quarter	-0.7%	4.1%	5.8%	1.9%
Returns - Year	9.6%	8.9%	13.0%	9.9%
Benchmark - Year	8.3%	9.4%	13.6%	11.5%

Endowment / Quasi-Endowment Portfolios
Market Value - Accrual Basis
(in thousands)
As of March 31, 2007

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Dodge and Cox				
SUI	\$30,871	\$47,986	\$78,857	
ISU	<u>20,686</u>	-	<u>20,686</u>	
Total	\$51,557	\$47,986	\$99,543	18.7%
Reams Asset Management				
SUI	\$29,880	\$45,651	\$75,531	
ISU	<u>21,106</u>	-	<u>21,106</u>	
Total	\$50,986	\$45,651	\$96,637	18.1%
Lotsoff Capital				
SUI	\$52,811	-	\$52,811	
ISU	<u>32,987</u>	-	<u>32,987</u>	
Total	\$85,798	-	\$85,798	16.1%
Goldman Sachs				
SUI	\$52,840	-	\$52,840	
ISU	<u>32,846</u>	-	<u>32,846</u>	
Total	\$85,686	-	\$85,686	16.1%
Grantham, Mayo				
SUI	\$42,338	-	\$42,338	
ISU	<u>28,824</u>	-	<u>28,824</u>	
Total	\$71,162	-	\$71,162	13.4%
LSV				
SUI	\$13,563	-	\$13,563	
ISU	<u>9,736</u>	-	<u>9,736</u>	
Total	\$23,299	-	\$23,299	4.4%
Post Advisory				
SUI	\$13,858	-	\$13,858	
ISU	<u>9,152</u>	-	<u>9,152</u>	
Total	\$23,010	-	\$23,010	4.3%
Principal Group				
SUI	\$13,565	-	\$13,565	
ISU	<u>9,436</u>	-	<u>9,436</u>	
Total	\$23,001	-	\$23,001	4.3%
Artisan				
SUI	\$12,364	-	\$12,364	
ISU	<u>9,446</u>	-	<u>9,446</u>	
Total	\$21,810	-	\$21,810	4.1%
Lehman Brothers				
SUI	\$1,575	-	\$1,575	
ISU	<u>984</u>	-	<u>984</u>	
Total	\$2,559	-	\$2,559	0.5%
TOTAL				
SUI	\$263,665	\$93,637	\$357,302	
ISU	<u>175,203</u>	-	<u>175,203</u>	
Total	\$438,868	\$93,637	\$532,505	100.0%