

Contact: Pam Elliott Cain

REVIEW OF INVESTMENT POLICY

Action Requested: Consider recommending to the Board the proposed changes to the Regent investment policy.

Executive Summary:

Legislation enacted during the 2005 session eases mandated restrictions by authorizing the Board of Regents and its institutions to competitively select investment custodians allowing for increased competition and lower costs.

Regent Bedell, the Investment Committee Chair, requested that an extensive review and evaluation be conducted of the Regent investment policy when incorporating new state guidelines. Wilshire Associates assisted representatives from the institutions and Board Office with this review and evaluation.

Proposed policy changes include:

- A definitive statement that the Board will seek a reasonable return at a prudent level of risk.
- Clarification of general restrictions on both operating and endowment investment portfolios.
- Additional investment instruments (commingled, private equity, and real estate), as well as specific definitions and uses of those instruments.
- Revisions to asset class allocations and ranges based on additional investment instruments.
- Modifications of the reporting structure to reflect the assignment of the annual evaluation of fund manager performance to a subcommittee.

If these proposed policies are adopted, a subcommittee of the Committee, along with representatives from the universities and Board Office, would interview fund managers. Selections for new fund managers would be brought to the Investment Committee at the November meeting.

Details of the proposed investment allocations include the following:

Exhibit I: Asset Class:

<u>Asset Class</u>	<u>Target</u>	<u>Allowable Range</u>	<u>Benchmark</u>
U.S. Equities	45%	40-60%	Wilshire 5000
U.S. Bonds	30%	25-35%	Lehman Aggregate
International Equities	15%	10-20%	MSCI EAFE
Real Estate	5%	0-10%	NACREIF
Private Equity	5%	0-7%	Wilshire 5000

Exhibit II: Investment Structure Within Asset Classes:

<u>Asset Class</u>	<u>Target</u>	<u>Allowable Range</u>	<u>Benchmark</u>
U.S. Equity	% of U.S. Equity	% of U.S. Equity	
• Large Cap Core	80%	75-85%	S&P 500 Index
• Small / Mid Cap Growth	10%	5-15%	Russell 2500 Growth
• Small / Mid Cap Value	10%	5-15%	Russell 2500 Value
Fixed Income	% of U.S. Bonds	% of U.S. Bonds	
• Investment Grade Core	83.33%	75–100%	Lehman Aggregate
• High Yield	16.67%	0-25%	Merrill Lynch HY Master II
International Equity	% of Int'l Equity	% of Int'l Equity	
• International Developed	95%	95-100%	MSCI EAFE
• International Emerging Markets	5%	0-5%	MSCI Emerging Markets