

Contact: Andrea Anania

**INVESTMENT AND CASH MANAGEMENT REPORT**  
**FOR THE QUARTER ENDED JUNE 30, 2006**

**Recommended Action:** Receive the Investment and Cash Management Report for the quarter ended June 30, 2006.

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

**Institutional Investment Portfolios**  
**Market Value**  
**(in thousands)**  
**As of June 30, 2005, and June 30, 2006**

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Jun 2005</u>	<u>Jun 2006</u>	<u>Jun 2005</u>	<u>Jun 2006</u>
University of Iowa <sup>1</sup>	\$626,133	\$656,821	\$292,567 <sup>2</sup>	\$318,603 <sup>2</sup>
Iowa State University	251,314	327,456	151,324 <sup>3</sup>	159,512 <sup>3</sup>
University of Northern Iowa	54,629	68,325	-	-
Iowa School for the Deaf	2,363	1,969	-	-
Iowa Braille & Sight Saving School	842	1,170	-	-
<b>Total</b>	<b>\$935,281</b>	<b>\$1,055,741</b>	<b>\$443,891</b>	<b>\$478,115</b>

<sup>1</sup> Includes UIHC.

<sup>2</sup> Includes UNI.

<sup>3</sup> Includes ISD and IBSSS.

As of June 30, 2006, the Regent combined operating and endowment portfolios totaled just over \$1.5 billion.

All operating portfolio external managers outperformed the Merrill Lynch 1-3 year Government/Corporate Index rate of 0.66%.

The combined endowment managers' returns for the quarter were -1.0% for SUI and -0.9% for ISU, while the blended asset allocation benchmark posted returns of -0.7%.

The SUI quasi-endowment returned 0.0% for the quarter ended June 30, 2006, which outperformed the benchmark of -0.1%.

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and IBSSS for the quarter ended June 30, 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 March 31, 2006, was in compliance with Board policies. The June 30, 2006, compliance reports will be available at the next Audit/Compliance and Investment Committee meeting.

**Endowment Fund Manager Performance Overview  
For the Quarter Ended June 30, 2006**

<u>Inception</u>	<u>Fund Manager</u>	<u>Assets (thousands)</u>	<u>Net Return 6/30/06</u>	<u>Benchmark 6/30/06</u>	<u>Performance Variance</u>
<b>University of Iowa</b>					
6/30/02	Reams	\$28,006	0.0	-0.1	0.1
3/31/04	Dodge and Cox	27,784	0.0	-0.1	0.1
3/31/05	Goldman Sachs	46,743	-2.1	-1.4	-0.7
3/31/05	Lotsoff Capital	46,471	-1.5	-1.4	-0.1
3/31/04	Grantham, Mayo	35,667	0.0	0.7	-0.7
3/31/05	Artisan	11,262	-9.2	-7.3	-1.9
6/30/02	LSV	12,080	-1.5	-2.5	1.0
3/31/06	Post Advisory	11,598	0.4	0.2	0.2
3/31/06	Principal Group	<u>12,157</u>	5.7	4.0	1.7
	<b>Total</b>	<b>\$231,768</b>			
<b>University of Iowa Quasi Endowment</b>					
3/31/04	Dodge and Cox	\$44,197	0.0	-0.1	0.1
9/30/01	Reams	<u>42,638</u>	0.1	-0.1	0.2
	<b>Total</b>	<b>\$86,835</b>			
<b>Iowa State University</b>					
6/30/02	Reams	\$19,748	-0.1	-0.1	0.0
3/31/04	Dodge and Cox	20,091	0.0	-0.1	0.1
3/31/05	Goldman Sachs	30,719	-1.5	-1.4	-0.1
3/31/05	Lotsoff Capital	30,464	-1.5	-1.4	-0.1
3/31/04	Grantham, Mayo	24,073	0.0	0.7	-0.7
3/31/05	Artisan	8,998	-9.3	-7.3	-2.0
6/30/02	LSV	8,642	-1.1	-2.5	1.4
3/31/06	Post Advisory	8,320	0.4	0.2	0.2
3/31/06	Principal Group	<u>8,457</u>	5.7	4.0	1.7
	<b>Total</b>	<b>\$159,512</b>			

**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.

*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 June 30, 2006**

University of Iowa	\$48,233
Iowa State University	27,066
University of Northern Iowa	7,821
Iowa School for the Deaf	321
Iowa Braille and Sight Saving School	183
Board Office	54
Total	\$83,678

**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 June 30, 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	\$218,467	\$143,807	\$146,996	\$147,551	N/I	\$656,821
ISU	159,218	74,091	48,269	N/I	\$45,878	327,456
UNI	20,726	27,838	N/I	N/I	19,761	68,325
ISD	1,707	9	253	N/I	N/I	1,969
IBSSS	<u>1,170</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>1,170</u>
Total	\$401,288	\$245,745	\$195,518	\$147,551	\$65,639	\$1,055,741

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 June 30, 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	1.23%	0.77%	0.83%	N/I	0.95%	1.07%
ISU	0.92%	0.79%	N/I	0.88%	0.88%	0.94%
UNI	0.88%	N/I	N/I	0.87%	0.88%	0.98%
ISD	1.22%	0.79%	N/I	N/I	1.16%	1.12%
IBSSS	1.18%	N/I	N/I	N/I	1.18%	N/I
Total						

N/I = No investments of this type.

The comparable industry standard rate of return for the quarter ended June 30, 2006, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 0.66%. All managers outperformed the benchmark. This is the first full quarter that Commonfund managed UNI's funds.

**Operating Investment Summary**  
**Unrestricted, Restricted, BlackRock, Wellington, and Commonfund**  
**(in thousands)**  
**As of June 30, 2006**

	<u>Market Value</u>	<u>Percent Market Value</u>
<b>University of Iowa</b>		
Money Market / Cash Equivalents	\$286,016	43.6%
U.S. Obligations	97,865	14.9%
Agency Securities	94,937	14.4%
Corporate Notes and Bonds	177,566	27.0%
Municipals	<u>437</u>	<u>0.1%</u>
Total	\$656,821	100.0%
<b>Iowa State University</b>		
Money Market / Cash Equivalents	\$78,789	24.0%
U.S. Obligations	61,477	18.8%
Agency Securities	110,259	33.7%
Corporate Notes and Bonds	31,053	9.5%
Commonfund	<u>45,878</u>	<u>14.0%</u>
Total	\$327,456	100.0%
<b>University of Northern Iowa</b>		
Money Market / Cash Equivalents	\$9,596	14.0%
U.S. Obligations	9,464	13.9%
Agency Securities	29,503	43.2%
Commonfund	<u>19,762</u>	<u>28.9%</u>
Total	\$68,325	100.0%
<b>Iowa School for the Deaf</b>		
Money Market / Cash Equivalents	\$1,727	87.7%
U.S. Obligations	14	0.7%
Agency Securities	65	3.3%
Corporate Notes and Bonds	<u>163</u>	<u>8.3%</u>
Total	\$1,969	100.0%
<b>Iowa Braille &amp; Sight Saving School</b>		
Money Market / Cash Equivalents	\$71	6.1%
Repurchase Agreements	<u>1,099</u>	<u>93.9%</u>
Total	\$1,170	100.0%
<b>Regent Composite</b>		
Money Market / Cash Equivalents	\$376,199	35.6%
U.S. Obligations	168,820	16.0%
Agency Securities	234,764	22.2%
Corporate Notes and Bonds	208,782	19.8%
Municipals	437	0.1%
Repurchase Agreements	1,099	0.1%
Commonfund	<u>65,640</u>	<u>6.2%</u>
Total	\$1,055,741	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 June 30, 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 June 30, 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 June 30, 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	\$11,262	4.9%	\$33	\$8,998	5.6%	\$27
Goldman Sachs	46,743	20.2%	89	30,719	19.3%	32
Lotsoff Capital	46,471	20.0%	44	30,464	19.1%	27
LSV	<u>12,080</u>	<u>5.2%</u>	<u>21</u>	<u>8,642</u>	<u>5.4%</u>	<u>15</u>
Subtotal	\$116,556	50.3%	\$187	\$78,823	49.4%	\$101
<u>Domestic Bonds</u>						
Dodge and Cox	\$27,784	12.0%	\$31	\$20,091	12.6%	\$23
Reams	28,006	12.1%	18	19,748	12.4%	15
Post Advisory	<u>11,598</u>	<u>5.0%</u>	<u>6</u>	<u>8,320</u>	<u>5.2%</u>	<u>4</u>
Subtotal	\$67,388	29.1%	\$55	\$48,159	30.2%	\$42
<u>International</u>						
Grantham, Mayo	\$35,667	15.4%	\$73	\$24,073	15.1%	\$49
<u>Real Estate</u>						
Principal Group	\$12,157	5.2%	*	\$8,457	5.3%	*
<u>Private Equity</u>	\$0	0.0%		\$0	0.0%	
Total Fund	\$231,768	100.0%	\$315	\$159,512	100.0%	\$192

\*No fees reported as of June 30, 2006.

The quasi-endowment fund is 100% fixed income investments.

**University of Iowa Quasi-Endowment (100% Fixed Income)  
As of June 30, 2006**

	Value (thousands)	Value (percent)	Fees (thousands)	Net Returns	
				Quarter	One Year
Dodge and Cox	\$44,197	50.9%	\$50	0.0%	0.3%
Reams	<u>42,638</u>	<u>49.1%</u>	<u>33</u>	0.1%	-0.2%
Total Fund	\$86,835	100.0%	\$83		
100% Lehman Aggregate.				-0.1%	-0.8%

There are no Board-established fund manager allocations target ranges for the quasi-endowment. Dodge and Cox and Reams outperformed the benchmark for the quarter and for the year.

**Endowment Performance  
Net of Fees  
As of June 30, 2006**

	Assets (thousands)	Net Returns	
		Quarter	One Year
SUI	\$231,768	-1.0%	9.3%
ISU	159,512	-0.9%	9.6%
Asset Allocation Benchmark*		-0.7%	8.3%
SUI Quasi-Endowment	<u>86,835</u>	0.0%	0.1%
Fixed Income Benchmark **		-0.1%	-0.8%
Total	\$478,115		

\* 63% Wilshire 5000, 30% Lehman Aggregate, 7% MSCI EAFE (N).

\*\* 100% Lehman Aggregate.

<i>University of Iowa Endowment</i>	<u>Sep 2005</u>	<u>Dec 2005</u>	<u>Mar 2006</u>	<u>Jun 2006</u>
Assets - Quarter	\$205.7 million	\$206.3 million	\$238.2 million	\$231.8 million
Gains/Losses - Quarter	\$8.5 million	\$3.5 million	\$9.9 million	-\$2.1 million
Fees/Distributions - Quarter	\$3.1 million	\$3.1 million	\$1.5 million	\$4.3 million
Contributions - Quarter	\$302,000	\$249,000	\$23.7 million	\$0
Returns - Quarter	4.1%	1.6%	4.4%	-1.0%
Benchmark - Quarter	3.1%	1.9%	3.9%	-0.7%
Returns - Year	13.1%	6.4%	12.9%	9.3%
Benchmark - Year	11.9%	5.7%	11.6%	8.3%

<i>University of Iowa Quasi-Endowment</i>	<u>Sep 2005</u>	<u>Dec 2005</u>	<u>Mar 2006</u>	<u>Jun 2006</u>
Assets - Quarter	\$91.3 million	\$90.5 million	\$89.0 million	\$86.8 million
Gains/Losses - Quarter	-\$20,000	\$452,000	-\$247,000	\$107,000
Fees/Distributions - Quarter	\$1.3 million	\$1.3 million	\$1.3 million	\$2.3 million
Contributions - Quarter	\$51,000	\$85,000	\$33,000	\$0
Returns - Quarter	-0.1%	0.5%	-0.4%	0.0%
Benchmark - Quarter	-0.7%	0.6%	-0.6%	-0.1%
Returns - Year	2.8%	2.3%	2.6%	0.1%
Benchmark - Year	2.8%	2.4%	2.3%	-0.8%

<i>Iowa State University Endowment</i>	<u>Sep 2005</u>	<u>Dec 2005</u>	<u>Mar 2006</u>	<u>Jun 2006</u>
Assets - Quarter	\$157.9 million	\$161.1 million	\$167.5 million	\$159.5 million
Gains/Losses - Quarter	\$6.7 million	\$2.6 million	\$7.4 million	-\$1.5 million
Fees/Distributions - Quarter	\$424,000	\$202,000	\$901,000	\$6.9 million
Contributions - Quarter	\$224,000	\$791,000	\$120,000	\$344,000
Returns - Quarter	4.3%	1.6%	4.5%	-0.9%
Benchmark - Quarter	3.1%	1.9%	3.9%	-0.7%
Returns - Year	13.8%	6.7%	13.3%	9.6%
Benchmark - Year	11.9%	5.7%	11.6%	8.3%

**Endowment / Quasi-Endowment Portfolios**  
**Market Value - Accrual Basis**  
**(in thousands)**  
**As of June 30, 2006**

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Dodge and Cox				
SUI	\$27,784	\$44,197	\$71,981	
ISU	<u>20,091</u>	-	<u>20,091</u>	
Total	<u>\$47,875</u>	<u>\$44,197</u>	<u>\$92,072</u>	19.3%
Reams Asset Management				
SUI	\$28,006	\$42,638	\$70,644	
ISU	<u>19,748</u>	-	<u>19,748</u>	
Total	<u>\$47,754</u>	<u>\$42,638</u>	<u>\$90,392</u>	18.9%
Goldman Sachs				
SUI	\$46,743	-	\$46,743	
ISU	<u>30,719</u>	-	<u>30,719</u>	
Total	<u>\$77,462</u>	-	<u>\$77,462</u>	16.2%
Lotsoff Capital				
SUI	\$46,471	-	\$46,471	
ISU	<u>30,464</u>	-	<u>30,464</u>	
Total	<u>\$76,935</u>	-	<u>\$76,935</u>	16.1%
Grantham, Mayo				
SUI	\$35,667	-	\$35,667	
ISU	<u>24,073</u>	-	<u>24,073</u>	
Total	<u>\$59,740</u>	-	<u>\$59,740</u>	12.5%
LSV				
SUI	\$12,080	-	\$12,080	
ISU	<u>8,642</u>	-	<u>8,642</u>	
Total	<u>\$20,722</u>	-	<u>\$20,722</u>	4.3%
Principal Group				
SUI	\$12,157	-	\$12,157	
ISU	<u>8,457</u>	-	<u>8,457</u>	
Total	<u>\$20,614</u>	-	<u>\$20,614</u>	4.3%
Artisan				
SUI	\$11,262	-	\$11,262	
ISU	<u>8,998</u>	-	<u>8,998</u>	
Total	<u>\$20,260</u>	-	<u>\$20,260</u>	4.2%
Post Advisory				
SUI	\$11,598	-	\$11,598	
ISU	<u>8,320</u>	-	<u>8,320</u>	
Total	<u>\$19,918</u>	-	<u>\$19,918</u>	4.2%
TOTAL				
SUI	\$231,768	\$86,835	\$318,603	
ISU	<u>159,512</u>	-	<u>159,512</u>	
Total	<u>\$391,280</u>	<u>\$86,835</u>	<u>\$478,115</u>	100.0%