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INVESTMENT AND CASH MANAGEMENT REPORT
FOR THE QUARTER ENDED JUNE 30, 2007

Recommended Action: Receive the Investment and Cash Management Report for the quarter ended June 30, 2007.

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, 2006, and June 30, 2007

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Jun 2006</u>	<u>Jun 2007</u>	<u>Jun 2006</u>	<u>Jun 2007</u>
University of Iowa ¹	\$656,821	\$751,393	\$318,603 ²	\$363,281 ²
Iowa State University	327,456	325,839	159,512 ³	176,958 ³
University of Northern Iowa	68,325	81,095	-	-
Iowa School for the Deaf	1,969	1,731	-	-
Iowa Braille & Sight Saving School	<u>1,170</u>	<u>1,346</u>	-	-
Total	\$1,055,741	\$1,161,404	\$478,115	\$540,239

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of June 30, 2007, the Regent combined operating and endowment portfolios totaled over \$1.7 billion.

The Merrill Lynch 1-3 year Government/Corporate Index rate for the quarter was 0.73%. External managers BlackRock, Wellington, and Commonfund underperformed the benchmark.

The combined endowment managers' returns for the quarter were 4.4% for both SUI and ISU, while the blended asset allocation benchmark posted returns of 4.1%.

The SUI quasi-endowment returned -0.4% for the quarter ended June 30, 2007, which slightly outperformed the benchmark of -0.5%.

The Director of Internal Audit reported that SUI's operating and endowment activities and ISU's endowment portfolio for the quarter ended March 31, 2007, were in compliance with Board policies. The June 30, 2007, compliance reports will be available at the next Board meeting.

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and ISD for the quarter ended June 30, 2007, noted that investments were in compliance with respective Board and institutional investment policies.

**Endowment Fund Manager Performance Overview
For the Quarter Ended June 30, 2007**

<u>Inception</u>	<u>Fund Manager</u>	<u>Assets (thousands)</u>	<u>Net Return 6/30/07</u>	<u>Benchmark 6/30/07</u>	<u>Variance in Basis Points</u>	<u>Performance as a Percentage of Benchmark</u>
University of Iowa						
3/31/05	Goldman Sachs	\$55,693	5.4%	6.3%	-90	85.7%
3/31/05	Lotsoff Capital	54,689	7.7%	6.3%	140	122.2%
3/31/04	Grantham, Mayo	45,095	6.5%	6.4%	10	101.6%
3/31/04	Dodge and Cox	30,799	-0.2%	-0.5%	30	40.0%
6/30/02	Reams	29,641	-0.7%	-0.5%	-20	140.0%
3/31/06	Post Advisory	14,005	1.1%	0.3%	80	366.7%
12/31/05	Principal Group	13,565	2.8%	3.6%	-80	77.8%
3/31/05	Artisan	13,365	8.1%	6.7%	140	120.9%
6/30/02	LSV	13,320	5.6%	2.9%	270	193.1%
12/31/06	Lehman Brothers	<u>1,614</u>	0.1%	6.1%	-600	1.6%
	Total	\$271,786	4.4%	4.1%	30	107.3%
University of Iowa Quasi Endowment						
3/31/04	Dodge and Cox	\$46,140	-0.2%	-0.5%	30	40.0%
9/30/01	Reams	<u>45,355</u>	-0.7%	-0.5%	-20	140.0%
	Total	\$91,495	-0.4%	-0.5%	10	80.0%
Iowa State University						
3/31/05	Lotsoff Capital	\$33,624	7.6%	6.3%	130	120.6%
3/31/05	Goldman Sachs	32,776	5.6%	6.3%	-70	88.9%
3/31/04	Grantham, Mayo	28,685	6.5%	6.4%	10	101.6%
6/30/02	Reams	20,986	-0.6%	-0.5%	-10	120.0%
3/31/04	Dodge and Cox	20,643	-0.4%	-0.5%	10	80.0%
6/30/02	LSV	10,337	6.0%	2.9%	310	206.9%
3/31/05	Artisan	10,210	8.1%	6.7%	140	120.9%
12/31/05	Principal Group	9,436	2.8%	3.6%	-80	77.8%
3/31/06	Post Advisory	9,250	1.1%	0.3%	80	366.7%
12/31/06	Lehman Brothers	<u>1,011</u>	0.1%	6.1%	-600	1.6%
	Total	\$176,958	4.4 %	4.1%	30	107.3%

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 June 30, 2007**

University of Iowa	\$53,129
Iowa State University	29,804
University of Northern Iowa	8,660
Iowa School for the Deaf	367
Iowa Braille and Sight Saving School	190
Board Office	60
Total	\$92,210

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, 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	\$240,000	\$149,525	\$154,736	\$155,786	\$51,346	\$751,393
ISU	166,875	69,131	N/I	N/I	89,833	325,839
UNI	34,128	26,112	N/I	N/I	20,855	81,095
ISD	1,456	8	N/I	N/I	267	1,731
IBSSS	<u>1,346</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>N/I</u>	<u>1,346</u>
Total	\$443,805	\$244,776	\$154,736	\$155,786	\$162,301	\$1,161,404

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, 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	1.32%	0.67%	0.64%	0.62%	0.88%	1.14%	
ISU	1.19%	N/I	N/I	0.70%	1.02%	1.11%	
UNI	1.28%	N/I	N/I	0.61%	1.03%	1.15%	
ISD	1.31%	N/I	N/I	0.63%	1.20%	1.16%	
IBSSS	1.26%	N/I	N/I	N/I	1.26%	N/I	
Total							

N/I = No investments of this type.

The comparable industry standard rate of return for the quarter ended June 30, 2007, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 0.73%. External managers BlackRock, Wellington, and Commonfund underperformed the benchmark.

Operating Investment Summary
Unrestricted, Restricted, BlackRock, Wellington, and Commonfund
(in thousands)
As of June 30, 2007

	<u>Market Value</u>	<u>Percent Market Value</u>
University of Iowa		
Money Market / Cash Equivalents	\$350,990	46.7%
Corporate Notes and Bonds	191,655	25.5%
Agency Securities	67,538	9.0%
Commonfund	51,346	6.8%
U.S. Obligations	88,782	11.8%
Municipals	<u>1,082</u>	<u>0.2%</u>
Total	\$751,393	100.0%
Iowa State University		
Money Market / Cash Equivalents	\$107,337	32.9%
Agency Securities	89,241	27.4%
Commonfund	79,666	24.5%
U.S. Obligations	<u>49,595</u>	<u>15.2%</u>
Total	\$325,839	100.0%
University of Northern Iowa		
Money Market / Cash Equivalents	\$22,959	28.3%
Agency Securities	28,828	35.6%
Commonfund	20,855	25.7%
U.S. Obligations	<u>8,453</u>	<u>10.4%</u>
Total	\$81,095	100.0%
Iowa School for the Deaf		
Money Market / Cash Equivalents	\$1,464	84.6%
Commonfund	<u>267</u>	<u>15.4%</u>
Total	\$1,731	100.0%
Iowa Braille & Sight Saving School		
Money Market / Cash Equivalents	\$11	0.8%
Repurchase Agreements	<u>1,335</u>	<u>99.2%</u>
Total	\$1,346	100.0%
Regent Composite		
Money Market / Cash Equivalents	\$482,761	41.6%
Corporate Notes and Bonds	191,655	16.5%
Agency Securities	185,607	16.0%
Commonfund	152,134	13.1%
U.S. Obligations	146,830	12.6%
Repurchase Agreements	1,335	0.1%
Municipals	<u>1,082</u>	<u>0.1%</u>
Total	\$1,161,404	100.0%

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

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, 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 June 30, 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	17%	0-25%	Merrill Lynch HY Master II
<u>International Equities</u>	15%	10-20%	MSCI EAFE
International Developed	95%	95-100%	MSCI EAFE
International Emerging Markets	5%	0-5%	MSCI Emerging Markets
<u>Real Estate</u>	5%	0-10%	NACREIF
<u>Private Equity</u>	5%	0-7%	Wilshire 5000

*Approved at the September 2005 meeting.

**Endowment Allocations
Net of Fees
As of June 30, 2007**

MANAGER	University of Iowa			Iowa State University		
	Value (thousands)	Value (percent)	Fees (thousands)	Value (thousands)	Value (percent)	Fees (thousands)
<u>Domestic Stocks</u>						
Artisan	\$13,365	4.9%	\$38	\$10,210	5.8%	\$29
Goldman Sachs	55,693	20.5%	49	32,776	18.5%	34
Lotsoff Capital	54,689	20.1%	46	33,624	19.0%	29
LSV	<u>13,320</u>	<u>4.9%</u>	<u>23</u>	<u>10,337</u>	<u>5.8%</u>	<u>18</u>
Subtotal	\$137,067	50.4%	\$156	\$86,947	49.1%	\$110
<u>Domestic Bonds</u>						
Dodge and Cox	\$30,799	11.3%	\$35	\$20,643	11.7%	\$23
Reams	29,641	10.9%	19	20,986	11.9%	16
Post Advisory	<u>14,005</u>	<u>5.2%</u>	<u>21</u>	<u>9,250</u>	<u>5.2%</u>	<u>14</u>
Subtotal	\$74,445	27.4%	\$75	\$50,879	28.8%	\$53
<u>International</u>						
Grantham, Mayo	\$45,095	16.6%	\$92	\$28,685	16.2%	\$59
<u>Real Estate</u>						
Principal Group	\$13,565	5.0%	\$40	\$9,436	5.3%	\$28
<u>Private Equity</u>						
Lehman Brothers	\$1,614	0.6%	\$67	\$1,011	0.6%	\$42
Total Fund	\$271,786	100.0%	\$430	\$176,958	100.0%	\$292

**Endowment Performance
Net of Fees
As of June 30, 2007**

	Assets (thousands)	Net Returns	
		Quarter	One Year
SUI	\$271,786	4.4%	16.4%
ISU	176,958	4.4%	15.8%
Asset Allocation Benchmark*		4.1%	16.8%
SUI Quasi-Endowment	<u>91,495</u>	-0.4%	6.4%
Fixed Income Benchmark **		-0.5%	6.1%
Total	\$540,239		

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

** 100% Lehman Aggregate.

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 June 30, 2007**

	Value (thousands)	Value (percent)	Fees (thousands)	Net Returns	
				Quarter	Year
Dodge and Cox	\$46,140	50.4%	\$52	-0.2%	6.5%
Reams	<u>45,355</u>	<u>49.6%</u>	<u>29</u>	-0.7%	6.4%
Total Fund	\$91,495	100.0%	\$81		
100% Lehman Aggregate.				-0.5%	6.1%

Endowment / Quasi-Endowment Portfolios
Market Value - Accrual Basis
(in thousands)
As of June 30, 2007

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Dodge and Cox				
SUI	\$30,799	\$46,140	\$76,939	
ISU	<u>20,643</u>	<u>-</u>	<u>20,643</u>	
Total	\$51,442	\$46,140	\$97,582	18.0%
Reams Asset Management				
SUI	\$29,641	\$45,355	\$74,996	
ISU	<u>20,986</u>	<u>-</u>	<u>20,986</u>	
Total	\$50,627	\$45,355	\$95,982	17.8%
Goldman Sachs				
SUI	\$55,693	-	\$55,693	
ISU	<u>32,776</u>	<u>-</u>	<u>32,776</u>	
Total	\$88,469	-	\$88,469	16.4%
Lotsoff Capital				
SUI	\$54,689	-	\$54,689	
ISU	<u>33,624</u>	<u>-</u>	<u>33,624</u>	
Total	\$88,313	-	\$88,313	16.3%
Grantham, Mayo				
SUI	\$45,095	-	\$45,095	
ISU	<u>28,685</u>	<u>-</u>	<u>28,685</u>	
Total	\$73,780	-	\$73,780	13.7%
LSV				
SUI	\$13,320	-	\$13,320	
ISU	<u>10,337</u>	<u>-</u>	<u>10,337</u>	
Total	\$23,657	-	\$23,657	4.4%
Artisan				
SUI	\$13,365	-	\$13,365	
ISU	<u>10,210</u>	<u>-</u>	<u>10,210</u>	
Total	\$23,575	-	\$23,575	4.3%
Post Advisory				
SUI	\$14,005	-	\$14,005	
ISU	<u>9,250</u>	<u>-</u>	<u>9,250</u>	
Total	\$23,255	-	\$23,255	4.3%
Principal Group				
SUI	\$13,565	-	\$13,565	
ISU	<u>9,436</u>	<u>-</u>	<u>9,436</u>	
Total	\$23,001	-	\$23,001	4.3%
Lehman Brothers				
SUI	\$1,614	-	\$1,614	
ISU	<u>1,011</u>	<u>-</u>	<u>1,011</u>	
Total	\$2,625	-	\$2,625	0.5%
TOTAL				
SUI	\$271,786	\$91,495	\$363,281	
ISU	<u>176,958</u>	<u>-</u>	<u>176,958</u>	
Total	\$448,744	\$91,495	\$540,239	100.0%