

Contact: Andrea Anania

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

**Recommended Action:** Receive the Investment and Cash Management Report for the quarter ended September 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 September 30, 2005, and September 30, 2006**

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Sep 2005</u>	<u>Sep 2006</u>	<u>Sep 2005</u>	<u>Sep 2006</u>
University of Iowa <sup>1</sup>	\$665,907	\$699,532	\$296,938 <sup>2</sup>	\$340,081 <sup>2</sup>
Iowa State University	297,268	332,458	157,861 <sup>3</sup>	164,592 <sup>3</sup>
University of Northern Iowa	71,346	93,731	-	-
Iowa School for the Deaf	1,966	1,943	-	-
Iowa Braille & Sight Saving School	720	739	-	-
<b>Total</b>	<b>\$1,037,207</b>	<b>\$1,128,403</b>	<b>\$454,799</b>	<b>\$504,673</b>

<sup>1</sup> Includes UIHC.

<sup>2</sup> Includes UNI.

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

As of September 30, 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 2.04%. BlackRock equaled the benchmark for SUI; Wellington outperformed the benchmark for SUI and underperformed the benchmark for ISD; and all other returns slightly underperformed the benchmark.

The combined endowment managers' returns for the quarter were 3.9% for SUI and 3.6% for ISU, while the blended asset allocation benchmark posted returns of 4.1%.

The SUI quasi-endowment returned 3.6% for the quarter ended September 30, 2006, which underperformed the benchmark of 3.8%.

Internal audit compliance reports for operating investment purchases and holdings of ISU, UNI and IBSSS for the quarter ended September 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 June 30, 2006, was in compliance with Board policies. The September 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 September 30, 2006**

<u>Inception</u>	<u>Fund Manager</u>	<u>Assets (thousands)</u>	<u>Net Return 9/30/06</u>	<u>Benchmark 9/30/06</u>	<u>Performance Variance</u>
<b>University of Iowa</b>					
6/30/02	Reams	\$29,077	3.8%	3.8%	0.0%
3/31/04	Dodge and Cox	28,736	3.4%	3.8%	-0.4%
3/31/05	Goldman Sachs	51,805	5.8%	5.7%	0.1%
3/31/05	Lotsoff Capital	50,953	4.6%	5.7%	-1.1%
3/31/04	Grantham, Mayo	37,274	4.4%	3.9%	0.5%
3/31/05	Artisan	11,613	-1.4%	-1.8%	0.4%
6/30/02	LSV	11,993	-0.7%	2.3%	-3.0%
3/31/06	Post Advisory	12,952	2.8%	4.0%	-1.2%
12/31/05	Principal Group	<u>12,696</u>	3.1%	3.5%	-0.4%
	<b>Total</b>	<b>\$247,099</b>			
<b>University of Iowa Quasi Endowment</b>					
3/31/04	Dodge and Cox	\$48,712	3.4%	3.8%	-0.4%
9/30/01	Reams	<u>44,270</u>	3.8%	3.8%	0.0%
	<b>Total</b>	<b>\$92,982</b>			
<b>Iowa State University</b>					
6/30/02	Reams	\$19,854	3.8%	3.8%	0.0%
3/31/04	Dodge and Cox	20,514	3.4%	3.8%	-0.4%
3/31/05	Goldman Sachs	32,377	5.3%	5.7%	-0.4%
3/31/05	Lotsoff Capital	31,865	4.5%	5.7%	-1.2%
3/31/04	Grantham, Mayo	25,142	4.4%	3.9%	0.5%
3/31/05	Artisan	8,871	-1.4%	-1.8%	0.4%
6/30/02	LSV	8,583	-0.9%	2.3%	-3.2%
3/31/06	Post Advisory	8,554	2.8%	4.0%	-1.2%
12/31/05	Principal Group	<u>8,832</u>	3.1%	3.5%	-0.4%
	<b>Total</b>	<b>\$164,592</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 September 30, 2006**

University of Iowa	\$49,392
Iowa State University	27,656
University of Northern Iowa	8,019
Iowa School for the Deaf	342
Iowa Braille and Sight Saving School	189
Board Office	56
Total	\$85,654

**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 September 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	\$276,794	\$122,125	\$149,868	\$150,745	N/I	\$699,532
ISU	174,501	81,049	N/I	N/I	\$76,908	332,458
UNI	43,846	29,744	N/I	N/I	20,141	93,731
ISD	1,676	9	N/I	N/I	258	1,943
IBSSS	739	N/I	N/I	N/I	N/I	739
Total	\$497,556	\$232,927	\$149,868	\$150,745	\$97,307	\$1,128,403

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 September 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	1.34%	2.04%	2.22%	N/I	1.83%	1.44%
ISU	1.58%	N/I	N/I	1.93%	1.69%	1.43%
UNI	1.64%	N/I	N/I	1.92%	1.73%	1.45%
ISD	1.32%	1.93%	N/I	1.93%	1.40%	1.45%
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 September 30, 2006, includes the Merrill Lynch 1-3 year Government/Corporate Index rate of 2.04%. BlackRock equaled the benchmark for SUI and underperformed the benchmark for ISD; Wellington outperformed the benchmark for SUI; and all others slightly underperformed the benchmark.

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

	<u>Market Value</u>	<u>Percent Market Value</u>
<b>University of Iowa</b>		
Money Market / Cash Equivalents	\$317,285	45.4%
U.S. Obligations	95,320	13.6%
Agency Securities	101,734	14.5%
Corporate Notes and Bonds	184,752	26.4%
Municipals	<u>441</u>	<u>0.1%</u>
Total	\$699,532	100.0%
<b>Iowa State University</b>		
Money Market / Cash Equivalents	\$108,030	32.5%
U.S. Obligations	56,945	17.1%
Agency Securities	90,576	27.3%
Commonfund	<u>76,907</u>	<u>23.1%</u>
Total	\$332,458	100.0%
<b>University of Northern Iowa</b>		
Money Market / Cash Equivalents	\$32,688	34.9%
U.S. Obligations	11,501	12.2%
Agency Securities	29,401	31.4%
Commonfund	<u>20,141</u>	<u>21.5%</u>
Total	\$93,731	100.0%
<b>Iowa School for the Deaf</b>		
Money Market / Cash Equivalents	\$1,685	86.7%
Commonfund	<u>258</u>	<u>13.3%</u>
Total	\$1,943	100.0%
<b>Iowa Braille &amp; Sight Saving School</b>		
Money Market / Cash Equivalents	\$13	1.7%
Repurchase Agreements	<u>726</u>	<u>98.3%</u>
Total	\$739	100.0%
<b>Regent Composite</b>		
Money Market / Cash Equivalents	\$459,701	40.7%
U.S. Obligations	163,766	14.5%
Agency Securities	221,711	19.7%
Corporate Notes and Bonds	184,752	16.3%
Municipals	441	0.1%
Commonfund	97,306	8.6%
Repurchase Agreements	<u>726</u>	<u>0.1%</u>
Total	\$1,128,403	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 September 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 September 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 September 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	\$11,613	4.7%	\$33	\$8,871	5.4%	\$25
Goldman Sachs	51,805	21.0%	0	32,377	19.7%	34
Lotsoff Capital	50,953	20.6%	41	31,865	19.3%	28
LSV	<u>11,993</u>	<u>4.9%</u>	<u>21</u>	<u>8,583</u>	<u>5.2%</u>	<u>15</u>
Subtotal	\$126,364	51.2%	\$95	\$81,696	49.6%	\$102
<u>Domestic Bonds</u>						
Dodge and Cox	\$28,736	11.6%	\$32	\$20,514	12.5%	\$22
Reams	29,077	11.8%	18	19,854	12.0%	15
Post Advisory	<u>12,952</u>	<u>5.2%</u>	<u>0</u>	<u>8,554</u>	<u>5.2%</u>	<u>0</u>
Subtotal	\$70,765	28.6%	\$50	\$48,922	29.7%	\$37
<u>International</u>						
Grantham, Mayo	\$37,274	15.1%	\$76	\$25,142	15.3%	\$52
<u>Real Estate</u>						
Principal Group	\$12,696	5.1%	*	\$8,832	5.4%	*
<u>Private Equity</u>	\$0	0.0%	0	\$0	0.0%	0
Total Fund	\$247,099	100.0%	\$221	\$164,592	100.0%	\$191

\*No fees reported as of September 30, 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 September 30, 2006**

	Value	Value	Fees	Net Returns	
	(thousands)	(percent)	(thousands)	Quarter	One Year
Dodge and Cox	\$48,712	52.4%	\$55	3.4%	4.0%
Reams	44,270	47.6%	27	3.8%	3.5%
Total Fund	\$92,982	100.0%	\$82		
100% Lehman Aggregate.				3.8%	3.7%

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

	Assets	Net Returns	
	(thousands)	Quarter	One Year
SUI	\$247,099	3.9%	9.0%
ISU	164,592	3.6%	8.9%
Asset Allocation Benchmark*		4.1%	9.4%
SUI Quasi-Endowment	92,982	3.6%	3.8%
Fixed Income Benchmark **		3.8%	3.7%
Total	\$504,673		

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

\*\* 100% Lehman Aggregate.

<i>University of Iowa Endowment</i>	<u>Dec 2005</u>	<u>Mar 2006</u>	<u>Jun 2006</u>	<u>Sep 2006</u>
Assets - Quarter	\$206.3 million	\$238.2 million	\$231.8 million	\$247.1 million
Gains/Losses - Quarter	\$3.5 million	\$9.9 million	-\$2.1 million	\$9.4 million
Fees/Distributions - Quarter	\$3.1 million	\$1.5 million	\$4.3 million	\$0.4 million
Contributions - Quarter	\$249,000	\$23.7 million	\$0	\$6.4 million
Returns - Quarter	1.6%	4.4%	-1.0%	3.9%
Benchmark - Quarter	1.9%	3.9%	-0.7%	4.1%
Returns - Year	6.4%	12.9%	9.3%	9.0%
Benchmark - Year	5.7%	11.6%	8.3%	9.4%

<i>University of Iowa Quasi-Endowment</i>	<u>Dec 2005</u>	<u>Mar 2006</u>	<u>Jun 2006</u>	<u>Sep 2006</u>
Assets - Quarter	\$90.5 million	\$89.0 million	\$86.8 million	\$93.0 million
Gains/Losses - Quarter	\$452,000	-\$247,000	\$107,000	\$3.4 million
Fees/Distributions - Quarter	\$1.3 million	\$1.3 million	\$2.3 million	\$1.2 million
Contributions - Quarter	\$85,000	\$33,000	\$0	\$4.0 million
Returns - Quarter	0.5%	-0.4%	0.0%	3.6%
Benchmark - Quarter	0.6%	-0.6%	-0.1%	3.8%
Returns - Year	2.3%	2.6%	0.1%	3.8%
Benchmark - Year	2.4%	2.3%	-0.8%	3.7%

<i>Iowa State University Endowment</i>	<u>Dec 2005</u>	<u>Mar 2006</u>	<u>Jun 2006</u>	<u>Sep 2006</u>
Assets - Quarter	\$161.1 million	\$167.5 million	\$159.5 million	\$164.6 million
Gains/Losses - Quarter	\$2.6 million	\$7.4 million	-\$1.5 million	\$6.0 million
Fees/Distributions - Quarter	\$202,000	\$901,000	\$6.9 million	\$1.25 million
Contributions - Quarter	\$791,000	\$120,000	\$344,000	\$0.3 million
Returns - Quarter	1.6%	4.5%	-0.9%	3.6%
Benchmark - Quarter	1.9%	3.9%	-0.7%	4.1%
Returns - Year	6.7%	13.3%	9.6%	8.9%
Benchmark - Year	5.7%	11.6%	8.3%	9.4%

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

Portfolio Manager	Endowment Market Value	Quasi-Endowment Market Value	Total Market Value	Percent of Total
Dodge and Cox				
SUI	\$28,736	\$48,712	\$77,448	
ISU	<u>20,514</u>	-	<u>20,514</u>	
Total	\$49,250	\$48,712	\$97,962	19.4%
Reams Asset Management				
SUI	\$29,077	\$44,270	\$73,347	
ISU	<u>19,854</u>	-	<u>19,854</u>	
Total	\$48,931	\$44,270	\$93,201	18.5%
Goldman Sachs				
SUI	\$51,805	-	\$51,805	
ISU	<u>32,377</u>	-	<u>32,377</u>	
Total	\$84,182	-	\$84,182	16.7%
Lotsoff Capital				
SUI	\$50,953	-	\$50,953	
ISU	<u>31,865</u>	-	<u>31,865</u>	
Total	\$82,818	-	\$82,818	16.4%
Grantham, Mayo				
SUI	\$37,274	-	\$37,274	
ISU	<u>25,142</u>	-	<u>25,142</u>	
Total	\$62,416	-	\$62,416	12.4%
Principal Group				
SUI	\$12,696	-	\$12,696	
ISU	<u>8,832</u>	-	<u>8,832</u>	
Total	\$21,528	-	\$21,528	4.3%
Post Advisory				
SUI	\$12,952	-	\$12,952	
ISU	<u>8,554</u>	-	<u>8,554</u>	
Total	\$21,506	-	\$21,506	4.3%
LSV				
SUI	\$11,993	-	\$11,993	
ISU	<u>8,583</u>	-	<u>8,583</u>	
Total	\$20,576	-	\$20,576	4.0%
Artisan				
SUI	\$11,613	-	\$11,613	
ISU	<u>8,871</u>	-	<u>8,871</u>	
Total	\$20,484	-	\$20,484	4.0%
TOTAL				
SUI	\$247,099	\$92,982	\$340,081	
ISU	<u>164,592</u>	-	<u>164,592</u>	
Total	\$411,691	\$92,982	\$504,673	100.0%