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INVESTMENT AND CASH MANAGEMENT REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

Recommended Action: Receive the report.

Executive Summary: The Regents institutions maintain the following investment portfolios:

- ♦ Operating (pages 4-5); and
- ♦ Endowment
 - ♦ Quasi/Intermediate Term (page 6); and
 - ♦ Long-Term (page 7).

Institutional Investment Portfolios
Market Value
(in thousands)
As of September 30, 2010, and September 30, 2011

	<u>Operating</u>		<u>Endowment⁴</u>	
	<u>Sep 2010</u>	<u>Sep 2011</u>	<u>Sep 2010</u>	<u>Sep 2011</u>
University of Iowa ¹	\$1,210,566	\$1,335,977	\$329,891 ²	\$373,946 ²
Iowa State University	524,202	522,078	129,668 ³	125,605 ³
University of Northern Iowa	126,055	122,672	-	-
Iowa School for the Deaf	2,411	2,047	-	-
Iowa Braille & Sight Saving School	1,833	746	-	-
Total	<u>\$1,865,067</u>	<u>\$1,983,520</u>	<u>\$459,559</u>	<u>\$499,551</u>

1 Includes UIHC.

2 Includes UNI.

3 Includes ISD and IBSSS.

4 Includes Quasi/Intermediate Term + Long Term

As of September 30, 2011, the Regents combined operating and endowment portfolios totaled \$2,483,071.

Operating and endowment fund manager values can be found in *Wilshire Consulting's Executive Summary of Investment Performance*.

Background and Analysis:

The Board:

- ◆ Delegates authority for monitoring institutional investment activities and recommending investment policy to its Investment Committee;
- ◆ Delegates management and oversight authority for investment activities to the vice presidents for finance at each institution; and
- ◆ Appoints the treasurers for each institution, who are delegated authority by the vice presidents for finance, to manage investment and treasury activities within the policies defined by the Board of Regents and by the individual institutions.

The Board's objective is to preserve principal, ensure liquidity sufficient for anticipated needs, and maintain purchasing power of investable assets while obtaining a reasonable return for a prudent level of risk.

The institutions, and any designated investment advisor or investment manager, shall exercise the judgment and care which persons of prudence, discretion, and intelligence exercise in accordance with applicable state law.

INVESTMENT ADVISOR

The Board of Regents employs an investment advisor and money managers to guide its policy of active, diversified investment management.

Wilshire Consulting 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 portfolio summary reports.

Below are the Board authorized fund managers:

<u>MANAGER</u>	<u>TYPE</u>	<u>AUTHORIZED</u>
Adams Street Partners 2010 Global Offering	Private Equity Fund Manager	March 2010
Adams Street Partners 2012 Global Offering	Private Equity Fund Manager	September 2011
Chicago Equity Partners	Fixed Income Fund Manager	December 2010
Commonfund Capital International Partners VI, L.P. (CF Int'l Partners VI)	International Private Equity Manager	March 2007
Commonfund Capital Private Equity Partners VII, L.P. (CF Private Equity VII)	Domestic Private Equity Manager	March 2007
Commonfund Capital Venture Partners VIII, L.P. (CF Venture Capital VIII)	Primarily Domestic Venture Capital Manager	March 2007
Commonfund Capital Natural Resources Partners VIII, L.P. (CF NR Partners VIII)	Diversified Real Assets and Natural Resources Fund	September 2008
Delaware Investments	Small Cap Core Domestic Fund Manager	December 2008
Dodge & Cox (Income Fund)	Fixed Income Fund Manager	February 2004
Grantham, Mayo, Van Otterloo & Co. (GMO Foreign Fund)	International Equity Fund Manager	February 2004
Neuberger Berman	High Yield Bond Fund Manager	August 2011
NB Alternative Advisors (NB Crossroads XVIII)	Private Equity Fund Manager	November 2005
Landmark Partners (Landmark Equity Partners XIV, L.P.)	Private Equity Fund Manager	March 2010
Metropolitan Real Estate Partners Global III Fund (MREP Global III)	Real Estate Fund Manager	September 2009
Post Advisory High Yield (subsidiary of Iowa's Principal Financial Group)	High-Yield Bonds Fund Manager	November 2005
Principal Financial Group (Enhanced Property Fund)	Real Estate Fund Manager	November 2005
Reams Asset Management	Fixed Income Fund Manager SUI Quasi Endowment Institutional Endowments	July 2001 January 2002
State Street Global Advisors (SSGA ACWI ex-U.S. Index)	International Equity Index Fund Manager	April 2009
Vanguard Group (Institutional Index Fund)	Large Cap S&P 500 Index Fund	February 2008

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, 2011**

	<u>Restricted</u>	<u>Unrestricted</u>		<u>Total</u> ⁵
	<u>Internal</u> ^{1,2}	<u>Internal</u>	<u>Diversified Pool</u>	
SUI ³	\$158,621	\$232,495	\$944,861	\$1,335,977
ISU	86,636	273,886	161,556	522,078
UNI ⁴	32,855	56,816	33,001	122,672
ISD	13	2,034	N/I	2,047
IBSSS	N/I	746	N/I	746
Total	\$278,125	\$565,977	\$1,139,418	\$1,983,520

N/I = No investments of this type.

1. SUI has additional bond trustee balances of \$23.4 million with Wells Fargo, Des Moines.
2. ISU has additional bond trustee balances of \$18.3 million with Wells Fargo, Des Moines.
3. SUI has an additional investment account at Chicago Equity Partners with a balance of \$24.3 million for the Iowa Medical Mutual Insurance Company.
4. UNI invests in the SUI Diversified Pool.
5. See operating investment summary on the following page.

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 table below.

**Quarterly Rates of Return
For the Quarter Ended September 30, 2011**

	<u>Restricted</u>	<u>Unrestricted</u>		<u>Combined</u>
	<u>Internal</u>	<u>Internal</u>	<u>Diversified Pool</u>	
SUI	0.31%	0.03%	-0.89%	-0.76%
ISU	0.19%	0.21%	-0.88%	-0.19%
UNI	0.41%	0.21%	-0.89%	-0.21%
ISD	0.01%	0.01%	N/I	-0.01%
IBSSS	N/I	0.00%	N/I	0.00%

N/I = No investments of this type.

Operating Investment Summary
Restricted and Unrestricted Internal / Diversified Pool
(in thousands)
As of September 30, 2011

	<u>Market Value</u>	<u>Percent Market Value</u>
University of Iowa		
Diversified Pool	\$944,861	70.7%
Money Market / Cash Equivalents	304,182	22.8%
Agency Securities	37,621	2.8%
U.S. Obligations	<u>49,313</u>	<u>3.7%</u>
Total	\$1,335,977	100.0%
Iowa State University		
Diversified Pool	\$161,556	30.9%
Money Market / Cash Equivalents	130,547	25.0%
Agency Securities	155,888	29.9%
U.S. Obligations	<u>74,087</u>	<u>14.2%</u>
Total	\$522,078	100.0%
University of Northern Iowa		
Diversified Pool	\$33,001	26.9%
Money Market / Cash Equivalents	29,782	24.3%
Agency Securities	36,133	29.4%
U.S. Obligations	<u>23,756</u>	<u>19.4%</u>
Total	\$122,672	100.0%
Iowa School for the Deaf		
Money Market / Cash Equivalents	\$2,047	100.0%
Iowa Braille and Sight Saving School		
Money Market / Cash Equivalents	\$746	100.0%
Regent Composite		
Diversified Pool	\$1,139,418	57.4%
Money Market / Cash Equivalents	467,304	23.6%
Agency Securities	229,642	11.6%
U.S. Obligations	<u>147,156</u>	<u>7.4%</u>
Total	\$1,983,520	100.0%

QUASI/INTERMEDIATE TERM PORTFOLIO

The University of Iowa created an intermediate term pool in 1998 to provide added flexibility for longer-duration asset investments including quasi endowments, which are longer-term in nature but have no externally-imposed restriction that the principal remain intact.

At the September 2008 meeting, the Board approved a revised and restructured investment policy which provided for the establishment of intermediate investment pools that considers time horizons and matches expected liabilities while seeking to obtain a reasonable return for a prudent level of risk.

Quasi/Intermediate Term Asset Class Allocation Policy*
As of September 30, 2011

<u>Asset Class</u>	<u>Target</u>	<u>Allowable Range</u>	<u>Benchmark</u>
<u>Public Equity</u>	<u>20%</u>	14-26%	
U.S. Equity	10%	7-13%	Dow Jones US Total Stock Market Index
Non U.S. Equity	10%	7-13%	MSCI ACWI ex-US Index
<u>Fixed Income</u>	<u>55%</u>	50-60%	
Core Fixed Income	40%	35-45%	Barclays Aggregate <i>(formerly Lehman Aggregate)</i>
High Yield Fixed Income	5%	3-7%	Barclays US High Yield Index
TIPS	10%	7-13%	Barclays US TIPS Index
<u>Cash</u>	<u>15%</u>	12-18%	91-Day T-Bill Index
<u>REITs</u>	<u>10%</u>	7-13%	Dow Jones US Select REIT Index

*Approved at the February 2011 meeting.

Quasi/Intermediate Term Performance
As of September 30, 2011

	Assets (thousands)	Net Returns	
		<u>Quarter</u>	<u>One Year</u>
SUI Quasi / Intermediate Term	\$109,696	-2.34%	1.04%
Asset Allocation Benchmark		-3.27%	-2.41%

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.

The Board’s investment policy defines endowment funds as primarily donor gifts and other funds received for specific purposes. The purpose of endowment funds is to provide: (1) intergenerational equity of income in perpetuity; and (2) a stable income sufficient to meet the reasonable spending needs of the component endowments by keeping pace with inflation and not degrading the real value of the corpus over time.

Endowment Asset Class Allocation Policy*
As of September 30, 2011

<u>Asset Class</u>	<u>Target</u>	<u>Allowable Range</u>	<u>Benchmark</u>
<u>Public Equity</u>	<u>50%</u>	45-55%	<i>(Public equity is not measured on a combined basis)</i>
U.S. Equity	25%	20-30%	Wilshire 5000
Non U.S. Equity	25%	20-30%	MSCI EAFE (N)
<u>Fixed Income</u>	<u>30%</u>	25-35%	Barclays Aggregate <i>(formerly Lehman Aggregate)</i>
Core Fixed Income	25%	20-30%	Barclays Aggregate <i>(formerly Lehman Aggregate)</i>
High Yield Fixed Income	5%	0-10%	Merrill Lynch HY Master II
<u>Real Assets</u>	<u>10%</u>	5-15%	US CPI + 5% Annually
Public	0%	N/A	N/A
Private	10%	5-15%	NACREIF Property Index <i>(for private real estate)</i> US CPI + 5% Annually <i>(for other private real assets)</i>
<u>Private Equity</u>	<u>10%</u>	0-15%	Wilshire 5000

*Approved at the September 2008 meeting; revised at the December 2008 meeting.

Endowment Performance
As of September 30, 2011

	Assets (thousands)	Net Returns	
		<u>Quarter</u>	<u>One Year</u>
SUI	\$264,250	-9.11%	1.46%
ISU	125,605	-8.81%	2.06%
Asset Allocation Benchmark		-9.20%	0.65%