

FUND MANAGER ISSUES

Action Requested: Recommend that the Board approve the following fund manager strategies:

- ▶ Private Real Assets*
 - FLAG Capital Management – FLAG Energy & Resources Partners III, L.P.
 - Landmark Partners – Landmark Real Estate Fund VII

* *Recommended commitment amount is \$18 million SUI; \$6 million ISU. Fund manager will draw capital over time.*
- ▶ Ex-US Real Estate Fund**
 - The Vanguard Group – Vanguard Global ex-U.S. Real Estate Index Fund
- ▶ Ultra-Short Bond Funds**
 - Dimensional Fund Advisors – DFA 1-Year Fixed Income Fund
 - Federated Investors – Federated Ultra-Short Bond Fund
 - PIMCO – PIMCO Short-Term Bond Fund

** *Investment size will be subject to asset allocation policy parameters.*

Executive Summary: The Board of Regents investment policy requires that the investment advisor (Wilshire Consulting) provide recommendations and advice on matters regarding investment manager selection, retention, and termination.

<http://www.regents.iowa.gov/Policies/Chapter%207/chapter7.04.htm>

Under the leadership of Regent Downer, Chair of the Audit/Compliance and Investment Committee, fund manager searches were conducted by Wilshire. The Chair, University Staff, Board Office Staff, and Wilshire collectively arrived at the decision to move forward with proposed fund manager strategies, all fitting within the Board's overall asset allocation policies.

Background and Analysis: As part of the search process, Wilshire conducted qualitative and quantitative analysis on private real estate/real asset candidates and fixed income managers. Decision factors included but were not limited to strength of organization and investment team, merits of investment approach and process, risk management, performance track record, and fees/expenses.

Of the nine private real estate/real asset candidates, three were evaluated in greater detail and telephonic interviews were conducted on November 7, 2013. Discussion was also held on fixed income managers. Collectively, University staff, Board Office staff, and Wilshire support the hiring of the following new investment managers, subject to fully executed agreements between the universities and each investment manager.

Private Real Assets

FLAG Energy & Resources Partners III provides diversified exposure to energy and natural resource investments with specific focus on oil & gas, mining, timber, agriculture, power, and infrastructure. FLAG seeks to identify skilled managers who can exploit operational inefficiencies in their respective areas of focus. FLAG also seeks to maintain a small overall fund size (not to exceed \$200 million) so as to benefit from smaller-sized opportunities that may be available in the market.

Landmark Real Estate Fund VII provides exposure to private real estate by acquiring secondary partnership interests. The manager maintains a premier position in the market for secondary transactions that enables it to source dealflow resulting from a number of portfolio restructuring situations by institutions seeking a buyer. By investing in secondary interests, investors expect to see accelerated distributions thereby mitigating the “J-curve” typical of many private fund investments. The Fund VII size is expected to be approximately \$1 billion and will have broad diversification across vintage year, property type, and geography.

Ex-US Real Estate Fund

Vanguard Global ex-U.S. Real Estate Index Fund provides indexed exposure to the real estate securities market outside the U.S. This includes REIT (real estate investment trusts) and REIT-like securities traded on foreign exchanges. Consistent with the Board-approved asset allocation policies of the diversified pools which call for global REIT exposure, this fund will facilitate implementation for exposure outside the U.S. to complement existing U.S. REIT investments. A significant portion of the diversified pool assets are managed using indexed strategies of The Vanguard Group, and this fund is selected for similar reasons due to its low cost and close tracking of the market benchmark.

Ultra-Short Bond Funds

The three recommended funds (DFA 1-Year Fixed Income Fund, Federated Ultra-Short Bond Fund, and PIMCO Short-Term Bond Fund) were all selected from within Lipper’s universe of ultra-short fixed income funds. Their intended use is within the liquidity allocation of diversified pools to enhance the ability to manage yield and limit interest rate risk, while preserving principal. Investments of the liquidity allocation are to maintain a duration (sensitivity to interest rates) of 1 year or less.

The overall liquidity allocations of the operating and intermediate diversified pools are predominantly managed with short-term vehicles such as money market mutual funds and liquid bank holdings. The use of ultra-short bond funds will be allowable for up to one-quarter of the overall liquidity allocation of each diversified pool with specific sizing based on the needs and requirements of each institution.

In addition to their use within the diversified pools, the ultra-short bond funds may be utilized by institutions for managing funds which are short-term in nature, but reside outside the diversified pools.

Please note: DFA 1-Year Fixed Income Fund is currently approved for use in University of Iowa’s Short-Term Fixed Income Portfolio.