

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Report of the Banking Committee  
**Date:** June 9, 2003

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**Recommended Actions:**

1. Adopt the following:

A Resolution authorizing the expenditure of bond proceeds from the issuance of \$4,890,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002, dated May 1, 2002.

**(ROLL CALL VOTE)**

2. Accept the remainder of the report of the Banking Committee.
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**Executive Summary:**

**Approvals**            The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on June 19, 2003, the Banking Committee is scheduled to consider approval of:

- The minutes from the May 2003 Banking Committee meeting
- Resolution for use of UNI Bond proceeds

**Reports**             The Banking Committee is scheduled to receive:

- State Auditor Oral Presentation
  - Quarterly Investment Report
  - Annual Master Lease Report
  - Internal Audits Report
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**Background and Analysis:**

**Minutes**             The minutes of the May 2003 Banking Committee meeting will be sent at a later date.

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**State Auditor**     State Auditor David A. Vaudt will make a presentation to the Banking Committee to provide its members with an opportunity to discuss audit related issues as well as relationships among the State Auditor's Office, the Regent institutions, and the university internal auditors.

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Investment  
Report

The Regent institutions maintain two investment portfolios — operating and endowment/Quasi-endowment. Both portfolios include restricted and unrestricted funds.

Institutional Investment Portfolios  
Market Value (in thousands)  
For the Quarters Ended December 31, 2002 and March 31, 2003

	<u>Operating</u>		<u>Endowment/ Quasi-Endowment</u>	
	<u>Dec. 2002</u>	<u>March 2003</u>	<u>Dec. 2002</u>	<u>March 2003</u>
University of Iowa <sup>1</sup>	\$566,686	\$570,157	\$260,113 <sup>2</sup>	\$255,501 <sup>2</sup>
Iowa State University	252,934	286,932	100,239 <sup>3</sup>	96,184 <sup>3</sup>
University of Northern Iowa	75,621	89,021	-	-
Iowa School for the Deaf	2,304	2,365	-	-
Iowa Braille & Sight Saving School	<u>462</u>	<u>517</u>	<u>-</u>	<u>-</u>
Total	\$898,007	<b>\$948,992</b>	\$360,352	<b>\$351,685</b>

<sup>1</sup> Includes UIHC.

<sup>2</sup> Includes UNI.

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

As of March 31, 2003, total Regent combined operating and endowment portfolios of \$1.3 billion are \$42.3 million more than December 2002.

OPERATING

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$949.0 million as of March 31, 2003, and represent a point in time during operations. The university operating portfolios performed in line with industry standards.

ENDOWMENT

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment/quasi-endowment portfolio, which totaled \$352.0 million for the quarter ended March 2003.

The University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios totaled \$160.6 million and \$96.2 million, respectively, as of March 31, 2003. The combined investment managers' returns for the quarter were -2.4% for SUI and -2.6% for ISU, while the blended asset allocation benchmark posted returns of -2.1%. The SUI endowment portfolio had a net loss of \$4.9 million for the quarter while ISU had a net loss of \$4.0 million.

The quasi-endowment totaled \$94.9 million and returned 1.5% as of March 31, 2003, which outperformed the benchmark of 1.4% for the quarter. The quasi-endowment had a net gain of \$277,000 during last quarter.

Wilshire reported that Alliance Bernstein outperformed their benchmark, Seneca and LSV Asset Management underperformed their benchmark, and the remaining three endowment investment managers were comparable to their respective benchmarks.

EVALUATE IMPACT OF ASSET ALLOCATION CHANGE      At its March meeting, the Banking Committee questioned the potential impact of a change in asset allocation - redistributing the equities/fixed income balance from 70/30 to 60/40 – on the universities' endowment spending policies.

The Banking Committee requested that Wilshire Associates review the Regent institution's portfolio performance. Wilshire's analysis shows that the current 5.0% spending policy could not be maintained. Representatives from Wilshire will be available to provide the Committee with an oral report.

INVESTMENT ISSUES      Two corporate bonds, El Paso Corp. and PDVSA Finance, held by Reams Asset Management were downgraded below investment grade for the quarter ended December 31, 2002. These bonds were further downgraded for the quarter ended March 31, 2003. Reams continues to hold the bonds in accordance with their guidelines.

The internal auditors verified that remaining investment purchases and holdings for the quarter ended March 31, 2003 were in compliance with respective Board and institutional investment policies.

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Annual Master Lease Report      The master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of Request for Proposal processes held in 1991, 1996, and 2001.

The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.

LEASE ACTIVITY      Two leases in the total amount of \$1.7 million have been entered into under the current agreement (effective January 1, 2002).

Leases issued under the 1996 agreement totaled \$12.4 million.

Since the last report, two leases (one entered into under the 1991 agreement and one entered into under the 1996 agreement) have been paid off.

In April 2003, the Board approved the use of master lease financing in the amount of \$325,000 for the Jack Trice Stadium exterior stair replacement project at Iowa State University. Since the lease has not been executed, the amount is not included in the table of the Banking Committee item.

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Use of UNI Bond Proceeds      The Board is requested to adopt a resolution authorizing the expenditure of bond proceeds from the issuance of \$4,890,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002, dated May 1, 2002.

The proceeds, which total \$1.45 million plus interest, would be used to fund the remodeling of space in Gilchrist Hall for the Integrated Student Services Center, for which Board approval of the schematic design and project description and budget is requested this month in the University's Capital Register (see G.D. 15c).

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Internal Audit  
Reports

Completed institutional internal audit reports are presented to the Banking Committee, as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

One follow-up report is presented this month from the University of Iowa: University Hygienic Laboratory – Des Moines Locations; it is closed. The Status of Internal Audit identifies 19 internal audit reports, 18 of which require follow-up.

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Pamela M. Elliott

Approved:   
Gregory S. Nichols