

November 22, 2011

Members of the Board Finance Committee

Don Lowery, Chair
Mark Hinrichs
Donna Manering
Marquita Wiley

Dear Members of the Finance Committee:

There will be a meeting of the Finance Committee immediately following the Academic Matters Committee on Thursday, December 8, 2011, in Ballroom B of the Student Center, Southern Illinois University Carbondale, Carbondale, IL.

The following items have been suggested for the agenda:

1. Approval of Minutes of the November 10, 2011, meeting (enclosure).
2. Authorization for the Sale of Bonds: "Series 2012A Housing and Auxiliary Facilities System Revenue Bonds" Capital Improvement Project and Refunding of Outstanding Housing and Auxiliary Facilities System Revenue Bonds (Board Agenda Item Z).
3. Salary Increase Plan for Fiscal Year 2012 (Board Agenda Item AA).
4. Approval of Purchase: Builders of the University Plaza, SIUE (Board Agenda Item BB).
5. Proposed Revision to the Board of Trustees Purchasing Policy [Amendment to 5 Policies of the Board C] (Board Agenda Item CC).
6. Proposed Revisions to Faculty and Staff Services Policy [Amendment to 2 Policies of the Board B.2] (Board Agenda Item DD).
7. Associate General Counsel Position, General Counsel.
8. Other business.

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Enclosed is the FY 2012 Quarterly Investment Report.

Yours truly,

Duane Stucky
Senior Vice President for Financial and Administrative Affairs
and Board Treasurer

DS/lap

Enclosures

cc: Michelle Hook Dewey
Jeff Harrison
Roger Herrin

Ed Hightower
John Simmons
Glenn Poshard

Rita Cheng
Vaughn Vandegriff
Constituency Heads
Other Interested Parties

BOARD OF TRUSTEES
SOUTHERN ILLINOIS UNIVERSITY

Minutes of the Finance Committee Meeting

November 10, 2011

The Finance Committee met following the Academic Matters Committee in Ballroom B of the Student Center, Southern Illinois University Carbondale, Carbondale, IL. Present were: Don Lowery (Chair), Mark Hinrichs, Donna Manering and Marquita Wiley. Other Board members present were: Michelle Hook Dewey, Jeff Harrison, Roger Herrin, Ed Hightower and John Simmons. Executive Officers present were: President Glenn Poshard; Chancellor Rita Cheng, SIUC; Chancellor Vaughn Vandegrift, SIUE; General Counsel Jeffrey McLellan; Vice President for Academic Affairs Paul Sarvela; and Senior Vice President for Financial and Administrative Affairs and Board Treasurer Duane Stucky.

Minutes

Trustee Wiley recommended approval of the minutes of the September 8, 2011, meeting as submitted. The motion was seconded by Trustee Manering and passed by the Committee.

Proposed Revision to the Board of Trustees Purchasing Policy [Amendment to 5 Policies of the Board C] (Board Agenda Item K).

Proposed Revisions to Faculty and Staff Services [Amendment to 2 Policies of the Board B.2] (Board Agenda Item L).

Trustee Lowery stated that he had been asked to withdraw these matters by Board Chair Roger Herrin.

Authorization to Renew Installment Purchase Contract: “Certificates of Participation (School of Medicine Building Project) Series 2002” (Board Agenda Item M).

Sr. Vice President Stucky explained that, due to a change in law, COPS contracts may now be extended to cover the entire useful life of what is financed instead of only a ten-year period. If approved, this contract will be extended six months. However, a future request may be made to extend another COPS contract for a longer period.

Trustee Hinrichs recommended approval of the matter and that it be placed on the Board's omnibus motion. The motion was duly seconded by Trustee Wiley and was passed by the Finance Committee.

Other Business.

There being no further business, the meeting was adjourned.

DS/lap



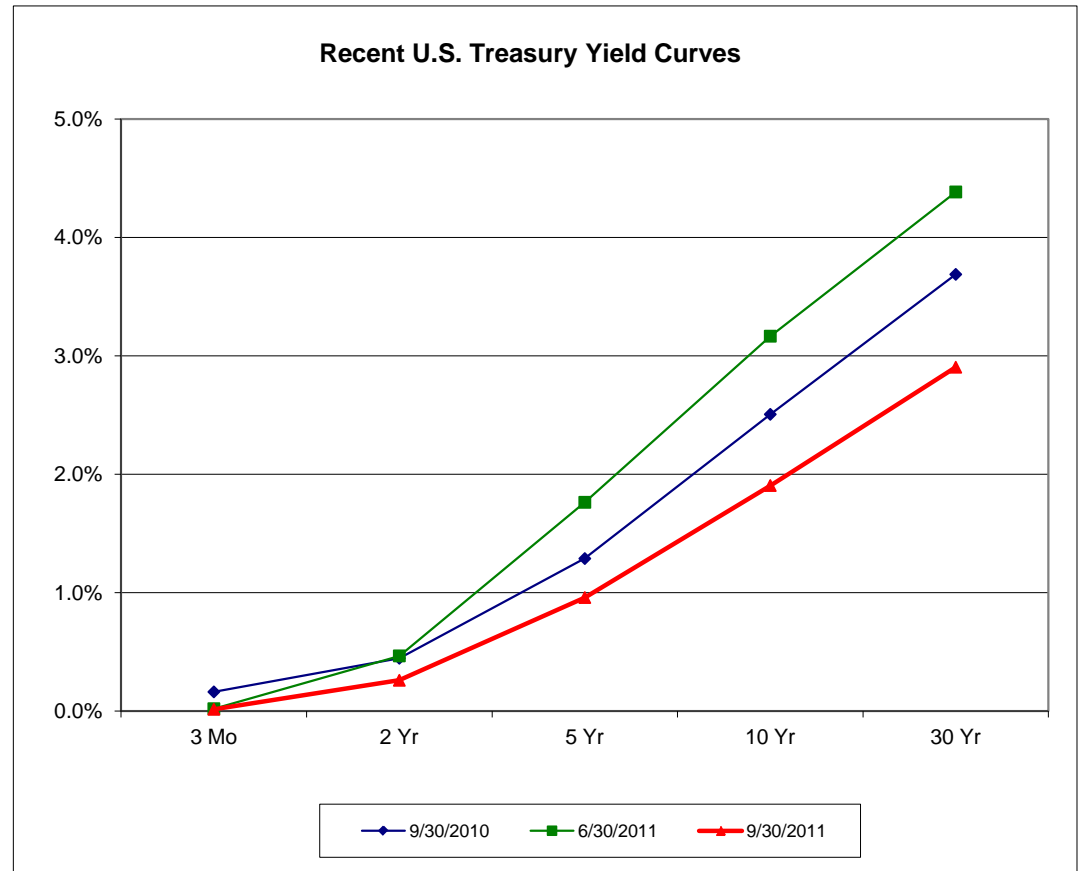
Southern Illinois University

Quarterly Investment Report
September 30, 2011

Performance Analysis

Treasury yields plummeted throughout the curve during the 3rd Quarter of 2011, with the absolute decline increasing with maturity. Treasury yields fell between 21 to 126 basis points in the 2 to 10-year range, while the 90-day T-Bill was virtually unchanged. In the long end of the curve, the yield on the 30-year Treasury dropped 148 bp. to a near record low of 2.90%, while the 10-year benchmark dipped below 2.00% in September. This sharp decline contrasts with the modest decline in Treasury yields during the 1st half of 2011. Though somewhat flatter, the yield curve is still maintaining its upward sloping contour characteristic of the post-credit crisis, fixed income market. The Federal budget crisis, the European sovereign crisis and a sharp sell-off in domestic stocks all contributed to this quarter's flight-to-quality rally in the Treasury market.

The sharp decline in intermediate term interest rates, particularly during July and August, was responsible for SIU's impressive 1.23% return for the quarter ending 9/30/2011 (4.93% annualized). This compares to total portfolio returns of 0.04% and 0.83% in the 1st two quarters of the year. This 3rd quarter return of 1.23% was below the weighted benchmark return of 1.50%, primarily due to the shorter duration of the overall portfolio. The Western Asset Intermediate Fund posted a solid return of 2.83% for the quarter (11.34% annualized), due to strong capital gains recorded in July and August on the longer dated assets in the portfolio. This return fell short of the 3.19% Barclay's quarterly benchmark, again due to a shorter average maturity in the WAM Intermediate portfolio which softened the appreciation in a rallying market. As in recent quarters, SIU posted a very modest 0.01% return on the Illinois Funds, on par with the money market benchmark return of 0.00% in this low short-term interest rate environment. This 0.008% quarterly return equates to an annual return of only 0.034%, or about 3.5 basis points on SIU's liquid funds. With approximately 40% of SIU's operating funds invested in the longer-dated Intermediate portfolio, this managed portfolio has played a pivotal role in enhancing the University's overall return in a low interest rate environment.



Operating Investments

Operating Investment Position

Investment Balance

Market Value (\$ in millions)

	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011
State Treasury Fund- Money Market	\$ 123.2	\$ 73.2	\$ 150.2	\$ 90.1	\$ 153.4
Western Asset - Intermediate Portfolio	99.7	98.2	98.2	100.1	102.9
Total Portfolio	<u>\$ 222.9</u>	<u>\$ 171.4</u>	<u>\$ 248.4</u>	<u>\$ 190.2</u>	<u>\$ 256.3</u>
Due from State	76.4	142.8	130.3	98.7	95.8
Total Portfolio including Due from State	<u>\$ 299.3</u>	<u>\$ 314.2</u>	<u>\$ 378.7</u>	<u>\$ 288.9</u>	<u>\$ 352.1</u>

Market Value Change (\$ in millions)

	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011
Beginning Market Value	\$ 154.9	\$ 222.9	\$ 171.4	\$ 248.4	\$ 190.2
Deposits (Withdrawals)	65.9	(50.0)	76.9	(60.1)	63.4
Interest Income, Net of Fees	0.6	0.5	0.5	0.5	0.4
Realized Gain (Loss)	0.9	0.2	(0.2)	0.1	0.1
Unrealized Gain (Loss)	0.6	(2.2)	(0.2)	1.3	2.2
Ending Market Value	<u>\$ 222.9</u>	<u>\$ 171.4</u>	<u>\$ 248.4</u>	<u>\$ 190.2</u>	<u>\$ 256.3</u>

Operating Performance

Quarterly Performance

	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011
State Treasury Fund Rate of Return					
State Treasury Portfolio	0.05%	0.04%	0.02%	0.01%	0.01%
Benchmark: Ready Assets Prime MMF	0.00%	0.00%	0.00%	0.00%	0.00%
Intermediate Portfolio Rate of Return					
Western Asset Intermediate Portfolio	2.12%	-1.48%	0.07%	1.94%	2.83%
Benchmark: Barclays Capital Int U.S. Govt	2.13%	-1.55%	0.02%	2.08%	3.19%
Total Fund Rate of Return					
Total Portfolio	1.10%	-0.78%	0.04%	0.83%	1.23%
Total Benchmark	1.13%	-0.92%	0.01%	0.86%	1.50%

Historical Annual Performance

	FY 2008	FY2009	FY2010	FY2011	Fiscal YTD Ending 9/30/2011
Total Fund Rate of Return					
Total Portfolio	5.95%	3.80%	3.01%	1.26%	1.23%
Benchmark	6.40%	3.51%	2.97%	1.08%	1.50%

Asset Allocation

Asset Allocation
As of September 30, 2011

	Market Value (in millions)	Allocation Percentage	Target Asset Allocation (in millions)
State Treasury Fund	\$153.4	60%	\$40 Minimum
Western Asset - Intermediate Term Portfolio	102.9	40%	\$65-115
	<u>\$256.3</u>		

Fees

Investment Manager Fees*

	Basis Points As of 6/30/11	9/30/2010	12/31/2010	3/31/2011	6/30/2011	Total
State Treasury Fund- Money Market	8.2	\$22,630	\$20,143	\$32,120	\$26,772	\$101,665
Western Asset - Intermediate Term Portfolio	25.0	\$61,934	\$62,037	\$61,407	\$62,392	\$247,770
Total Investment Manager Fees		\$84,564	\$82,180	\$93,527	\$89,164	\$349,435

Custody Bank Fees*

	9/30/2010	12/31/2010	3/31/2011	6/30/2011	Total
JP Morgan Chase	\$4,898	\$4,774	\$4,838	\$4,821	\$19,332

* Fees for the current quarter were not available at the time this report was prepared. All fees are reflected on an accrual basis.

Capital Investments

Capital Investments Position

Investment Balance

Market Value (\$ in millions)

	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011
Housing & Auxiliary Facilities System					
Construction Proceeds	12.4	7.4	5.9	3.7	0.5
Interest Sinking Fund	13.9	10.5	20.6	7.7	13.7
Debt Service Reserve	9.2	9.2	9.1	9.2	9.2
Total HAFS	35.5	27.1	35.6	20.6	23.4
Medical Facilities System					
Construction Proceeds	0.1	0.1	0.0	0.0	0.0
Interest Sinking Fund	0.8	0.8	1.2	0.4	0.9
Debt Service Reserve	0.0	0.0	0.0	0.0	0.0
Total MFS	0.9	0.9	1.2	0.4	0.9
Certificates of Participation					
Construction Proceeds	0.1	0.0	0.0	0.0	0.0
Interest Sinking Fund	0.9	1.0	1.0	1.0	0.5
Debt Service Reserve	0.0	0.0	0.0	0.0	0.0
Total COPS	1.0	1.0	1.0	1.0	0.5
Total Capital Investment Portfolio	\$ 37.4	\$ 29.0	\$ 37.8	\$ 22.0	\$ 24.8

Capital Investments are managed internally and are invested in high quality, low risk government securities. The investment maturity, rate of return and type are limited by covenants in the debt financing documents.