

IPERS INVESTMENT BOARD MEETING

April 1, 2005

IPERS Conference Room

The following people were in attendance at the IPERS Investment Board Meeting that was held in the IPERS Board Room, Friday, April 1, 2005.

Members of the Board

Bruce Kelley, Chair
Lana Dettbarn (Telephone)
Lorie Bennett
Phyllis Peterson

State Treasurer Michael Fitzgerald
Representative Jeff Elgin
Representative Pam Jochum

Administration & Staff

Donna Mueller, CEO
Kathy Comito, CIO
Karl Koch, Investment Officer 4
Jeff Beisner, Investment Officer 3
Keith Scholten, Investment Officer 3
Pat Reinhardt, Investment Officer 3
Melinda Prince, Executive Secretary

Julie Economaki, Public Information Officer
David Martin, Co-Chief Benefits Officer
Bob Sharp, Co-Chief Benefits Officer
Leon Schwartz, Chief Operations Officer
Gregg Schochenmaier, General Counsel
Kelly Lovell, General Counsel
Roger Wheatley, Internal Auditor

Consultant

Wilshire Associates
Eileen Neill
Michael Schlachter
Jim Rice

Manager/Custodian

Oeschle International Advisors, LLC
Sean Roche
John Simpson
James Macmillian

Bank of New York
David Blakely
Hank Bananch

Other Guests

Kim Dentlinger, Treasurer's Office
Shane McMahon, Principal Global Investors
Dave Reichart, Principal Global Investors
Ralph Gross, Merrill Lynch

IPERS INVESTMENT BOARD
MEETING MINUTES
April 1, 2005

Note: References to specific “Tabs” relate to the April 1st Board notebook, where the full reports may be found.

Approval of Minutes of Previous Meeting – Tab 2

Phyllis Peterson made a motion to approve the meeting minutes of the December 2, 2004 Board Meeting. Lorie Bennett seconded, motion carried by unanimous voice vote.

IPERS CEO’s Report – Donna Mueller – Tab 3

Donna reported that the House passed HF729, which includes language that for the fiscal period beginning July 1, 2006 IPERS contribution rates would be increased by one-half percentage point per year for the next 8 fiscal years with a 60/40 split between employers and employees. The bill will now be forwarded to the Senate State Government Committee. The bill will need to be voted out of Committee prior to the Friday, April 8 funnel date to be considered this legislative session, even if the bill will be “alive” for the 2006 session.

Donna asked Investment Board members to review the Draft IPERS Ethics Policy and make comments to Kelly Lovell as soon as possible following the meeting, so that a final policy can be prepared and presented at the June Board meeting.

Donna reviewed that by the end of April, IPERS will have made its first mandatory distribution of small, inactive accounts pursuant to legislation enacted in the 2004 session. The result of this distribution is to return slightly over \$17 million to 46,648 inactive members, 68 percent of whom reside in Iowa. This is an effort to reduce the administrative costs of maintaining these inactive accounts.

Actuarial Consultant Hiring Recommendation – Donna Mueller – Tab 4

Based on the findings of the search process it was the Evaluation Committee’s recommendation that Milliman Inc be hired, subject to successful contract negotiations and that sometime during the next three years an actuarial audit be performed. Phyllis Peterson made the motion to accept the Evaluation Committee’s recommendation. Lorie Bennett seconded. The motion carried by a unanimous roll call vote.

Staff Reports – Tab 5

Long-Term IPERS Returns and Asset Growth – Tab 5A – Kathy Comito

Kathy reviewed a graph showing IPERS’ calendar year investment returns from 1980 through 2004. This showed a 25-year annualized return of 11.44 percent, which exceeds the actuarial assumption over that time period of 7.5 percent. The next chart showed the growth of net investment portfolio assets for IPERS. This 20-year view through

December 31, 2004 showed the highest-ever asset value was \$18.475 billion. The asset values reported are net of the periodic withdrawals made since FY1997 to provide partial funding for IPERS expenses (retirement benefit payments, refunds and administrative costs).

Total Fund Market Value and Composition – Tab 5B – Kathy Comito

Kathy reported that the total fund preliminary market value as of March 18, 2005 was \$18.3 billion, an increase of 1.7 percent since the report given at the December 2004 meeting. Two asset classes are outside of their target ranges: Domestic Equity slightly above the 33 percent maximum with 33.3 percent, and private equity currently at 5.4 percent continues to be under the 7 percent minimum target range.

Consultant and Manager Watch List – Tab 5C – Karl Koch

Karl reported that no managers or consultants have been added to the watch list. TA Realty who was placed on the watch list in March 2004 for turnover of key personnel was removed.

2004 Calendar Year Investment Performance Review – Tab 6 – Eileen Neill and Michael Schlachter, Wilshire Associates

Eileen reviewed IPERS' long-term investment objectives and asset allocation policy. The market value as of December 31, 2004 was \$18.5 billion. The total fund underperformed the policy benchmark over the last one- and three-year time periods as a result of relative underperformance by U.S. and Non-U.S. equities and private equity versus their respective benchmarks. These relative results are largely attributable to IPERS' lower than average historical allocation to domestic equities versus the peer group. The five- and ten-year returns have exceeded the policy benchmark. The ten-year returns have met all of the investment objectives. Over the last two calendar years, the total fund underperformed the median fund in the TUCS Public Funds Greater than \$1 Billion Composite Index. Performance over the previous three fiscal years was above the median. IPERS' level of risk is considerably lower than the median large public fund. The three-year return/risk ratio percentile ranking has slightly decreased versus prior periods due to a higher than average allocation to private equities (which has underperformed public equities over the past three years) and lower performance relative to peers by IPERS' domestic and international equities. A review of each asset class showed that IPERS' domestic equities slightly underperformed the benchmark for the one- and three-year periods while the five- and ten-year returns show consistent outperformance. International equities outperformed the benchmark for the one-, five- and ten-year periods. Private equity has trailed its public equity-based benchmark for all time periods. Global fixed income and real estate returns have consistently outperformed the policy benchmarks for all time periods shown. Michael concluded the presentation with a summary of the performance of individual managers relative to their benchmarks.

Request for Approval for General Investment Consultant Search – Tab 7 – Kathy Comito

As indicated in the RFP Issuance Schedule previously provided to the Board, a General Investment Consultant search is scheduled to begin in April 2005. This contractual

relationship is scheduled for re-bid in order to comply with both the Iowa Accountable Government Act and sound management practices that compel periodic review of service provider marketplaces. The last RFI for IPERS' General Investment Consultant was issued in 1998. IPERS' current General Investment Consultant, Wilshire Associates, will be encouraged to participate in the search by submitting a proposal. Phyllis Peterson made the motion to accept the staff's requests to issue a Request for Proposal (RFP) for the selection of a General Investment Consulting Firm. Lorie Bennett seconded. The motion carried by unanimous roll call vote.

Public Equities Strategy, Performance Review and Recommendations – Tab 8 – Eileen Neill, Jim Rice Wilshire Associates and Jeff Beisner

Eileen introduced Jim Rice who recently joined the Wilshire team. Jim began the presentation with calendar year 2004 performance of the global equity markets. Jeff continued the presentation with an overview of IPERS' Domestic and International Equity portfolios, including each portfolio's structure, composite performance, peer comparison analysis and individual manager performance. For the year 2004, the Domestic Equity portfolio returned 12.42 percent, while trailing its benchmark by 6 basis points. For 2004, the International Equity portfolio returned 21.77 percent, exceeding its benchmark by 42 basis points. The following recommendations related to the IPERS Domestic and International Equity portfolios were offered: 1) extend RCM's inclusion on the watch list until January 2006; 2) make no changes to the international equity portfolio structure; 3) authorize staff and consultant to evaluate alternative strategies for alpha generation and report back with a recommendation in September. Lorie Bennett made the motion to approve the recommendations. Phyllis Peterson seconded. The motion carried by unanimous roll call vote.

Fixed Income Manager Hiring Recommendations – Tab 9 – Keith Scholten

Based on the findings of the search process, it was the Evaluation Committee's recommendation that Principal Global Investors be hired to replace JP Morgan as an IPERS core plus fixed income manager, subject to successful contract negotiations. Lorie Bennett made the motion to accept the Evaluation Committee's recommendation. Phyllis Peterson seconded. Those voting aye: Bruce Kelley, Lorie Bennett and Phyllis Peterson. Treasurer Fitzgerald abstained from the vote. The motion was defeated in that it was not carried by the required majority of the full voting membership of the Board. Board members requested the motion be tabled until Lana Dettbarn could be contacted to participate in the meeting again via conference call.

Gregg reported that Robert's Rules of Order and administrative rules require that for a Board to reconsider a motion in the same hearing a good cause has to be shown. Lana Dettbarn was telephoned, she confirmed that she was at home ill, that she participated earlier in the meeting by phone, ceased participation because her illness, but would now like to participate in the fixed income manager selection vote.

Lorie Bennett made the motion that good cause did exist to reconsider the fixed income manager-hiring recommendation. Phyllis Peterson seconded. The motion carried by unanimous roll call vote.

Phyllis Peterson made the motion to rescind the prior vote on the issue of the fixed income manager. Lorie Bennett seconded. The motion carried by unanimous roll call vote.

Lorie Bennett made the motion to hire Principal Global Investors to replace JP Morgan as fixed income manager. Phyllis Peterson seconded. The motion carried with Bruce Kelley, Lana Dettbarn, Lorie Bennett and Phyllis Peterson voting aye and Treasurer Fitzgerald abstaining from the vote.

Internal Auditor's Report – Tab 10 – Donna Mueller and Roger Wheatley

Roger Wheatley gave an overview of IPERS' internal audit processes. He reported that the nature of internal audits activity is to evaluate and contribute to the improvement of risk management, control and governance systems and that internal audits are intended to complement financial statement audits by the State Auditor and not to follow the State Auditor's work program.

Staff Reports – Tab 11

Proxy Voting Review and Summary – Tab 11A – Jeff Beisner

IPERS' investment managers vote the proxies of portfolio companies within their accounts according to the Proxy Voting Policy segment (III.H) of the Investment Policy and Goal Statement. The policy states that votes will be cast in the sole interest of the System's members. Beginning January 1, 2004 all voting responsibilities were delegated to IPERS' full discretion investment managers. The report also provided a summary of the votes cast by IPERS' managers during calendar year 2004, categorized by major issue and as "for" or "against" company management's recommendations.

Commission Recapture Program – Tab 11B – Jeff Beisner

Jeff reviewed the directed trades and commission recapture program where IPERS asks equity managers to direct up to 20 percent of their trades to IPERS' commission recapture broker, Frank Russell. IPERS receives a rebate of part of the commissions. For calendar year 2004, IPERS recaptured \$462,494 or 29 percent of all domestic equity commissions paid, and \$153,819 or 28 percent of all international commissions paid. Since inception of the recapture program (11/93 U.S., 3/95 non-U.S.) IPERS has been able to recapture approximate \$7.2 million in commissions.

FY03 Securities Lending Review – Tab 11C – Kim Dentlinger

Kim reviewed that securities lending is the practice of lending IPERS' securities to brokers and security dealers. Cash is received as the collateral for most securities loans. The custodian bank administers the program according to investment guidelines established by the Treasurer. For fiscal year 2004 total revenues were \$4.75 million, which was a 10.4 percent increase over 2003 revenues.

Securities Litigation Update – Tab 11D – Gregg Schochenmaier

Gregg reported on the status of IPERS' involvement with securities litigation cases relative to Safety Kleen, Pfizer, Biogen Idec & Elan Corp and Worldcom.

Board Educational History and Opportunities – Tab 11E – Keith Scholten

Keith reviewed the upcoming board educational opportunities through November 2005. Lorie Bennett and Phyllis Peterson reported on their attendance at the Certificate of Achievement in Public Plan Policy hosted by the International Foundation for Employee Benefits.

Benefits Update – Tab 11F – David Martin

David Martin reviewed the Member Demand Report for February 2005. David and Bob Sharp also reviewed the CEM report on Defined Benefit Administration Benchmarking Analysis. The report showed that IPERS ranks the lowest of its peers in terms of costs and above median in service.

Oeschle International Advisors – Sean Roche, John Simpson, and James Macmillian

Oeschle provided a review of the International Equities portfolio they manage on behalf of IPERS.

Adjournment

The next Board meeting date of June 24, 2005 and its focus on Private Equity and Real Estate were confirmed. Meeting adjourned at 2:45pm.