

IPERS INVESTMENT BOARD MEETING
June 24, 2005
IPERS Conference Room

The following people were in attendance at the IPERS Investment Board meeting held in the IPERS Board Room, Thursday, June 24, 2005.

Members of the Board --

Bruce Kelley, Chair
Joanne Stockdale, Vice Chair
Lana Dettbarn
David Creighton, Sr.
Phyllis Peterson

State Treasurer Michael Fitzgerald
Senator John Kibbie
Senator Mark Ziemann
Representative Jeff Elgin
Representative Pam Jochum

Administration & Staff --

Donna Mueller, CEO
Kathy Comito, CIO
Karl Koch, Investment Officer 4
Jeff Beisner, Investment Officer 3
Pat Reinhardt, Investment Officer 3
Keith Scholten, Investment Officer 3
Muriel Godbersen, Investment Officer 1

Melinda Prince, Executive Assistant
Julie Economaki, Public Information Officer
Leon Schwartz, Chief Operations Officer
Gregg Schochenmaier, General Counsel
Kelly Lovell, General Counsel
David Martin, Co-Chief Benefits Officer
Bob Sharp, Co-Chief Benefits Officer

Consultant --

Wilshire Associates
Eileen Neill

The Townsend Group
Dick Brown

Manager --

TA Associates Realty
Chris Good
Jim Raisides
Michael Ruane

Other Guests --

Kim Dentlinger, Treasurer's Office
Shane McMahon, Principal Global Investors
Lori McDonald, Principal Global Investors
Ralph Gross, Merrill Lynch
Steve Timmins, Department of Management
Kelly Ryan, House Republican Caucus Staff

IPERS INVESTMENT BOARD MEETING
MINUTES
June 24, 2005

Note: References to specific “Tabs” relate to the June 24 Board notebook, where the full reports may be found.

Approval of Minutes of Previous Meeting – Tab 2

There being no corrections or additions to the meeting minutes of April 1, 2005 the minutes were approved by unanimous voice vote.

IPERS CEO Report – Tab 3 – Donna Mueller

Donna reviewed a letter, signed by many organizations including public pension plans, requesting assistance in identifying any publicly traded companies that are of concern to the United States government for doing business with or having ties to entities that support terrorism.

Julie Economaki reported on the results from the stakeholder survey conducted by T.L. Grantham & Associates. She stated that the purpose of this research was to study the awareness and informational needs of IPERS members and others. The research was performed in three phases. Phase One was telephone surveys conducted with 1,068 IPERS members. This included 698 active Iowa members, 320 Iowa retirees and 50 members living out of the state. Phase Two was focus group sessions consisting of four Investment Board members and six Benefits Advisory Committee members. Phase Three was telephone surveys conducted with Employers and Policymakers. A total of 237 employers and 126 policymakers were surveyed. The major findings of the survey were that while IPERS received high marks for reputation and service, there is lack of stakeholder awareness of some IPERS benefits and issues.

IPERS Ethics Policy – Tab 4 – Donna Mueller and Kelly Lovell

In response to Representative Elgin’s request at the Board’s April meeting, Kelly reported that IPERS surveyed other Iowa entities and relevant models in an attempt to find some commonalities regarding conflict of interest, gift policies, and similar ethics policies. A list of those entities and models was then reviewed. As was presented at the April 1 meeting the intent of the policy is to supplement Iowa Code Chapter 68B and to provide further guidance as to expected conduct of IPERS employees and Board members acting in their fiduciary capacity. The policy was updated to incorporate the proposed forms referenced in the Ethics Policy; namely the Disclosure Statement, General Counsel Ruling and Compliance Statement. Joanne Stockdale made the motion to adopt the Ethics Policy. David Creighton seconded. The motion carried by unanimous roll call vote.

Staff Reports – Tab 5

IPERS’ Returns through March 31, 2005 – Tab 5A – Kathy Comito

The IPERS investment portfolio had an \$18.4 billion market value as of March 31, 2005. IPERS’ return for the fiscal year to date (July 1, 2004 through March 31, 2005) was 8.39%; all

asset classes have provided positive returns.

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

Kathy reported the preliminary market value on June 10th was \$18.6 billion. All of the asset classes were within their target ranges with the exception of domestic equity, slightly over its target range maximum of 33 percent, and private equity/debt, slightly below its minimum target range of 7 percent.

Consultant and Manager Watch List – Tab 5C – Kathy Comito

No managers or consultants have been added to the watch list. Removed from the Watch list were JP Morgan Fleming, for its fixed income portfolio, because of Board approved termination and AEW Partners because the last property in the account has been sold.

Investment Consultant Search – Tab 6 – Kathy Comito

At the Investment Board's April meeting, approval was given to issue an RFP for a general investment consultant. The schedule called for the committee to recommend a consultant to the Board at its September 22, 2005 meeting. One month after the RFP was issued the SEC issued a brief report generally summarizing their consultant industry investigative findings. The report did not name the 24 consulting firms examined during the investigation nor did it associate any of its findings with specific named consulting firms. The SEC has informed IPERS that it does not consider their letters to consulting firms a matter of public record and therefore the SEC declined to provide copies of these. It was the recommendation of staff and the evaluation committee, to suspend the search and review the situation in September. Lana Dettbarn made the motion to approve suspending the investment consultant search. Joanne Stockdale seconded, the motion carried by unanimous roll call vote.

Real Estate Portfolio Review and Recommendations – Tab 7 – Pat Reinhardt, IPERS and Dick Brown, The Townsend Group

Dick Brown of The Townsend Group gave an overview of the real estate market, the NCREIF Property Index Annual Returns, and the investment market conditions for 2005. Pat Reinhardt reviewed IPERS' Real Estate portfolio objective, the allocation range and the actual allocation as of March 31, 2005; the actual portfolio at March 31, 2005 was 85% core, 15% non-core. The portfolio by policy must have at least 80% core investments and not more than 20% non-core investments. The portfolio is well diversified by region, by property type (slightly underweight in retail) and by manager. IPERS outperformed the portfolio objective for three and five-year periods. An account breakdown by each real estate manager was provided and additional discussion was held regarding the lagging performance of TA Realty. The liquidation schedule for older accounts was also reviewed.

Pat reviewed the recommended revisions to the Real Estate Policy. David Creighton made the motion to adopt the policy changes. Phyllis Peterson seconded. The motion carried by unanimous roll call vote.

There were no recommended changes to the calendar year 2005 Real Estate Investment Plan.

Private Equity/Debt Portfolio Review and Recommendations – Tab 8 – Karl Koch, IPERS and Eileen Neill, Wilshire Associates

Eileen Neill of Wilshire Associates provided an overview of the private equity market. She also reviewed the private equity allocations of investors in terms of type and size of organizations, and reviewed the capital flows and activity within the buyout, venture capital, and European private equity markets.

Karl Koch then provided an overview of IPERS' private equity investment strategy and a review of the portfolio. The 2004 and 2005 investment plans were reviewed, and Karl noted that the total dollar allocation to venture capital funds in 2005 will probably be lower because the average fund size of venture funds has dropped dramatically. Since inception in 1985 to December 31, 2004 IPERS has committed \$3.3 billion to private equity and invested \$2.3 billion, leaving \$1 billion in commitments that were yet to be invested. Over that same time period, IPERS has received \$2.9 billion in distributions from the portfolio.

Performance of the private equity portfolio was also reviewed. Based on final partnership market values as of December 31, 2004, the since inception internal rate of return (IRR) of the private equity portfolio is 14.3%, which is below the since inception benchmark return of 16.1%. Karl explained that much of the lag in the since inception performance was attributable to the very large investment in RJR/Borden through the KKR 1987 Fund, while the post distribution stock strategy previously utilized through Warburg Pincus had also contributed to under-performance of the portfolio. Karl provided a vintage year performance analysis of the private equity portfolio, reviewing the IRR and Total Value to Paid-In Capital ratios of IPERS' private equity investments versus *Venture Economics* data for each vintage year. The discretionary performance of Pathway Capital Management, the firm IPERS utilizes as its investment manager in the private equity asset class, was also reviewed. It was shown that Pathway has produced an annualized net IRR of 20.0% from January 1, 1993 (the date they were given full discretion) through December 31, 2004, which exceeded the returns of their benchmark and the industry returns reported by *Venture Economics*.

Karl then reviewed several issues concerning the private equity market and IPERS' portfolio, and closed by recommending that IPERS continue to invest in private equity under the current strategy, but that the Private Equity / Debt Investment Policy be amended to increase the maximum dollar amount that could be committed to a private equity partnership. It was recommended that the limit be increased to \$80 million from \$60 million to allow IPERS to maintain its position in future follow-on opportunities in the high quality larger buyout funds. It was moved by Creighton, seconded by Stockdale, to adopt the recommendations of the staff. The motion was passed unanimously on a roll call vote.

Staff Reports – Tab 9

September In-Service and Board Meeting – Tab 9A – Kathy Comito

The dates for the In-Service and Investment Board meetings are September 21 – 22, 2005. The first day is educational in nature followed by a dinner with an investment-related speaker. The next day is a regular Board meeting. If Board members have suggestions for In-Service meeting topics or speakers, please forward them to the Investment staff.

Board Educational Opportunities – Tab 9B – Keith Scholten

Keith reviewed several upcoming seminars that would be appropriate for Board members as outlined in Tab 9B of the Board meeting notebook.

Securities Litigation Update – Tab 9C – Gregg Schochenmaier

Gregg's report included an update on the Safety-Kleen litigation and noted that the contract between IPERS and Barrack, Rodos and Bacine has been extended for a period of one-year through June 30, 2006.

Benefits Update – Tab 9D – David Martin

David reviewed IPERS' Member Demand Measures report for May 2005 followed by a summary of IPERS' first mandatory cash out. IPERS cashed out the accounts of 45,172 members who had not contributed to the system for five or more years and who had an account balance of less than \$3,000. The average payment was \$530.70 and the response from members has been very positive. He concluded his report with a review of the new annual statement that was mailed to active and inactive members.

Adjournment

The In-Service meeting date of Wednesday, September 21 and the Board Meeting date of Thursday, September 22, 2005 were confirmed. The meeting was adjourned at 2:08 p.m.