

IPERS INVESTMENT BOARD MEETING

September 22, 2005

IPERS Board Room

The following people were in attendance at the IPERS Investment Board Meeting that was held in the IPERS Board Room on Thursday, September 22, 2005.

Members of the Board

Bruce Kelley, Chair
Joanne Stockdale, Vice Chair
Treasurer Michael Fitzgerald
Lana Dettbarn
David Creighton

Lorie Bennett
Phyllis Peterson
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
Keith Scholten, Investment Officer 3
Pat Reinhardt, Investment Officer 3
Muriel Godbersen, Investment Officer 1
Roger Wheatley, Internal Auditor

Julie Economaki, Public Information Officer
Kelly Lovell, General Counsel
Bob Sharp, Project Manager
Melinda Prince, Executive Secretary
Robin Hillabolt, Secretary
Leon Schwartz, Chief Operations Officer
David Martin, Chief Benefits Officer

Consultant

Wilshire Associates
Eileen Neill
Michael Schlachter
Jim Rice

Manager/Custodian

Bank of New York
David Blakeley
John Roth

Other Guests

Kim Dentlinger, Treasurer's Office
Shane McMahon, Principal Capital Management
Ralph Gross, Merrill Lynch
Kelly Ryan, House Republican Caucus Staff
Janie Garr, IPERS Benefits Advisory Committee
Steve Timmins, Iowa Department of Management

IPERS INVESTMENT BOARD
MEETING MINUTES
September 22, 2005

Election of Chair and Vice Chair

David Creighton nominated Bruce Kelley for Chair and Joanne Stockdale for Vice Chair. Lorie Bennett seconded the motion. The motion carried by unanimous roll call vote.

Approval of Minutes of Previous Meeting – Tab 2

Phyllis Peterson made the motion to approve the minutes of the June 24, 2005 Board meeting. Lana Dettbarn seconded. The motion carried by unanimous voice vote.

IPERS CEO's Report – Donna Mueller – Tab 3

Donna announced appointment of Bob Sharp as Project Manager and appointment of David Martin as Chief Benefits Officer.

Donna reported on the upgrade of the computer system and our communications initiative action plan. The action plan was included in the Board handbook and notes the gap in awareness and knowledge by our members of IPERS, the benefits, and issues associated with IPERS. As a result a new communications plan is being developed. Julie Economaki is preparing initial drafts of new member and employer informative pamphlets to deal with these issues. Donna also noted that staff is doing more outreach to members through employee organizations' conferences/conventions. IPERS employer teams are also getting out to meet with employers regularly and through workshops. Any employee/employer group that would like to have a workshop should contact the office and arrangements will be made.

Staff Reports – Tab 4A

Kathy Comito reviewed the long-term investment results showing 25-year history of fiscal year returns with an annualized return of 11.41 percent. The growth of net assets over a 21-year view is to \$18.7 billion, the highest ever. IPERS portfolio has a \$19.4 billion preliminary market value as of September 9. This is up 4 percent from the report presented in June. All asset classes are within their target ranges with two exceptions; domestic equity is slightly over its' 33 percent maximum at 33.2 percent and private equity is more significantly under its 7 percent target range minimum at 6 percent.

Consultant and Manager Watch List – Tab 4B

There were no additions or deletions from the manager and consultant watch list since June. Wilshire will remain on the list until a re-evaluation in February of next year. Jeff Beisner reported that RCM will continue to be on the list at least until December. RCM will be coming in October 7 for an annual portfolio review. At that time, the issues that placed RCM on the list will be reviewed.

General Investment Consultant Search Recommendation – Tab 5

Kathy Comito outlined the reasons for the cancellation of the consultant search. To date no further information on the SEC's investigation of consultants has come to light. Due to the fact the four proposals received will become invalid effective November 27, the evaluation committee feels that it would probably be cleanest to cancel this search and start a new one if and/or when the earliest of these three events should occur: if there is a deterioration in Wilshire's organizational structure, the quality of their services, or their fees; if any information is received about the conclusion of the SEC investigations; or failing either of those the search should commence not later than June 2007 in advance of the Wilshire contract expiration in September 2008. The evaluation committee will prior to commencement of a new search come back to the Board for approval of the minimum qualifications and the process/time line for the search.

Kathy noted to the board that a conference on investment consulting has been identified. Joanne Stockdale has agreed to attend and Jeff Beisner will represent staff.

David Creighton made a motion to cancel the consultant search. The motion was seconded by Lana Dettbarn. The motion carried by unanimous roll call vote

FY '05 Total Fund Investment Performance and Peer Comparisons – Tab 6

Michael Schlachter, Wilshire Associates began by outlining IPERS' investment objectives. He noted that IPERS exceeded all of these the last fiscal year and exceeded three of the four objectives for the three year period ending June 30, 2005. He continued that diversification does work, and the portfolio provided 4 percent of additional return in the last fiscal year above the actuary's assumption.

Active management, net of fees, added for the last fiscal year one-half percent of return on top of simply investing in a passive index approach. IPERS has outperformed the median public fund four out of the last five years based on the TUCS large public fund universe. IPERS has been in the top third of this universe for the three and five year period and in the top 10 percent for the ten years ending June 30, 2005. Discussion was held on portable alpha and the timeline to evaluate application of this strategy to the IPERS portfolio. Staff and the consultant plan to present their evaluation and recommendation during the equity portfolio review in March 2006.

FY '05 Asset Allocation Review and Recommendations – Tab 7

Eileen Neill explained Wilshire's view of the role of asset allocation: to manage the risk to the core business of IPERS funding, which is the benefit payments to plan participants.

Wilshire has adopted a new model for asset allocation purposes: the Asset Liability Valuation (ALV) method, utilizing the same inputs as in the past with the additional element of the benefit payments projection. Application of this new model indicate that IPERS' current asset allocation should produce an average annual return of 7.52 percent, compared to the actuary's expected 7.50 percent. The analysis further shows that, using reasonable constraints in the formulation of alternative asset allocations, it is not possible for an alternative to provide sufficient returns to meaningfully alter IPERS' current funded status.

Lana Dettbarn moved to adopt the recommendation of staff and the consultant to continue the current asset allocation. Treasurer Michael Fitzgerald seconded the motion. The motion carried by unanimous roll call vote

Adoption of FY '06 Investment Policy and Goal Statement – Tab 8

Karl Koch reviewed the proposed policy changes. The first change of note is to change the name of the fixed-income portfolio from global to core plus. Next is clarification for private equity that the objective is based on a rolling ten-year net of fees return, which is consistent with Private Equity Policy. Third is an expanded derivatives policy, defining derivatives and providing some guidelines and risk controls on how managers should use these. The only other substantive changes are the incorporation by reference of the new Ethics Policy and addition to the Manager Monitoring and Retention Policy of a five-year rolling evaluation period for private market managers.

David Creighton moved to adopt the changes to the Investment Policy and Goal Statement. Joanne Stockdale seconded the motion. The motion carried by unanimous roll call vote

Index Fund Contracts Rebid – Tab 9

Treasurer Michael Fitzgerald stated that he had requested this agenda item. The Treasurer made a motion that IPERS' S&P 500 Wilshire 4500 and Lehman Aggregate index funds be put out for bid. Reasons for the motion were the potential for \$2 to \$3 million in greater securities lending income per year with a different lending agent or a better lending split with current manager Mellon, the potential for lower management fees with a different or the same manager, and the fact that these contracts have not been rebid for many years. Motion seconded by David Creighton.

Staff stated their concerns about rebidding these contracts, which included the volatility and uncertainty of year-to-year securities leading volume and the potential that the cost of transitioning assets from the current to a new manager could eliminate all of the fee savings and securities lending split gains. Joanne Stockdale pointed out that the next few months could be an inappropriate time to rebid these contracts, with staff and Wilshire evaluating portable alpha implementation and considering the potential restructuring of the asset class portfolios within which the index funds reside.

Staff and Wilshire committed to present at the December 1 Board meeting the next stage in restructuring the portfolios and evaluating portable alpha strategies: a risk budgeting analysis and recommendations. This will be followed at the March 2006 meeting by staff and Wilshire recommendations for restructuring the public equity portfolios. David Creighton withdrew his second and Treasurer Fitzgerald withdrew his motion.

Staff Reports – Tab 10

Board Educational Update – Tab 10A – Keith Scholten

Keith reviewed several upcoming seminars that would be appropriate for Board members as outlined in Tab 10A.

Securities Litigation Update – Tab 10B – Kelly Lovell

Kelly Lovell reviewed the WorldCom litigation status. IPERS has received \$900,000 in proceeds as a passive member of the WorldCom class action suit, has withdrawn its individual claim against the company, and has filed a claim against the SEC Victim Recovery pool. IPERS has recovered a net \$266,411 from its participation in its manager's (Oaktree) suits against Safety-Kleen.

Benefits Update – Tab 10C – David Martin

David Martin reported that total benefits counseling sessions held FY 2005 were 2,116. Total service purchases are up significantly from \$8,000 in FY 2004 to \$22,000 for FY 2005. This may be related to a change in the cost methodologies for buy-backs in January. He also reviewed the results of the first round of mandatory cash-outs of small inactive accounts: 45,172 such accounts were cashed out.