

IPERS INVESTMENT BOARD MEETING

February 16, 2007
IPERS Board Room

The following people participated in the IPERS Investment Board meeting that was held on Friday, February 16, 2007.

Members of the Board—Present at IPERS Board Room

Bruce Kelley, Chair
State Treasurer Michael Fitzgerald

Members of the Board—Participation via Conference Call

Joanne Stockdale, Vice Chair
Lana Dettbarn
Lorie Bennett
Phyllis Peterson
Senator Mark Ziemann
Senator Michael Connolly

Administration & Investment Staff—Present at IPERS Board Room

Donna Mueller, CEO
Karl Koch, Interim Chief Investment Officer
Jeff Beisner, Investment Officer 3
Muriel Godbersen, Investment Officer 1
Kelly Lovell, General Counsel
Julie Economaki, Public Information Officer
Melinda Prince, Executive Secretary
Robin Hillabolt, Secretary

Consultants—Participation via Conference Call

Eileen Neill, Wilshire Associates

Other Guests—Present at IPERS Board Room

Kim Dentlinger, Treasurer's Office

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MINUTES
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Call to Order

Bruce Kelly, Chairman, called the meeting to order at 1:05 p.m. and attendance was taken.

U.S. Equity Portfolio Restructuring Update

Karl Koch reported that based on the information collected in the Enhanced Cash Portable Alpha manager search, staff and Wilshire decided to lower the expected alpha for enhanced cash portable alpha strategies from 75 to 50 basis points. Karl explained that while all of the managers interviewed believe they can achieve 75 bps of alpha, Wilshire and staff noted a trend of lower alpha levels in the past several years, and believed 50 basis points would be a more conservative expectation.

With the assumption change it was estimated IPERS could achieve an alpha of 89 basis points with an active risk target of 100 basis points when the U.S. equity portfolio is completely restructured. The resulting expected Information Ratio (IR) of 0.88, while below the original estimate of 0.97, is still a significant improvement over the 0.52 expected IR of IPERS' existing U.S. equity portfolio.

Staff and Wilshire will provide more detailed analysis of the U.S. equity portfolio restructuring at the March 30, 2007, Investment Board meeting when the equity portfolios are scheduled for review.

Enhanced Cash Portable Alpha Manager Hiring Recommendation

Jeff Beisner reviewed the search process that was undertaken for the Enhanced Cash Portable Alpha RFP and presented the evaluation committee's recommendation. IPERS received six proposals and Wilshire selected the top five proposals for the evaluation committee's review. The committee interviewed four firms. The committee concluded that Western Asset Management, Smith Breeden Associates, and Westridge Capital Management together represented a good combination of strategies and styles that would provide a well-diversified alpha portfolio for the mandate. Subject to successful contract and fee negotiations, the committee recommended that the Board approve the hiring of the three managers for the Enhanced Cash Portable Alpha mandate. Lana Dettbarn made the motion to approve the evaluation committee's hiring recommendation. Phyllis Peterson seconded, the motion carried by unanimous roll call vote.

Closed Session – Discussion of Portfolio Transition

Prior to entering closed session, Karl Koch reviewed IPERS' new procedure for discussing manager terminations and transition plans. The new procedure utilizes a closed session during a Board meeting for staff to notify the Board of: 1) staff's decision to terminate an investment manager or managers; and 2) staff's plan for transitioning assets from one investment manager to another. The closed session will not involve matters on which the Board is required or expected to act, but will serve only as a means for staff to notify the Board of sensitive information that could cause economic loss to IPERS if disclosed publicly prior to the execution of a transition. The information

discussed in a closed session for these purposes would be disclosed to the public once the transition has been completed.

Treasurer Fitzgerald made the motion to have a closed session of the Investment Board, pursuant to Iowa Code §97B.8A(5) in order to have a discussion with Investment staff regarding their manager transition plans for the Enhanced Cash Portable Alpha mandate. Phyllis Peterson seconded, the motion carried by unanimous roll call vote.

Phyllis Peterson made the motion to leave the closed session. Joanne Stockdale seconded, the motion carried by unanimous roll call vote. The Investment Board concluded its discussion with staff regarding their manager transition plans. No action was required or taken by the Board in closed session.

Legislative Update – Sudan Divestment

Donna Mueller reported that for some time there has been a nationwide movement to promote the divestment of pension funds from companies who do business in Sudan. Draft legislation pending before the Iowa General Assembly (SSB1106 and HF230) would require IPERS to identify companies that warrant scrutiny, contact them, and attempt to enlist their support to voluntarily pull out of the Sudan. If the companies fail to withdraw, IPERS would be required to divest. The process and extent depends upon whether the company's shares are held in a separately managed account or in a commingled fund.

A draft fiscal statement of the impact of SSB 1106 and HF230 was reviewed. In addition to identifying trading costs associated with divestment of direct and indirect holdings, staff recommended that any bill modifying the fiduciary responsibility of the Board include a provision that would indemnify the trust fund for expenses and losses attributable to compliance with the divestment directive. Staff also recommended the legislature should hold harmless the Board members, staff, and investment managers charged with implementing the divestment policy.

Senator Connolly and Treasurer Fitzgerald indicated that there were ongoing discussions of approaches to mitigate the cost impact upon the retirement systems while maintaining the pressure on the Sudanese government to stop the genocide. Chairman Kelly expressed his hope that there would be full cooperation by IPERS investment staff on advising the legislature. Donna assured Chairman Kelly that staff would continue to work with the Legislature and the Treasurer on this issue.

Confirm Next Meeting Date

The next Board meeting date of Friday, March 30 was confirmed. With no further business to come before the Investment Board, the meeting was adjourned at 2:03 p.m.