

IPERS INVESTMENT BOARD MEETING

March 30, 2007

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, December 7, 2006.

Members of the Board

Bruce Kelley, Chair
Treasurer Michael Fitzgerald
David Creighton
Lorie Bennett
Phyllis Peterson

Senator Mike Connolly
Senator Mark Ziemann
Representative Carmine Boal
Representative Pam Jochum

Administration & Staff

Donna Mueller, CEO
Karl Koch, CFA, Interim CIO
Jeff Beisner, CPA, Investment Officer 3
Pat Reinhardt, CFA, Investment Officer 3
Keith Scholten, CFA, Investment Officer 3
Muriel Godbersen, Investment Officer 1
Julie Economaki, Public Information Officer

Gregg Schochenmaier, General Counsel
Kelly Lovell, General Counsel
Leon Schwartz, Chief Operations Officer
Bob Sharp, I-Que Project Manager
David Martin, Chief Benefits Officer
Melinda Prince, Executive Secretary
Robin Hillabolt, Secretary

Consultant/Managers

Wilshire Associates
Eileen Neill
Jim Rice
Smith Breeden Associates
Peter Nolan
Stephen Easton

Custodian Bank / Actuary

Bank of New York
David Blakeley
Milliman, Inc.
Patrice Beckham
Brent Banister

Benefits Advisory Committee

Brad Hudson
Janie Garr
Lewis Washington
Gaylord Tryon

Len Cockman
Maxine Moore Ballard
Diane Reid

Other Guests

Kim Dentlinger, Treasurer's Office
Lori McDonald, Principal Global Investors
Ralph Gross, Merrill Lynch

Kelly Ryan, House Republican Caucus Staff
Linda Morgan, JP Morgan

NOTE: References to specific “Tabs” relate to the March 30th Board notebook, where the full reports may be found.

IPERS INVESTMENT BOARD
MEETING MINUTES
March 30, 2007

Introduction of New Board Members

Bruce Kelley introduced new board members Rep. Carmine Boal, representing the Iowa House of Representatives, and Sen. Michael Connolly representing the Iowa Senate.

Approval of Minutes of Previous Meetings – Tab 2

Treasurer Fitzgerald made the motion to approve the minutes of the December 7th Board meeting. Lorie Bennett seconded. The minutes were approved by unanimous voice vote.

Staff Reports – Tab 3

Long-Term IPERS Returns and Asset Growth – Karl Koch – Tab 3A

Karl Koch reviewed the fund’s historical calendar year returns and growth in assets.

Total Fund Market Value & Composition – Karl Koch – Tab 3B

Karl Koch reported on the fund’s market value and asset mix composition, noting that all asset classes were within the required ranges.

Consultant & Manager Watch List – Karl Koch – Tab 3C

Karl Koch reported that RCM has been added to the Manager Watch List due to concerns about the firm’s commitment to the product. The Schroder and Wellington mandates remained on the Watch List due to underperformance.

2006 Calendar Year Investment Performance Review – Eileen Neill– Tab 4

Eileen Neill reported that at December 31, 2006 the total fund performance for the fiscal year to date is 9.4%, slightly below the policy benchmark return of 10.1%. One year returns were 13.8% with policy at 14.1%. Three- and five-year fund returns exceeded the policy benchmark. Eileen also reported that active risk levels were close to budget targets in all asset classes. Eileen also noted IPERS’ risk-adjusted returns compared favorably to its peers in terms of value added per unit of risk taken. Eileen then briefly reviewed performance within each asset class. A discussion occurred regarding IPERS exposure to sub-prime mortgages in its fixed income portfolios. It was noted that IPERS’ exposure to sub-prime was very small, and the exposure IPERS has is of the highest credit quality. Sen. Connolly asked what steps were being taken to address underperforming managers. Eileen and Karl explained the on-going restructuring occurring in the domestic equity portfolio, and how portable alpha strategies could possibly improve returns from active management.

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Public Equities Strategy and Performance Review – Jim Rice/Jeff Beisner – Tab 5

2006 Equity Markets Review – Jim Rice – Tab 5A

Jim Rice reviewed the domestic equity market, noting 2006 was the fourth consecutive year of positive gains in the equity markets. Jim also noted that it had been a very difficult year for active managers investing in domestic large cap stocks, with only about 12% of active large cap value managers outperforming, and only about 25% of large cap growth managers outperforming in 2006. In the international equity market, Jim noted that strong returns were produced in the EAFE sectors and the emerging markets in 2006, a lot of it due to a weaker U.S. dollar.

IPERS Public Equity Portfolio Review – Jeff Beisner – Tab 5B

Jeff Beisner provided an overview of the public equity portfolio. None of the IPERS active managers in the domestic equity portfolio added value over their benchmarks in CY2006. The portfolio trailed its benchmark by 112 basis points and the five-year equity composite return was 8 basis points below the benchmark return. Jeff explained that RCM was being placed on the Watch List again due to concerns about the parent firm’s commitment to the domestic large cap growth product. Jeff also reviewed Wellington’s poor performance in 2006, explaining that the firm’s core value style hurt them in a market when deep value styles were more highly rewarded.

Jeff also reported that the international equity portfolio also encountered a difficult year due to significant underperformance from the Pacific basin and emerging markets managers. Jeff noted that Schroder’s Pacific basin account had again been hurt in 2006 due to their strategy of buying only high quality stocks. The market was flooded with liquidity and not focused on risk, and lower quality stocks outperformed. The same situation played a role in EMM’s underperformance in 2006. IPERS’ international equity composite placed in the upper half of its peer group on both an absolute and risk adjusted return for both the three and five-year periods. Staff continues to evaluate Schroder and will be reviewing this relationship along with all international managers prior to the restructuring exercise scheduled for 2008.

Manager Search Updates – Jeff Beisner/Pat Reinhardt – Tab 6

Enhanced Cash – Jeff Beisner – Tab 6A

Jeff Beisner reported that the contracts for all three firms approved by the Board had been finalized and executed in mid-March. IPERS will use BGI as its transition manager for the transition of assets and this process is on-going. The Board will be provided a report at the June meeting.

Global Multi-Strategy, Multi-Asset Class PA – Pat Reinhardt – Tab 6B

Pat Reinhardt reported that the RFP was issued February 1st with responses due March 1st. Although there were four bids submitted, only two firms submitted qualifying bids, First Quadrant and Mellon Capital Management. Pat outlined the rationale for the minimum qualifications, and reported on Wilshire’s follow-up on why some firms did not submit proposals. Staff will be evaluating the two qualified bids and make a recommendation at the June meeting.

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Sub-Prime Mortgage Market Developments – Peter Nolan/Stephen Eason – Tab 7

Stephen Eason and Peter Nolan of Smith Breeden Associates made a presentation on Sub-Prime Mortgages, explaining what they were and that the sector represents about 10% of the overall mortgage sector. Peter Nolan explained how defaults in the sub-prime mortgage market could spill over to the U.S. economy, but noted that the problems were expected to be well contained.

CEO’s Annual Performance Review

David Creighton made a motion that the Board go into closed session according to Iowa Code Section 21.5(1) (i). Lorie Bennett seconded. The motion carried by unanimous roll call vote. Stockdale absent.

After reconvening to open session, David Creighton made a motion to come back into open session. Treasurer Fitzgerald seconded. The motion carried by unanimous roll call vote. Stockdale absent.

Lorie Bennett made a motion that the investment board make a recommendation to the Governor’s office to add an additional 40 hours of paid time off for Donna Mueller for the next year. David Creighton seconded. The motion carried by unanimous roll call vote. Stockdale absent.

Actuarial Smoothing Method – Patrice Beckham – Tab 8

Patrice Beckham reported that phase one of the Asset/Liability study was to examine alternative asset valuation smoothing methods. She reviewed why it is important to use an asset valuation method, the most commonly used methods, and the smoothing time period used by public funds. Smoothing methods may allow the actuarial value to be “too far” from the market value following several strong years or several bad years so Pat introduce the concept of using a corridor that limits the actuarial value to be within a certain percentage of market value, 20 percent was used in this study so actuarial value must be in a range from 80 percent to 120 percent of market value. Milliman and IPERS staff recommended continuing with the current smoothing method for valuating assets and to implement a 20 percent corridor. David Creighton made the motion to accept the recommendation. Lorie Bennett seconded, the motion carried by unanimous roll call vote. Stockdale absent.

IPERS CEO’s Report – Donna Mueller – Tab \93

Donna Mueller reviewed the CEM Benchmarking report. Objective of the report is a comparison of how IPERS’ pension administration costs compares to peers. When evaluating costs and performance, the most relevant comparisons are to U.S. public pension systems similar in membership. IPERS’ custom peer group includes 16 other systems. Donna next reviewed the Sudan Divestment bill (SF361) that passed the House and Senate and is expected to be signed by the Governor, and some of the implementation issues being worked out. She noted that the Board would need to address, probably in September, the issue of whether or not to divest of indirect holdings in companies held in commingled funds. Donna also updated the Board on the CIO

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selection process. She reported that sufficient qualified applications had been received and that the selection process would proceed.

Staff Reports – Tab 10

Proxy Voting Review and Summary – Jeff Beisner – Tab 10A

Jeff Beisner reported that the IPERS’ investment managers responsible for voting proxies reported no material changes in their proxy voting guidelines. The review of managers’ compliance with voting policies revealed that the votes cast by the investment managers did comply with their stated policies. He provided a report for the Board.

Commission Recapture Program – Jeff Beisner – Tab 10B

Jeff Beisner noted the Commission Recapture Program received \$190,000 in 2006 which was less than 2005. This reduction was due to several factors, including IPERS increased use of commingled managers, managers using more electronic trading networks with discount brokerage, and because commissions in general are lower than in the past. This program will be reviewed over the next year to see if IPERS can achieve lower commission costs by just asking managers to utilize more discount brokers instead of having to share commissions in a recapture program.

Securities Litigation Update – Gregg Schochenmaier – Tab 10C

Gregg Schochenmaier reported that the case against Bridgestone is proceeding with preparations for trial. BRB is responding to motions and is in the process of reviewing and translating thousands of Japanese language documents. With regard to the Mills Corporation litigation, BRB is preparing the consolidated complaint. BRB is also evaluating a recent tender offer made for Mills and what that would possibly mean for the case. Gregg also reported that IPERS has received several distributions totaling roughly \$3.5 million from the claim pool for WorldCom bond investors. No distributions have yet been received from the WorldCom class action for stock investments, as the court is still in the process of settling disputed claims. During the period November 27, 2006 through March 21, 2007, IPERS has received \$4,404,817.86 in distributions from five securities litigation cases.

Benefits Update– David Martin – Tab 10D

David Martin directed Board members to Tab 10D for the current statistics. Discussion held on the report.

I-Que Update – Bob Sharp – Tab 10E

Bob Sharp gave a brief overview of the I-Que project that is entering the fourth phase of seven implementation phases. The project is on schedule and on budget. Employer phase is scheduled to roll out in December of 2007 with the biggest portion, pension processing and member self-service scheduled to roll out in December 2008.

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Other Business

Donna Mueller recognized Bruce Kelley and Lorie Bennett for their years of service with the IPERS Investment Board.

Confirm Next Meeting Date and Adjournment

The next meeting date of the IPERS Investment Board will be June 27, 2007 at the IPERS office. The meeting adjourned at 2:45 p.m.