IPERS INVESTMENT IN-SERVICE MEETING
September 19, 2007
IPERS Board Room

The following people were in attendance at the IPERS Investment In-Service Meeting that was held in the IPERS Board Room on Wednesday, September 19, 2007.

Members of the Board

Joanne Stockdale, Vice Chair
Lana Dettbarn
David Creighton
Phyllis Peterson
Jay Ingram
Michael Beary
Senator Mike Connolly
Senator Mark Zieman
Representative Pam Jochum
Representative Carmine Boal

Administration & Staff

Donna Mueller, CEO
Karl Koch, Chief Investment Officer
Jeff Beisner, Investment Officer 3
Pat Reinhardt, Investment Officer 3
Keith Scholten, 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
David Martin, Chief Benefits Officer
Roger Wheatley, IPERS Internal Auditor
Melinda Prince, Executive Secretary
Robin Hillabolt, Secretary

Consultant

Wilshire Associates
Eileen Neill
Jim Rice

Other Guests

Jina Lilly, Treasurer's Office
Kelly Ryan, House Republican Caucus Staff
Steve Timmins, Department of Management
Ralph Gross, Merrill Lynch
Marty Gross, Merrill Lynch

NOTE: References to specific “Tabs” relate to the September 19th In-Service notebook, where the full reports may be found.

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IPERS’ Investment Benchmarking Results – Tab 1

Terrie Miller of CEM Benchmarking Inc. presented IPERS’ customized peer group investment benchmarking analysis for the 5-year period ending December 2006. IPERS’ 5-year policy return of 9.5 percent was above the U.S. median of 9.0 percent and the peer median of 8.8 percent. IPERS’ five-year average implementation value added 0.2 percent compared to the U.S. median and peer median of 0.6 percent, and implementation risk was 1.6 percent compares to the U.S. median of 1.4 percent and peer median of 1.1 percent. Karl noted that the CEM data indicated that IPERS’ value added over the five year period was impacted by not being at its target allocations for some asset classes as well as from the underperformance of its public equity managers. The 5-year performance results placed IPERS in the “negative net value added, low cost” quadrant on the Cost Effectiveness chart.

IPERS’ Investment Management Cost Review – Tab 2

Iowa Code stipulates that investment management expenses for a fiscal year shall not exceed 0.40 percent of the fund’s market value. IPERS’ FY2007 expenses as a percentage of the Fund’s average quarterly market value was 26.3 basis points. IPERS’ expenses increased approximately 26 percent over the previous fiscal year. Muriel stated the main reason for the increase over FY2006 was the performance fees earned by real estate managers in FY2007.

Discussion: Active Investment Management Part I – Tab 3

Eileen Neill presented information regarding investment risks, including the different types of risk and how they can be managed. Market (beta) risk can be managed through asset allocation decisions, and active (non-market or alpha) risk is managed through investment structure and manager/strategy selection decisions.

Discussion: Active Investment Management Part II – Tab 4

Keith Scholten presented information regarding active versus passive investment management. The objective of active management is to earn an incremental return that exceeds a benchmark or index – this excess return is also known as “alpha”. Keith discussed the pros and cons of active and passive management, and noted that markets are generally thought to be at least partially inefficient. Active management is a zero sum game, and one must be able to pick skillful managers to be successful.

Jeff Beisner presented information on the different types of active management strategies available to institutional investors, including: enhanced indexing, long only strategies, long/short (aka 130/30), global macro, hedge funds, and fund of hedge funds.

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Discussion: Active Investment Management Part III – Tab 5

Pat Reinhardt presented information on the concept of active investment management through the separation of alpha and beta, also known as portable alpha strategies. Portable alpha allows investors to search for active returns without asset class constraints, and should be a more efficient means of implementing active management given the increased breadth. Pat also discussed some of the unique implementation risks that must be considered and managed in a portable alpha investment structure.

Karl Koch presented information on IPERS’ portable alpha strategy. He provided an overview of the steps IPERS had taken over the past several years in researching and modeling the potential use of portable alpha strategies, and the progress to date in implementing portable alpha strategies in the domestic equity portfolio. Karl noted that the turbulent credit markets in July and August had been a challenging environment for many of the quantitative strategies utilized within portable alpha strategies, but that Staff continues to believe that portable alpha offers the prospect for better quality returns if skillful managers can be found to execute such strategies.

Adjournment

The meeting was adjourned at 7:45 pm