

IPERS INVESTMENT BOARD MEETING

December 6, 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 6, 2007.

Members of the Board-Present

Joanne Stockdale
Treasurer Michael Fitzgerald
Lana Dettbarn
David Creighton
Phyllis Peterson

Jay Ingram
Michael Beary
Senator Mike Connolly
Senator Mark Ziemann
Representative Carmine Boal

Members of the Board-Absent

Representative Pam Jochum

Administration & Staff

Donna Mueller, CEO
Karl Koch, CFA, 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
Bob Sharp, I-Que Project Manager
David Martin, Chief Benefits Officer
Melinda Prince, Executive Secretary
Robin Hillabolt, Secretary

Consultant

Wilshire Associates
Eileen Neill
Jim Rice

Investment Manager

Oaktree Capital Management
Sheldon Stone

Actuary

Milliman
Pat Beckham

Benefits Advisory Committee

Len Cockman
Brad Hudson
Diane Reid
Maxine Moore Ballard
Lewis Washington

Pat Lynch
Gaylord Tryon
Janie Garr
Tim Waddingham

Guests

Jina Lilly, State Treasurer's Office
Kelly Ryan, House Republican Caucus Staff
Ed Cook, Legislative Service Agency
Jennifer Acton, Legislative Service Agency

Deborah Helsen, Legislative Service Agency
Jenifer Parsons, House Democratic Caucus Staff
Bill Petrosky, Des Moines Register

NOTE: References to specific “Tabs” relate to the December 6th Board notebook, where the full reports may be found.

**IPERS INVESTMENT BOARD
MEETING MINUTES
December 6, 2007**

Proceedings

Meeting called to order at 8:30 a.m. by Chair Joanne Stockdale.

Approval of Minutes of Previous Meetings - Tab 2

Karl Koch noted a correction was needed in the September 20, 2007 Board meeting minutes to reflect that Representative Boal was in attendance. The minutes of the September 19, 2007 In-Service meeting and the corrected minutes of the September 20, 2007 Investment Board meeting were approved by unanimous roll call vote.

IPERS CEO’s Report - Donna Mueller - Tab 3

Donna Mueller reviewed the report she had recently presented to the pension systems legislative subcommittee. She noted that some figures in the presentation were based on FY2006 numbers, since the FY2007 valuation had not been completed at the time she made the presentation, and she provided the Board with updated numbers from the FY2007 valuation.

Staff Reports - Tab 4

Total Fund Market Value & Composition - Karl Koch - Tab 4A

Karl Koch reviewed the report and noted that market value had declined since the last meeting due mainly to declines in the stock market. Asset class allocations were all within policy ranges.

Karl also commented that IPERS’ third quarter investment return of 2.99% was driven mainly by strong private equity returns that helped offset poor returns in domestic and international equity. He discussed how the financial and liquidity crises had negatively impacted IPERS’ strategies in the third quarter.

2007-2008 Cash Rebalancing Plan - Jeff Beisner - Tab 4B

Jeff Beisner reviewed the current rebalancing plan.

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Update on Investment Manager/Consultant Searches – Karl Koch – Tab 4C

Karl indicated that the Pacific Basin equity manager search was expected to be completed by early January, and that he would be requesting a special telephonic meeting of the Board sometime in mid-January for the Board to consider the evaluation committee’s recommendation.

Karl also reported that 15 firms had made it to the second phase of the fund of hedge funds search. He noted that the evaluation process would take several months to complete and that he did not expect the evaluation committee to have a recommendation until the June Board meeting.

Karl also stated that staff would be requesting the Board approve RFPs for both general investment consulting services and real estate consulting services at the March Board meeting, as the contracts for the current consultants expire in September 2008.

Consultant & Manager Watch List – Karl Koch – Tab 4D

Karl reviewed the Watch List. He noted that staff had undertaken a Comprehensive Review of the Oaktree Capital Management high yield strategy, and that staff and Wilshire had concluded the firm should be retained, but remain on the Watch List. It was also reported that staff and Wilshire had decided to remove Wellington from the Watch List because performance had improved. Schroder’s Pacific Basin equity account remains on Watch List pending the outcome of the current search process, which is expected to conclude in January 2008.

Oaktree Capital Management – Sheldon Stone – Tab 5

Sheldon Stone made a presentation on Oaktree’s high yield investment strategy and reviewed the performance of the IPERS account and the high yield market. Sheldon noted their highest priority is on managing risk with an emphasis on consistent results.

Fixed Income Portfolio Review and Recommendation – Jim Rice/Keith Scholten– Tab 6

Jim Rice presented a summary of the fixed income market. Keith Scholten reviewed IPERS’ fixed income portfolio, noting that the recent period of low market volatility has made it difficult for managers to produce positive alpha, and that active risk levels have also fallen due to low market volatility. Keith reported the high yield portfolio has underperformed the benchmark primarily due to strong performance of lower quality bonds that are included in the benchmark but which IPERS’ managers are restricted from investing. He noted the long term performance of the fixed income portfolio continues to be strong on a risk adjusted basis. At this time, staff is recommending no changes to the portfolio.

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David Creighton made a motion to accept staff recommendation of no change to the fixed income portfolio. Treasurer Fitzgerald seconded. The motion carried by unanimous roll call vote.

IPERS FY2007 Actuarial Report – Pat Beckham– Tab 7

Ms. Beckham presented the results of the June 30, 2007, actuarial valuation. She reported that the contribution rate for regular members continued to be below the actuarial rate needed to fund promised benefits. However, the contribution rate increase passed by the 2006 Legislature may begin to improve IPERS’ funded status in future valuation reports, assuming all other actuarial assumptions are met. IPERS’ unfunded actuarial liability decreased from \$2.507 billion on June 30, 2006 to \$2.266 billion at June 30, 2007. IPERS’ funded ratio (the ratio of actuarial assets to actuarial liabilities) improved to 90.2 percent from 88.4 percent.

Divestment of Sudan Indirect Holdings – Muriel Godbersen – Tab 8

Muriel reviewed the requirements of the Sudan Divestment law with regard to “indirect holdings”, which are investments in prohibited companies that are held in commingled funds. Muriel reported that IPERS had contacted its commingled funds and asked them if they had or would consider creating Sudan-free funds. With the exception of the BGI EAFE index fund, all of IPERS’ commingled fund providers reported that they did not have Sudan-free funds and they do not currently intend to create such funds.

Muriel reported that if the Board wanted to eliminate its exposure to the \$1.3 million of prohibited companies in the existing BGI EAFE index fund, and move its investment to the BGI Sudan-free index fund, it was estimated that the System would incur about \$480,000 in transaction costs. Staff recommended that the Board not make such a move.

David Creighton made a motion to accept staff’s recommendation not to incur \$480,000 in cost to remove \$1.3 million in exposure. Jay Ingram seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

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CEO and CIO Performance Review

Joanne Stockdale made a motion that the Board go into closed session according to Iowa Code Section 21.5(1) (i). Phyllis Peterson seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

After reconvening to open session, Michael Beary made a motion to come back into open session. Lana Dettbarn seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

Lana Dettbarn made a motion to authorize the Executive Committee to contribute and to sign a joint report to the Senate and Governor on the evaluation of the CEO. Phyllis Peterson seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

Lana Dettbarn made a motion to make a recommendation to Governor Culver that Donna Mueller be reappointed as Chief Executive Officer of IPERS. Jay Ingram seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

Lana Dettbarn made a motion to reclass Donna’s salary to Pay Grade 49 to award a 5% pay increase upon reappointment. Phyllis Peterson seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

Real Estate Policy Revision – Pat Reinhardt – Tab 9

Pat Reinhardt outlined a proposal by staff to revise the Real Estate Investment Policy to permit investment in REITs in the healthcare sector. The change is necessary because IPERS’ benchmark for REIT investments, the Dow Jones Wilshire REIT Index, was recently revised to include a healthcare sector, and manager RREEF Securities has requested they be permitted to invest in the sector since it is now in their benchmark.

David Creighton made a motion to accept staff’s recommendation to amend the Real Estate Investment Policy. Phyllis Peterson seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

CY2008 Commitments Approval – Tab 10

Private Equity – Karl Koch – Tab 10A

Karl Koch reviewed the staff recommendation setting \$800 million as the maximum amount that can be committed to private equity investments in calendar year 2008.

Phyllis Peterson made a motion to accept staff’s recommendation. Jay Ingram seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

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Real Estate – Pat Reinhardt– Tab 10B

Pat Reinhardt reviewed the staff recommendation setting \$254 million as the maximum amount of new real estate investments for calendar year 2008.

David Creighton made a motion to accept staff’s recommendation. Lana Dettbarn seconded. The motion carried by unanimous roll call vote. Treasurer Fitzgerald absent.

Custodial Bank & Securities Lending Contracts – Jina Lilly

Jina Lilly of the Treasurer’s Office updated the Board on the status of the custodial bank and securities lending agent contracts. She explained that since the Bank of New York had merged with Mellon within the last year, it had been decided that the best course of action was to extend the existing contract for an additional year in order to evaluate how they come together before going out for bid for a custodial bank and securities lending agent.

Staff Reports – Tab 11

Benefits Update – David Martin – Tab 11A

David Martin directed Board members to Tab 11A for the current statistics.

I-Que Project Update – Bob Sharp

Bob Sharp reviewed the I-Que project status and timeline.

Securities Litigation Update – Gregg Schochenmaier – Tab 11B

Gregg Schochenmaier reviewed the on-going securities litigation involving Bridgestone and Mills Corporation. He also noted that the contracts with IPERS’ three securities litigation and monitoring counsel firms would expire in June of 2008, but since the custodian bank provides various services related to securities monitoring, IPERS would extend those contracts and coordinate issuance of the securities litigation counsel RFP with the custodial bank RFP. Gregg also stated that a new Securities Monitoring and Litigation Handbook is being prepared and he expected to distribute it to the Board members prior to its next scheduled meeting.

Confirm Next Meeting Date and Adjournment

The next meeting date of the IPERS Investment Board will be March 28, 2009, at the IPERS office. The meeting adjourned at 1:35 p.m.