

IPERS INVESTMENT BOARD MEETING  
June 26, 2008  
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, June 26, 2008.

**Members of the Board**

Joanne Stockdale, Chair  
David Creighton, Vice Chair  
Treasurer Michael Fitzgerald  
Michael Beary  
Lana Dettbarn  
Jay Ingram

Phyllis Peterson  
Senator Mike Connolly  
Senator Mark Ziemann  
Representative Carmine Boal  
Representative Mary Mascher

**Administration & Staff**

Donna Mueller, CEO  
Karl Koch, CIO  
Jeff Beisner, Investment Officer 3  
Pat Reinhardt, Investment Officer 3  
Keith Scholten, Investment Officer 3

Muriel Godbersen, Investment Officer 1  
Leon Schwartz, Chief Operations Officer  
Bob Sharp, I-Que Project Manager  
Melinda Prince, Executive Secretary  
Robin Hillabolt, Secretary

**Consultant/Managers**

Wilshire Associates  
Eileen Neill

Townsend Group  
Richard Brown  
Heather Fernstrom

**Custodian Bank/Investment Managers**

Bank of New York  
David Blakeley

Pathway Capital Management  
Doug Le Bon  
Al Clerc  
Richard Mazer

**Other Guests**

Jina Bresson, Treasurer's Office  
Scott Sams, Principal Global Investors  
Elizabeth Giffrow, Principal Global Investors

Steve Timmins, Department of Management  
Jennifer Acton, Legislative Services Agency

NOTE: References to specific "Tabs" relate to the June 26th Board notebook, where the full reports may be found.

IPERS INVESTMENT BOARD  
MEETING MINUTES  
June 26, 2008

**Proceedings**

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

**Approval of Minutes of Previous Meeting - Tab 2**

David Creighton made the motion to approve the minutes of the March 28, 2008, Board meeting. Michael Beary seconded. The minutes were approved by unanimous roll call vote.

**IPERS CEO Report - Donna Mueller - Tab 3**

Donna Mueller shared a final wrap-up of the 2008 Legislative Session comparing the many provisions of Senate File 2424 with IPERS' Strategic Plan.

**Staff Reports - Tab 4**

*Total Fund Market Value and Composition - Tab 4A*

Karl Koch reported on the fund's market value and stated that all asset classes are within their target ranges.

*Consultant and Manager Watch List - Tab 4B*

Karl Koch stated that no consultants or managers have been added to the Watch List. Oaktree Capital Management was removed from the Watch List because their strategy has show improvement now that markets have re-priced credit risk.

*Pacific Basin 2008 Transition Executive Summary - Tab 4C*

Jeff Beisner reviewed the results of the Pacific Basin manager transition. IPERS utilized State Street Global Advisors to transition approximately \$604 million of assets from IPERS' current Pacific Basin active equity manager, Schroder, to the two recently hired replacement managers: GAM and QMA.

*Emerging Markets Equities Manager Search Update - Tab 4D*

Jeff Beisner reported that all 32 firms that responded to Phase 1 of the search were deemed to have met the minimum qualifications outlined in the RFP. The top six scoring firms were invited to participate in Phase 2 of the search. Phase 2 responses are due on

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July 11, 2008. A hiring recommendation will be presented to the Investment Board at their September 18, 2008, Board meeting.

### *Consultant Search Update*

Karl Koch reported that proposals were due June 25, 2008. For the general investment consultant five proposals were received and for the real estate consultant, IPERS received three proposals – as of the Board meeting staff had not had the opportunity to review the proposals to ensure minimum qualifications were met.

### **Fund of Hedge Funds Manager Hiring Recommendation – Tab 5**

Karl Koch stated that the Fund of Hedge Funds (FOHF) RFP was issued with the objective of evaluating fund of hedge funds products that could be utilized to provide the alpha in a portable alpha strategy. The RFP was issued in three separate phases. The evaluation committee recommended that Blackstone Alternative Asset Management and JP Morgan Alternative Asset Management be hired to provide investment management services for the FOHF mandate. Staff recommended that the mandate be funded at a measured pace in order to efficiently rebalance the domestic equity portfolio and to meet staff’s desire to “dollar cost average-in” these strategies. Each firm will eventually receive funding of \$300 million over a two to three year time horizon. Staff also requested authorization to temporarily invest in each firm’s portable alpha turnkey product until each firm has reached \$200 million in funding. Once the \$200 million is reached in each fund, the assets will be moved from the commingled funds to a separate account with each firm, subject to staff and consultant review and Board approval. David Creighton made the motion to accept the recommendations. Phyllis Peterson seconded. The motion carried by unanimous roll call vote.

### **Real Estate Portfolio Review & Policy Recommendation – Tab 6**

Richard Brown of The Townsend Group gave an overview of the real estate market.

Pat Reinhardt began his presentation with an update on IPERS’ real estate program for the calendar year 2008. Short term performance has lagged the portfolio objective. The portfolio continues to exceed the objective over the latest five-year period. All five private equity real estate managers were within the policy limit of 30 percent, the portfolio was within policy ranges and in line with the NPI Index. He then reviewed the performance of each of the real estate managers utilized in the portfolio.

Richard Brown concluded the presentation with a portfolio optimization to determine whether or not return risk profile can be improved by introducing global REIT’s, while maintaining core real estate focus and achieving program objectives of diversification and income generation. A specific recommendation as to the timing of a potential search and

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the amount of global REITs introduced into the program will be presented to the Board in the second half of 2008.

## **Private Equity Portfolio Review & Recommendation**

### *Private Equity Capital Market Overview – Tab 7A*

Eileen Neill of Wilshire Associates provided a market overview of the private equity allocations’ two main components: venture capital and special equity.

### *Portfolio Review & Recommendation – Tab 7B*

Karl Koch reviewed IPERS’ private equity investment strategy, and also reviewed the 2007 and 2008 investment plans, IPERS’ long-range investment plan, and current allocations. Karl noted that IPERS’ private equity portfolio had produced an internal rate of return (IRR) of 28.4 percent in 2007 based on final December 31, 2007, partnership valuations. Since inception in 1985, the portfolio has returned 15.5 percent, which is slightly below the benchmark return of 15.7 percent. Implementation issues early in the program account for most of the underperformance. Karl also reviewed the performance of Pathway Capital Management (IPERS’ private equity manager), noting that Pathway has produced an annualized net of fee IRR of 22.6 percent on their discretionary investments through December 31, 2007, which well exceeded the returns of their benchmark.

IPERS staff recommended continuing the current private equity strategy of utilizing Pathway Capital to invest in high quality partnerships on behalf of IPERS. Michael Beary made the motion to approve the recommendation. Phyllis Peterson seconded. The motion carried by unanimous roll call vote.

## **Manager Presentation – Pathway Capital Management – Tab 8**

Doug LeBon and Al Clerc gave an overview of Pathway’s organization and staffing, investment philosophy, and approach. Richard Mazer highlighted the performance Pathway has generated on behalf of IPERS. The IPERS portfolio has 66 managers (general partners), 174 partnerships, the largest exposure to any one manager is 4.5%, and the largest exposure to any one partnership is 2.6%. Mr. LeBon emphasized Pathway’s strengths are stable and experienced organization, consistent and proven investment approach, and returns that have exceeded IPERS’ benchmark across all investment horizons.

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## **Staff Reports – Tab 9**

### *September In-Service and Board Meeting – Tab 9A*

Karl Koch stated that IPERS has traditionally held the September Board meeting over the course of two days. The first day consists of an “In-Service” half-day meeting in the afternoon dedicated to educational presentations followed by a dinner. The second day meeting includes the annual review of the fund’s asset allocation, the Investment Policy and Goal Statement, and any other issues needing to be addressed. The Board agreed to continue with the traditional two-day format and would provide staff feedback on investment topics they would like to have presented.

### *Benefits Update– Tab 9B*

Donna Mueller directed Board members to Tab 9B for the member demand measures report as of May 2008.

### *I-Que Project Update – Tab 9C*

Bob Sharp reported on the status of the I-Que project—IPERS’ new benefits administration system. Employers will receive an I-Que User Guide in July and training in August. The training will be offered in three formats: hands-on group training, WebEx online training, and an online tutorial.

## **Confirm Next Meeting Date and Adjournment**

The next meeting date of the IPERS Investment Board will be the annual educational In-Service meeting on September 17, 2008, followed by a Board meeting on September 18, 2008. Both meetings will be held at the IPERS office.

The meeting adjourned at 2:20 p.m.