

IPERS INVESTMENT BOARD MEETING

December 4, 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, December 4, 2008.

Members of the Board-Present

David Creighton

Phyllis Peterson

Treasurer Michael Fitzgerald

Michael Beary

Lana Dettbarn

Jay Ingram

Joanne Stockdale

Senator Mike Connolly (By Telephone)

Members of the Board-Absent

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

Melinda Prince, Executive Secretary

Gregg Schochenmaier, General Counsel

Kelly Lovell, General Counsel

Bob Sharp, I-Que Project Manager

David Martin, Chief Benefits Officer

Leon Schwartz, Chief Operations Officer

Julie Economaki, Public Information Officer

Roger Wheatley, Internal Auditor

Consultant-Wilshire Associates

Eileen Neill

Actuary-Milliam

Pat Beckham

Investment Manager-Principal Global Investors

William Armstrong

Timothy Warrick

Scott Sams

Benefits Advisory Committee

Len Cockman

Brad Hudson

Ray Walton

Lewis Washington

Matt Ballard

Diane Reid

Walt Galvin

Gaylord Tryon

Janie Garr

Jim Maloney

Doug Olson

Guests

Jina Bresson, State Treasurer's Office

David Blakeley, Bank of New York Mellon

Jennifer Acton, Legislative Service Agency

Ed Cook, Legislative Service Agency

Jim Friedrich, Senate Republican Caucus Staff

Steve Timmins, Department of Management

Jenifer Parsons, House Democratic Caucus Staff

Elizabeth Giffrow, Principal Global Investors

Bill Petrosky, Des Moines Register

Mark Frymoyer, AFSCME

Matt Butler, AFSCME

Pat Deluhery

NOTE: References to specific "Tabs" relate to the December 4th Board notebook, where the full reports may be found.

IPERS INVESTMENT BOARD
MEETING MINUTES
December 4, 2008

Proceedings

Meeting called to order at 8:30 a.m. by Chair David Creighton.

Approval of Minutes of Previous Meetings - Tab 2

Joanne Stockdale made the motion to approve the September 17, 2008, In-Service meeting minutes and the September 18, 2008, Investment Board meeting minutes. Lana Dettbarn seconded, the minutes were approved by unanimous roll call vote.

Staff Reports - Tab 3

CIO Report - Karl Koch

Karl Koch reported that the Trust Fund's market value has decreased from \$22.3 billion on June 30, 2008, to an estimated \$18 billion on November 30, 2008, a decline of approximately 19.3 percent. Third quarter performance showed IPERS' total fund return was -7.08 percent compared to the policy benchmark return of -7.20 percent. He next reported that for the fourth quarter to date, all publicly traded assets classes are down substantially and we are expecting substantial future declines in private equity and real estate valuations. IPERS is maintaining its cash reserve of approximately \$200 million; plenty of cash to pay obligations.

Total Fund Market Value and Composition - Karl Koch - Tab 3A

Karl Koch reviewed the report and noted that the large decline in the equity market had caused nearly all the asset class allocations to be outside the policy ranges.

Consultant & Manager Watch List - Karl Koch - Tab 3B

Karl reviewed the Watch List. He noted that Emerging Markets Management has been added to the Watch List because the account has underperformed its benchmark for five consecutive quarters on a rolling five-year basis. Smith Breeden and Western Asset Management remain on the Watch List.

Cash Rebalancing Plan - Jeff Beisner - Tab 3C

Jeff Beisner reviewed that IPERS' rebalancing objective is to have each asset class within +/- 1 percent of its policy target by September 30 of each year. However, these are not normal times, and the unprecedented volatility in markets makes it very difficult to rebalance the Fund's asset mix to the targets specified in the policy. Jeff explained the many assumptions utilized in the rebalancing model. The 2009 rebalancing plan reviewed attempts to begin moving the Fund towards its policy targets in a disciplined manner.

Fixed Income Portfolio Review and Recommendation – Eileen Neil and Keith Scholten – Tab 4

Eileen Neil outlined key bond market drivers for the one-year period ending September 30, 2008. Keith Scholten next reviewed IPERS' fixed income portfolio, noting that the long-term performance of the fixed income portfolio has been negatively impacted by the current credit crisis. Managers have underperformed as they have been overweight the spread sectors versus the index and poor security selection has also contributed to the results. However, the High Yield composite has outperformed the benchmark as higher quality securities have outperformed lower quality securities.

Treasurer Fitzgerald made the motion to accept staff's recommendation of no change to the fixed income portfolio. Phyllis Peterson seconded. The motion carried by unanimous roll call vote.

Principal Global Investors – Core Plus Fixed Income Account Review – William Armstrong, Timothy Warrick, and Scott Sams – Tab 5

Scott Sams began the presentation with an organizational overview of Principal Global Investors. William Artmstrong continued the presentation with a review of the markets and IPERS' portfolio. Timothy Warrick concluded the presentation with Principal's current fixed income strategy and their forecasted outlook.

IPERS FY2008 Actuarial Report – Pat Beckham– Tab 6

Pat Beckham presented the results of the June 30, 2008, actuarial valuation. She reported that the actuarial assumptions were unchanged from last year's report. However, several changes occurred which impacted the 2008 valuation results including: valuation methodology for members with split service, 2008 legislation transferring four groups into Special Service group 2, and the Department of Administrative Services reclassifying positions of 77 members resulting in their transfer into Special Service group 2. Contribution rates for regular members continue to be below the actuarial rate needed to fund promised benefits. IPERS' unfunded actuarial liability (UAL) increased from \$2.266 billion on June 30, 2007 to \$2.665 billion at June 30, 2008. IPERS' funded ratio (the ratio of actuarial assets to actuarial liabilities) slightly declined to 89.1 percent. She concluded her report by stating that while IPERS' current funded ratio is still strong, contribution to the UAL is too small, increased contributions rates will help fund the UAL but will likely not be sufficient depending on future investment experience.

CEO and CIO Performance Review

Phyllis Peterson made a motion that the Investment Board go into closed session according to Iowa Code section 21.5(1)(i) for the CEO and CIO performance evaluations. Lana Dettbarn seconded. The motion carried by unanimous roll call vote.

Michael Beary made a motion that the Investment Board come out of closed session and return to an open session. Jay Ingram seconded. The motion carried by unanimous roll call vote.

Michael Beary made a motion that the Investment Board authorizes a 4.5 percent pay increase for the CEO effective April 17, 2009. Treasurer Fitzgerald seconded. The motion carried by unanimous roll call vote.

CEO Report – Donna Mueller

Donna Mueller briefly reported on the Brunkhorst and Mills Corporation class-action lawsuits. She next reported that IPERS will make the January (FED) dividend payment to retirees. IPERS pays the dividend from the FED reserve account established by the Legislature back in 1998 to help offset the negative impact that inflation has on pensions. The reserve account is invested with the Trust Fund and therefore IPERS pays a dividend if the balance in the reserve account is adequate. However, IPERS had a negative investment return last year. If the down market continues, money in the reserve account will run out faster. She concluded her report by stating that with the change in valuation methodology for members with split service, IPERS has implemented all of the recommendations for refinement to the actuarial valuation process as outlined in the actuarial audit.

FY2008 Investment Management Cost Review – Muriel Godbersen – Tab 7

Muriel Godbersen reviewed IPERS' investment management costs for fiscal year (FY) 2008. Expenses were 0.17 percent which was below the 0.40 percent fee limitation set in Iowa Code. This limitation was repealed in the 2008 legislative session. Expenses for FY2008 decreased 32.65 percent from FY2007 mainly due to lower performance fees earned by investment managers.

CY2009 Commitments Approval – Tab 8

Private Equity – Pat Reinhardt – Tab 8A

Pat Reinhardt reported that IPERS staff recommends the Investment Board approve \$500 million as the maximum dollar amount that can be committed by IPERS to private equity investments in calendar year 2009. Joanne Stockdale made the motion to accept staff's recommendation. Phyllis Peterson seconded. The motion carried by unanimous roll call vote.

Real Estate – Pat Reinhardt– Tab 8B

Pat Reinhardt next reported that given the current overweight to real estate versus its strategic target, IPERS staff recommends no new allocation to real estate in calendar year 2009. Joanne Stockdale made the motion to accept staff's recommendation. Lana Dettbarn seconded. The motion carried by unanimous roll call vote.

Custodial Bank and Securities Lending Contracts – Treasurer Fitzgerald

Treasurer Fitzgerald updated the Board on the status of the custodial bank and securities lending agent contracts, which had been extended last year due to the merger of the Bank of New York and Mellon. He expected to issue the RFP for both services sometime after the first of the year (2009).

Staff Reports - Tab 9

Benefits Update - David Martin - Tab 9A

David Martin directed Board members to Tab 9A for the current member demand measures report.

I-Que Project Update - Bob Sharp - Tab 9B

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

Securities Litigation Update - Gregg Schochenmaier - Tab 9C

Gregg Schochenmaier reviewed the on-going securities litigation involving Bridgestone, Mills Corporation, and MF Global.

Confirm Next Meeting Date and Adjournment

The next meeting date of the IPERS Investment Board will be March 27, 2009, at the IPERS office. With no further business to come before the Board the meeting adjourned at 1:42 p.m.