

IPERS INVESTMENT BOARD MEETING

September 17, 2009

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, September 17, 2009.

Members of the Board

Phyllis Peterson, Chair
Treasurer Michael Fitzgerald, Vice Chair
David Creighton
Michael Beary
Lana Dettbarn

Jay Ingram
Joanne Stockdale
Senator Steve Kettering
Representative Mary Mascher
Representative Dawn Pettengill

Administration & Staff

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

Gregg Schochenmaier, General Counsel
Kelly Lovell, General Counsel
Julie Economaki, Public Information Officer
Leon Schwartz, Chief Operations Officer
David Martin, Chief Benefits Officer
Roger Wheatley, Internal Auditor

Consultant

Wilshire Associates
Eileen Neill
Jim Rice
Stephen Marshall

Guests

Terrie Miller, CEM Benchmarking Inc.
Jina Bresson, State Treasurer's Office
Scott Sams, Principal Global Investors
Elizabeth Giffrow, Principal Global Investors
David Blakeley, Bank of New York Mellon
Ann McCarthy, House Caucus Staff
Theresa Kehoe, Senate Caucus Staff

Jim Friedrich, Senate Caucus Staff
Steve Timmins, Dept. of Management
Brad Hudson, BAC Member
Jon Studer, BAC Alternate
Rod Boshart, Cedar Rapids Gazette
Pat Deluhery

NOTE: References to specific "Tabs" relate to the September 17th Board notebook, where the full reports may be found.

IPERS INVESTMENT BOARD
MEETING MINUTES
September 17, 2009

Proceedings

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

Election of Chair and Vice Chair

Michael Beary nominated Phyllis Peterson for chair and Treasurer Michael Fitzgerald for vice chair. Lana Dettbarn seconded the nominations. The nominations carried by unanimous roll call vote.

Approval of Minutes of Previous Meeting - Tab 2

Joanne Stockdale made the motion to approve the meeting minutes from the June 25, 2009, Investment Board meeting. Jay Ingram seconded. The minutes were approved by unanimous roll call vote.

IPERS CEO's Report and FY2010 Budget - Donna Mueller - Tab 3

Donna Mueller reviewed that in April the Benefits Advisory Committee (BAC) and Milliman began studying the impact the recession would have on IPERS' long-term funding of benefits. The BAC discussed ranges of maximum contribution rates that would be reasonable to request of members and employers. The next step was to look at a benefit package that could be afforded within the contribution rates, along with a payment on the unfunded actuarial liability that would work towards fully funding the pension system. The BAC will continue to refine the studies during their October and November meetings. Representative Mascher asked if the BAC would have a recommendation for the Public Retirement Systems Committee by their meeting dates of November 9 and 19. Donna responded that she anticipated that some direction from the BAC would be provided in November.

Donna next reviewed a notice sent to Westridge/WG Trading Company investors from Robb Evans & Associates, the court appointed receiver in the case, which provided information on the determination of IPERS' claim. Karl Koch explained how contributions and withdrawals shown in the notice represented cash flows and not increases or decreases in principal. Karl also confirmed for the Board that IPERS had earlier in the year written down its investment by 40 percent to reflect the receiver's statement in an earlier report that it anticipated recovered assets would cover only about 60 percent of expected claims. Donna noted that the U.S. District Court for New York has stayed all outside litigation, so the only ongoing litigation is the receivership litigation in the Southern District of New York.

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Staff Reports - Tab 4

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

Karl reported that all asset class allocations were within their permitted policy ranges, with domestic equity approximately 4 percentage points behind the target. The estimated value of the Fund at the time the Board materials were sent was \$18.9 billion. Karl stated that the estimated value of the Fund as of the meeting date was closer to \$19.4 billion, which could be attributable to gains in the stock markets and lags in valuation increases in commingled funds.

Consultant and Manager Watch List - Karl Koch - Tab 4B

Karl indicated that Barclays Global Investors and BlackRock had been placed on the Watch List due to poor performance; while Mellon Capital Management's global tactical asset allocation product was added to the Watch List due to concerns about personnel turnover. Emerging Markets Management and Principal Global Investors remain on the Watch List.

CEM CY2008 Investment Benchmarking Review - Terrie Miller - Tab 5

Terrie Miller of CEM Benchmarking reviewed IPERS' investment benchmarking results for periods ending December 2008. The report compares IPERS cost and return performance to a custom peer group. For the 5-year period IPERS' policy return was 3.6 percent compared to the U.S. median of 2.2 percent and peer median of 2.1 percent. Value added is the component of total return from active management. IPERS' value added, before fees, was 0.5 percent compared to the U.S. median of 0.1 and the peer median of 0.3 percent. Implementation risk of 1.1 percent was below the U.S. median of 1.4 percent and close to the peer median of 1.0%. CEM calculated that IPERS' costs for 2008 was below its Benchmark Cost, suggesting IPERS is a low cost fund primarily because IPERS paid less for similar mandates. Terrie concluded by noting that CEM summarizes cost effectiveness in a chart plotting 5-year value added (after fees) on the vertical axis and excess cost on the horizontal axis. IPERS' results placed it in the positive value added, low cost quadrant.

FY2009 Investment Performance Review - Eileen Neill - Tab 6

Eileen Neill of Wilshire Associates reviewed IPERS' long-term investment objectives, current asset allocation policy, and the total fund market value of \$18.0 billion as of June 30, 2009. Eileen reported that IPERS' total fund performance for the one-year period was -16.3 percent. All asset classes with exception of international equities and high yield debt contributed to the underperformance. Domestic equity had the most significant underperformance for the one-year period due in large part to the portable alpha program results. Eileen noted that the realized active risk for the domestic equity and core plus fixed income portfolios were outside their target ranges, due mainly to the events of 2007 and 2008 where some of IPERS' active managers were caught with illiquid assets when the risk picture changed quickly. She also noted that the high yield and international equity portfolios were within their active risk target ranges. The total fund outperformed the median fund in the TUCS Public Funds >\$1

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Billion Composite Index over the last year, which is largely attributable to IPERS' higher weightings to high yield and fixed income and lower weightings to U.S. and international equities. Eileen concluded the report with a summary of the performance of each asset class and of the individual equity and fixed income managers relative to their benchmarks.

Asset Allocation Review and Adoption of Policy Benchmark - Tab 7 - Eileen Neill

Eileen Neill reviewed the updated asset class assumptions and the model used by IPERS staff and Wilshire to evaluate existing and potential asset allocation policies. She explained that four alternative asset allocation policies were studied in addition to the existing policy portfolio. Alternative 1 examined the possibility of adding TIPS into the portfolio to explore the possibility of increasing and diversifying the fund's real asset exposure as was discussed at last year's in-service meeting. Alternative 2 examined the possibility of using leverage in the fixed income portfolio to reduce total fund risk and perhaps smooth out the volatility from having so much of our risk in equities, as was discussed by Bridgewater in its presentation at the previous day's in-service meeting. Alternative 3 was a way to look at whether or not a return similar to IPERS current policy portfolio could be achieved at a lower level of risk when leverage was allowed. Alternative 4 examined the impact of increasing inflation protection in the portfolio. Finally, the optimality of IPERS' current policy portfolio was tested under the new capital market assumptions.

Stephen Marshall of Wilshire Associates explained several graphs that depicted various methods for evaluating the possible impact on returns, costs and funded ratio for the existing and each Alternative policy. Eileen then discussed the many implementation issues involved when leverage is introduced into a portfolio. Karl noted that the leverage scenarios were modeled and provided as an FYI for the Board in conjunction with the Bridgewater presentation that was made at the in-service meeting, because it is something that is being widely discussed in the investment community as a possible partial solution to reducing equity risk in the portfolio.

IPERS staff and Wilshire recommended changing the current allocation to include 3 percent in TIPS, with funding assets to come from investment grade bonds, and an allocation of 1 percent to cash to serve as a liquidity reserve within the portfolio. Karl noted that these changes were represented as Alternative 4 in the modeling. David Creighton made the motion to accept the recommendations. Joanne Stockdale seconded, the motion carried by unanimous roll call vote.

Review and Adoption of Investment Policy and Goal Statement - Tab 8 - Karl Koch

Karl Koch reviewed with the Board each of the proposed revisions to the Investment Policy and Goal Statement. Jay Ingram made the motion to accept staff's recommended changes. Joanne Stockdale seconded, the motion carried by unanimous roll call vote.

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Gregg Schochenmaier next reviewed with the Board the proposed revisions to the Ethics Policy that would implement a political contributions disclosure policy applicable to Board and staff to prevent possible future problems in this area as occurred at several systems around the country. David Creighton made the motion to approve the revision to the Ethics Policy and Michael Beary seconded. The motion carried by roll call vote with David Creighton abstaining and Treasurer Fitzgerald voting against the motion.

FY2011 Budget Report - Leon Schwartz - Tab 9

Leon Schwartz reviewed IPERS' historical assets and expenses for the past 20 years, noting this is the third year that IPERS has paid out over a billion dollars in benefits. He next reported on IPERS' proposed FY2011 budget noting that all IPERS expenditures are paid from the IPERS Trust Fund and no state general funds are appropriated to or spent at IPERS. IPERS will again maintain a status quo budget for the general delivery of services.

Donna also noted that two memos were provided in the notebook in response to questions raised at the June Board meeting concerning the I-Que project (benefit administration software replacement), and information on historical expenditures relating to Board and staff travel and training.

Confirm Meeting Dates and Adjournment

Karl noted that the Investment Board meeting calendar for 2010 was behind Tab 12 for the Board's review per the Investment Policy & Goal Statement. No objections to the proposed dates were made, so the dates will be put on IPERS' Web site for the public. The next meeting date of the IPERS Investment Board on December 3, 2009, at the IPERS office was confirmed. The meeting adjourned at 1:40 p.m.