



INVESTMENT BOARD MEETING MINUTES
IPERS Headquarters, 7401 Register Drive
Des Moines, Iowa
June 21, 2012

The following people were in attendance at the IPERS Investment Board Meeting that was held on Thursday, June 21, 2012.

Members of the Board - Present

David Creighton, Chair
Phyllis Peterson, Vice Chair
Treasurer Michael Fitzgerald
Michael Beary
Lisa Stange

Dennis Young
Senator Steve Kettering
Senator Matt McCoy
Representative Mary Mascher
Representative Dawn Pettengill (Telephone)

Members of the Board - Absent

Marlene Sprouse

Administration and Staff

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

Kevin Terdal, Investment Officer 1
Melinda Prince, Executive Secretary
Gregg Schochenmaier, General Counsel
Darla Iverson, Chief Financial Officer

Consultant - Wilshire Associates

Eileen Neill
Karim Simplis
Michael Dudkowski
Karyn Williams

Guests

Brad Hudson, BAC Vice Chair
Phil Tetzloff, BAC Member
Estelle Montgomery, Legislative Srvcs Agency
Kristi Kielhorn, House Republican Caucus Staff
Scott Sams, Principal Global Investors

David Blakeley, Bank of New York Mellon
Steve Timmins, Department of Management
John Ide, JP Morgan
Alexander Harlan, JP Morgan

Proceedings

David Creighton, chairman, called the meeting to order at 8:30 a.m.

Approval of Minutes of Previous Meeting – Tab 2

Phyllis Peterson made the motion to approve the Board meeting minutes of March 30, 2012. The motion was seconded by Lisa Stange.

Ayes: David Creighton, Phyllis Peterson, Treasurer Fitzgerald, Michael Beary, Lisa Stange, and Dennis Young

Nays: None

Absent: Marlene Sprouse and Dennis Young

MOTION PASSED

IPERS CEO Report – Tab 3

Donna Mueller reported on two bills that passed this legislative session and their impact on IPERS. She also reported on IPERS staff changes and updated the Board on the construction progress. She concluded her report by announcing that she was recently appointed to the Internal Revenue Services’ Advisory Committee on Tax Exempt and Government Entities (ACT).

CIO Reports – Tab 4

Estimated Current Fund Market Value and Composition – Tab 4A

Karl Koch reported the fund’s preliminary market value at \$22.6 billion and stated that all asset classes were within their target ranges.

Consultant and Manager Watch List – Tab 4B

Principal Global Investors and RREEF were added to the Watch List. Ashmore EMM (Emerging Markets Equity account), BlackRock (U.S. Scientific Active Equity account), and BlackRock (European Scientific Active Equity account) were removed from the Watch List. GAM, PanAgora, and TA Realty remain on the Watch List.

Iran and Sudan Divestment – Estimated Costs of Divesting Indirect Holdings – Tab 5

Iowa’s Sudan and Iran divestment laws do not require divestment of prohibited companies if the holdings are “indirectly” held through funds, but such laws do require IPERS to evaluate alternative structures and utilize them if the Board believes it is prudent to do so. Karl Koch reviewed the estimated costs of alternative structures. Staff estimated that moving the assets to alternative separate account structures would cost IPERS over \$1 million per year in additional management fee expenses. IPERS staff recommended not utilizing alternative structures to remove IPERS’ exposure to some prohibited companies held in commingled funds. Dennis Young made the motion to approve the recommendation. The motion was seconded by Michel Beary.

Ayes: David Creighton, Phyllis Peterson, Treasurer Fitzgerald, Michael Beary, Lisa Stange, and Dennis Young

Nays: None

Absent: Marlene Sprouse

MOTION PASSED

Koch also updated the Board regarding a letter received from Caterpillar, Inc. in response to a letter from IPERS inquiring about the firm’s activities in the Sudan. He noted that Caterpillar is currently not a prohibited investment for IPERS, and staff plans to continue to engage the firm on the issue. Lisa Stange requested that staff notify the Board prior to taking any action against Caterpillar.

Manager Hiring Recommendation – Emerging Market Debt Strategy – Tab 6

Keith Scholten reported the results of IPERS’ request for proposals (RFP) to evaluate emerging market debt products for possible inclusion in IPERS’ credit opportunities portfolio. Keith reported that the Evaluation Committee recommended the Investment Board approve the hiring of Western Asset Management Company for the mandate, subject to successful contract and fee negotiations. Michael Beary made the motion to approve the recommendation. The motion was seconded by Lisa Stange.

Ayes: David Creighton, Phyllis Peterson, Treasurer Fitzgerald, Michael Beary, Lisa Stange, and Dennis Young

Nays: None

Absent: Marlene Sprouse

MOTION PASSED

Request to Issue an RFP for Transition Management Services – Tab 7

Karl Koch stated that IPERS currently has two transition managers (BlackRock and State Street Global Asset Management) under contracts executed in 2003, and it is time to rebid these services. Both firms are welcome to rebid. IPERS staff requested Board approval to issue an RFP to evaluate and select at least two transition management firms to assist IPERS in any future transition projects of publicly traded assets. Dennis Young made the motion to approve the recommendation. The motion was seconded by Phyllis Peterson.

Ayes: David Creighton, Phyllis Peterson, Treasurer Fitzgerald, Michael Beary, Lisa Stange, and Dennis Young

Nays: None

Absent: Marlene Sprouse

MOTION PASSED

Board Risk Report Examples – Tab 8

Karyn Williams of Wilshire Associates provided a presentation of examples of types of risk reports that could be used by the Board to improve risk governance and monitor investment risks in IPERS’ portfolio.

Real Estate Portfolio Review and Recommendations – Tab 9

Michael Dudkowski of Wilshire Associates began the presentation with an overview of the real estate market. Patrick Reinhardt then reviewed IPERS’ real estate portfolio, strategy, and performance. He noted the REIT investments in the public real estate program accounted for most of the underperformance over the previous twelve months, while performance of the private portion of the program was in line with its benchmark over the twelve month period. However, over longer time periods the real estate program’s overall performance has significantly lagged behind its benchmark, and Pat discussed how some potential changes to the real estate program could possibly improve future performance.

Staff made the following real estate program structure recommendations:

- Decrease the number of core generalist managers from five to three and utilize fixed fee structures.
- Modify UBS Realty’s mandate to be an apartment specialist under a fixed fee structure.
- Terminate TA Realty and transfer their portfolio to INVESCO.
- Perform a search for real estate debt funds.

There was much discussion about the possibility of investing in real estate debt funds. Some Board members expressed reservations or opposition to the idea, while others expressed the desire to further evaluate the opportunity through an RFP process. Lisa Stange made the motion to approve the program structure recommendations. The motion was seconded by Dennis Young.

Ayes: Phyllis Peterson, Michael Beary, Lisa Stange, and Dennis Young

Nays: Treasurer Fitzgerald

Absent: David Creighton and Marlene Sprouse

MOTION PASSED

Staff recommended the following real estate benchmark revisions be authorized:

- Change the benchmark for the remaining core generalist managers from NCREIF National Property Index (NPI) to the NCREIF ODCE Index,
- Change UBS Realty’s benchmark to the NCREIF NPI - Apartment Sector Index
- Revise the real estate program benchmark to a weighted benchmark of 75% NCREIF ODCE and 25% Wilshire REIT Index, effective with the fourth quarter of 2012, and
- If IPERS decides to invest in debt funds, the benchmark should be NCREIF ODCE plus 150 basis points.

Dennis Young made the motion to approve the benchmarking recommendations. The motion was seconded by Phyllis Petersen.

Ayes: Phyllis Peterson, Treasurer Fitzgerald, Michael Beary, Lisa Stange, and Dennis Young.

Nays: None

Absent: David Creighton and Marlene Sprouse

MOTION PASSED

Staff recommended eliminating performance-based fee structures in the private real estate program and instead utilizing fixed fee structures for the core generalist managers and the apartment specialist. Lisa Stange made the motion to approve the recommendation. The motion was seconded by Michael Beary.

Ayes: Phyllis Peterson, Treasurer Fitzgerald, Michael Beary, Lisa Stange, and Dennis Young.

Nays: None

Absent: David Creighton and Marlene Sprouse

MOTION PASSED

After more discussion, Lisa Stange made the motion that the Board authorize the issuance of an RFP for the purpose of evaluating real estate debt funds for a mandate that would be \$150 to \$200 million. The motion was seconded by Michael Beary.

References to specific “Tabs” relate to the June 21, 2012, Board notebook, where the full reports may be found.

Ayes: Phyllis Peterson, Michael Beary, Lisa Stange, and Dennis Young

Nays: Treasurer Fitzgerald

Absent: David Creighton and Marlene Sprouse

MOTION PASSED

Private Equity Portfolio Review – Tab 10

Karim Simplis of Wilshire Associates provided a market overview of the private equity market. Pat Reinhardt next reviewed IPERS’ private equity investment strategy and the 2011 and 2012 investment plans. Pat also reviewed the performance of Pathway Capital Management, noting that Pathway has produced an internal rate of return well in excess of the custom benchmark for both the 10 year and since inception time periods. Strong positive performance has been achieved in both the special equity and venture capital investment strategies since inception despite disappointing venture capital market returns over the last 10 years. Staff did not recommend any changes be made to the existing private equity program.

Review of Investment Manager Monitoring and Retention Policy – Tab 11

Karl Koch reviewed IPERS’ Investment Manager Monitoring and Retention Policy with the Board, describing how the policy is designed to provide a systematic, consistent, and rational framework for manager retention and termination decisions. After some discussion, it was agreed that no revisions to the policy were necessary at this time.

Staff Reports – Tab 12

Cash Rebalancing Plan – Tab 12A

Keith Scholten reviewed the quarterly cash rebalancing plan as of June 2012.

Securities Litigation – Tab 12B

Gregg Schochenmaier updated the Board on the status of securities litigation cases IPERS has an active role in.

Confirm Next Meeting Dates and Adjournment

The next meeting date of the IPERS Investment Board will be the annual educational In-Service meeting on September 19, 2012, followed by a Board meeting on September 20, 2012.

The meeting adjourned at 1:40 p.m.