



INVESTMENT BOARD MEETING MINUTES

IPERS Board Room
7401 Register Drive, Des Moines, Iowa
September 22, 2016

The following people were in attendance at the IPERS Investment Board Meeting that was held in the IPERS Board Room on Thursday, September 22, 2016.

Members of the Board – Present

Marlene Sprouse, Chair
Wayne Walter, Vice Chair
Treasurer Michael Fitzgerald
David Creighton
Phyllis Peterson

Lisa Stange
Dennis Young
Representative Mary Mascher
Senator Julian Garrett

Members of the Board – Absent

Senator Matt McCoy
Representative Dawn Pettengill

Administration and Staff

Donna Mueller, CEO
Karl Koch, CIO
Sriram Lakshminarayanan, CRO
Jeff Beisner, Senior Investment Officer
Pat Reinhardt, Senior Investment Officer

Keith Scholten, Senior Investment Officer
Melinda McElroy, Executive Secretary
Gregg Schochenmaier, General Counsel
Darla Iverson, Chief Financial Officer
Judy Akre, Director of Communications

Consultant – Wilshire Associates

Eileen Neill
Rose Dean

Guests

Paul Martiniello, CEM Benchmarking Inc.
Jina Bresson, State Treasurer's Office
Scott Sams, Principal Global Investors
David Blakeley, Bank of New York Mellon
Theresa Kehoe, Senate Democratic Caucus Staff
Jim Friedrich, Senate Republican Caucus Staff

Jennifer Acton, Legislative Service Agency
Mackenzie Nading, House Rep. Caucus Staff
Brian Guillaume, House Democratic Caucus Staff
Brad Hudson, BAC
Lowell Dauenbaugh, BAC

Proceedings

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

Election of Chair and Vice Chair

Treasurer Fitzgerald nominated Marlene Sprouse for chair and Marlene Sprouse nominated Wayne Walter for vice chair. David Creighton made a motion to close the nominations. Dennis Young seconded the nominations.

Ayes: David Creighton, Marlene Sprouse, Treasurer Fitzgerald, Phyllis Peterson, Lisa Stange, Wayne Walter, and Dennis Young

Nays: None

Absent: None

MOTION PASSED

Approval of Minutes – Tab 2

David Creighton made the motion to approve the meeting minutes from the June 23, 2016, Investment Board meeting. Phyllis Peterson seconded.

Ayes: Marlene Sprouse, Wayne Walter, David Creighton, Treasurer Fitzgerald, Phyllis Peterson, Lisa Stange, and Dennis Young

Nays: None

Absent: None

MOTION PASSED

IPERS CEO Report – Tab 3

Donna Mueller reviewed with the Board the results of a cost-of-living adjustment (COLA) study commissioned by IPERS' Benefits Advisory Committee. The study, conducted by Cavanaugh Macdonald, examined three potential options and the cost impact of instituting a COLA for current and future retirees. The BAC then developed talking points to show their membership groups how expensive COLA programs are and why it's important to encourage personal savings. She concluded her report by stating that the November dividend payments will total approximately \$6.6 million and that IPERS is beginning to develop its next five-year strategic plan that is due to the governor in January 2017.

CIO Reports – Tab 4

Total Fund Market Value and Cash Rebalancing Reports – Tab 4A

Karl Koch reported that all asset classes were within acceptable policy ranges as of September 9, 2016. The Total Fund market value estimate was \$28.76 billion.

Consultant and Manager Watch List – Tab 4B

He next reported that GAM (Pacific Basin equity account) was added to the Watch List in July due to underperformance.

Other Updates

He concluded his report by informing the Board that funding for the liquid absolute return strategy managers and middle market direct lending managers has been delayed. He expects to have the LARS program contracts finalized and all operational due diligence completed by November 1, 2016.

CRO Risk Reports – Tab 5

Sriram Lakshminarayanan presented IPERS' standard risk monitoring reports, noting that portfolio risk has declined since spiking around the Brexit sell-off.

CEM CY2015 Investment Benchmarking Review – Tab 6

Paul Martiniello of CEM Benchmarking reviewed IPERS' investment benchmarking results for the 5-year period ending December 2015. The report compared IPERS' costs and return performance to a custom peer group. He noted IPERS once again was ranked as a low-cost fund based on CEM's analysis for the calendar year and that IPERS' 5-year net value added 0.05% matched the net value added by peer pension funds.

FY2016 Investment Performance Review – Tab 7

Eileen Neill of Wilshire Associates presented IPERS' investment performance for the fiscal year. The portfolio returned 2.15 percent (net of fees) for FY2016, underperforming its policy benchmark return of 2.89 percent and the actuarial investment return assumption of 7.50 percent. Underperformance was mainly due to relative performance by active managers in the domestic equity, international equity, and credit opportunities portfolios.

Annual Asset Allocation Review – Tab 8

Eileen Neill next presented the annual asset allocation review. Staff and Wilshire recommended maintaining the current asset allocation, with some minor modifications to asset classifications to accommodate the proposed separation of public and private market policies.

IPERS' current 7.5 percent actuarial investment return assumption was also discussed, with a debate on whether the rate should be lowered. Normally, the economic assumptions (including investment return, inflation, and wage growth) are reviewed every four years in conjunction with an experience study, and IPERS' next experience study is not scheduled to occur for another eighteen months. The Board decided it wanted an update from the actuary on these key assumptions before making a decision. Wayne Walters made the motion to engage the actuary to conduct an expedited study of the economic assumptions for a report in June 2017. Phyllis Peterson seconded.

Ayes: Marlene Sprouse, Wayne Walter, Treasurer Fitzgerald, Phyllis Peterson, Lisa Stange, and Dennis Young

Nays: David Creighton

Absent: None

MOTION PASSED

Proposed Revisions to Investment Policy and Goal Statement – Tab 9

Karl Koch reviewed staff's proposed revisions to the Investment Policy and Goal Statement. The majority of the changes recommended separate the investment portfolio into two main categories: public markets and private markets for benchmarking purposes. David Creighton made the motion to accept staff's recommended changes. Lisa Stange seconded.

Ayes: Marlene Sprouse, Wayne Walter, David Creighton, Treasurer Fitzgerald, Phyllis Peterson, Lisa Stange, and Dennis Young

Nays: None

Absent: None

MOTION PASSED

IPERS FY2018 and FY2019 Budgets – Tab 10

Darla Iverson reviewed IPERS' proposed FY2018 and FY2019 budgets noting that all IPERS expenditures are paid from the Trust Fund, no state general funds are appropriated to or spent at IPERS, and the requested appropriations are the same as FY2017's request.

Confirm Next Meeting Date and Adjournment

The next meeting date of the IPERS Investment Board will be on Thursday, December 1, 2016. With no further business to come before the Board the meeting was adjourned at 1:00 p.m.