



INVESTMENT BOARD MEETING MINUTES
IPERS Board Room
7401 Register Drive, Des Moines, Iowa
December 1, 2016

The following people were in attendance at the IPERS Investment Board Meeting that was held in the IPERS Board Room on Thursday, December 1, 2016.

Members of the Board – Present

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

Lisa Stange
Representative Mary Mascher
Senator Julian Garrett
Senator Matt McCoy

Members of the Board – Absent

Dennis Young
Representative Dawn Pettengill

Administration and Staff

Donna Mueller, Chief Executive Officer
Karl Koch, Chief Investment Officer
Sriram Lakshminarayanan, Chief Risk Officer
Jeff Beisner, Senior Investment Officer
Pat Reinhardt, Senior Investment Officer
Keith Scholten, Senior Investment Officer
Kevin Terdal, Investment Officer
Melinda McElroy, Executive Assistant

David Martin, Chief Benefits Officer
Darla Iverson, Chief Financial Officer
Gregg Schochenmaier, General Counsel
Judy Akre, Director of Communications
Glenna Musselman, Accounting and Finance
Lindsey Harrelson, Communications
Erika Harper, Communications

Consultant – Wilshire Associates

Eileen Neill
Marlin Pease

Actuary – Cavanaugh Macdonald

Patrice Beckham
Brent Banister
Bryan Hoge

Benefits Advisory Committee and Alternates

Len Cockman, Chair
Brad Hudson, Vice Chair
Sue Brown
Matt Carver
Lowell Dauenbaugh

Steve Hoffman
Phil Tetzloff
Jon Thomas
Mark Tomb
Sandy Tryon

Guests

Jina Bresson, State Treasurer's Office
Steve Timmins, Department of Management
Ed Cook, Legislative Service Agency
Jen Acton, Legislative Service Agency
Jim Friedrich, Senate Rep. Caucus Staff
Mackenzie Nading, House Rep. Caucus Staff

Theresa Kehoe, Senate Dem. Caucus Staff
Brian Guillaume, House Dem. Caucus Staff
Scott Sams, Principal Global Investors
David Blakeley, Bank of New York Mellon
Patrick Deluhery

Call to Order

Chairperson Marlene Sprouse called the meeting to order at 8:30 a.m.

Approval of Minutes from the Previous Meetings – Tab 2

Phyllis Peterson made the motion to approve the September 21, 2016, Board In-Service meeting minutes. David Creighton seconded.

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

Nays: None

MOTION PASSED

Phyllis Peterson made the motion to approve the September 22, 2016, Board meeting minutes. David Creighton seconded.

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

Nays: None

MOTION PASSED

CEO's Report

Donna Mueller reported that IPERS made its annual budget presentation to Governor Branstad on November 29th. She concluded by reviewing a draft of IPERS' 5-year strategic plan.

Request to Issue an RFP for Actuarial Consulting Services – Tab 3

The Accountable Government Act requires state contracts to be rebid every six years. IPERS' contract with current actuary, Cavanaugh Macdonald Consulting, expires June 30, 2017. David Creighton made the motion to approve the issuance of an RFP for actuarial consulting services with the minimum qualifications listed in the memo to the Board. Treasurer Fitzgerald seconded.

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

Nays: None

MOTION PASSED

2016 Actuarial Valuation Report – Tab 4

Patrice Beckham presented the results of the 2016 actuarial valuation report. The primary purpose of the report is to evaluate the funded status of the System and to determine the actuarially required contribution rates. The unfunded actuarial liability for all three membership groups increased slightly from \$5.455 billion reported in the 2015 report to \$5.586 billion. The System's funded status improved slightly to 83.9 percent. The 2016 valuation sets the required contribution rates for FY2018. Based on IPERS' contribution rate funding policy, the required contribution rates for Regular members and the Protection

Occupation group will remain the same. The contribution rates for Sheriffs and Deputies will decrease 0.5 percentage points.

IPERS Investment Staff Reports – Tab 5

Beta Reports – Tab 5A

Karl Koch reviewed the Fund's asset allocation and stated all asset classes were within their established policy ranges. The market value of the IPERS Trust Fund was estimated to be \$28.54 billion.

Risk Report – Tab 5B

Sriram Lakshminarayanan reviewed IPERS' standard risk reports. Portfolio risk levels had not changed much since the September Board report.

Alpha Report – Tab 5C

Karl Koch next reviewed the Alpha Report which summarizes the net of fee excess returns (alpha) of all of IPERS' public market active investment managers over various time periods and stated that no investment managers or consultants were added to or removed from the Watch List. Remaining on watch is GAM who manages a \$150 million Pacific Basin equity mandate. He next informed the Board that staff anticipates the following liquid absolute return strategy managers will be funded later this month: Berenberg Asset Management, Graham Capital, Fort, Informed Portfolio Management, Lynx Asset Management, and P/E Global. It is anticipated each manager will eventually be funded with approximately \$100 million.

CY2017 Private Markets Commitments – Tab 5D

Pat Reinhardt reviewed the private market capital commitments for CY2017. Pathway Capital Management will be authorized to commit up to \$800 million to private equity investments. Pat also explained that IPERS has commitment capacity of \$400 million in its private credit portfolio. Staff will evaluate different strategies for allocating future commitments to this new strategic asset allocation and will provide a recommendation to the Board at its March meeting. Pat also reported that IPERS anticipates commitments of \$100 million to its existing real estate, timberland, and farmland managers.

FY2016 Investment Management Expenses – Tab 5E

Karl Koch reviewed IPERS' investment management expenses for fiscal year 2016. Expenses were 21.9 basis points (0.219 percent) of the Fund's average market value. Investment expenses decreased 22.23 percent from FY2015. The decrease was mainly due to lower performance fees. The expense review did not include private equity partnership fees.

Beta Overlay Hiring Recommendation – Tab 6

Pat Reinhardt reported that IPERS received 11 proposals in response to this RFP. Eight firms met the required minimum qualifications as outlined in the RFP. The Evaluation Committee interviewed the three top-scoring firms: BlackRock, Parametric, and NISA. The Evaluation Committee recommended the Investment Board approve the hiring of Parametric Portfolio Associates for the overlay services mandate, subject to the successful completion of contract

negotiations. Phyllis Peterson made the motion to approve the hiring recommendation. David Creighton seconded.

Ayes: Marlene Sprouse, Wayne Walter, David Creighton, Phyllis Peterson, and Lisa Stange.

Nays: Treasurer Michael Fitzgerald

MOTION PASSED

CEO and CIO Performance Reviews

David Creighton made the motion that the IPERS Investment Board go into a closed session of this public meeting to discuss the performance evaluations of the chief investment officer and the chief executive officer as authorized by Iowa Code section 21.5(1)(i). Phyllis Peterson seconded.

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

Nays: None

MOTION PASSED

David Creighton made the motion that the IPERS Investment Board end its closed session and resume the open session of this meeting. No action was taken by the Board in closed session. Lisa Stange seconded.

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

Nays: None

MOTION PASSED

Smart Beta Recommendation – Tab 7

Jeff Beisner presented information on smart beta equity. Staff recommended adopting smart beta equity as an asset class and using a passive management approach. Staff will evaluate and select an existing smart beta, multi-factor index and then search for a passive manager to implement a smart beta equity allocation for IPERS. If this process is successful, staff will request Board approval for revisions to the investment policy to establish smart beta equity as an asset class, and request authority to hire the smart beta equity passive manager.

Fixed Income Strategy Review – Tab 8

Keith Scholten reviewed IPERS' current fixed-income structure and strategy. He presented the potential benefits and drawbacks of requiring IPERS' existing core-plus fixed-income managers to establish a separate core account (interest rate) and a plus account (credit) within their existing mandates. Staff will further evaluate the concept and report back to the Board.

Benefits Division Update – Tab 9

David Martin reviewed the member demand measures report for October 2016.

Confirm Next Meeting Date and Adjournment

The next meeting date of the IPERS Investment Board will be Friday, March 24, 2017, at the IPERS office. With no further business to come before the Board the meeting adjourned at 1:20 p.m.