



INVESTMENT BOARD MEETING MINUTES
IPERS Board Room
7401 Register Drive, Des Moines, Iowa
March 24, 2017

The following people participated in the IPERS Investment Board meeting held on Friday, March 24, 2017.

Members of the Board – Present

Marlene Sprouse, Chair
Wayne Walter, Vice Chair
David Creighton
Treasurer Michael Fitzgerald
Phyllis Peterson
Lisa Stange
Dennis Young
Representative Mary Mascher
Senator Mark Lofgren

Members of the Board – Absent

Representative Dawn Pettengill
Senator Matt McCoy

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
Kevin Terdal, Investment Officer

Melinda McElroy, Executive Assistant
David Martin, Chief Benefits Officer
Gregg Schochenmaier, General Counsel
Darla Iverson, Chief Financial Officer
Judy Akre, Director of Communications
Rick Hindman, Chief Information Officer

Consultant

Wilshire Associates
Eileen Neill
Rose Dean

Actuary

Cavanaugh Macdonald
Patrice Beckham
Brent Banister

BAC Committee Members

Len Cockman, Chair
Brad Hudson, Vice Chair
Lowell Dauenbaugh
Sue Brown
Phil Tetzloff
Mark Tomb
Matt Carver
Steve Hoffman

Guests

Jina Bresson, State Treasurer's Office
Jennifer Acton, Legislative Service Agency
David Blakeley, Bank of New York Mellon
Gretchen Tegeler, Taxpayers Assn of Central Iowa

Steve Timmins, Dept. of Management
Kory Kinnick, Dept. of Natural Resources
Pat Deluhery

Call to Order

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

Approval of Minutes from Previous Meeting – Tab 2

Treasurer Fitzgerald made the motion to approve the December 1, 2016, Investment Board meeting minutes. Phyllis Peterson seconded. The minutes were approved by unanimous roll call vote.

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

Nays: None

CEM Pension Administration Benchmarking Report – Paul Martiniello – Tab 3

Paul Martiniello of CEM Benchmarking reported on IPERS' pension administration benchmarking results for fiscal year 2016. This study compares IPERS' service levels, performance, and costs to other U.S. pension systems of similar membership size.

CEO Reports – Donna Mueller

Donna Mueller began her report by updating the Board on a pilot project IPERS and the Iowa State University extension office is developing to educate member on the importance of additional retirement savings. She concluded by reporting on the status of Governor Branstad's task force to study Iowa pension systems and noted that the legislative Public Retirement Systems Committee has met with several organizations who lobby and advocate for various pension reforms.

Actuarial Consulting Services Hiring Recommendation – Donna Mueller – Tab 4

Two firms responded to IPERS' actuarial consulting services RFP. The evaluation committee interviewed both firms and recommended the Investment Board approve the hiring of Cavanaugh Macdonald as the System's actuary, subject to successful contract and fee negotiations. David Creighton made the motion to approve the hiring recommendation. Phyllis Peterson seconded. The motion was approved by unanimous roll call vote.

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

Nays: None

IPERS Investment Staff Reports – Tab 5

Beta Report – Tab 5A

Karl Koch reviewed the Fund's asset allocation and stated all asset classes were within established policy ranges. The estimated Total Fund market value was \$29.66 billion.

Risk Report – Tab 5B

Sriram Lakshminarayanan presented IPERS' risk monitoring reports noting that risk to surplus decreased during the first quarter of 2017 and has remained on a downward trend.

Alpha Report/ Watch List – Tab 5C

Karl Koch next reviewed the Alpha Report and Watch List. Columbia Management and PanAgora Asset Management were added to the Watch List due to performance issues. Columbia manages a \$388 million U.S. large-cap growth equity portfolio and PanAgora manages \$983 million in a U.S. S&P500 enhanced index account. GAM, who manages a \$195 million Pacific Basin equity account, remains on the Watch List. He concluded the report by noting that funding for the liquid absolute return strategy program had begun, with Berenberg Asset Management, Graham Capital, Fort, IPM, and P/E Global receiving funding in December 2016, and Wadhvani Asset Management in March 2017.

Smart Beta Implementation

Karl Koch updated the Board on the implementation of a smart beta allocation. An RFP was issued on March 3, 2016 for passive smart beta equity investment management services, and 11 proposals were received. Staff is reviewing the proposals and will come back to the Board with a hiring recommendation.

CIO Updates

Karl Koch also updated the Board on implementing the anti-Israel BDS divestment law. IPERS is working with the Iowa Attorney General's office to review legal and contracting issues that have delayed the selection of a research provider.

Economic Assumptions Study – Cavanaugh Macdonald – Tabs 6 and 7

Patrice Beckham and Brent Banister of Cavanaugh Macdonald presented the results of the Economic Assumption Study and recommended the Board lower the investment return assumption from 7.5 percent to 7.0 percent; lower the price inflation assumption from 3.0 percent to 2.6 percent; lower the general wage growth and payroll growth assumptions from 4.0 percent to 3.25 percent; and lower the interest on member accounts assumption from 3.75 percent to 3.5 percent. The assumption changes will be applied to the 2017 Valuation. Lisa Stange made the motion that the Investment Board adopt the economic assumptions as recommended. Wayne Walter seconded. The motion was approved by unanimous roll call vote.

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

Nays: None

According to the Board's Actuarial Amortization Method, plan amendments or changes in actuarial assumptions or methods will be amortized over a demographically appropriate period selected by the Investment Board. Dennis Young made the motion that the Investment Board adopt a 20-year amortization period for the increase in liability due to the change in economic assumptions as of June 30, 2017. Lisa Stange seconded. The motion was approved by roll call vote.

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

Calendar Year 2016 Investment Performance Review – Rose Dean – Tab 8

Rose Dean of Wilshire Associates reported that at December 31, 2016, the Total Fund performance for the calendar year was 7.8 percent versus the policy benchmark return of 8.4 percent. The slight underperformance was mainly due to relative performance of domestic equities, international equities, and public credit. The three-, five-, and ten-year periods also slightly underperformed the policy benchmarks. The presentation was concluded by reviewing the performance of each publicly traded asset class and the managers within each class.

Funding Strategies for Private Credit – Pat Reinhardt – Tab 9

Pat Reinhardt reviewed possible funding strategies for the private credit asset class that IPERS created in October 2016. Staff recommended using one or two strategic partners to manage large separate account mandates (approximately \$250 million each) in private commercial real estate debt strategies and in private corporate lending strategies. Each strategic partner will have the flexibility to make opportunistic investments within their respective private credit sub-category. RFPs are expected to be issued this summer.

The Search for Alpha Continues – Karl Koch – Tab 10

Karl Koch presented the concept of discontinuing searches for active managers within specific asset classes in public markets. He proposed that all public market active management strategies should compete against each other in one arena, rather than selecting active strategies within each asset class. Active strategies would be evaluated and selected based on how well the products met IPERS' specific criteria for quality alpha. Staff will continue to evaluate and develop the concept.

Securities Lending Review – Jina Bresson – Tab 11

Jina Bresson provided an overview of the securities lending program and the earnings received.

Benefits Division Update – David Martin – Tab 12

David Martin reported that CEM gives IPERS a list of items each year that can be implemented to increase service scores, he shared a few examples. He also briefly reviewed the member demand measures report for February 2017.

Confirm Next Meeting Date

The next regularly scheduled meeting of the IPERS Investment Board is Thursday, June 22, 2017, beginning at 8:30 a.m.

Adjourn

With no further business to come before the Investment Board, the meeting adjourned at 2:00 p.m.