



INVESTMENT BOARD MEETING MINUTES

IPERS Board Room

7401 Register Drive, Des Moines, Iowa

September 19, 2019

The following people participated in the IPERS Investment Board meeting held on Thursday, September 19, 2019.

Members of the Board – Present

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

Marlene Sprouse
Wayne Walter
Representative Mary Ann Hanusa
Representative Mary Mascher
Senator Mark Lofgren

Members of the Board – Absent

Senator Pam Jochum

Administration and Staff

Donna Mueller, CEO
Karl Koch, CIO
Sriram Lakshminarayanan, CRO
Pat Reinhardt, Senior Investment Officer
Keith Scholten, Senior Investment Officer

Kevin Terdal, Investment Officer
Melinda McElroy, Executive Assistant
Gregg Schochenmaier, General Counsel
David Martin, Chief Benefits Officer
Shawna Lode, Communications Director

Consultant – Wilshire Associates

Rose Dean
Ali Kazemi
Ned McGuire

BAC Members

Len Cockman
Brad Hudson
Phil Tetzloff
Matt Carver
Lowell Dauenbaugh

Guests

Paul Martiniello, CEM Benchmarking Inc.
Jina Bresson, State Treasurer's Office
Steve Timmins, Dept. of Management
Jennifer Acton, Legislative Service Agency
Dylan Keller, Senate Rep. Caucus Staff

Bridget Godes, Senate Dem. Caucus Staff
Scott Sams, Principal Global Investors
Carlos Pacheco, Bank of New York Mellon
Pat Deluhery

Proceedings

Chairman Treasurer Fitzgerald called the meeting to order at 8:30 a.m.

Election of Chair and Vice Chair

David Creighton nominated Lisa Stange for chair and Marlene Sprouse as vice chair. Wayne Walter seconded the nominations. The motion carried by unanimous voice vote.

Approval of Minutes - Tab 2

Marlene Sprouse made the motion to approve the meeting minutes from the June 20, 2019, Investment Board meeting. Treasurer Fitzgerald seconded. The motion carried by unanimous voice vote.

IPERS CEO Report

Donna Mueller's report to the Board included several items: 1) Ed Macdonald, founding principle of Cavanaugh Macdonald (IPERS' actuarial firm) is retiring. His retirement should have no impact to the services IPERS receives. 2) An RFP for actuarial audit services was issued. The Investment Board will approve vendor selection in December 2019 with the final audit report presented to the Board in March 2020. 3) Donna reviewed proposed governance legislation as discussed with Governor Reynolds. The same proposal was submitted in 2018 for her consideration. 4) IPERS engaged all areas of the organization in a comprehensive disaster recovery drill. The drill tested performing essential pension functions from remote locations with production software running from a disaster recovery site and transferred back to the IPERS headquarters. While a successful exercise, there were lessons learned as to areas requiring additional resources. 5) Donna requested a CEO search committee be established in anticipation of her retirement in April 2020. The committee will develop search processes and make initial recommendations of candidates to the governor for her consideration.

IPERS Investment Staff Reports - Tab 3

Beta Report - Tab 3A

Karl Koch reported that all asset classes were within acceptable policy ranges as of September 6, 2019, and the Total Fund market value estimate was \$34.11 billion.

Alpha Report - Tab 3B

The Investment staff reviewed the alpha report, no concerns were noted.

Risk Report - Tab 3C

Sriram Lakshminarayanan presented IPERS' risk monitoring reports.

CIO Updates

Karl Koch reported on the upcoming search to identify absolute return investment products that could potentially be used in a portable alpha strategy. He next discussed the vacant senior investment officer position and the investment experience preferred for the position.

Investment in PGIM Fixed Income Global Liquidity Relative Value Fund - Tab 4

Sriram Lakshminarayanan requested the Board revise its hiring approval of September 20, 2018, for active investment management services from PGIM Fixed Income U.S. Liquidity Relative Value (USLRV) to PGIM Fixed Income Global Liquidity Relative Value (GLRV). Many of the assets of the USLRV have systematically transitioned over to the GLRV product which is managed by the same team. The GLRV product also uses a broader set of financial instruments that could allow it to possibly obtain better diversification than the USLRV product. Marlene Sprouse made the motion to approve the recommendation. David Creighton seconded.

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

Nays: None

Absent: None

MOTION PASSED

CEM Investment Benchmarking Review for CY2018 - Tab 5

Paul Martiniello of CEM Benchmarking reviewed IPERS' investment benchmarking results for the 5-year period ending December 31, 2018. IPERS once again ranked as a low-cost fund based on CEM's analysis for the calendar year and reported its 5-year net value added was 0.2% which was slightly better than the peer median over that time period.

Investment Performance Review for FY2019 - Tab 6

Ali Kazemi of Wilshire Associates presented IPERS' investment performance for the fiscal year. The portfolio returned 8.35% (net of fees) for FY2019, slightly underperforming its policy benchmark return of 8.64%.

Annual Asset Allocation Review - Tab 7

Rose Dean of Wilshire Associates presented the annual asset allocation review. Wilshire recommended eliminating REITS and MLPs (3.5% in total allocation) from public real assets and reallocating those assets. After lengthy discussion, the Board decided to eliminate the entire 7% allocation to public real assets (REITS, MLPs and TIPS) and reallocate it to other public market asset classes. International equities will increase from 15% target weight to 17.5%. Global smart beta equities will increase from 3% target weight to 6%. Core-plus fixed income will increase from 27% target weight to 28%. Public credit will increase from 3.5% target weight to 4%.

Proposed Revisions to Investment Policy and Goal Statement - Tab 8

The Board approved revising Appendix B of the Investment Policy and Goal Statement to reflect the new asset allocation decisions, to become effective January 1, 2020. Treasurer Fitzgerald made the motion, the motion was seconded by Wayne Walter.

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

Nays: None

Absent: None

MOTION PASSED

IPERS FY2021 Budget - Tab 9

Donna Mueller reviewed IPERS' proposed FY2021 budget noting that all IPERS expenditures are paid from the Trust Fund and no state general funds are appropriated to or spent at IPERS. The proposed budget again requests the addition of two investment professionals and an upgrade in current investment staff salaries.

Benefit Division Update - Tab 10

David Martin further reported on the disaster recovery drill and the successes and lessons learned by the benefits division in that exercise.

Confirm Next Meeting Date and Adjournment

The next meeting date of the IPERS Investment Board is Friday, December 6, 2019. With no further business to come before the Board, the meeting adjourned at 1:10 p.m.