

# **Investment Policy and Goal Statement**

## **I. INTRODUCTION**

The Iowa Public Employees' Retirement System (IPERS or System) is governed by Iowa Code chapter 97B. System assets are held in trust and invested for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing contributions, and defraying reasonable expenses of administering the System. The investment activities of the System are governed by the "prudent person" rules as defined in §97B.7A. The investment policy and the investment strategies will be periodically reviewed to ensure they conform to §§97B.7A and 97B.8A.

The Investment Board (Board) is the trustee of the IPERS Trust Fund (Fund). The Board shall establish the System's tolerance for investment risk, and shall diversify the System's investments to minimize the risk of unacceptable large losses and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so. The Board also adopts the actuarial assumptions and methods, approves the retention of service providers in matters relating to the actuarial valuation of the System's assets and liabilities, and adopts the System's contribution rate funding policy. A list of the statutory and administrative duties of Board and staff is provided in Appendix A.

The chief investment officer (CIO), under the supervision of the chief executive officer (CEO), is responsible for the administration of the System's investment program pursuant to the policies of the Board.

## **II. INVESTMENT OBJECTIVES**

The investment activities will be designed to provide a return on the Fund that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the plan over time while staying within the Board's tolerance for risk expressed in this policy.

The objective of the CIO is to execute the asset allocation policy established by the Board (the policy benchmark defined in this policy), and to attempt to add value relative to the policy benchmark while staying within the Board's tolerance for active risk.

## **III. DECISION MAKING**

The Board is responsible for establishing broad policy guidelines and benchmarks that will enable the Fund to achieve its investment objectives. Board decisions are required in the following areas:

1. Establish asset allocation targets through adoption of a policy benchmark
2. Establish acceptable ranges around the policy benchmark targets

3. Establish the Fund- and program-level benchmarks
4. Establish the active risk budget

Beyond these broad policy decisions, the Board delegates to the CIO all other decision-making relating to the investment of IPERS assets, subject to the guidelines established in this policy and any statutory requirements or prohibitions.

The Board may utilize the services of investment consultants to assist them in their decision-making. Such services include, but are not limited to, conducting asset-liability and asset allocation studies, investment performance reviews, policy reviews and topical studies.

#### **IV. ASSET ALLOCATION**

The Board's asset allocation policy is established in the policy benchmark and the asset class ranges specified in Appendix B. The policy benchmark weights set the Board's target exposure to each asset class, measured on a market value basis, while the asset class ranges establish the ranges within which actual weights may fluctuate. Positioning within a specified asset class range is acceptable and constitutes compliance with the policy benchmark.

IPERS' assets are divided into two groups for allocation purposes: *private markets* and *public markets*. Private market assets are generally illiquid, infrequently priced investments with long horizons. The Board has established a private markets investment policy specifying investment objectives, benchmarks, etc. for these types of assets. (See Appendix C)

It is the responsibility of the CIO to manage the allocation weights within the public market asset class ranges and keep them close to target, unless the CIO decides to tactically over- or under-weight a particular public market asset class. However, staff cannot quickly rebalance private markets to target weights due to the illiquid nature of private market assets, so any excess or deficiency between actual and target allocation for private market assets as a whole will be proportionately reallocated across all public market asset classes when rebalancing occurs.

The policy benchmark return is the sum of the products of the policy benchmark weights and the respective policy benchmark index returns for the period, with the exception that IPERS' actual weights and actual returns for each private market asset class shall be used in the calculation. If staff utilizes derivatives for rebalancing or tactical allocation decisions, the notional amount of derivatives contracts shall be used in calculating compliance with policy benchmark weights and asset class ranges.

## **V. ACTIVE RISK ALLOCATION AND MANAGEMENT**

“Alpha” is the excess return resulting from active management decisions. IPERS believes positive alpha can be earned by employing a combination of active strategies that have low return correlation with one another, exhibit low correlation with beta returns and higher correlation to liability returns.

The Board has established an active risk budget in Appendix B as a means of controlling the active risk in the IPERS Trust Fund. The active risk budget consists of two components: risk allocated for external active management and risk allocated for internal active management through tactical allocation decisions. Active risk is measured as tracking error, which is the standard deviation of excess returns.

IPERS will seek to maintain a diversified alpha portfolio, and may utilize any strategy that in the discretion of the CIO will enhance the risk-adjusted return of the alpha portfolio, including but not limited to traditional long-only, long/short, portable alpha, derivative overlay and leveraged strategies. The CIO must formally authorize any tactical allocation decisions, and each decision shall be documented and tracked for performance evaluation purposes. Tactical allocation decisions by staff shall not result in allocations that would violate the asset class ranges set by the Board.

IPERS’ investment in an investment manager’s actively managed strategies shall not exceed 20 percent of the manager’s total actively managed assets under management. The CIO shall have discretion to determine what types of similar products offered by a manager can be included in the definition of “actively managed strategies” for purposes of this calculation.

Cost efficiency is important, and the CIO should seek to implement active strategies with a high conversion ratio of active return (after fees) to the risk deployed. Active strategies shall use performance incentive fee structures, where appropriate, to ensure the economic interests of IPERS and the manager are properly aligned.

Investment staff has been granted the authority to buy and sell widely available, liquid and cost-efficient financial instruments, including but not limited to ETFs, futures, swaps and other derivatives for the purpose of implementing risk management or tactical asset allocation strategies. Tactical positions that are taken on assets that do not form a part of the policy will be accounted for in the Cash asset class on a net notional exposure basis. The Board authorizes staff to establish and maintain investment vehicles such as individually managed accounts, private limited partnerships, limited liability companies and other types of commingled fund structures to house the ARP Program and other authorized initiatives.

## VI. EXTERNAL INVESTMENT MANAGEMENT

The Board shall approve the hiring of investment management and investment consulting services. The CIO has full authority to terminate investment manager contracts provided the Board is notified of the termination prior to the effective date of the termination. The CIO also has full authority to negotiate and renegotiate contract terms and fees.

The CIO is responsible for ensuring that adequate due diligence is being performed in the evaluation of potential and existing investment managers. The CIO may hire operational due diligence consultants, attorneys, auditors and other service providers as needed to assist in the due diligence and performance evaluation of external investment management firms.

External investment managers shall have full discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document, applicable federal and state statutes and regulations, and the executed contracts. Each contract for a public market active management strategy shall clearly define investment objectives, permitted investments, concentration limits, risk budgeting parameters and performance benchmarks.

Investment managers shall have full discretion to establish and execute trades through accounts with one or more securities broker/dealers as the managers may select. However, the System may require investment managers to clear trades through clearing brokers that are under contract to IPERS in order to control risk and costs. Investment managers will attempt to obtain "best execution" with respect to all transactions. Best execution is defined as the process and price that results in the best overall performance impact, taking into account market conditions at the time of the trade. IPERS will generally discourage a manager's use of soft dollar arrangements for IPERS' account, but may allow it if the usage is regularly monitored for reasonableness.

The CIO will provide the Board a summary of active management performance at least quarterly, and will highlight any concerns regarding performance, personnel turnover, or changes in the organization or investment process. The investment consultant will provide the Board semi-annual performance reviews of total Fund, asset class, and manager performance. To the extent possible, investment results will be reviewed in the context of risk-adjusted returns.

Any voting rights of securities held in any separate account, or any collective, common, or pooled fund will be exercised by the manager, trustees, or agents of said account or fund in accordance with their own proxy voting policies, provided that such policies have been reviewed by the System and deemed to be in the best economic interests of IPERS. The System shall periodically review each investment manager's proxy voting policy and its compliance with such policies.

## **VII. RISK MANAGEMENT**

The Fund's risk management objectives are to: (1) maintain the asset allocation as close to the policy benchmark as possible through rebalancing, and (2) manage the active risk of the alpha portfolio such that its tracking error does not exceed the upper limit established in the active risk budget in Appendix B.

The CIO and Chief Risk Officer (CRO) shall develop appropriate policies and procedures for the measurement, monitoring, management and reporting of risk to the Board, CEO and staff. The CRO is responsible for obtaining and/or developing the appropriate systems, models, tools and reporting processes that will allow for the timely and efficient management of investment risk. The CRO shall report any breach of risk limits established in this policy to the Board as soon as possible after the discovery of any material breach.

## **VIII. CUSTODY**

The Treasurer of the State of Iowa (Treasurer) is the custodian of the Fund. The Treasurer will hold the System's assets in a custody/recordkeeping account in a master custody bank located in a national money center and in the international sub-custodian banks under contract to the custodian bank. The Treasurer shall consult with the Board prior to selecting the master custody bank. A formal written agreement shall be established between the Treasurer and any third-party custodian. The custodian bank agreement shall be reviewed periodically by the CIO and Board.

Certain strategies involving derivatives may require the use of a prime broker or clearing broker who will hold the System's cash or securities per the terms of a collateral agreement or futures clearing agreement. IPERS shall seek to ensure that such brokers do not require IPERS to post margin amounts that materially exceed the minimum required margin amounts set by an exchange or the terms of a collateral agreement.

## **IX. SECURITIES LENDING**

The primary objective of the securities lending program shall be to safely generate income from lending the System's securities to qualified borrowers. The program will only utilize lending agents that agree to indemnification provisions in the event of a counterparty insolvency.

Cash collateral received against loans of securities shall be prudently invested in a low-risk investment strategy that invests only in: (1) commingled funds or money market funds managed in accordance with the regulations and criteria specified in Rule 2(a)(7) promulgated under the Investment Company Act of 1940, or (2) separate accounts that have investment guidelines identical to those required of a 2(a)(7) fund, or (3) overnight repurchase agreements collateralized with obligations issued by the United States Treasury or obligations issued by agencies or government-sponsored entities of the

United States government. The key investment objectives for investing the cash collateral shall be to: (1) safeguard principal; (2) maintain adequate liquidity; and (3) consistent with the foregoing objectives, optimize the spread between the collateral earnings and the rebate paid to the borrower of securities.

The Investment Board may select its own securities lending agent or authorize the Treasurer to manage the securities lending program in accordance with the risk guidelines established herein. Staff shall execute a formal written agreement between any lending agent (or the Treasurer, as the case may be) and IPERS stipulating the risk parameters and performance benchmarks of the program, which shall be in accordance with these guidelines. The securities lending program will be annually reviewed by the Board, and the ongoing operation of such program shall be subject to periodic reauthorization by the Board.

## **X. DERIVATIVES**

The System recognizes that derivative instruments can be useful tools in portfolio and risk management, but can also introduce unique risks. The CIO shall develop written policies and procedures to control the risks associated with derivatives, but at a minimum such procedures shall require: (1) a counterparty credit rating equivalent to at least "A" for over-the-counter derivatives; (2) payment netting arrangements; (3) daily marking-to-market; and (4) collateralization of net amounts owed under the contracts after meeting minimum threshold for transfers.

The CIO shall ensure that the derivatives policies and procedures are addressed in any external management services contract, as necessary. The CIO shall develop procedures for monitoring the use and exposure of derivatives within an investment manager's account. Mortgage-backed and asset-backed securities are not derivatives for the purpose of this policy.

## **XI. OTHER POLICIES**

### **A. Social Investing**

As fiduciaries, the IPERS Investment Board, staff and investment managers must perform their duties for the exclusive benefit and in the best economic interest of the System's members and beneficiaries. The System and the Board will not support investment policies or strategies which seek to promote specific social issues or agendas through investment or divestment of IPERS' assets. To act otherwise could be construed as a violation of fiduciary duty and could endanger the System's tax-exempt status.

### **B. Securities Monitoring and Litigation**

IPERS has a fiduciary duty to preserve trust assets to meet the retirement promises made to its members. Included in this duty is the obligation to recover investments

in public securities that incur losses as a result of corporate mismanagement and/or fraud. To preserve trust assets, the Board has adopted a securities monitoring and litigation policy to guide the System's involvement in and monitoring of securities litigation. (See Appendix D)

#### C. Confidential Investment Information

Iowa Code §22.7 and §97B.17(2)e provide that certain records and information in IPERS' possession are considered confidential and thus are exceptions to Iowa's Open Records (chapter 22) laws. Included in the exceptions is information which, if released:

1. Could result in a loss to the System or to the provider of the information.
2. Would give advantage to competitors and serve no public purpose.
3. Would violate trade secrets which are recognized and protected by law.

While the staff shall provide the Board with all essential information about the investment program, communication of information that is confidential under the above Iowa Code provisions will be identified as such in the communication.

Iowa Code §97B.8A(5), an explicit exception to Iowa's Open Meetings (chapter 21) laws, reinforces the need and obligation to maintain the confidentiality of such information by expressly authorizing the Board to hold closed sessions for discussion of this information.

#### D. Ethics

Fiduciaries of the System must exercise the highest standards of care in acting for the exclusive benefit of the plan participants. IPERS has adopted an ethics policy to govern the activities of Board members, staff, consultants and managers as it relates to the System. (See Appendix E)

If the CEO, CIO, CRO, any investment officer, or any IPERS attorney is in possession of information which would lead a reasonable person familiar with such matters to conclude that an investment, a commitment to an investment, or a decision to engage or terminate a contracted service provider, contradicts the fiduciary duties of the party or parties having the final authority to take such actions, it is the Board's expectation that the issue will be placed on a Board meeting agenda for review.

#### E. Leverage

The CIO may utilize leverage within staff tactical decisions up to the maximum negative allocation allowed by the asset class ranges for cash as specified in Appendix B. The CIO may also allow the use of leverage within external active investment management strategies and products consistent with the active risk

budget. The private markets investment policy in Appendix C addresses the use of leverage for private market investments.

F. Board Meetings

Board meeting dates for the fiscal year shall be set by members of the Board at the first meeting of the fiscal year. At the first meeting in each fiscal year, the voting Board members shall elect a chair and vice chair.

Parties wishing to present items for the Board's next meeting agenda shall file a written request with the chair at least five business days prior to the meeting. To the extent there is no law, statute, or administrative rule governing a procedure, Board meetings shall be governed by the procedural rules established in the latest version of *Robert's Rules of Order*.

**APPENDIX A**  
**STATUTORY RESPONSIBILITIES OF THE INVESTMENT BOARD AND STAFF**

1. The Board shall annually adopt an Investment Policy and Goal Statement. *Iowa Code §§97B.7A and 97B.8A*
2. The Board shall at least annually conduct a review of the investment policies and procedures utilized by the System. *Iowa Code §97B.8A.2(a)*
3. The Board shall at least annually conduct a public meeting to review the policies and the investment performance of the Fund. *Iowa Code §97B.8A.2(a)*
4. With the approval of the Board, the Treasurer of State may conduct a program of lending securities in the IPERS portfolio. *Iowa Code §12.8.3*
5. The Board shall review and approve the hiring of each investment manager and investment consultant. *Iowa Code §97B.4.3(f)*
6. The Board shall select the actuary for the System, and shall adopt the mortality tables and actuarial assumptions and methods the actuary will use for the annual actuarial valuation. *Iowa Code §§97B.4.3(c) and 97B.8A.3*
7. The CEO will consult with the Board prior to employing a CIO. *Iowa Code §97B.4.3(a)*
8. The Board shall participate in the annual performance evaluation of the CIO. *Iowa Code §97B.8A.2(c)*
9. The CEO shall consult with the Board on the budget program for the System. *Iowa Code §97B.4.2(c)*
10. The Treasurer of State shall consult with the Board prior to selecting any bank or other third party for purposes of investment asset safekeeping, other custody, or settlement services. *Iowa Code §97B.7.2*
11. The Board shall consist of seven voting members and four nonvoting members. Four voting members of the Board shall constitute a quorum. *Iowa Code §97B.8A*
12. Staff shall provide advance notice to the public of the time, date, tentative agenda and place of each Board meeting in compliance with Iowa Code chapter 21.
13. The Board shall set the salary of the CEO. *Iowa Code §97B.3.1*

**APPENDIX B**  
**ASSET ALLOCATION POLICY AND ACTIVE RISK BUDGET**

**I. Asset Allocation Policy**

Asset Class	Asset Class Ranges	Policy Benchmark Weights	Policy Benchmark Index
<b>Equities</b>		<b>34%</b>	
Domestic Equities	+/- 3%	21%	Russell 3000
International Equities	+/- 3%	13%	MSCI ACWI ex-U.S. (Net)
<b>Fixed Income</b>		<b>30.5%</b>	
Core Fixed Income	+/- 3%	24.5%	Bloomberg U.S. Aggregate
Public Credit	+/- 3%	6%	Custom Index <sup>1</sup>
<b>Cash</b>	+/- 3%	<b>1%</b>	Merrill Lynch 91-Day T-Bill
<b>TOTAL PUBLIC MARKETS</b>		<b>65.5%</b>	
	Asset Class Targets	Policy Benchmark Weights	Policy Benchmark Index
Private Equity	17%	Actual <sup>2</sup>	Portfolio <sup>3</sup>
Private Credit	8%	Actual <sup>2</sup>	Portfolio <sup>3</sup>
Private Real Assets	9.5%	Actual <sup>2</sup>	Portfolio <sup>3</sup>
<b>TOTAL PRIVATE MARKETS</b>		<b>34.5%</b>	

<sup>1</sup>This benchmark index is defined as 67 percent Bloomberg U.S. High Yield 2% Issuer Capped Index + 33 percent JP Morgan EMBI Global Index.

<sup>2</sup>The benchmark weight for each private market asset class is the actual percentage of each asset class relative to the total fund portfolio.

<sup>3</sup>The benchmark index for each private market asset class is the return of the portfolio itself.

**II. Active Risk Budget**

	Target <sup>4</sup>	Upper Limit <sup>4</sup>
<b>Total Fund</b>	<b>1.50%</b>	<b>3.00%</b>
External Managers	1.00%	2.50%
Investment Staff	1.00%	2.50%

<sup>4</sup>Measured as tracking error (the standard deviation of excess return) at the Total Fund level.