



**INVESTMENT BOARD MEETING MINUTES**  
IPERS Board Room  
7401 Register Drive, Des Moines, Iowa  
March 22, 2019

The following people participated in the IPERS Investment Board meeting held on Friday, March 22, 2019.

**Members of the Board – Present**

Treasurer Michael Fitzgerald, Chair  
Lisa Stange, Vice Chair  
David Creighton  
Phyllis Peterson  
Marlene Sprouse  
Wayne Walter  
Phyllis Peterson (Telephone)  
Michael Warmuth  
Representative Mary Ann Hanusa  
Senator Pam Jochum

**Members of the Board – Absent**

Representative Mary Mascher  
Senator Mark Lofgren

**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  
Kathy Bowers, Internal Auditor  
Alex Drzycimski, Communications  
Katie Hommer, Communications

**Consultant**

*Wilshire Associates*  
Rose Dean  
Ali Kazemi

**Actuary**

*Cavanaugh Macdonald*  
Patrice Beckham  
Brent Banister

**BAC Committee Members**

Brad Hudson, Vice Chair  
Steve Hoffman  
Connie Kuennen

**Guests**

Taylor Collins, Governor's Office  
Jina Bresson, State Treasurer's Office  
Carlos Pacheco, Bank of New York Mellon  
Jennifer Acton, Legislative Service Agency  
Steve Timmins, Department of Management  
Dylan Keller, Senate Republican Caucus Staff  
Paul Martiniello, CEM Benchmarking  
Stephen Gruber-Miller, Des Moines Register  
Pat Deluhery

## **Call to Order**

Treasurer Michael Fitzgerald, chair, called the meeting to order at 8:30 a.m. He began the meeting by thanking Mike Warmuth for his service on the Investment Board and welcomed Representative Mary Ann Hanusa and Senator Pam Jochum to the Board.

## **Approval of Minutes from Previous Meeting – Tab 2**

David Creighton made the motion to approve the December 6, 2018, Investment Board meeting minutes. Wayne Walter seconded. The minutes were approved by unanimous voice vote.

## **CEM Pension Administration Benchmarking Report – Paul Martiniello – Tab 3**

Paul Martiniello, of CEM Benchmarking Inc. presented IPERS' annual pension administration benchmarking results for fiscal year 2018. This study compares IPERS' service levels, performance, and costs to other U.S. pension systems of similar membership size.

## **Risk Analysis Report – Patrice Beckham and Brent Banister – Tab 4**

Patrice Beckham and Brent Banister of Cavanaugh Macdonald presented a study of the actuarial-related risks faced by IPERS. The objective of the report being to comply with new standards, as required under Actuarial Standards of Practice Number 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*. The report is to help the Investment Board, Benefits Advisory Committee, and staff understand the major risks facing IPERS' funding, thereby allowing a reasoned approach to determining how to move into the future.

## **Internal Auditor's Report – Kathy Bowers – Tab 5**

Kathy Bowers provided a presentation on her role and responsibilities as IPERS' internal auditor. She reviewed current and future audits and noted that no major issues were found in previous audits.

## **IPERS Investment Staff Reports – Tab 6**

### ***Beta Report – Tab 6A***

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 \$32.46 billion.

### ***Risk Report – Tab 6B***

Sriram Lakshminarayanan presented IPERS' risk monitoring reports.

## *Alpha Report - Tab 6C*

The investment staff reviewed the Alpha Report noting the following managers for performance issues: Principal Global Investors (core-plus fixed income), Oaktree Capital Management (U.S. high-yield bonds), and Graham Capital Management (tactical trend strategy).

## *Transition Projects*

Jeff Beisner and Keith Scholten updated the Board on investment manager transitions stemming from restructuring the domestic equity, international equity, and TIPS portion of public real asset programs.

## *CIO Updates*

Karl Koch reported on the significant savings in investment manager fees resulting from the portfolio restructuring and the use of more passive investments in the domestic equity portfolio. He also noted that legal issues concerning 130/30 and hedge fund strategies were resolved and staff would move forward in evaluating those products approved by the Board at its September 20, 2018, Board meeting.

## **High-Yield Investment Mgmt Services Hiring Recommendation - Keith Scholten - Tab 7**

Keith Scholten reported on the high-yield investment management services RFP search process. The Evaluation Committee recommended the Investment Board approve the hiring of PGIM Fixed Income to replace Oaktree Capital for a U.S. high-yield fixed income mandate, subject to final due diligence and successful contract negotiations, and retention of Aegon USA Investment Management in its current capacity managing a U.S. high-yield fixed income portfolio on behalf of IPERS. Lisa Stange made the motion to approve the hiring recommendations. Marlene Sprouse seconded.

**Ayes:** Treasurer Fitzgerald, Lisa Stange, David Creighton, Phyllis Peterson, Marlene Sprouse, Wayne Walter, and Mike Warmuth

**Nays:** None

**Absent:** None

**MOTION PASSED**

## **Proposed Revision to Policy Benchmark Indices - Karl Koch - Tab 8**

Karl Koch reviewed staff recommendations to 1) revise the high-yield bond component of the public credit benchmark to utilize a broader market benchmark and 2) revise the master limited partnerships component of the public real assets benchmark to utilize a benchmark that reflects recent changes in the midstream energy sector. Lisa Stange made the motion to approve the hiring recommendations. Phyllis Peterson seconded.

**Ayes:** Treasurer Fitzgerald, Lisa Stange, David Creighton, Phyllis Peterson, Marlene Sprouse, Wayne Walter, and Mike Warmuth

**Nays:** None

**Absent:** None

**MOTION PASSED**

## **Calendar Year 2018 Investment Performance Review – Rose Dean and Ali Kazemi – Tab 9**

Rose Dean and Ali Kazemi of Wilshire Associates reported that at December 31, 2018, the Total Fund performance for the calendar year was -1.1 percent, underperforming the policy benchmark return of -0.59 percent. The underperformance was due to poor performance from external active investment managers. The presentation also included a return/risk ranking, sources of risk, and a performance review of each publicly traded asset class and the managers within each class.

## **Securities Lending Review – Jina Bresson – Tab 10**

Jina Bresson of the State Treasurer’s Office provided an overview of the securities lending program and the earnings received.

## **CEO Reports – Donna Mueller**

Donna Mueller also thanked Mike Warmuth for his dedicated service on the Investment Board and stated that Justin Kirchhoff has been recommended for appointment to the Investment Board, subject to senate confirmation. She next reported on several IPERS staff changes and announced Connie Kuennen’s recent appointment to the Benefits Advisory Committee. She concluded her report by emphasizing a few points from the CEM Benchmarking and Risk Analysis presentations.

## **Benefits Division Update – David Martin – Tab 11**

David Martin reported on the staffing changes happening in the Benefits Division, the status of implementing the Board approved actuarial optional form factors, and reviewed the member demand measures report for February 2019.

## **Confirm Next Meeting Date**

The next regularly scheduled Investment Board meeting is Thursday, June 20, 2019, beginning at 8:30 a.m.

## **Adjourn**

With no further business to come before the Investment Board, the meeting adjourned at 1:30 p.m.