

## **I. INTRODUCTION - IPERS' PURPOSE AND PRINCIPLES**

The Iowa Public Employees' Retirement System (IPERS) was established in 1953, and is governed by Iowa Code chapter 97B. Since its creation, IPERS' activities have been directed toward fulfilling the foundational purpose of the System, as described in § 97B.2:

“...to promote economy and efficiency in the public service by providing an orderly means for employees, without hardship or prejudice, to have a retirement system which will provide for the payment of annuities, enabling the employees to care for themselves in retirement, and which will improve public employment within the state, reduce excessive personnel turnover, and offer suitable attraction to high-grade men and women to enter public service in the state.”

IPERS is a division of the Department of Personnel, and is administered through a chief executive officer, chief investment officer, chief benefits officer, and other full-time staff. The investment activities are governed by an Investment Board, and the underlying principle which governs these activities is the "prudent person" rule. In the formulation of this investment policy and goal statement, a primary consideration of the Investment Board and staff has been their awareness of the stated purpose and investment principle. IPERS' investment activities are designed and executed in a manner that will fulfill these goals. The investment policy and the individual strategies will be periodically reviewed to ensure that they conform to §§ 97B.2 and 97B.7A.

The primary duties of the Investment Board are to establish policy, review its implementation, and approve the retention of service providers in matters relating to the investment of IPERS assets and the actuarial evaluation of the System's assets and liabilities. The Investment Board shall be the trustee of the IPERS fund. The chief investment officer is responsible for the administration of the investment program pursuant to the policies of the Board. Additionally, the Board supports the retention and development of sufficient investment staff and the provision of such other resources as are required in order to ensure the thorough oversight and administration of each investment program undertaken by the System.

## II. INVESTMENT GOAL STATEMENT

In accordance with the above described purpose and statutory citations, the following investment goals are adopted:

- A. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the System.
- B. The investment activities are designed to provide a return on the portfolio 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. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plan's actuarially determined liabilities over time.
- C. The long-term performance expectations for the total fund after the deduction of management fees are as follows:
  - 1. Performance which exceeds the rate of inflation, as determined by the Consumer Price Index (CPI), by at least 300 basis points (3%).
  - 2. Performance which exceeds the 750 basis point (7.5%) assumed actuarial annual rate of interest.
  - 3. Performance which meets or exceeds IPERS' total fund policy return, which is defined as a passively managed benchmark comprised of the target asset allocations to, and appropriate indexes for, each asset class.
  - 4. Performance which exceeds the median risk-adjusted return of a universe of large public funds.

### III. INVESTMENT POLICY STATEMENT

IPERS' investment policies are structured to maximize the probability that the investment goals will be fulfilled. All investment policy decisions shall include liquidity and risk considerations that are prudent and reasonable under the circumstances that exist over time. IPERS' investment policies will evolve as the internal conditions of the fund and the capital markets environments change.

#### A. Asset Allocation Policy

The System adopts and implements an asset allocation policy that is predicated on a number of factors, including:

1. The actuarially projected liability stream of benefits and its cost to both covered employees and employers.
2. The relationship between the current and projected assets of the plan and the plan's projected liabilities.
3. Expectations regarding short-term and long-term capital market returns and risks.
4. Historical returns and risks of the capital markets.
5. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

This policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with market and economic risk. Asset allocation identifies the classes of assets the System will utilize and the percentage each class represents of the total fund.

Each asset class selected for the IPERS portfolio serves a specific role in maximizing the total return and controlling overall risk, as follows:

Domestic Equities	Long-term return
International Equities	Long-term return, diversification
Global Tactical Asset Allocation	Return greater than the strategic asset allocation based on near-term market outlook
Global Fixed Income	Stable return relative to domestic equities, income
High Yield Bonds	Long-term return greater than global fixed income, diversification, income
Equity Real Estate	Diversification, income
Private Equity/Debt	Long-term return greater than public equities

Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy and that periodic revisions may be effected to the allocation over time. In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the ranges specified. The Investment Board and staff will regularly monitor and assess the actual asset allocation versus the policy targets and evaluate any variations considered significant.

	<u>% of Portfolio at Market</u>		
	Target	Minimum	Maximum
<b>Equity Component</b>			
Public Market			
Domestic Equities	28	23	33
International Equities	15	10	20
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% Public	43	--	--
Private Market			
Equity Real Estate	5	3	7
Private Equity/Debt	10	7	13
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% Private	15	--	--
% Equity	58	50	66
<b>Fixed Income Component</b>			
Global Fixed Income	34	30	38
High Yield Bonds	3	2	4
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% Fixed Income	37	32	42
<b>Global Tactical Asset Allocation</b>	5	3	7
<b>Cash<sup>1</sup></b>	0	0	5
<b>Total</b>	100%		

<sup>1</sup> Cash, for purpose of applying target and range, is limited to funds available prior to distribution to investment managers and the amount reserved to pay near-term benefits and administrative costs.

B. Portfolio Component Definitions and Performance Expectations

IPERS will utilize the following portfolio components and performance expectations, net of investment management fees, to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document. Where performance objectives are stated as expectations “over a full market cycle”, such cycles are defined as generally three to five years in length, although capital market conditions may on occasion result in significantly longer or shorter cycles.

1. Domestic Equities

A portfolio of common stocks, stock index funds, equity commingled funds, American Depository Receipts, convertible securities, derivatives and cash. The portfolio will seek to outperform the Wilshire 5000 Index over a full market cycle. The sub-components of this portfolio will be as follows:

- a. Passive Equity - A highly diversified equity portfolio which is designed to emulate or index the equity market, experiences low turnover, and is fully invested in the market except during periods of rebalancing.
- b. Active Equity - A diversified equity portfolio utilizing large, medium and/or small capitalization stocks with moderate to high turnover, and a cash position which typically does not exceed 5%. This portfolio may be divided into separate core, growth, value, and risk-controlled components for the purpose of management. Relevant performance benchmarks will be chosen for each component. Active domestic equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

2. International Equities

A diversified international investment portfolio of common stocks, equity commingled funds, closed-ended or open-ended country funds, Global, American or International Depository Receipts (GDRs, ADRs, IDRs), convertible securities, government debt instruments, foreign exchange contracts, and/or cash issued under the laws of selected foreign countries, territories and their political subdivisions. The portfolio may be divided into separate regional and currency components for the purpose of management. The portfolio's performance is expected to exceed that of the Morgan Stanley Capital International (MSCI) All-Country World Index ex-U.S. (ACWI ex-U.S.) over a full market cycle. The portfolio will consist of one or more of the following:

- a. Passive Equity - A highly diversified equity portfolio which is designed to emulate or index the international equity market or a portion thereof, experiences low turnover, and is fully invested in the market except during periods of rebalancing.
- b. Active Equity - A diversified international equity portfolio, which may have up to 10% in cash, 10% in non-equity securities and 10% in convertible securities. The portfolio may be divided into separate regional components for the purpose of

management. Relevant regional performance indexes will be chosen for each component. Active international equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

- c. Global Emerging Markets - A diversified portfolio consisting of cash and equity and non-equity securities of countries that are generally considered to be emerging or developing by international financial markets and institutions generally, including the World Bank and the International Monetary Fund. Active global emerging markets equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

### 3. Global Tactical Asset Allocation

A portfolio utilizing domestic and international stocks and/or stock index funds, bonds and/or bond index funds, cash and derivatives, to add value by actively shifting assets among the eligible asset classes and countries based upon the Manager's near-term perception of market and economic conditions. The portfolio may be divided into separate domestic and global components for the purpose of management. The performance of each component is expected to exceed by at least 100 basis points (1%) annually that of a passively managed benchmark comprised of the target asset allocation to and appropriate indexes for each asset class. Overall, the portfolio performance is expected to exceed by at least 100 basis points (1%), net of fees, over a full market cycle that of a customized benchmark weighted 80% for the domestic component benchmark and 20% for the global component benchmark.

### 4. Global Fixed Income

A diversified portfolio of fixed income strategies and investments with the objective of outperforming the Lehman Brothers U.S. Universal Index over a full market cycle. The portfolio will utilize passive and active investment strategies. Active global fixed income managers are expected to outperform their respective performance benchmarks by at least 50 basis points (0.50%), net of fees, over a full market cycle. The portfolio will consist of the following types of fixed-income investments: domestic and international bonds, government and government agency securities (including municipal and sovereign securities, if appropriate), bond index funds, corporate bonds, mortgage-backed and asset-backed securities, commercial mortgages and commercial mortgage-backed securities. Fixed income managers may utilize private placement structures, derivatives, foreign exchange contracts, financial futures, currency options, Eurobonds, cash and cash equivalents in the management of their respective portfolios. International bonds are considered to be a sector of the global fixed income market. Fixed income managers pursuing active strategies will be permitted to make limited tactical investments in international bonds (including bonds issued in emerging markets) and high yield bonds.

5. High Yield Bonds

The System will have a strategic allocation to a diversified portfolio of high yield corporate bonds. The portfolio will emphasize investments in fixed income securities rated BB+ and below by S&P (or equivalent at another major rating agency). The objective of the portfolio is to outperform the Salomon Cash Pay High Yield Bond Index by 100 basis points (1%), net of fees, annually over a full market cycle.

6. Equity Real Estate

A diversified portfolio of real estate equity and participating/convertible debt interests in the form of private market commingled real estate fund participations, separate accounts and co-investments, and publicly-traded investments in real estate operating companies, real estate investment trusts and limited partnerships. The annualized long term net of fees return objective for the real estate portfolio is to exceed the CPI by 600 basis points (6%). (See Addendum C, Tab V)

7. Private Equity/Debt

Participation in investment vehicles which finance early stage and later stage companies prior to going public, vehicles investing in leveraged buyouts and turn-arounds of existing companies, and other equity and debt oriented non-traditional investments. This portfolio may also include publicly traded securities received in distributions from private equity partnerships that are temporarily held pending liquidation. The long term net of fees return objective for this component is to exceed the Wilshire 5000 Index by 300 basis points (3%) on an internal rate of return basis. (See Addendum D, Tab VI)

8. Cash

A portfolio comprised of the Custodian bank's Short Term Investment Fund (STIF) and an actively managed enhanced cash portfolio. The net of fees return objective of the STIF is to exceed the rate of return of the Merrill Lynch 91-Day Treasury Bill Index, while preserving principal. The net of fees return objective of the active enhanced cash component of the cash portfolio is to exceed the rate of return on the Merrill Lynch 91-Day Treasury Bill Index by 75 basis points (0.75%) annually over a full market cycle.

C. Investment Management Policy

To achieve optimum performance results in concert with diversification of its assets, IPERS will select and utilize an external investment manager to manage each of its portfolio accounts, except as stated otherwise elsewhere in this policy. The System will also utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, manager selection screening, and topical studies.

1. Manager/Consultant Utilization and Selection

The selection of the managers and consultants is accomplished in accordance with Iowa Executive Order Number 25, dated June 4, 2002, and the provisions of the Accountable Government Act, 2001 Iowa Acts, chapter 169, sections 5, 6, and 7 (new Iowa Code section 8.47 and amended section 8.52, respectively), and the administrative rules adopted thereunder. The System will procure manager and consultant services with adequate attention to the principles of competition and reasonableness of costs, and will wherever feasible compensate the external managers through the use of performance-based fees.

Each investment manager and consultant functions under a formal contract which delineates their responsibilities and the appropriate performance expectations. A formal set of investment guidelines and investment administrative requirements for each investment manager and consultant exists as an addendum to this document.

2. Manager/Consultant Discretion

The 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. Further, the investment managers shall have full discretion to establish and execute trades through accounts with one or more securities broker/dealer as the managers may select. The investment managers will attempt to obtain the "best available price and most favorable execution" with respect to all of the portfolio transactions. In accordance with this principle, broker/dealers with an office in Iowa will be given an opportunity to compete for various transactions.

The Board and staff will consider the comments and recommendations of the managers and consultants in conjunction with other available information in making informed, prudent decisions.

3. Manager Evaluation

The investment managers under contract with the System will meet periodically with the Investment Board and/or staff for the purpose of reviewing the investment activities of their assigned portfolio, its performance, the investment strategy which governs its management and the marketplace in which it exists. Such meetings may be conducted at the offices of the investment firms. A detailed discussion of IPERS' manager evaluation policies and procedures is provided in the IPERS Manager Monitoring and Retention Policy. (See Addendum B, Tab IV)

D. Cash Management Policy

Management of cash, which is generated by contributions, investment income and proceeds of sales and maturities, shall emphasize the maximization of return within parameters of the System's liquidity and capital preservation requirements. The allocation of cash between STIF and other



short-term investment vehicles will be the responsibility of the System's staff. Cash allocated for investment by the investment management firms is managed in accordance with the guidelines established in the contractual agreement with each firm. Implementation of cash management strategies shall be the responsibility of staff consistent with the Board's investment policies and will be annually reviewed with the Investment Board.

E. Currency Management Policy

In order to control and manage the underlying currency exposure of its international portfolio, the System has adopted the following currency management objectives:

1. Protect international asset values during periods of dollar strength.
2. Participate in currency returns during periods of dollar weakness.

IPERS' currency policy is to manage the non-dollar portion of the global fixed income allocation against a 100% hedged benchmark and may allow its non-dollar equity managers to hedge on a selective basis for the protection of the asset values. The System will not manage currency as a separate asset class or enter into speculative currency positions (i.e., currency positions greater than 100% or less than 0% of the underlying asset exposure) in its portfolio, except as it relates to specific cross-hedging activity which may be permitted in certain investment manager guidelines.

F. Custody

The Treasurer of the State of Iowa is the custodian of the Fund. The Treasurer will hold the System's assets in a custody/record keeping 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 of State and any third party custodian. The custodian bank agreement shall be reviewed periodically by the staff and Investment Board and is incorporated herein. (See Addendum E, Tab VII)

G. Securities Lending

The Investment Board may authorize the Treasurer to conduct a "Securities Lending Program" in accordance with Iowa Code § 12.8. A formal written agreement shall be established between the Treasurer of the State of Iowa and the lending agent(s) stipulating the terms of the program. The agreement(s) will be reviewed with the Investment Board and staff and will be incorporated herein. (See Addendum F, Tab VIII) 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.

H. Proxy Voting

IPERS acknowledges that proxies are a significant and valuable tool in corporate governance and therefore have economic value. The System commits to managing its proxy voting rights with the same care, skill, diligence, and prudence as is exercised in managing its other valuable assets. As

responsible fiduciaries, the System's staff, its designated voting agents, its investment managers, and the trustees or agents of the System's collective, common or pooled fund investments will exercise their proxy voting rights in the sole interest of the System's members and in accordance with the applicable statutes.

The voting rights of individual stocks 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, upon the review and determination by the System that such proxy policies fulfill the above-stated mandates.

#### I. Commission Recapture and Soft Dollar Policy

The System encourages, but does not require, certain of its active equity managers to direct brokerage transactions to commission recapture brokers to the extent these brokers can provide best execution. Best execution is defined as achieving the most favorable price and execution service available, bearing in mind the System's best interests, and considering all relevant factors. The System will monitor on an ongoing basis the services provided by the commission recapture brokers so as to assure that the investment managers are securing the best execution of the fund's brokerage transactions.

All rebates or credits from commissions paid by the System's investment managers to the commission recapture brokers will be realized in cash and remitted directly to the fund. It is the System's policy to refrain from using soft dollar credits to acquire products or services to be used in the internal administration of the fund. If the generation of soft dollar credits is unavoidable in certain instances, the System will make a best effort to have the credits converted to cash and remitted directly to the fund, and failing such conversion will regularly monitor the managers' expenditure of soft dollar credits to ensure an appropriate relationship to the management of their IPERS accounts.

#### J. Derivatives Policy

Certain of the System's investment managers may be permitted through their individual investment guidelines to use derivative instruments. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or derivatives. While this definition includes the most common type of derivative, collateralized mortgage obligations (which typically comprise a portion of the System's fixed income portfolio), it is also intended to include (but not be limited to) futures, forwards, options, options on futures, swaps, swaptions, etc. The System's managers are not permitted to utilize derivatives for speculative purposes (for example, by taking a position greater than 100% or less than 0% of underlying asset exposure), but may use them to efficiently access desired markets and to control and manage portfolio risk. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes, duration risk management, and augmenting index fund performance through index arbitrage.

K. 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 will therefore oppose 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.

L. Securities Litigation Policy

The Investment Board shall adopt a policy concerning the System's involvement in and monitoring of securities litigation. (See Addendum I, Tab XI.)

#### **IV. RESPONSIBILITIES OF THE INVESTMENT BOARD AND STAFF**

Successful management and oversight of IPERS' investment activities require the Investment Board and staff to have specific responsibilities, as outlined below:

##### **A. Statutory Responsibilities**

1. The Board shall annually adopt an Investment Policy and Goal Statement which is consistent with 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.
3. The Board shall at least annually conduct a public meeting to review the policies and the investment performance of the fund.
4. With the approval of the Board, the Treasurer of State may conduct a program of lending securities in the IPERS portfolio.
5. The Board shall review and approve, prior to the execution of a contract, the hiring of each investment manager and investment consultant outside of state government.
6. The Board shall select the actuary to be employed by the System, and shall adopt the mortality tables, actuarial methods and assumptions to be used by the actuary for the annual valuation of assets.
7. The Chief Executive Officer will consult with the Board prior to employing a Chief Investment Officer.
8. The Board shall be involved in the performance evaluation of the Chief Investment Officer.
9. The Chief Executive Officer shall consult with the Board on the budget program for the System.
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.
11. The Board shall consist of seven voting members and four non-voting members as required by Iowa Code section 97B.8A. Four voting members of the Board shall constitute a quorum.
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.

B. Operational Responsibilities

1. Upon recommendation of the staff, consultants, or of individual Board members, the Board shall periodically and as necessary adopt changes to the Investment Policy and Goal Statement, including the asset allocation policy targets and portfolio component definitions.
2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (e.g., the proportion of mortgage bonds within the Global Fixed Income portfolio).
3. The Board shall periodically review the cash allocation schedule as implemented by the staff, whereby available funds are channeled to specific investment portfolios and managers.
4. The Board shall approve the solicitation of proposals for investment managers as recommended by the staff. The staff shall have the authority to terminate, amend or renew contracts with existing managers. Staff shall inform the Board in advance whenever practical of its decision to terminate a manager.
5. The Board shall approve the termination of consultants and the solicitation of proposals for consultants. The staff shall have the authority to amend or renew contracts with existing consultants.
6. The Board shall annually review the general provisions of the System's investment management contracts.
7. If the chief executive officer, chief investment officer, 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 or 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.
8. The Board shall hold public meetings to review the investment performance of the fund, to hear presentations from a portion of the System's investment managers, and to effect its statutory and operational responsibilities.
9. To maintain and strengthen the investment management of the System:
  - a. The Board and staff shall participate in conferences/seminars related to the investment activities of public and private institutional investors.
  - b. The staff, and as appropriate the Board, shall meet periodically with the investment managers of the fund at the firms' offices to review and clarify investment or administrative issues related to the management of the portfolio.
  - c. The staff, and as appropriate the Board, shall participate in investor meetings conducted by the various managers of the fund.

These activities shall be conducted in compliance with Iowa Code chapter 68B, the "Iowa Public Officials Act."

C. Administrative Responsibilities

1. Future Board meeting dates shall be set by members of the Board at the end of each meeting.
2. At the first meeting in each fiscal year, the voting Board members shall elect a chair and vice-chair.
3. Parties wishing to present items for the Board's next meeting agenda shall file a written request with IPERS at least five business days prior to the meeting. The Board may take up matters not included on its agenda.