I. INTRODUCTION: IPERS' PURPOSE AND PRINCIPLES

The Iowa Public Employees' Retirement System (IPERS or System) 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.

The Investment Board (Board) is the trustee of the IPERS Trust Fund (Fund). The Board's primary mission is to establish the System's tolerance for investment risk. The primary duties of the Board are to establish investment policy, to communicate its tolerance for investment risk, review policy implementation, and approve the retention of service providers in matters relating to the investment of IPERS' assets. As trustee, the Board also adopts the actuarial methods and assumptions, 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.

IPERS is administered through a chief executive officer, chief investment officer, chief benefits officer, and other full-time staff. The investment activities of the Board and staff are governed by the "prudent person" rules as defined in §97B.7A. The purposes of the System and the prudent person rule shall guide the Board and staff in developing this investment policy and goal statement. IPERS' investment activities shall be executed in a manner to fulfill these goals. The investment policy and the investment strategies will be periodically reviewed to ensure they conform to §§97B.2 and 97B.7A.

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 other resources as necessary to ensure the thorough oversight and administration of each investment program undertaken by the System.

II. INVESTMENT OBJECTIVES

The Board adopts the following investment objectives for the Fund:

A. The investment activities will be designed and executed in a manner that serves the best interests of the members and beneficiaries of the System.

B. The investment program will strive to maintain the Board's investment risk tolerance as communicated through this policy.

C. 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. 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.

D. The investment activities will achieve, after the deduction of management expenses, an annualized investment return that exceeds the return of the Policy Benchmark (defined in Section III.A.1 of this policy) over a minimum evaluation period of five years while staying within the Board's tolerance for active risk expressed in this policy.

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.

Achievement of IPERS' investment goals ultimately depends upon earning a sufficient return on the System's investments while taking a prudent amount of risk to attain the return. Investment return is comprised of two components known as "beta" and "alpha." Beta return is the return generated from exposure to a specific market or asset class. Alpha return is the excess return resulting from subtracting the beta return from the total investment return, and is conditional upon skillful active investment decision making. IPERS believes that risk-adjusted investment returns can be improved by separating beta and alpha decisions in actively managed (that is, non-passive or non-index) portfolios.

Beta decisions should focus on maximizing expected market returns at prudent levels of risk. The Board will adopt a Policy Benchmark representing what it believes is the most efficient portfolio of market exposures (the beta portfolio) that will meet the Fund's mission and goals while staying within the Board's tolerance for risk. Staff, with the assistance of the System's consultants, will implement the Board's beta decisions in the most cost-efficient manner possible and will be responsible for maintaining the beta exposure levels within the acceptable ranges established by the Board.

Alpha decisions are expected to provide additional return without significantly increasing the overall risk of the portfolio. Alpha returns can come from selection decisions of external active managers or tactical asset allocation and manager selection decisions of investment staff. The Board will adopt an active risk budget that establishes its tolerance for active risk. Staff will be responsible for allocating and rebalancing active risk with the objective of maintaining the active risk budget established by the Board.

Beta and alpha decisions shall be made and evaluated according to the Risk Management Policy adopted by the Board. (See Appendix E.) The Risk Management Policy communicates the Board's tolerance for investment risk by establishing investment risk budgets for the Fund's surplus risk and active risk. (Surplus risk takes into account the timing and potential volatility of the Fund's liabilities.)

A. The Beta Portfolio

The Beta Portfolio is segregated into public and private market investments. Public markets have a high degree of standardization, liquidity, and pricing transparency that allow for efficient trading of securities in most market environments. Private market investments are privately negotiated transactions (usually in a limited liability structure) that are illiquid and usually require a specific capital commitment for a number of years. It is not possible to manage the allocation of private market investments to a target allocation in the short term because IPERS staff do not control the timing of capital contributions and withdrawals, and because private market investments are not easily or quickly bought or sold. The Board recognizes these unique aspects of private market investing, and sets a target allocation for private market asset classes only as a long-term goal. The Board will annually review private market allocations versus the long-term goals and will adjust future annual commitment amounts as needed in the Board's discretion.

1. Policy Benchmark

The System adopts a Policy Benchmark that represents a mix of beta exposures across public and private markets that is expected over the long term to maximize the risk-adjusted beta return to the System consistent with the Board's tolerance for risk. The Policy Benchmark is predicated on a number of factors, including:

a. The liabilities.

b. The relationship between the current and projected assets of the plan and the plan's projected liabilities.

c. Expectations regarding long-term capital market returns and risks, including the impact of correlations.

d. Historical distribution of returns, average volatility of returns, and correlations between asset classes as well as liabilities.

e. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

The table below represents the Board's adopted Policy Benchmark. The Policy Benchmark Weights establish 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. 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 will be used in the calculation. If staff utilizes futures for rebalancing or tactical allocation decisions, the gross (notional) amount of futures contracts shall be used in calculating compliance with Policy Benchmark Weights and Asset Class Ranges.

PUBLIC MARKETS			
Asset Class	**Asset Class Ranges**	**Policy Benchmark Weights**	**Policy Benchmark Index**
Equities		**40%**	
Domestic Equities	21%–27%	24%	Wilshire 5000
International Equities	13%–19%	16%	MSCI ACWI ex-U.S. (Gross)
Fixed Income		**30.5%**	
Core Plus Fixed Income	24%–30%	27%	Barclays Capital U.S. Universal
Public Credit	1.5%–5%	3.5%	Custom Index[1]
Public Real Assets	5%–9%	7%	Custom Index[2]
Cash	-2%–4%	1%	Merrill Lynch 91-Day T-Bill

PRIVATE MARKETS			
Asset Class	**Asset Class Targets**	**Policy Benchmark Weights**	**Policy Benchmark Index**
Private Equity	11%	Actual[3]	Portfolio[4]
Private Credit	3%	Actual[3]	Portfolio[4]
Private Real Assets	7.5%	Actual[3]	Portfolio[4]

[1] This benchmark index is defined as 67 percent Citigroup HY Cash Pay Capped Index and 33 percent JP Morgan EMBI Global Index.

[2]This benchmark index is defined as 67percent [50 percent Barclays Capital U.S. TIPS Index and 50 percent Barclays Capital 1-10 Year U.S. TIPS Index] + 22 percent [Wilshire REIT Index] + 11 percent [S&P MLP Index].

[3]The benchmark weight for each private market asset class is the actual percentage of each asset class relative to the total fund portfolio.

[4]The benchmark index for each private market asset class is the return of the portfolio itself.

2. Policy Benchmark Components

Apart from any alpha expectations described in Section III.B., IPERS seeks to earn market returns from each asset class in the Policy Benchmark. This market exposure may be achieved by purchasing securities that comprise the respective asset classes or by purchasing derivatives designed to provide the return of a particular market. Each public market asset class has a Policy Benchmark Index that is believed to best represent the broadest market opportunity set for the respective asset class. The return on each Policy Benchmark Index is the market return (beta return) for each asset class.

<u>Domestic Equities</u>

IPERS invests in the domestic equity market to earn an equity risk premium to enhance the long-term returns of the Fund. This asset class includes the broad market of publicly traded U.S. equities with varying characteristics related to market capitalization and investment style. The Policy Benchmark Index for domestic equities is the Wilshire 5000 Index.

<u>International Equities</u>

IPERS invests in international equities to earn an equity risk premium and to diversify the equity exposure within the Fund. The international equities asset class includes both developed and emerging equity markets. The Policy Benchmark Index for international equities is the Morgan

Stanley Capital International (MSCI) All-Country World Index ex-U.S. (ACWI ex-U.S.) calculated gross of tax credits from dividend reinvestment.

Core-Plus Fixed Income

IPERS invests in fixed-income assets to provide stable income for the payment of benefit obligations and to diversify the market risk of the investment portfolio. The core-plus fixed-income market represents a global opportunity set of fixed-income instruments available to U.S. institutional investors. The Policy Benchmark Index for core-plus fixed income is the Barclays Capital U.S. Universal Index.

Public Credit

IPERS invests in publicly traded credit securities such as high-yield corporate bonds and emerging markets corporate and sovereign debt to enhance the long-term returns of the investment portfolio, to provide current income, and to provide diversification benefits. The Policy Benchmark Index for public credit is a weighted custom index of 67 percent the Citigroup High-Yield Cash-Pay Capped Index and 33 percent the JP Morgan EMBI Global Index.

Public Real Assets

IPERS invests in public real assets to provide inflation protection and risk diversification for the investment portfolio. Public real assets include U.S. Treasury Inflation Protected Securities (U.S. TIPS), publicly traded master limited partnerships (MLPs), and Real Estate Investment Trusts (REITs). The Policy Benchmark Index for public real assets is 67 percent U.S. TIPS (represented by a weighted custom index of 50 percent the Barclays Capital U.S. Treasury Inflation Protected Securities Index and 50 percent the Barclays Capital 1-10 Year U.S. Treasury Inflation Protected Securities Index), 22 percent Wilshire U.S. REIT Index, and 11 percent S&P MLP Index.

Cash

Cash, for the purpose of applying the Policy Benchmark Weights and Asset Class Ranges, is limited to funds available prior to distribution to investment managers and the amount reserved to pay near-term benefits and administrative costs. The Policy Benchmark Index for Cash is the Merrill Lynch 91-Day Treasury Bill Index.

Private Equity

IPERS invests in private equity to enhance the investment portfolio return through long-term capital appreciation. Private equity investments are highly illiquid, generally have lock-up periods of ten years or more, and are subject to long valuation lags. IPERS seeks to be compensated for such illiquidity by earning returns substantially greater than those available from publicly traded equity markets. Long-term performance goals are established in Appendix A in the Private Markets Investment Policy.

Private Credit

Private credit investments include partnerships or funds that invest primarily in private debt or debt securities, as well as funds or partnerships that make direct loans to businesses or consumers. Private credit provides the opportunity to earn higher risk-adjusted returns than offered by core fixed income. Long-term performance goals are established in Appendix A in the Private Markets Investment Policy.

Private Real Assets

Private real assets investments include direct equity investments in commercial real estate properties, or investment in partnerships or funds that invest in real estate and other real assets including, but not limited to, farmland, timberland, or infrastructure. The purpose of investing in private real assets is to provide income, diversification, and inflation protection. Long-term performance goals are established in Appendix A in the Private Markets Investment Policy.

3. Policy Benchmark Rebalancing

Because of the fluctuation of market values, and the effect of cash flows in and out of the System, the actual weights of each asset class can differ from the target weights established in the Policy Benchmark. In recognition of this, the Board has also adopted Asset Class Ranges for each public market asset class, and positioning within a specified Asset Class Range is acceptable and constitutes compliance with the Policy Benchmark. It is the responsibility of IPERS staff to manage the actual allocation weights within the public market Asset Class Ranges and keep them close to target, unless staff decides to tactically over- or under-weight a particular public market asset class.

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. For example, if the target allocation for domestic equity is 24 percent of the total fund, and the target allocations for all public market assets sum to 78.5 percent, then domestic equity would receive 30.6 percent (24 percent divided by 78.5 percent) when any excess or shortage in private markets is rebalanced across public market assets.

The CIO must formally authorize any tactical allocation decisions by staff, and each decision shall be documented and tracked for performance evaluation purposes. Tactical allocation decisions by staff shall not result in allocations that exceed the Asset Class Ranges set by the Board. It is acknowledged that market conditions or circumstances beyond IPERS' control may lead to asset class weightings being temporarily out of their target ranges, especially as those ranges relate to illiquid asset classes.

B. The Alpha Portfolio

Alpha is the difference resulting from subtracting a beta return from a portfolio's actual return. IPERS believes that positive alpha can be consistently earned by selecting skillful managers and applying that skill to a broad set of investment strategies. By employing a combination of strategies that have low return correlation with one another, exhibit low correlation with beta returns and higher correlation to liability returns, IPERS believes that consistent positive active returns (net of all fees) can be achieved at low levels of additional risk to the total fund.

Various strategies may be employed in the creation of a diversified alpha portfolio. Factors that will determine the alpha portfolio composition will include market structure and dynamics, the estimated degree of correlation between a strategy's performance and the Policy Benchmark, the breadth and depth of available active managers, and contribution to the active risk budget. Traditional long-only management strategies may be utilized in order to capture alpha, while portable alpha strategies, which allow alpha earned in other asset classes to be transported to a particular asset class or the total fund as an overlay through the use of derivatives, may also be utilized. In reviewing the effectiveness of alpha portfolio decisions, it is understood that a sufficient time frame is necessary to measure results through market cycles. A five-year period will generally be used to judge the results of alpha portfolio decisions.

The Board acknowledges that portable alpha strategies introduce a component of leverage into the portfolio, since market exposure is obtained through the use of derivatives while cash not needed to maintain the derivatives position is invested in alpha-producing assets. However, it is believed that a properly constructed alpha portfolio with a low correlation to the underlying beta portfolio is, from an economic perspective, equivalent to utilizing traditional long-only strategies in terms of risk and return.

Properly executed portable alpha strategies, which seek to apply manager skill across multiple alpha sources with low correlation to one another, can also have unique implementation risks that must be carefully monitored and managed. Some strategies can introduce high levels of financial leverage, valuation risks due to a lack of transparency, custody risks due to assets being held by prime brokers, and operational risks due to the use of complex, highly quantitative strategies. Staff will seek to mitigate these risks by employing a careful and thorough due diligence process in the evaluation and selection of reputable, experienced portable alpha managers, utilizing only separate accounts maintained on an independent custody and administrative platform, and utilizing the services of experts as needed to perform due diligence on prospective portable alpha investment managers. However, it is acknowledged that it may not be possible to eliminate some implementation risks associated with some portable alpha strategies.

The alpha portfolio will be structured to meet an Active Risk Budget established and defined in the Risk Management Policy that reflects the Board's tolerance for active risk. The Board and staff will annually evaluate the alpha portfolio against the Active Risk Target and determine if any actions should be taken to address any deviations.

It shall be the staff's responsibility to manage the alpha portfolio's active risk. Staff will monitor active risk on an ex-ante and ex-post basis, and shall have the discretion to take action to lower or increase the ex-ante active risk if necessary to stay within the Active Risk Budget established in the Risk Management Policy. Because of the volatility of short-term alpha returns, positioning within the specified Active Risk Range is acceptable and constitutes compliance with the policy. It is anticipated that the Board will periodically revise the active risk budget, and it is acknowledged that it may be prudent to allow an extended period of time to fully implement revisions to the Active Risk Budget.

C. Investment Management

IPERS will select and utilize external investment management firms or funds to manage each of its portfolio accounts. Staff has authority to buy and sell exchange-traded futures contracts and exchange traded funds (ETFs) for the purpose of implementing risk management or tactical asset allocation strategies. The System will also utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, risk budgeting, manager selection screening, and topical studies.

1. Manager/Consultant Utilization and Selection

The selection of the managers and consultants is accomplished in accordance with the applicable provisions of Iowa Code §§8.47 and 8.52, and the administrative rules adopted thereunder, except as otherwise provided in duly issued waivers by the ruling authority. 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 shall function under a formal contract that delineates their responsibilities and the appropriate risk management and performance expectations.

2. Manager 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/dealers 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 that 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 Appendix B for IPERS' Investment Manager Monitoring and Retention Policy.)

4. Manager Diversification

The investment manager structure shall be diversified to reduce the risk of having too many of IPERS' actively managed investment assets with one firm or having IPERS' assets comprise too much of a firm's actively managed investment strategy. The following diversification limits shall apply:

a. An investment manager's combined responsibility for actively managed investment strategies on behalf of IPERS shall not exceed 15 percent of the Fund's total assets;

b. IPERS' investment in an investment manager's actively managed strategy shall not exceed 20 percent of the manager's total assets under management in that strategy. However, the chief investment officer shall have discretion to determine what types of similar products offered by a manager can be included in the definition of "actively managed strategy" for purposes of this calculation.

For purposes of this section, enhanced indexing, equity real estate, and private equity are considered to be actively managed investment strategies.

The Board acknowledges that there may be times when manager diversification limits could be exceeded due to manager terminations, abrupt changes in market conditions, or decisions made by other clients of a manager. In such times, staff shall inform the Board of the situation and shall attempt to rebalance to the diversification limits as soon as prudently possible, with periodic progress reports to the Board.

D. Cash Management

Staff will ensure that adequate cash is available for the payment of benefit obligations and the funding of investments, and any cash held pending such uses shall be temporarily invested in the custodian's Short Term Investment Fund

(STIF) or other suitable short-term investment vehicle authorized by the Board. Cash held within the accounts of investment management firms will be managed in accordance with the guidelines established in the contractual agreement with each firm. In the case of cash denominated in a currency other than the U.S. dollar (USD), it shall be the responsibility of the investment management firm to repatriate or obtain foreign currency for any non-USD cash flows in its account. Investment managers are expected to obtain best execution on all foreign exchange transactions. IPERS staff shall have responsibility for repatriating or funding any non-USD cash flows from the Private Equity/Debt program, and will use an agency broker to attempt to obtain best execution on those foreign exchange transactions.

E. Currency Risk Management

Investment in non-USD denominated assets introduces the risk of loss due to currency fluctuations. It shall be the responsibility of each investment manager to manage any currency risk within its portfolio according to the terms of the contract between the manager and the System. The objective of currency management is not the elimination of all currency risk, but rather the prudent management of risks associated with investing in currencies or in assets that are not denominated in U.S. dollars.

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/recordkeeping account in a master custody bank located in a national money center and in the international subcustodian 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.

G. 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: (a) 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 (b) separate accounts that have investment guidelines identical to those required of a 2(a)(7) fund, or (c) 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: (a) safeguard principal; (b) maintain adequate liquidity; and (c) 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 of the State of Iowa 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.

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-Dollars

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

The System recognizes that certain derivative instruments can be useful tools in managing portfolio risk and in efficiently replicating cash market positions. However, the System also recognizes that derivatives can introduce unique risks into the portfolio that must be controlled. The following guidelines shall apply to the use of derivatives by the System's managers, and are designed to provide general risk controls that apply to all managers. The System's staff and investment consultant shall establish specific guidelines in each manager's contract to control the various risks associated with the use of derivatives for a particular manager and mandate. With the exception of portable alpha strategies, a manager is only authorized to utilize the derivative instruments permitted in this policy, and then only to the extent such usage is authorized in the manager's contract with the System.

The System defines a derivative instrument (derivative) to be a financial instrument with a return or value that is obtained from the return or value of another underlying financial instrument. Mortgage-backed securities and asset-backed securities are not considered derivatives for the purposes of this policy. The following is a list of categories of derivatives that are permitted under this policy.

1. Futures – Bond futures, interest rate futures, stock index futures, and currency futures that are listed on major exchanges in the United States, Japan, France, the United Kingdom, and Germany.

2. Options – Options on stocks and bonds, index options, currency options, and options on futures and swaps.

3. Currency forward contracts.

4. Swaps – Interest rate, currency, index, credit default, or specific security or a group of securities swaps.

5. Warrants – A manager is not permitted to purchase warrants separately. However, a manager may purchase securities that have warrants attached to them if such securities are permitted under their contract. A manager may also hold warrants in its portfolio if such warrants were received as part of a restructuring or settlement concerning an authorized investment.

The following restrictions shall apply to any manager using derivatives in the portfolio they manage for IPERS (in addition to any other restrictions or limitations included in the manager's contract):

1. Under no circumstances shall a manager use derivatives for the purpose of leveraging its portfolio.

2. Prior to utilizing any derivative, a manager shall take all steps necessary to fully understand the instrument, its potential risks and rewards, and the impact adverse market conditions could have on the instrument and the overall portfolio, and to ensure that it has all of the operational and risk management capabilities required to prudently monitor and manage the derivative.

3. A manager utilizing over the counter, non-exchange-traded swaps or options (OTC Derivatives) shall use prudent caution in selecting counterparties, and shall have written policies in place specifying how the manager will manage the credit risk of the counterparties. Such policies shall include, at a minimum, how the management firm will evaluate and monitor the creditworthiness of counterparties, an explanation of how the firm will determine the maximum firm-wide net market exposure amount to each counterparty, how the firm will monitor and enforce compliance with its credit policies, and other key terms that are required to be included in non-exchange- traded derivative contracts. Staff and IPERS' investment consultant shall periodically review these policies.

4. A manager shall not invest in OTC Derivatives with a counterparty that has a rating below "A3" as defined by Moody's or "A-" as defined by Standard & Poor's (S&P). Managers shall not use unrated counterparties, nor shall they use counterparties that have a "split rating" where one of the ratings is below A3 by Moody's or A- by S&P. However, managers

may utilize an unrated counterparty if the manager has documentation evidencing that a parent or affiliate of the counterparty is: (a) legally bound to cover the obligations of the counterparty, and (b) has a rating of at least A3 by Moody's or A- by S&P. The counterparty shall be regulated in either the United States or the United Kingdom.

5. A manager utilizing OTC Derivatives in IPERS' account shall control the counterparty credit risk of such transactions by: (a) utilizing payment netting arrangements to minimize the amount at risk, (b) performing daily marking-to-market of derivatives contracts, and (c) requiring collateralization of net amounts owed under the contracts after meeting minimum threshold for transfers.

6. A manager shall limit the System's exposure to counterparty defaults from OTC Derivatives by limiting the dollar amount at risk with any counterparty (net of the value of any collateral held) to no more than 5 percent of the market value of the IPERS account for a counterparty with a rating above A by Moody's or A+ by S&P, or 3 percent of the market value of the IPERS account for a counterparty with a rating of or below A by Moody's or A+ by S&P. The limitations of this paragraph apply only to the net exposure attributable to OTC Derivatives.

7. OTC Derivative transactions shall be executed under an International Swap Dealers Association (ISDA) agreement, or a clearing agreement in the case of a cleared swap. Collateral provided to IPERS by counterparties under a derivatives contract shall be delivered to and held by the System's custodian bank, or delivered and held by a third party agent under a swap clearing agreement or a Credit Support Annex (CSA) to the ISDA agreement executed by IPERS or the investment manager on behalf of IPERS.

8. Managers shall reconcile cash and margin requirements concerning derivatives on a daily basis with the System's custodian bank or any applicable third party under a CSA or swap clearing agreement.

9. These restrictions do not apply to portable alpha strategies utilized by the System. In lieu of such restrictions, staff shall attempt to ensure that contracts with managers executing portable alpha strategies adequately address as many of the restrictions as possible while allowing these managers the latitude necessary to manage a portable alpha portfolio where the alpha and beta sources are in different asset classes.

10. Contracts for portable alpha portfolios will articulate the specific derivative usage allowed within the manager's strategy. Additionally, the contract will incorporate the derivatives exposure parameters for that strategy. The contract will also articulate the data to be provided to IPERS staff and consultants in order to enable sufficient monitoring and evaluation of derivatives exposures.

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 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.

L. 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 C for IPERS' Securities Monitoring and Litigation Policy.)

M. 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.

N. 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 D for IPERS' Ethics Policy.)

O. Sudan and Iran Investment Restrictions and Divestment

Iowa Code chapters 12F and 12H require IPERS to develop lists of scrutinized companies with operations in the Sudan and/or Iran, and to restrict its purchases of, and, under certain circumstances, to divest of holdings of publicly traded securities in any company determined to have active business operations in the Sudan and/or Iran. To comply with this legislative mandate, IPERS will utilize the research and findings of an organization recognized to be an authoritative source of information in this area. This list will be updated quarterly. Staff will engage the companies on the scrutinized companies list to determine if such companies are prohibited investments under Iowa law. Firms that are deemed to be prohibited under Iowa law will be placed on a prohibited companies list.

P. Continuing Education

The Investment Board consists of dedicated Iowans that have agreed to serve the public in the very important roles of fiduciary and trustee for the Fund. The Board members have been entrusted with making decisions concerning complex actuarial and investment issues. However, it is recognized that Board members have varying degrees of knowledge and experience in dealing with actuarial and investment issues. Therefore, to facilitate the ongoing education of its members so that they may obtain the knowledge required to make informed decisions, the Board establishes the following continuing education guidelines applicable to all Board members:

1. In the first 12 months following appointment, a Board member is encouraged to attend an educational session concerning fiduciary duties of trustees, and another educational session concerning asset allocation, actuarial principles, or investment policy.

2. For the period from 12 months following appointment until the end of the Board member's service on the Board, a Board member is encouraged to attend at least one educational session per year concerning any investment-related topic relevant to the Fund.

3. An educational session is defined as a conference, seminar, workshop, course, or other substantive educational activity on any investment or pension fund administration subject. If possible, staff will attempt to make some educational sessions annually available in Iowa in order to meet the needs of Board members' schedules.

4. Board members are responsible for self-evaluating their educational needs and obtaining knowledge in specific-needs areas in a fiscally responsible manner. Board members are encouraged to engage the chief executive officer or IPERS investment staff to assist them in determining what educational sessions are available to meet their educational needs.

5. Board members must receive approval of the Board if they wish to attend more than two educational sessions in any 12-month period. This requirement applies only to educational sessions that require out-of-state travel.

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, and 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 participate in the annual 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 nonvoting members as required by Iowa Code §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.

13. The Board shall set the salary of the chief executive officer.

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 revisions to the Policy Benchmark targets, beta portfolio components, and active risk budgets.

2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (for example, the proportion of mortgage bonds within the Core Plus Fixed Income portfolio).

3. The Board shall periodically review the staff's rebalancing activities and the System's compliance with Policy Benchmark Weights and Active Risk Targets within their designated ranges.

4. The staff shall have the authority to terminate, amend, or renew contracts with existing managers. Staff shall inform the Board in advance 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. If the chief executive officer, chief investment officer, chief risk 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, 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.

7. 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.

8. 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. Board meeting dates for the fiscal year shall be set by members of the Board at the first meeting of the fiscal year.

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 the chair at least five business days prior to the meeting. The Board may take up matters not included on its agenda.

4. 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, Newly Revised.*