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## FISCAL UPDATE Article

Fiscal Services Division

October 13, 2023



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### IPERS INVESTMENT BOARD MEETING — SEPTEMBER 2023

**Meeting.** The Iowa Public Employees' Retirement System (IPERS) Investment Board met on September 27 and September 28, 2023. The Board took the following actions:

- Approved the minutes from the June 15, 2023, meeting.
- Approved Justin Kirchoff as chairperson and Bill Bemis as vice chairperson.
- Approved IPERS' staff to set up co-investments in an entity in private credit and private real estate.
- Approved asset allocation recommendation to decrease international equity by 3.5% and increase core fixed income by 3.5%.

**FY 2025 Budget Request.** For FY 2025, IPERS is requesting a budget increase of \$1.0 million and 12.0 full-time equivalent (FTE) positions. The IPERS Trust Fund budget request for FY 2025 totals \$21.6 million for general operations and includes 110.0 FTE positions. The increase includes:

- \$322,000 for the Operations Division to hire 4.0 FTE positions at a cost between \$77,000 and \$86,000 per position.
- \$316,000 for a new Strategy Division to hire 3.0 FTE positions at a cost between \$98,000 and \$119,000 per position.
- \$250,000 for the Benefits Division to hire 4.0 FTE positions at a cost between \$55,000 and \$65,000 per position.
- \$130,000 for the Legal Division to hire 1.0 FTE position at a cost of \$130,000.

The IPERS Chief Executive Officer, Greg Samorajski, plans to have conversations with the Governor's office regarding the budget request.

**CY 2022 CEM Investment Benchmarking Review.** Christopher Doll, Director of Client Coverage of CEM Benchmarking, Inc., presented to the Board a summary of an Investment Cost Effectiveness Analysis for a five-year period ending December 31, 2022. The following were the highlights from that report:

- IPERS' five-year net total return was 7.0%, which was above the U.S. public median of 5.9% and above the peer median of 5.7%.
- IPERS' five-year policy return was 5.3%, which was above the U.S. public median of 4.6% and above the peer median of 4.8%.
- IPERS' five-year net value added was 1.7%, which was above the U.S. public median of 1.1% and above the peer median of 0.8%.
- IPERS' investment cost was 44.3 basis points, which was below the benchmark cost of 57.7 basis points. According to CEM, this suggests that the IPERS Trust Fund is a lower-cost fund compared to its peers.
- The IPERS Trust Fund experienced lower costs because it paid less than peers for similar services and has a lower-cost implementation style.
- IPERS costs increased from 38.9 basis points in 2018 to 44.3 basis points in 2022, an increase of 5.4 basis points. According to CEM, this increase is primarily due to a higher cost asset mix, which was partially offset by paying less in total for similar investment styles.

**FY 2023 Investment Performance Review.** Thomas Toth and Ali Kazemi of Wilshire Associates, Inc., presented the FY 2023 Investment Performance report to the Board. Highlights include:

- The total IPERS Trust Fund had a return of 5.4% for FY 2023.

- The 10-year annualized return was 8.1% for the total Trust Fund, which was slightly greater than the policy return rate.
- Over the last 10 years, IPERS' total return has ranked in the top 10.0% of all public plans with greater than \$1.000 billion in assets.

**Annual Asset Allocation Review.** Thomas Toth and Ali Kazemi of Wilshire Associates Inc., presented the FY 2023 Asset Allocation Review to the Board. Recommendations were made to decrease international equity and increase core fixed income. According to Wilshire, the recommendations would decrease risk from 13.2% to 12.6%, while maintaining the 7.0% risk target.

**Annual Review of Investment Policy and Goal Statement.** The Board voted to establish a review committee with the purpose of conducting an initial review of the investment unit's processes and procedures. Feedback from the review committee will be considered and incorporated into the final investment procedures document prior to January 1, 2024.

**Absolute Return Search Manager Hiring Recommendations.** On December 5, 2022, IPERS issued a request for proposal (RFP) to identify absolute return investment products for a portable alpha strategy. Of the original 129 applicants, 7 finalists have been selected over the first two phases of the RFP process. Phase three of the RFP process will consist of on-site interviews with the seven firms, which will allow IPERS' staff to evaluate the potential managers' operations, stability, and ability to work with IPERS.

**Investment Fund Update.** Sriram Lakshminarayanan, Chief Investment Officer, reported that the estimated market value of the IPERS Trust Fund was \$40.881 billion as of September 15, 2023.

**Next Meeting.** The next Investment Board meeting will be December 7, 2023, and the next Benefits Advisory Committee meeting will be October 23, 2023.

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