



Iowa PERS

# CEM Investment Benchmarking Report DB - 2023

September 26, 2024

# Key Takeaways

## Returns

- Your 5-year net total return was 9.4%. This was above both the U.S. Public median of 8.9% and the peer median of 8.6%.
- Your 5-year policy return was 7.7%. This was equal to the U.S. Public median of 7.7% and above the peer median of 7.3%.

## Value added

- Your 5-year net value added was 1.6%. This was above both the U.S. Public median of 1.2% and the peer median of 1.1%.

## Cost

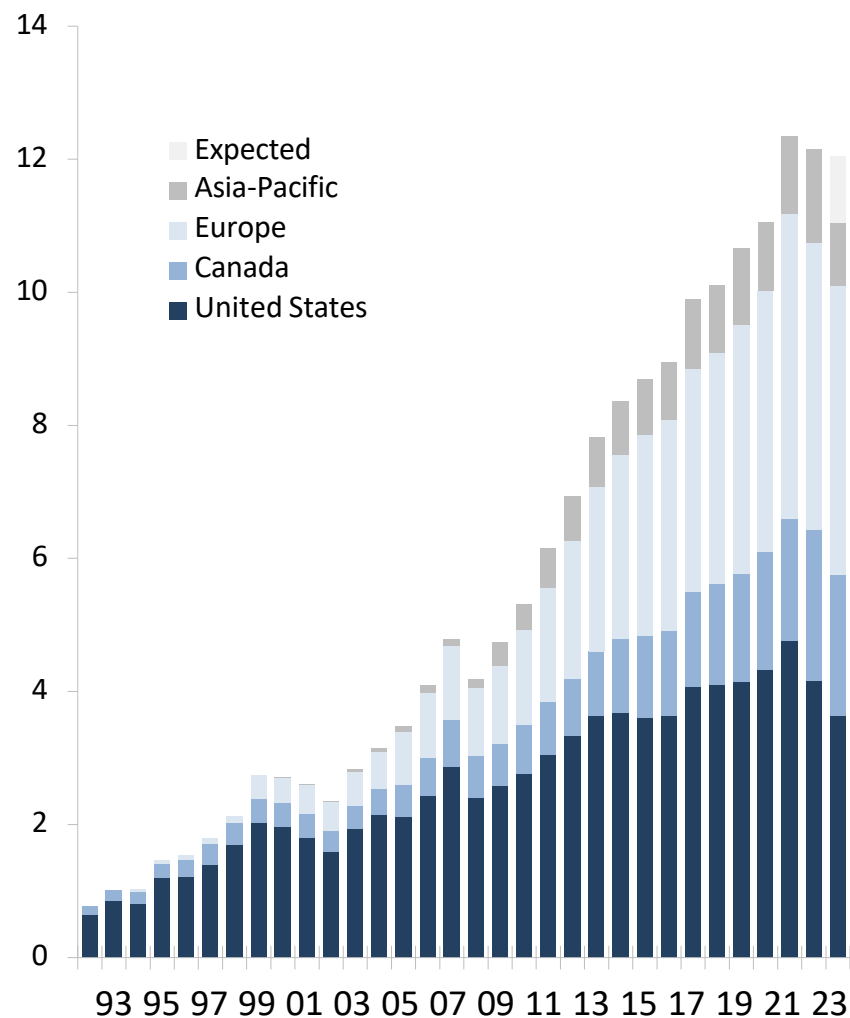
- Your investment cost of 41.1 bps was below your benchmark cost of 55.6 bps. This suggests that your fund was low cost compared to your peers.
- Your fund was below benchmark cost because it paid less than peers for similar services and it had a lower cost implementation style.
- Your costs increased by 3.4 bps, from 37.7 bps in 2019 to 41.1 bps in 2023, primarily because you had a higher cost asset mix. This was partly offset by paying less in total for similar investment styles.

## This benchmarking report compares your cost and performance to the 260 funds in CEM's extensive pension database.

- 136 U.S. pension funds participate. The median U.S. fund had assets of \$9.2 billion and the average U.S. fund had assets of \$26.7 billion. Total participating U.S. assets were \$3.6 trillion.
- 62 Canadian funds participate with assets totaling \$2.1 trillion.
- 56 European funds participate with aggregate assets of \$4.3 trillion. Included are funds from the Netherlands, Norway, Sweden, Finland, Ireland, Denmark and the UK.
- 4 Asia-Pacific funds participate with aggregate assets of \$945.4 billion. Included are funds from Australia, New Zealand, China and South Korea.
- 2 funds from other regions participate.

The most meaningful comparisons for your returns and value added are to the U.S. Public universe, which consists of 36 funds. The U.S. Public universe assets totaled \$2.4 trillion and the median fund had assets of \$25.7 billion.

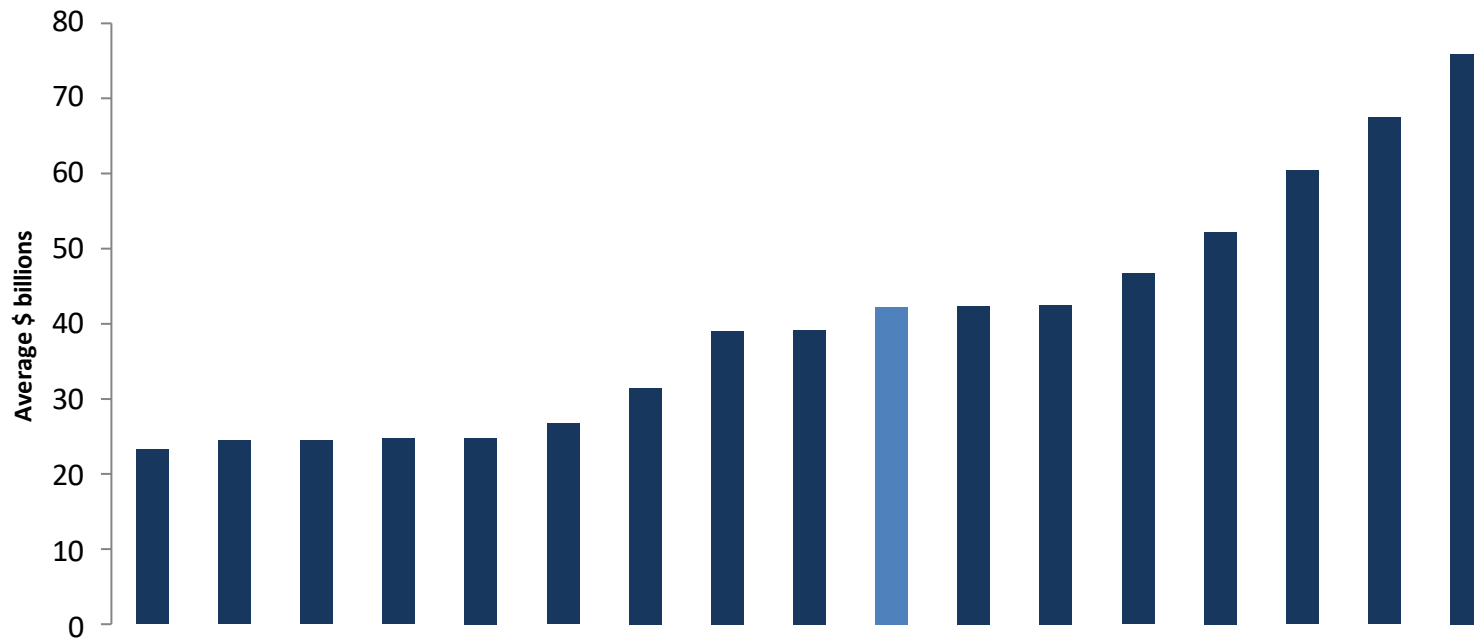
Participating assets (\$ trillions)



# The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.

## Peer group for Iowa Public Employees' Retirement System

- 17 U.S. sponsors from \$23.2 billion to \$75.9 billion
- Median size of \$39.1 billion versus your \$42.2 billion



To preserve client confidentiality, given potential access to documents as permitted by the Freedom of Information Act, we do not disclose your peers' names in this document. For some of the peers, 2022 cost data was used as a proxy for 2023.

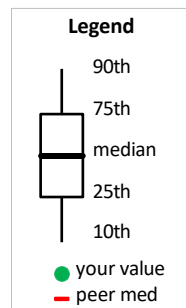
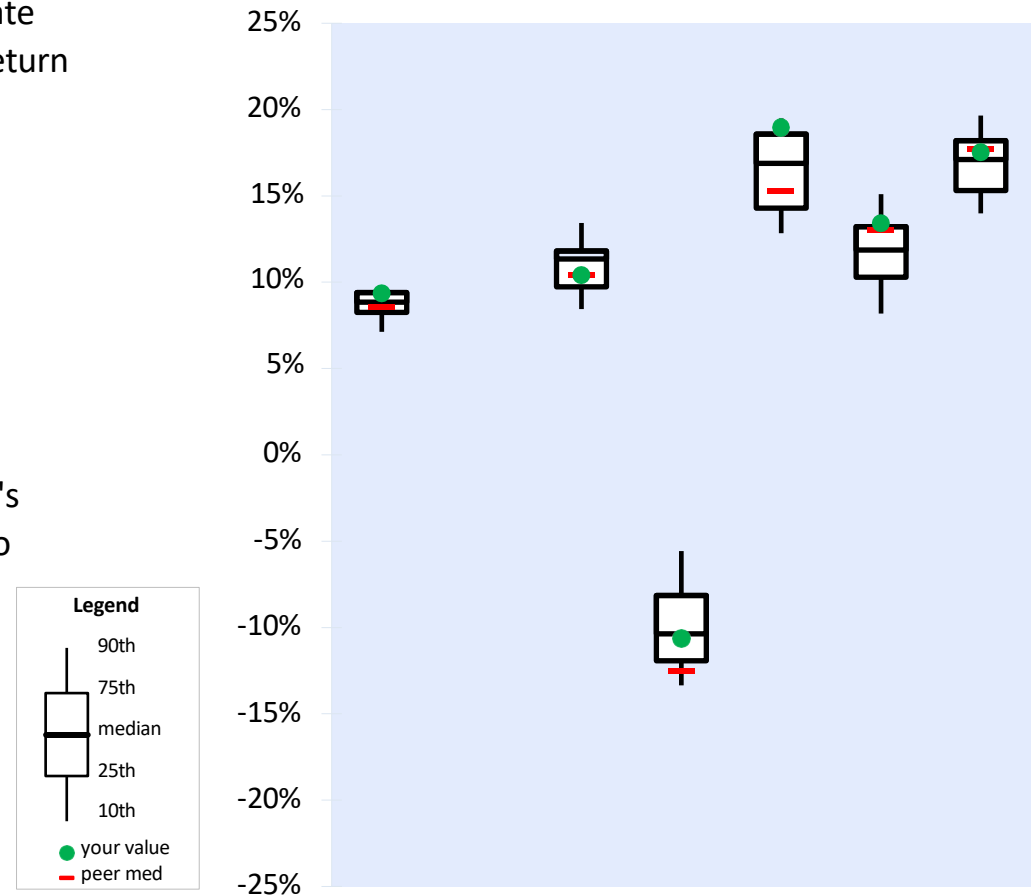
# Your 5-year net total return of 9.4% was above both the U.S. Public median of 8.9% and the peer median of 8.6%.

Total returns, by themselves, provide little insight into the reasons behind relative performance. Therefore, we separate total return into its more meaningful components: policy return and value added.

	Your 5-year
Net total fund return	9.4%
- Policy return	7.7%
= Net value added	1.6%

This approach enables you to understand the contribution from both policy mix decisions (which tend to be the board's responsibility) and implementation decisions (which tend to be management's responsibility).

U.S. Public net total returns - quartile rankings



	5-year	2023	2022	2021	2020	2019
You	9.4%	10.4%	-10.6%	18.9%	13.4%	17.5%
Peer median	8.6%	10.4%	-12.5%	15.3%	13.0%	17.7%
U.S. Public median	8.9%	11.4%	-10.4%	16.9%	11.9%	17.1%

# Your 5-year policy return of 7.7% was equal to the U.S. Public median of 7.7% and above the peer median of 7.3%.

Your policy return is the return you could have earned passively by indexing your investments according to your policy mix.

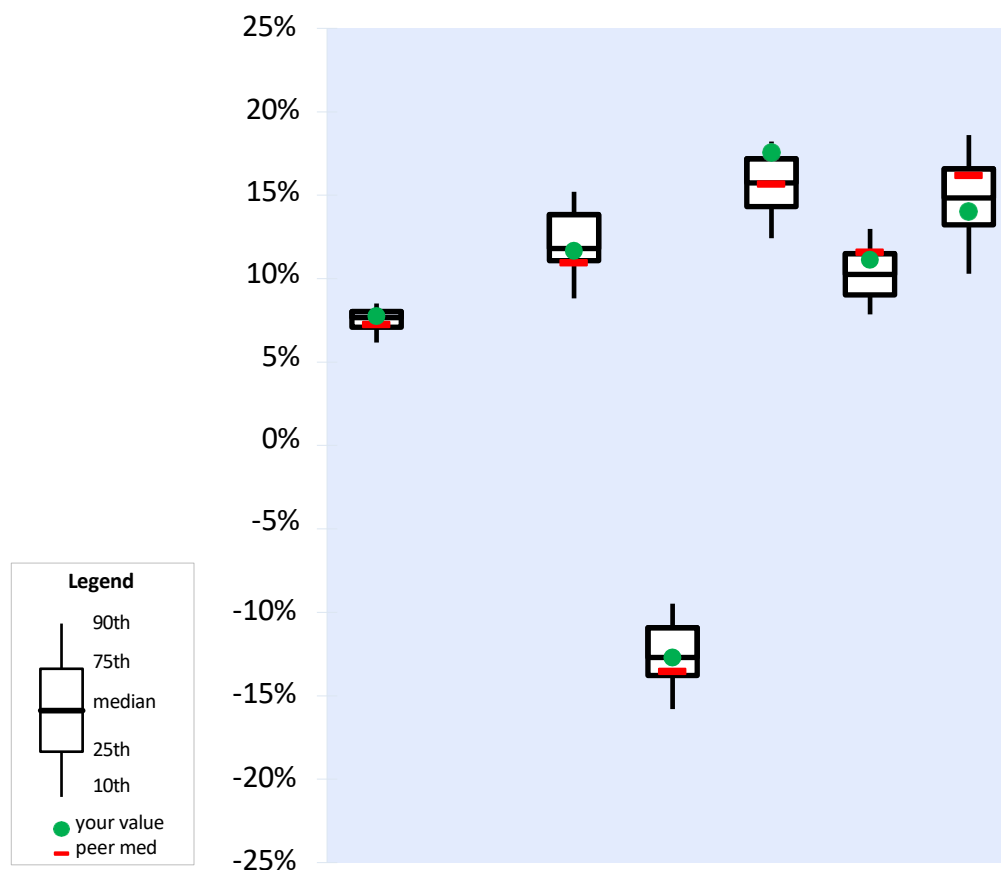
Having a higher or lower relative policy return is not necessarily good or bad. Your policy return reflects your investment policy, which should reflect your:

- Long term capital market expectations
- Liabilities
- Appetite for risk

Each of these three factors is different across funds. Therefore, it is not surprising that policy returns often vary widely between funds.

To enable fairer comparisons, the policy returns of all participants, including your fund, were adjusted to reflect private equity benchmarks based on lagged, investable, public-market indices. Prior to this adjustment, your 5-year policy return was 9.2%, 1.5% higher than your adjusted 5-year policy return of 7.7%. Mirroring this, your 5-year total fund net value added would be 1.5% lower.

U.S. Public policy returns - quartile rankings



	5-year	2023	2022	2021	2020	2019
You	7.7%	11.7%	-12.7%	17.6%	11.1%	14.0%
Peer median	7.3%	11.0%	-13.5%	15.7%	11.6%	16.2%
U.S. Public median	7.7%	11.8%	-12.7%	15.7%	10.3%	14.9%



## Your 5-year policy return of 7.7% was equal to the U.S. Public median of 7.7% primarily because of:

- The offsetting impacts of your higher allocation to U.S. Stock, which was one of the better performing asset classes over the past 5 years, and U.S. Fixed Income, which was one of the poorer performing asset classes over the past 5 years.

	5-year average policy mix <sup>1</sup>			5-year benchmark return	
	Your Fund	U.S. Publ Avg.	More/Less	Your Fund	U.S. Publ Avg.
Stock - U.S.	24%	18%	6%	15.4%	15.0%
Stock - EAFE	0%	4%	-4%	n/a <sup>3</sup>	8.3%
Stock - ACWI x U.S.	18%	7%	11%	7.1%	7.5%
Stock - Global	0%	13%	-13%	n/a <sup>3</sup>	12.0%
Other Stock <sup>2</sup>	0%	5%	-5%	n/a <sup>3</sup>	n/a <sup>3</sup>
<b>Total Stock</b>	<b>42%</b>	<b>47%</b>	<b>-4%</b>	<b>12.0%</b>	<b>11.7%</b>
Fixed Income - U.S.	26%	17%	9%	1.4%	1.2%
Fixed Income - Long bonds	0%	1%	-1%	n/a <sup>3</sup>	-2.6%
Fixed Inc. - Inflation indexed	1%	4%	-3%	n/a <sup>3</sup>	2.5%
Cash	1%	-1%	2%	1.9%	1.9%
Other Fixed Income <sup>2</sup>	3%	5%	-1%	n/a <sup>3</sup>	n/a <sup>3</sup>
<b>Total Fixed Income</b>	<b>31%</b>	<b>25%</b>	<b>6%</b>	<b>1.7%</b>	<b>1.5%</b>
Hedge funds	0%	3%	-3%	n/a <sup>3</sup>	4.0%
Natural resources	1%	1%	1%	5.5%	5.4%
REITs	0%	1%	0%	n/a <sup>3</sup>	6.4%
Real estate ex-REITs	6%	9%	-2%	4.3%	5.0%
Other Real Assets <sup>2</sup>	1%	2%	-2%	n/a <sup>3</sup>	n/a <sup>3</sup>
Private equity	14%	11%	4%	4.0%	4.0%
Private debt	4%	3%	1%	6.9%	6.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>			

1. 5-year weights are based only on plans with 5 years of continuous data.

2. Other stock includes: Stock - Emerging. Other fixed income includes: Fixed income - U.S. gov't and Fixed income - U.S. credits. Other real assets include: Commodities and Infrastructure.

3. A value of 'n/a' is shown if asset class returns are not available for the full 5 years or if they are broad and incomparable.

# Net value added is the component of total return from active management. Your 5-year net value added was 1.6%.

Net value added equals total net return minus policy return.

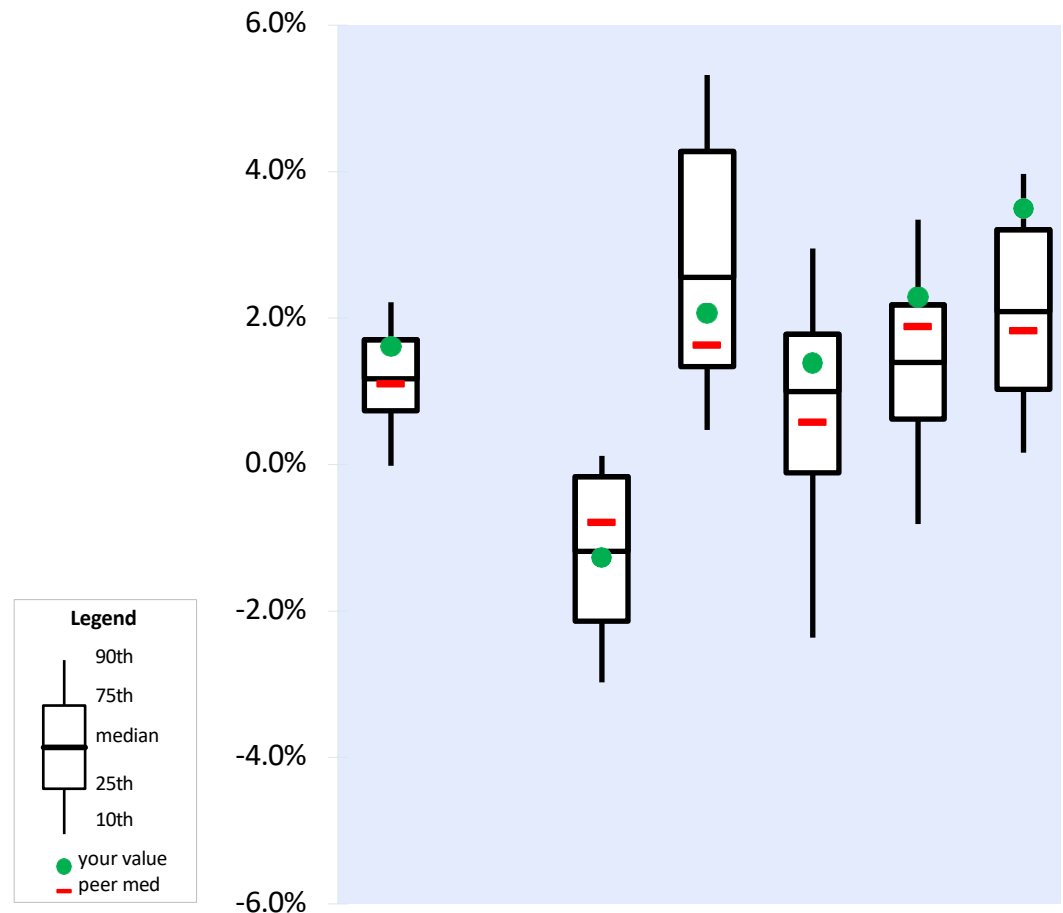
**Value added for Iowa Public Employees' Retirement System**

Year	Net return	Policy return	Net value added
2023	10.4%	11.7%	-1.3%
2022	-10.6%	-12.7%	2.1%
2021	18.9%	17.6%	1.4%
2020	13.4%	11.1%	2.3%
2019	17.5%	14.0%	3.5%
5-Year	9.4%	7.7%	1.6%

Your 5-year net value added of 1.6% compares to a median of 1.1% for your peers and 1.2% for the U.S. Public universe.

To enable fairer comparisons, the value added for each participant including your fund was adjusted to reflect private equity benchmarks based on lagged, investable public market indices. Prior to this adjustment, your fund's 5-year total fund net value added was 0.1%.

**U.S. Public net value added - quartile rankings**

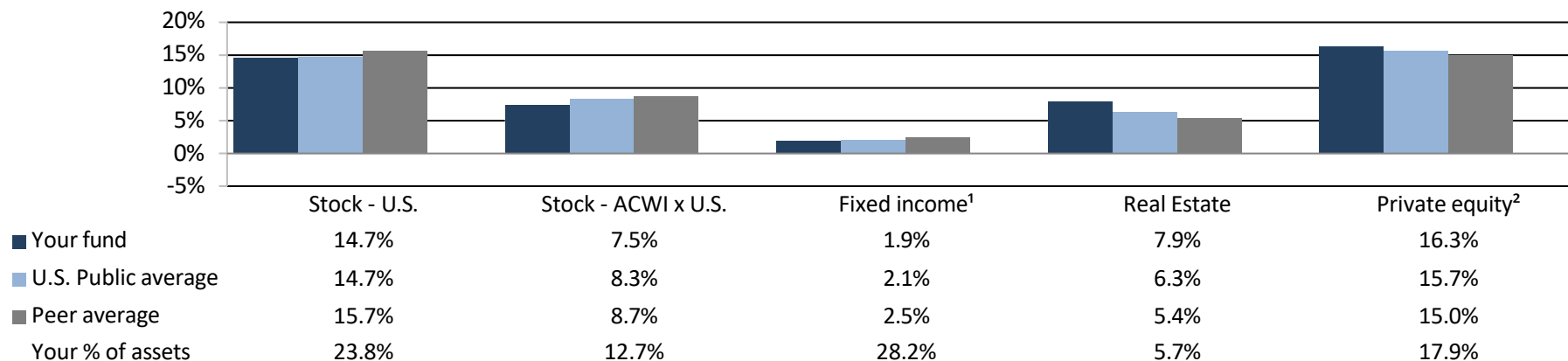


	5-year	2023	2022	2021	2020	2019
You	1.6%	-1.3%	2.1%	1.4%	2.3%	3.5%
Peer median	1.1%	-0.8%	1.6%	0.6%	1.9%	1.8%
U.S. Public median	1.2%	-1.2%	2.6%	1.0%	1.4%	2.1%

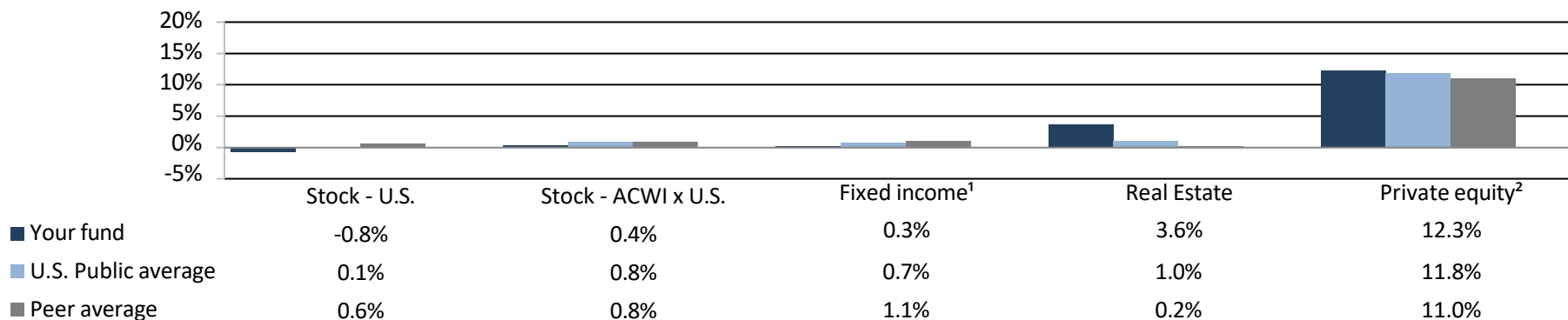


# Comparisons of your 5-year net return and net value added by major asset class:

## 5-year average net return by major asset class



## 5-year average net value added by major asset class



1. Excludes cash and leverage.

2. To enable fairer comparisons, the private equity benchmarks of all participants, including your fund were adjusted to reflect lagged, investable, public-market indices. Prior to this adjustment, your fund's 5-year private equity net value added was -1.2%.

## Your investment costs, excluding private asset performance fees, were \$167.5 million or 41.1 basis points in 2023.

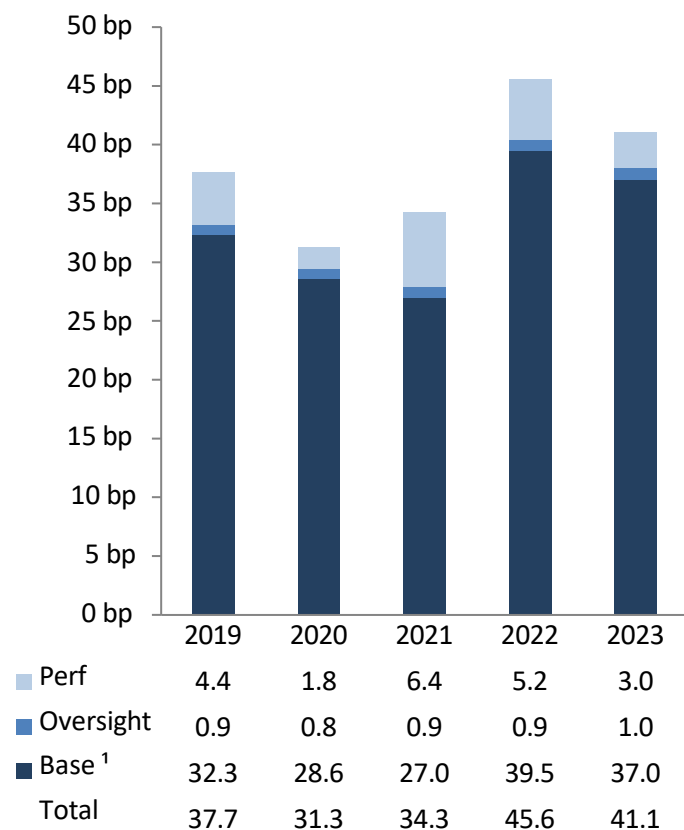
Asset management costs by asset class and style (\$000s)	Internal Overseeing of external	External Management			Total	
		Passive fees	Active base fees	Perform. fees <sup>2</sup>		
Stock - U.S. broad/all		175	247	3,934	4,356	
Stock - Emerging		1	945	1,607	2,553	
Stock - ACWI x U.S.		566	635	2,862	4,062	
Fixed income - U.S.		-308	393	407	492	
Fixed income - High yield			469		469	
Cash			383		383	
Infrastructure <sup>2</sup>			2,230	777	2,230	
Natural resources <sup>2</sup>			2,226	157	2,226	
Real estate ex-REITs <sup>2</sup>			11,397	1,333	11,397	
Private equity - Diversified - LP/Value add <sup>1 2</sup>	9,890		103,583	72,508	113,473	
Private equity - Diversified - Co-invest. <sup>2</sup>	1,478				1,478	
Private credit - Core/Evergreen <sup>2</sup>			15,835		15,835	
Derivatives/Overlays	475	162		3,621	4,257	
<b>Total excluding private asset performance fees</b>					<b>163,213</b>	<b>40.0bp</b>
<b>Oversight, custodial and other costs <sup>3</sup></b>						
Oversight of the fund					2,377	
Trustee & custodial					783	
Consulting and performance measurement					480	
Audit					168	
Other					450	
<b>Total oversight, custodial &amp; other costs</b>					<b>4,257</b>	<b>1.0bp</b>
<b>Total investment costs (excl. transaction costs &amp; private asset performance fees)</b>					<b>167,470</b>	<b>41.1bp</b>

### Footnotes

1. CEM-imputed costs were applied to the following manager base fees: Private equity - Diversified - LP/Value add 150 bp. Refer to Appendix A for full details regarding the different forms of cost completion.
2. Total cost excludes carry/performance fees for real estate, infrastructure, natural resources and private equity. Performance fees are included for the public market asset classes and hedge funds.
3. Excludes non-investment costs, such as benefit insurance premiums and preparing cheques for retirees.

Your costs increased by 3.4 bps, from 37.7 bps in 2019 to 41.1 bps in 2023, primarily because you had a higher cost asset mix. This was partly offset by paying less in total for similar investment styles.

Trend in cost



\* The cost trend model is based on your average assets.

1. Includes fees for managing internal assets and internal costs of monitoring external programs, where allocated.

Reasons why your costs increased by 3.4 bps

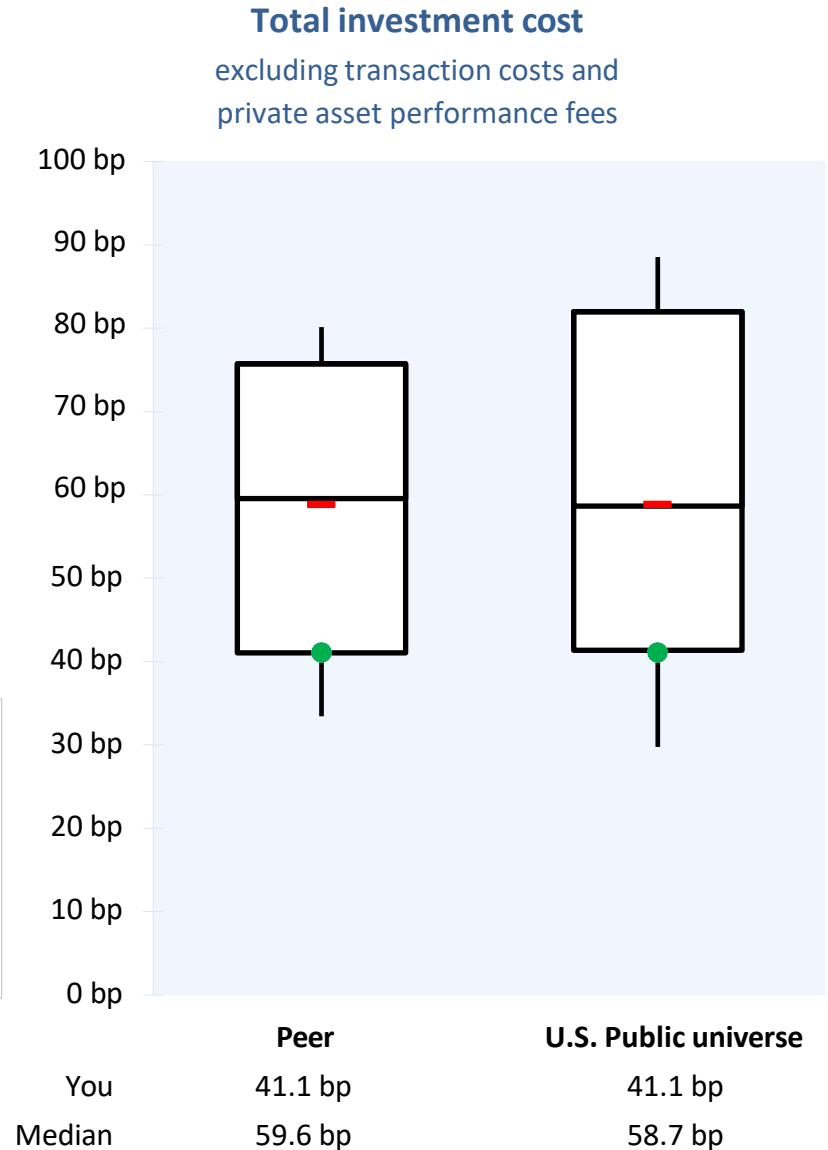
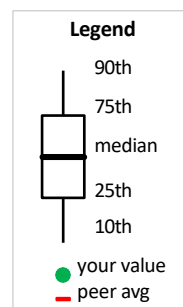
			Impact in bps
1. Higher cost asset mix			
• More Private equity: 2019 14% vs 2023 19%			9.0
• More Private debt: 2019 2% vs 2023 5%			3.3
• All other mix changes			0.2
			<u>12.5</u>
2. Lower cost implementation style			
• More passive, less active			(1.6)
• Less co-investment as a % of LP/Co			0.6
			<u>(1.0)</u>
3. Paid less in total for similar investment styles			
	<u>2019 cost</u>	<u>2023 cost</u>	
• Lower Private Equity LP/Value add base fees	180.9 bp	164.3 bp	(2.8)
• Lower Private Credit base fees	108.8 bp	74.9 bp	(1.8)
• Lower external active U.S. Broad/All Stock costs	40.0 bp	17.3 bp	(1.3)
• Lower external active U.S. Fixed Income costs	10.3 bp	1.9 bp	(0.9)
• Lower costs for overlays and unfunded strategies	1.8 bp	1.0 bp	(0.8)
• Higher oversight, custodial & other costs	0.9 bp	1.0 bp	0.1
• All other differences			(0.7)
			<u>(8.2)</u>
<b>Total increase</b>			<u><u>3.4</u></u>

## Before adjusting for asset mix differences, your total investment cost of 41.1 bps was below the peer median of 59.6 bps.

Differences in total investment cost are often caused by two factors that are often outside of management's control:

- Asset mix, particularly holdings of the highest cost asset classes: real estate (excl. REITs), infrastructure, hedge funds, private equity and private credit. These high cost assets equaled 32% of your assets at the end of 2023 versus a peer average of 29%.
- Fund size - bigger funds have advantages of scale.

Therefore, to assess whether your costs are high or low given your unique asset mix and size, CEM calculates a benchmark cost for your fund. This analysis is shown on the following page.



## Benchmark cost analysis suggests that, after adjusting for fund size and asset mix, your fund was below benchmark cost by 14.5 basis points in 2023.

Your benchmark cost is an estimate of what your cost would be given your actual asset mix and the median costs that your peers pay for similar services. It represents the cost your peers would incur if they had your actual asset mix.

Your total cost of 41.1 bp was below your benchmark cost of 55.6 bp. Thus, your cost savings were 14.5 bp.

### Your cost versus benchmark

	\$000s	basis points
Your total investment cost	167,470	41.1 bp
Your benchmark cost	226,755	55.6 bp
Your excess cost	(59,285)	(14.5) bp

**Your fund was below benchmark cost because it paid less than peers for similar services and it had a lower cost implementation style.**

### Reasons for your low cost status

	Excess Cost/ (Savings)	
	\$000s	bps
1. Lower cost implementation style		
• Less active management, more lower cost passive	(9,356)	(2.3)
• More external management, less lower cost internal	1,265	0.3
• Less LPs as a percentage of external	(10,859)	(2.7)
• Less fund of funds	(5,599)	(1.4)
• More co-investment as a percentage of LP/Co	(6,458)	(1.6)
• More overlays	2,540	0.6
	<u>(28,467)</u>	<u>(7.0)</u>
2. Paying less than peers for similar services		
• External investment management costs	(25,883)	(6.3)
• Oversight, custodial & other costs	(4,935)	(1.2)
	<u>(30,818)</u>	<u>(7.6)</u>
<b>Total savings</b>	<b>(59,285)</b>	<b>(14.5)</b>



# Your implementation style was 7.0 bps lower cost than the peer average.

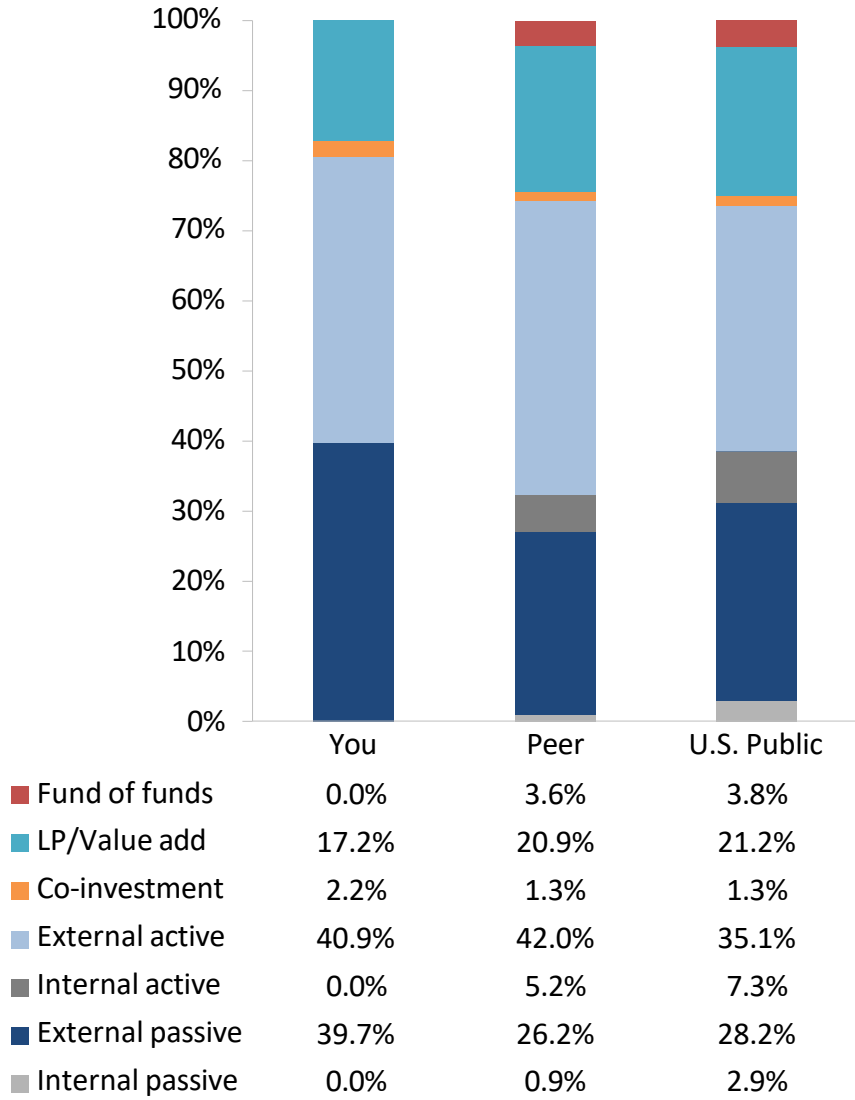
Implementation style is the way in which your fund implements asset allocation. Each implementation choice has a cost. Your first choice is how much to implement passively or actively. The table below summarizes your aggregate choices versus peers and their cost impact.

Implementation choices	Impact
Less active, more passive	(2.3) bp
Less internal as a % of passive	0.0 bp
Less internal as a % of active	0.3 bp
Less LPs as a % of external	(2.7) bp
Less fund of funds	(1.4) bp
More co-investment as a percentage of LP/Co	(1.6) bp
More overlays	0.6 bp
<b>Total impact</b>	<b>(7.0) bp</b>

The peer and universe style was adjusted to match your asset mix. It equals their average style for each asset class weighted by your fee basis for the asset class. It shows how the average peer would implement your asset mix.

1. Implementation style is shown as a % of total fund fee basis because the fee basis is the primary driver of cost for private assets (e.g., new private equity LP commitments increase costs before LP NAV increases). Style weights are based on average holdings. Cash and derivatives are excluded.

Implementation style<sup>1</sup>



## The table below summarizes why your fund is high/low cost relative to the peer-median by asset class.

### Why are you high/(low) cost by asset class?

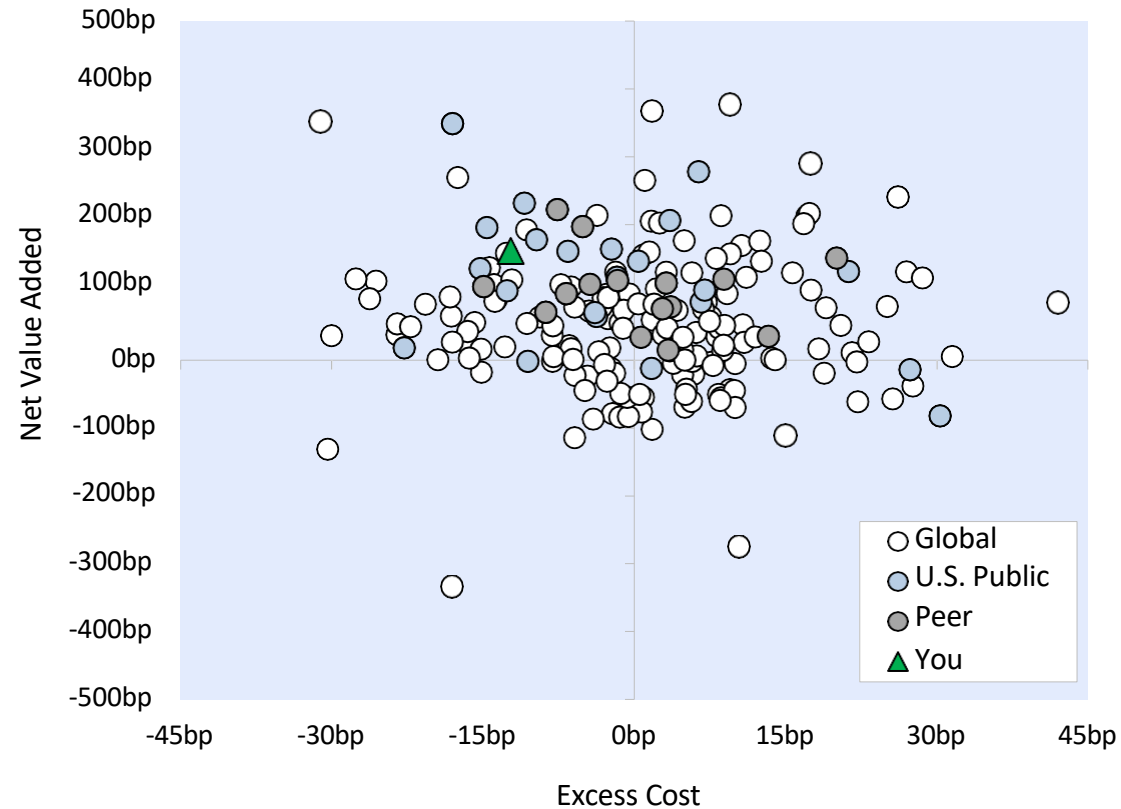
Asset class/category	Style weighted cost			Your average assets (or fee basis) <sup>2</sup>	Due to impl. style	Due to paying more/(less)	Total more/(less)
	Your cost	Peer median <sup>1</sup> = Benchmark	More/(less)				
<b>Asset management costs</b>	(A)	(B)	(C = A - B)	(D)			(C x D)
Stock - U.S. broad/all	4.6 bp	7.5 bp	(2.9) bp	9,407	1,386	(4,067)	(2,681)
Stock - Emerging	13.9 bp	47.7 bp	(33.9) bp	1,841	(2,754)	(3,478)	(6,233)
Stock - ACWI x U.S.	8.4 bp	29.3 bp	(20.9) bp	4,847	(4,623)	(5,530)	(10,154)
Fixed income - U.S.	0.5 bp	8.0 bp	(7.5) bp	9,607	(2,396)	(4,770)	(7,167)
Fixed income - Emerging	0.0 bp	35.1 bp	(35.1) bp	407	0	(1,430)	(1,430)
Fixed income - High yield	5.9 bp	27.8 bp	(22.0) bp	798	74	(1,827)	(1,753)
Real estate ex-REITs	41.5 bp	88.4 bp	(46.9) bp	2,745	(3,659)	(9,200)	(12,859)
Infrastructure	72.5 bp	93.7 bp	(21.2) bp	308	(514)	(137)	(651)
Natural resources	73.8 bp	80.7 bp	(6.9) bp	302	(750)	541	(209)
Private equity - Diversified	147.3 bp	162.8 bp	(15.5) bp	7,804	(12,057)	(42)	(12,099)
Private credit	74.9 bp	82.7 bp	(7.8) bp	2,114	(5,714)	4,059	(1,655)
Derivatives/Overlays	1.0 bp	0.4 bp	0.6 bp	40,776	2,540	0	2,540
Total asset management	40.0 bp	53.4 bp	(13.3) bp	40,776	(28,467)	(25,883)	(54,350)
<b>Oversight, custody and other costs<sup>3</sup></b>							
Oversight of the Fund	0.6 bp	0.9 bp	(0.3) bp				
Trustee & Custodial	0.2 bp	0.4 bp	(0.2) bp				
Consulting	0.1 bp	0.2 bp	(0.1) bp				
Audit	0.0 bp	0.1 bp	(0.0) bp				
Other	0.1 bp	0.1 bp	0.0 bp				
Total oversight, custody & other	1.0 bp	2.3 bp	(1.2) bp	40,776	n/a	(4,935)	(4,935)
<b>Total</b>	<b>41.1 bp</b>	<b>55.6 bp</b>	<b>(14.5) bp</b>	<b>40,776</b>	<b>(28,467)</b>	<b>(30,818)</b>	<b>(59,285)</b>

1. The weighted peer median cost for asset management is the style-weighted average of the peer median costs for all implementation styles (e.g., internal passive, external active, fund of fund, etc.).
2. Total fund average holdings is used as the base when calculating the relative cost impact of the overlay programs.
3. Benchmarks for oversight total and individual lines are based on peer medians. Sum of the lines may be different from the total.

# Your 5-year performance placed in the positive value added, low cost quadrant of the cost effectiveness chart.

## 5-year net value added versus excess cost

(Your 5-year: net value added 161 bps, cost savings 12 bps <sup>1</sup>)



1. Your 5-year savings of 12.2 basis points is the average of your peer-based savings for the past 5 years.

	5-year	2023	2022	2021	2020	2019
Net value added	161.3bp	(126.5) bp	206.7bp	138.4bp	228.7bp	349.9bp
Excess cost	(12.2) bp	(14.5) bp	(13.4) bp	(9.0) bp	(14.0) bp	(10.3) bp

# Summary of key takeaways

## Returns

- Your 5-year net total return was 9.4%. This was above both the U.S. Public median of 8.9% and the peer median of 8.6%.
- Your 5-year policy return was 7.7%. This was equal to the U.S. Public median of 7.7% and above the peer median of 7.3%.

## Value added

- Your 5-year net value added was 1.6%. This was above both the U.S. Public median of 1.2% and the peer median of 1.1%.

## Cost

- Your investment cost of 41.1 bps was below your benchmark cost of 55.6 bps. This suggests that your fund was low cost compared to your peers.
- Your fund was below benchmark cost because it paid less than peers for similar services and it had a lower cost implementation style.
- Your costs increased by 3.4 bps, from 37.7 bps in 2019 to 41.1 bps in 2023, primarily because you had a higher cost asset mix. This was partly offset by paying less in total for similar investment styles.

# Thank you



Christopher Doll

Director, Client Coverage

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