



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., December 8, 2009. The following members were present:

- Jody B. Olson
- Joy Fisher
- J. Kirk Sullivan
- Jeff Cilek
- Bill Deal

Executive Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Director William Oldham, Chief Financial Officer James Monroe, Deputy Attorney General Joanna Guilfooy, Deputy Attorney General Kathleen McRoberts and Management Assistant Cheri Campbell were also in attendance. Betsy Griffith handled the electronic projection of materials and documents discussed in the meeting. Other persons attending portions of the meeting were:

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|----------------|---------------|
| Rod MacKinnon  | MPIA          |
| Bill Palumbo   | MPIA          |
| Eoin Gill      | BNY Mellon    |
| Heidi Simpson  | BNY Mellon    |
| Cody Barney    | DBF           |
| Drew Black     | DBF           |
| Brian McGrath  | DBF           |
| Mike Boren     | Clearwater    |
| Charlie Brown  | IREA          |
| Geoff Bridges  | Milliman      |
| Brent Nye      | Boise Schools |
| Susan Marshall | Barings       |
| Paul Yett      | Hamilton Lane |
| Robin Nettinga | IEA           |
| Andrew Potter  | EFIB          |
| Jane Buser     | BSU           |
| Debbie Buck    | PERSI         |

Ray Polzin	PERSI
Diane Kaiser	PERSI
Patrice Perow	PERSI
Rose Marie Sawicki	PERSI
Judy Aitken	PERSI
Cecile McMonigle	PERSI
Kimberlee Hall	PERSI
Mike Mitchell	PERSI
Wayne Ellis	PERSI
Shawnda Kasma	PERSI
Mike Young	PERSI

### EXECUTIVE SESSION

Citing Idaho Code §67-2345(1)(d) which authorizes an Executive Session to discuss records exempt from disclosure, by motion duly made by Trustee Cilek and seconded by Trustee Sullivan and approved unanimously via a roll call vote, the Board convened in Executive Session at 8:30 a.m. They reconvened in regular session at 8:50 a.m.

During the session, they discussed recovery of overpayments to member Carma Meisinger. Trustee Deal made a motion to accept a settlement of \$50,000 on this account. The motion was seconded by Trustee Cilek and approved unanimously.

Trustee Sullivan made a motion to approve Order 09-01, an amendment to Order 06-01. Trustee Fisher seconded and the motion passes unanimously.

### MINUTES

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the October 27, 2009 meeting as written. Trustee Fisher seconded the motion, which passed unanimously.

### PORTFOLIO

Callan Quarterly Report: Michael O'Leary reviewed the performance of the fund for the period ending September 30, 2009. PERSI trailed its target policy index for the September quarter but exceeded the target over the trailing twelve-month period.

On balance, the Board's important strategic decisions had mixed impacts for both the quarter and the full year. Global portfolios outpaced pure domestic equity portfolios for the quarter and year ended 9/30/09. The aggregate "Global" component returned 18.12% for the quarter and 1.06% for the trailing twelve-months. This compared favorably to the Russell 3000 Index for the quarter and last year. Emerging markets helped results for the quarter and trailing twelve-months. The REITS portfolio helped results in the quarter but hurt over the trailing one-year period. The direct real estate allocation detracted from results in the quarter and the past one-year. The Private Equity allocation declined more than the public equity benchmark over the last twelve months, however longer term-results are still favorable.

Monthly Investment Report: December continues the rise in the world capital markets, as well as confirmation that at least slow growth is the order of the day -- most recently confirmed by marked slowdown in job losses. The fund is up 1.1% for the

month to date, with a fiscal year to date return of 16.7% (calendar year 22.8%), at \$10.55 billion.

Emerging markets and REITs continue to perform exceptionally well this year, with Donald Smith, Genesis, Zesiger and Bernstein Global and Emerging having the best relative and good absolute returns. Western has made a strong comeback in both absolute and relative returns, and is the leading manager with Donald Smith against benchmarks. The buy and hold TIPS account has had a good recent run, and is now a positive contributor both in absolute and relative returns for the fiscal year to date. Private assets have the worst absolute returns and Adelante and TCW have the worst relative returns.

PERSI is roughly even with its strategic benchmark for the fiscal year to date. While the bias towards emerging markets, REITs, global managers, TIPS and rebalancing have materially added to returns, weightings toward private assets have hurt as they mostly have not been revalued during this recent market Rise. We expect private real estate to actually have a substantially negative year as valuations in that asset catch up in this year's appraisal process.

PERSI's absolute and relative returns to peers over the past nine months have been either the best or close to the best in its history. Since the lows on March 9th, PERSI has gained 40% and \$2.9 billion, and its relative returns to peers are in or near the top quartile for all time periods over the past 20 years, and in the top decile for many of those time periods. PERSI has recovered all of its losses since right before the Lehman bankruptcy. While good returns may come and go, and PERSI will certainly see rougher relative times in the future, this period of outperformance could not have come at a more needed hour.

Mr. Maynard asked Paul Yett from Hamilton Lane to give the Board a short overview of the current private equity markets. Mr. Yett reported that the private equity trend is on the rise for the PERSI portfolio. Currently PERSI has a 4.7% increase and will probably see 5% in the 4<sup>th</sup> quarter. As of September 30 there has been a slight increase in the overall private equity market but it is still way off from the general market.

He reported that there are still some issues with mark to market accounting requirements. The general partners have been marking down assets they have no intention of selling and are hesitant to mark them back up; they are timely in their markdowns but very slow to mark them back up. If they are going to follow the standards, it should be followed for the increase as well as the decrease.

Chairman Olson announced that Money Management Letter has selected Mr. Maynard as the winner of the Lifetime Achievement Award. Mr. Maynard added that last year's winner of the award was Mike O'Leary.

Investment Manager Comments: Brian McGrath of D.B. Fitzpatrick & Co. stated he is guardedly optimistic about the credit market. The transmission mechanism of liquidity in the loan market is now being redirected through the government and private lending is still in shell shock. The government making loans is not inflationary; however when the government dips into funds allocated elsewhere to borrow, this has to be financed by borrowing or taxing or the printing of new money. New money is the easiest and painless method. Watch the balancing act by the Fed – they have to keep a balance between printing new money and inflation. Rod MacKinnon with MPIA believes that the recent strong returns in emerging markets will revert to normal

levels, and believes the S & P 500 will outperform over the next five to seven years. Both markets may do well but the US based S & P will outperform.

Bill Palumbo with MPIA reported that we do not need a real strong economy for the S & P to outperform. Corporate America is lean right now so modest revenue can cause strong earnings.

Mike Boren with Clearwater agrees that inflation is a big risk anytime, particularly after a debt crisis. He sees interesting opportunities in debt markets, but warns of potential dangers ahead. Inflation is a long-term risk, not short-term. 5% inflation is normal; but in the absence of intervention, there should be deflation, but we're comfortable with it. It may take years (20 years) to work our way out of this.

Susan Marshall with Barings agreed that the balancing act of the Fed is very important. In general, the firm is neutral right now. They are waiting to see what will happen when the government steps back and the market steps up. They are also watching to see if the improvement is stable.

## DIRECTOR UPDATES

Reconsideration of Board Decision – Shock: Deputy Attorney General Kathleen McRoberts reported that Mr. Shock has submitted a request for reconsideration of the Board's decision to deny his appeal for disability retirement benefits. Chairman Olson reiterated that he had previously reviewed the case at length and found no reason to reconsider the decision. Trustee Deal moved to uphold the decision to deny the appeal. The motion was seconded by Trustee Cilek and passed unanimously.

COLA and Contribution Rate Discussion: Director Drum reviewed several scenarios the Board may consider while making a decision on the COLA and contribution rates.

Trustee Cilek and Trustee Deal both thanked Director Drum for all the work and time he has put into educating them on the subject.

Trustee Sullivan moved to enact a contribution rate increase equal to a total of 5.31%, phased in over three years and use a grace period to move the implementation to July 1, 2011. And enact a discretionary cost of living adjustment of 2.48% to offset the mandatory -1.48% and bring it to a net 1%. The motion was seconded by Trustee Deal and approved unanimously.

Deputy Director Status Report: Deputy Oldham reviewed his report dated December 1, 2009 previously provided to the Board. Deputy Oldham provided an update on the status of the new Pension Administration System project. The project is approximately two months ahead of schedule. Four vendor demonstrations have been scheduled to provide insight to the functionality, user friendliness and efficiency of the modern pension software applications currently available.

## FISCAL

Fiscal Update: Chief Financial Officer Jim Monroe reviewed his Fiscal Update memo dated November 30, 2009. He reviewed and commented on the year to date expense reports. There were no questions regarding the reports. He also provided copies of several draft pages from the FY2011 budget that will appear in the legislative budget book.

Copies of the 2009 Comprehensive Annual Financial Report were provided to the Trustees. Mr. Monroe thanked all those who helped put together this year's report.

Quarterly Financial Statements: Sr. Accountant Debbie Buck presented the Quarterly Financial Statements. There were no questions from the Board regarding the quarterly statement.

CHOICE PLAN

Choice Plan Report: Choice Plan Manager Diane Kaiser presented an overview of the Choice Plan including status, history, investment funds, statistics and current projects. Trustees were encouraged to contact Diane with any questions or suggestions.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:05.

Donald D. Drum  
Executive Director

Jody B. Olson  
Chairman