



Public Employee Retirement System of Idaho

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., June 2, 2009. The following members were present:

Jody B. Olson
Bill Deal
Cliff Hayes
Jeff Cilek
J. Kirk Sullivan

Executive Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Director William Oldham, Deputy Attorney General Joanna Guilfoy, 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:

Rob MacKinnon	MPIA
Bruce Reeder	MPIA
Lucinda Smith	BNY Mellon
Eoin Gill	BNY Mellon
Michael O'Leary	Callan
Cody Barney	DBF
Dennis Fitzpatrick	DBF
Robin Nettinga	IEA
Mike Boren	Clearwater
Dave Boren	Clearwater
Solomon Lee	Clearwater
Brent Nye	Boise School Dist
James Coleman	REAI
Charlie Brown	REAI
Geoff Bridges	Milliman
Bill Raver	PERSI Consultant
Robert Storer	PERSI Consultant

Patrice Perow	PERSI
Cecile McMonigle	PERSI
Debbie Buck	PERSI
Diane Kaiser	PERSI
Mike Young	PERSI
Shawnda Kasma	PERSI
Ray Polzin	PERSI
Mike Mitchell	PERSI
Graydon Wood	PERSI
Rose Marie Sawicki	PERSI

MINUTES

Approval of the Minutes: Trustee Deal made a motion to approve the minutes of the April 28, 2009 meeting with a correction of removing his name from those present at the meeting. Trustee Cilek seconded the motion, which passed unanimously.

PORTFOLIO

Callan Quarterly Report: Michael O’Leary reviewed the performance of the fund for the period ending March 31, 2009. PERSI outperformed its target policy index for the quarter ended March 31st (-5.81% versus -8.00%) and exceeded the target over the trailing twelve-month period (-25.81% versus -28.50% for the target index). The trailing full-year result ranked in the 33rd percentile of Callan’s Public Fund database.

On balance, the Board’s important strategic decisions had mixed impacts for both the quarter and the full year. Global portfolios lagged pure domestic equity portfolios for both spans. The aggregate “Global” component returned -9.92% for the quarter and -45.86% for the trailing twelve-months. This compared unfavorably to the “U.S. Publicly Traded Equity” composite return of -9.20% for the quarter and -33.98% for the full year. Emerging markets helped results for the quarter. The REITS portfolio detracted from results in both the quarter and trailing one year periods. The direct real estate allocation was harmful to results in the quarter but added value for the past one year. Despite a negative return for the quarter, the Private Equity allocation continued to add value over the last twelve months.

Monthly Investment Report: Mr. Maynard reported that unless there is an objection from the Board the staff intends to terminate Fortis due to the departure of portfolio manager Saker Nusseibeh. The Board had no objection but requested that they be given a report in six months regarding the performance of the Fidelity and Fortis funds. Mr. Maynard then reviewed the month to date Investment Report dated June 1, 2009. May and June have continued the global market rally that started in the first week in March, as investors continue to gain confidence that the pace of the deterioration of the economy is at least slowing, and is probably bottoming. Global economic conditions, however, are still generally declining with some increases at the margin, and the markets are clearly reacting to expectations of a bottom in economic conditions rather than conclusive evidence that that bottom has actually occurred. US and international equities were up around 5% for the month in the US, and around 10% overseas, although they are down -25% to -30% for the fiscal year to date. Fixed income accounts were up slightly for the month.

The fund was up 5.7% for the month of April and 1.35% for the first day of June, which brings the fiscal year to date returns for PERSI to down -14.9% at \$9.2 billion. The improvement in the fortunes of the fund since March 9 have been breathtaking. On March 9 the fund reached it's low point for the fiscal year to date, and was then down -30.6% for the fiscal year to date at \$7.526 billion. In the two and a half months since then, the fund has risen 22% and has gained over \$1.6 billion. Since volatility tends to cluster, there is no necessary reason to believe the ride is over -- in either direction.

US equity managers (particularly Donald Smith, Tukman, Mountain. Pacific, and Peregrine) continue to outperform for the fiscal year to date, while Bernstein Global and Western fixed income continue to show the greatest relative underperformance (with recent improvement both relatively and absolutely). The Fidelity termination has been completed, and the assets transferred.

PERSI's performance continues to be better than the general markets for the fiscal year to date, with the overall fund outperforming the strategic benchmark by 2.0% compared to our strategic benchmark (55% US equities, 15% international equities, 30% investment grade fixed income, rebalanced monthly). Global and emerging markets, after being severe impediments to total fund relative returns in the downdraft, have recently returned to their longer term position of contributing quite positively to overall fund returns, both absolutely and relatively. Emerging markets, especially, have recently been surging, and have been up over 50% in the last three months, up over 13% for April.

Real Estate Investment Update: Paul Saylor with CS Capital Management provided an update and overview of the current real estate portfolio held by PERSI. The program has had slowing returns but is outperforming the benchmark. The program is waiting for a more favorable real estate market before pursuing any new substantial investments. Mr. Saylor added that the impact of the lack of debt won't hit until next year; that there will be continued withdrawals from real estate through 2010 and that we should see signs of improvement in 2010-2011 and thereafter.

Investment Advisors: PERSI Investment Advisors Robert Storer and Bill Raver were present at the meeting. Chairman Olson asked for their input on the current market situations and an update on their work for PERSI. Mr. Storer believes the market is bottoming out with both positive and negative signs ahead. He expects a volatile recovery, not a straight line to recovery. He has seen some corporations restocking their inventories to prepare for more shipments and expects unemployment (ex automakers) to subside. The Japanese market seems to be bottoming out also, which is another good sign. We need to prepare for inflation down the road, given the level of debt issuance.

Mr. Raver stated that many investment companies are going through changes at this time. Two firms that PERSI works with have changed CEO's, four have had major staffing changes and two have embarked on a complete business model change. This has kept them busy meeting with these companies and passing information on to Bob and Richelle. He is amazed at PERSI's real-time monitoring of the portfolio; this is something he has not seen in the industry before and is very impressed.

He feels the market is starting to turn and things are not getting in the way of other things right now. The press has been talking about the old investment models being broken and that it is time to toss out all the old tools. It has been very

refreshing for him to work with Bob and Richelle who still apply consistent investing methodology.

Investment Manager Comments: Mike Boren from Clearwater is extremely pessimistic and expects further real estate declines. He stated that the capricious nature of government programs is a problem in the market right now. The TED spread has always been an indicator of a bank's strength, but now it doesn't mean much and can't be trusted. Banks are still not lending to each other or individuals, the government programs are forcing some banks to take more money than they want. He is concerned about inflation, real estate prices, and mbs prices going forward. Dave Boren agreed.

Cody Barney with DBF said he agreed with Clearwater's assessment and concern over government involvement and that the end game will be inflation. The Fed needs to inflate the debt away, and they have done this by purchasing mbs; monetizing the debt. The TIPS spread is blowing out. Inflation is the serious threat now and is expected by next year.

Rob MacKinnon with MPIA feels that there has been a nice market recovery, but that we should expect a pause then a resurrection of emerging market growth and commodity-driven recovery. He is skeptical that another bull market will be led by the same leaders of the last bull market and believes that the tech sector will lead the next rally, not commodities.

DIRECTOR UPDATES

Executive Director's Status Report: Director Drum reviewed his report dated May 27, 2009 previously provided to the Board. The Legislature passed SB1111, which provides a disability lump sum payment for Class II employees. Milliman will present a final report to the Board in the near future regarding the rate increase that will be necessary for all Class II employees to fund this payment.

PERSI is negotiating a contract with Icon Integration Design, Inc. to conduct a data-cleansing project. The goal is to resolve any data issues that exist and avoid moving any corrupt data to the new system.

Mr. Drum presented a draft copy of the Strategic Plan to the Trustees. This plan will be presented to DFM. PERSI staff will continue to add to the plan in Phase II of the planning process. The plan will also assist management in determining the impact of the 5% personnel cost cuts that the legislature passed starting FY11.

New Employer: Payette County Recreation District in Fruitland, Idaho has requested admittance into the PERSI system effective June 15, 2009. The District has five employees and three unpaid elected/appointment officials. There is no entry cost for this employer. Trustee Sullivan moved to admit the Payette County Recreation District effective June 15, 2009. The motion was seconded by Trustee Deal and approved unanimously.

LEGAL

Hearing Officer Registry: Deputy Attorney General Joanna Guilfooy presented the Board with a bio on attorney John Lynn and recommended that they expend the current hearing officer registry to include Mr. Lynn. Trustee Deal moved to accept staff's recommendation to expand the registry. The motion was seconded by Trustee Cilek and approved unanimously.

FISCAL

Fiscal Update: Chairman Olson announced that he had received notification that PERSI had again received the GFOA Award for Excellence for the 2008 CAFR. He congratulated Sr. Accountant Debbie Buck for her role in this award. Deputy Director Bill Oldham reviewed the fiscal update prepared by Chief Financial Officer Monroe, dated May 26, 2009. There were no questions regarding either the Administration or Portfolio expense reports.

Quarterly Financial Statements: Sr. Accountants Debbie Bucks and Cecile McMonigle presented the Quarterly Financial Statements and gave the trustees an overview of the annual audit process. Eide Bailly representatives will be here the week of June 15th to start the audit planning and preparatory work. There were no questions regarding the quarterly statement.

The board took a break and reconvened for further market discussions at 11:30.

Adjournment: There being no further business to come before the Board, meeting adjourned at 1:45 pm.

Donald D. Drum
Executive Director

Jody B. Olson
Chairman