



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., October 27, 2009. The following members were present:

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

Executive Director Don Drum, Investment Officer Richelle Sugiyama, Deputy Director William Oldham, Chief Financial Officer James Monroe, Deputy Attorney General Joanna Guilfooy, 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:

Rod MacKinnon	MPIA
Bruce Reeder	MPIA
Eoin Gill	BNY Mellon
Heidi Simpson	BNY Mellon
Cody Barney	DBF
Dennis Fitzpatrick	DBF
Doug Bates	Clearwater
Tim Dunn	Clearwater
James Coleman	IREA
Charlie Brown	IREA
Brad Berls	Eide Bailly
Geoff Bridges	Milliman
Brent Nye	Boise Schools
David Hahn	DFM
Susan Marshall	Barings
Paul Saylor	CS Capital Management
Rafael Stone	Foster Pepper
Wayne Hammon	DFM
Debbie Buck	PERSI

Ray Polzin	PERSI
Diane Kaiser	PERSI
Patrice Perow	PERSI
Rose Marie Sawicki	PERSI
Judy Aitken	PERSI

MINUTES

Approval of the Minutes: Trustee Deal made a motion to approve the minutes of the September 22, 2009 meeting as written. Trustee Cilek seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: Investment Officer Richelle Sugiyama reviewed the investment report dated October 26, 2009. The month to date continues to market rebound, with periodic fits and starts as earnings reports and commentary indicating that the world and US economy is generally climbing out of recession, although with some very problematic areas. As of the close Friday, October 23rd, the fund was up 0.9% for the month to date, 13.4% for the fiscal year to date (19.3% for the calendar year to date) at \$10.289 billion.

Emerging markets and REITs performed exceptionally well, 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. Donald Smith is posting strong absolute and relative returns, as are the emerging market managers. The buy and hold TIPS account, MBS, and private assets have the worst absolute returns and Mountain Pacific and Adelante have the worst relative returns.

PERSI lagging its strategic benchmark by -0.2%. While the bias towards emerging markets, REITs, global managers, and rebalancing have materially added to returns, weightings toward private assets have hurt more as they 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.

The markets over the past six months have been the most productive in PERSI's history, with the total fund up more than 38% since March 9th. Unfortunately, this immediately followed the worst six months in PERSI's history, with a drop in total fund returns of -30% from July 1 2008 to March 9th. Over the entire period PERSI is still down -3%, although we are once again a \$10 billion fund. Further market advance appears to be now awaiting the strength of the actual recovery, and the actual size of the rebound in corporate profits.

Ms. Sugiyama asked Paul Saylor from CS Capital Management to give the Board a short overview of where he sees the market conditions. Mr. Saylor believes the market fundamentals are still declining and will continue until late 2010. The market is being affected by uncontrolled debt and banks unloading debt. He did state that the rate of decline has lessened and we will see double digit returns in 2012.

Private Equity Update – Hamilton Lane: Paul Yett presented the second quarter performance update. For the quarter ended June 30, 2009, the underlying partnerships reported gains totaling \$39.7 million losses totaling \$6.1 million equating

to a net gain for the Portfolio of \$33.6 million. The PE Portfolio reported a positive IRR of 5.32% for the quarter, the first positive returns since the second quarter of 2008.

Investment Manager Comments: Dennis Fitzpatrick of D.B. Fitzpatrick & Co. stated he has the same concerns as last month. We are going to have to have inflation at some point and he foresees a drastic increase in interest rates soon.

Rod MacKinnon with MPIA is optimistic. He reported that some are seeing a positive trend in temporary employment for the first time in several months. They are predicting that by the end of 2009, employment trends will pick up and market will start to see a recovery.

Bruce Reeder with MPIA thinks we are starting to see the market stabilize. It is prime for increased operating leverage.

Tim Dunn with Clearwater said they are paying attention to the earning season, which is offering some encouragement. Large banks are very profitable due to low borrowing rates. However, they are not passing that on. Small banks are still a big concern at this point. It is predicted that 13% of total number of banks could be taken over by FDIC.

Susan Marshall with Barings reported that they are neutral right now. We may see a blow up in bonds that could cause the stimulus to disappear and no way to repay.

Rafael Stone with Foster Pepper stated that some major institutions are backing out of commitments so the time period to raise funds is being extended in many areas. Real estate has dropped significantly but when comparing apples to apples it is still doing well in comparison. He predicts that private equity will outperform public in the near future.

DIRECTOR UPDATES

Final 2009 Actuarial Report: Trustee Fisher made a motion to accept the 2009 Actuarial Valuation as presented by Milliman at last month's meeting. Trustee Deal seconded the motion, which 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 Sullivan reported that he has spoken with Senator Cameron regarding this issue. The Senator has requested that the Board postpone the final decision until after November 13th when the legislature is having a committee meeting.

Wayne Hammon, the Governor's Budget Director, was present and expressed the Governor's gratitude to the Board for their hard work and consideration of this matter. The Governor has full faith in the Board and supports the fact that this is the Board decision to make. He also voiced his concern regarding the effect a contribution rate increase will have on employer budgets.

Chairman Olson held the issue over for a final decision at the December 8, 2009 meeting.

FY09 Audited Financial Statements: Lee Miller from Eide Bailly presented the audit report to the Board. It was a clean opinion and they have no recommendations from the FY 2009 audit. Trustee Deal, the Board representative on the Audit Committee, made a motion to accept the FY09 Audited Financial Statements. Trustee Sullivan seconded the motion, which passed unanimously.

Trustee Deal thanked the staff and the auditors for their work on this year's audit. Chairman Olson thanked Trustee Deal for volunteering to the Audit Committee.

Final Decision Appeal – Shock: Chairman Olson reported that since the last meeting he reviewed the Shock file extensively, including talking to the Hearing Officer assigned to the appeal. Although it is an unfortunate case, there is no evidence to overturn the decision of the Hearing Officer to deny the appeal. Trustee Sullivan moved to uphold the decision to deny the appeal. The motion was seconded by Trustee Deal and passed unanimously.

Hearing Officer Recommendation – Siedenburg: Hearing Officer Jean Uranga issued a Recommended Order regarding Renee Siedenburg's appeal of her disability denial on September 23, 2009. The Recommended Order proposes that the case be remanded for further review. Trustee Sullivan moved to issue the Final Decision and Order adopting the hearing officers Recommended Order. The motion was seconded by Trustee Deal and approved unanimously.

Request for Reconsideration – Brager: On September 18, 2009, Mr. Thomas Brager submitted a letter asking for reconsideration of the Board's decision denying his application for disability retirement benefits. Trustee Cilek made a motion to deny this Request for Reconsideration. Trustee Fisher seconded the motion, which passed unanimously.

Executive Director's Status Report: Director Drum reviewed his report dated October 20, 2009 that was previously provided to the Board. Mr. Drum reported that he and the staff are continuing to monitor national pension issues. He presented a summary of the recent NASRA Public Fund Survey.

A couple of School Districts have indicated that they intend to proposed legislation that would exempt substitute teachers from PERSI. He has asked that PERSI be allowed to review the proposed language once the bill is prepared.

New Employer: City of Parker has requested entry in the PERSI system. They have 2 employees plus 5 paid elected/appointed officials. There is no entry cost to the employer. Trustee Deal moved to accept the City of Parker into the system effective November 1, 2009 Trustee Sullivan seconded the motion, which passed unanimously.

Blaine County Housing Authority requests entry into the system effective November 1, 2009. They have 2 employees and seven unpaid elected/appointed officials. There is no entry cost to the employer. Trustee Cilek moved to accept the Blaine County House Authority into the system effective November 1, 2009 Trustee Deal seconded the motion, which passed unanimously.

Deputy Director Status Report: Deputy Oldham reviewed his report dated October 21, 2009 previously provided to the Board. Deputy Oldham provided an update on the status of the new Pension Administration System project. A contract has been issued to Provaliant for a Project Management vendor.

Third quarter operational statistic were provided to the Trustees.

FISCAL

Fiscal Update: Chief Financial Officer Jim Monroe reviewed his Fiscal Update memo dated October 22, 2009. He reviewed and commented on the year to date expense reports and quarterly out-of state travel report. There were no questions regarding the reports. He also provided a memo to the Trustees regarding the interest rates for CY10. The regular interest rate is calculated to be 1% and the reinstatement rate is 6.50%.

Adjournment: There being no further business to come before the Board, meeting adjourned at 10:35.

Donald D. Drum
Executive Director

Jody B. Olson
Chairman