



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., August 25, 2009. The following members were present:

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

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: Rod MacKinnon	MPIA
Bill Palumbo	MPIA
Eoin Gill	BNY Mellon
Heidi Simpson	BNY Mellon
Cody Barney	DBF
Brian McGrath	DBF
Drew Black	DBF
Robin Nettinga	IEA
Brent Nye	Boise Schools
Doug Bates	Clearwater
Solomon Lee	Clearwater
James Coleman	REAI
Charlie Brown	REAI
Geoff Bridges	Milliman
Chris Halverson	EFIB

Allison McClintick	OSBE
Todd Hebert	ACS
Jean Cassonos	ACS
Joe Grieco	ACS
Cecile McMonigle	PERSI
Debbie Buck	PERSI
Mike Young	PERSI
Shawnda Kasma	PERSI
Ray Polzin	PERSI
Diane Kaiser	PERSI
Patrice Perow	PERSI
Rose Marie Sawicki	PERSI
Kathleen McRoberts	PERSI

MINUTES

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the July 28, 2009 meeting as written. Trustee Deal seconded the motion, which passed unanimously.

PORTFOLIO

Callan Quarterly Report: Michael O'Leary reviewed the performance of the fund for the period ending June 30, 2009. PERSI trailed its target policy index for the June 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 quarter but lagged for the year. The aggregate "Global" component returned 23.69% for the quarter and -30.27% for the trailing twelve-months. This compared unfavorably to the Russell 3000 Index for the year (-26.56%) but was strongly positive for the quarter (16.82%). Emerging markets helped results for the quarter. 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 but added value for the past one year. Despite hurting return for the quarter, the Private Equity allocation declined less than the public equity benchmark over the last twelve months.

Monthly Investment Report: The new fiscal year is starting out with reasonably optimistic markets. World financial conditions appear to be at least bottoming if not easing, and economic conditions appear to show some signs of imminent recovery (although recovery at a very slow pace). Corporations reported generally better than expected earnings, although most of the improvement was through cost reductions rather than revenue increases. Recently, however, the advance seems to periodically stall with some concerns about a "double dip" recession. The fund as a whole is up 2.5% for the month and is up 7.8% for the fiscal year to date, at \$9.79 billion.

Emerging market managers and REITs are performing well in the first few weeks of the new fiscal year. With Donald Smith, Genesis 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 against Benchmarks. Donald Smith is posting strong absolute and relative returns, as are the emerging market managers. The buy and hold TIPS account and private assets has the worst absolute returns and Mountain Pacific and Barings had the worst relative returns.

PERSI is also starting out the year lagging its strategic benchmark by 1.4%. While the bias toward emerging markets has helped, while weightings toward TIPS and private assets have hurt more.

The new fiscal year is just too new to draw any conclusions or trends. In interesting side note is that from the beginning of last fiscal year through the "Great Collapse" until March 8th, the total PERSI fund was down -30%, the worst short term drop in its history. From March 9th, however, PERSI has gained 30.8%, which represents the most rapid and extensive rise in its history. Unfortunately, the mathematics of large drops and gains is such that this leaves us still slightly more than down -9% for the period. But there is now a reasonable chance if corporate earnings, and particularly sales growth, noticeably improves, that we might be able to at least recover last year's record loss (of -16.0%).

Chairman Olson pointed out that PERSI lost 500 to 1000 basis points less than the majority of our peer group. He thanked the managers, consultants and custodians that make up the portfolio team for helping minimize the downside. He stated that overall, 2009 was a strong year for PERSI when compared to our peers.

Investment Manager Comments: Doug Bates from Clearwater quoted Roubini a New York University Professor, in saying that 1) global economy will see bottom in second half of 2009; 2) US and several will see the end of recession in 2009; 3) China and others have started recovery. The economy is in an anemic u-shaped recovery (which will take a couple of years to come out of) but will come out of it; however, we can't withstand another shock. Expect rates to stay low, forward markets are predicting the Fed to tighten in March 2010 and wonders whether credit spreads tightened too much too fast; looking for a pullback.

Rod MacKinnon with MPIA agreed that we need revenue growth for equities to perform well. There is a fear that consumer spending will not rebound. Consumers must stop deleveraging to help; corporations have already cut costs and any revenue growth goes a long way

Brian McGrath with DBF said that the economy is robust and resilient; credit market is still weak in many respects. With regards to the local mortgage market, there is not much competition and lots of liquidity; still it's a slow and tedious process and it is difficult to get loans. Credit markets will start finding other routes for both credit and liquidity. Most people will not believe there is a recovery until they see it.

CEM RESULTS PRESENTATION: Due to flight cancellations, the CEM representative was unable to attend the meeting.

CHOICE 401(K) PLAN

ACS FY09 Update: Jean Cassanos and Todd Herbert with ACS reviewed the participation and allocation highlights of the FY09 report on the Choice Plan. Total pretax salary deferral contributions for FY09 were 35,810,604; of the 73,002 members eligible, 12,912 made pre-tax salary deferrals; newly eligible members in FY09 were 7,638, and of those newly eligible members 771 are contributing. The Trustees voiced their concern that maybe the plan is not being marketed or the eligible employees educated enough since there are 6,867 newly eligible employees choosing not to participate. A new communication campaign was rolled out in July, and results from that should be available soon. There was some discussion about the PERSI trainers doing more employer education regarding the Choice Plan. Director Drum addressed this further in his report.

Joe Grieco was introduced as PERSI's new Account Executive. Jean and Todd will continue to work on the PERSI account also.

DIRECTOR UPDATES

Executive Director's Status Report: Director Drum reviewed his report dated August 19, 2009 that was previously provided to the Board. PERSI staff have been reviewing options to reorganize and increase oversight and maintenance for the Choice Plan. We currently plan to establish a Choice Plan Manager position to oversee plan review, enhancement of member and employer education and day-to-day activities.

ICON INTEGRATION and DESIGN has begun our data-cleaning project. ICON, working with PERSI IT staff, has installed the Data Profiling and Data Modeling (Erwin) toolset from Computer Associates (CA). These products are different from what was originally planned for the data cleansing tasks; however, these tools come with many benefits for the PERSI organization, such as term of use and cost. These tools will be available to PERSI free of charge throughout the term of ICON's involvement with PERSI.

Director Drum reported that preliminary numbers show the FRF COLA will be approximately 3.624%. This is set annually by statute and there is no Board action required.

Hearing Officer Final Decision - Brager: Deputy Attorney General Kathleen McRoberts presented the Recommended Order of the hearing officer in the Tom Brager case. Trustee Sullivan made a motion to issue the Final Decision and Order adopting the Recommended Order to deny Mr. Brager's appeal. The motion was seconded by Trustee Hayes and approved unanimously.

Appeal of Director' Decision – McClintick: Allison McClintick has filed an appeal of the Director's Decision denying Ms. McClintick the opportunity to make an election to remain in PERSI outside the statutory time limit. Under Idaho Code §33-107A(3)(b), a vested member of PERSI who becomes an employee of the Office of the State Board (OSBE) has 60 days in which to make an irrevocable election to remain in PERSI.

Ms. McClintick claims she would have made the election to remain in PERSI if she had not been given inaccurate information by a PERSI staff member regarding her vesting status. Trustee Sullivan moved to hold this issue over for further review by the Board. Trustee Deal seconded the motion, which passes unanimously.

Deputy Director Status Report: Deputy Oldham reviewed his report dated August 19, 2009 previously provided to the Board. Deputy Oldham gave a brief overview of the information covered at the NASRA Annual Conference that he and Trustee Hayes attended.

THE RFP for the Pension Administration System was issued the end of July. IT Manager, Ray Polzin, has received 8 questions from 3 vendors interested in the project.

FISCAL

Fiscal Update: Chief Financial Officer Jim Monroe reviewed his Fiscal Update memo dated August 18, 2009. He reviewed and commented on the year to date expense reports. There were no questions regarding the reports. He also provided updates on the annual audit and presented the FY2011 budget for approval. The budget request is essentially the same as last year with the exception of the funding for the IT project.

Trustee Deal made a motion to approve the FY11 budget request for submittal to DFM and LBO. Trustee Cilek seconded the motion, which passes unanimously.

FY09 Financial Statements: Senior Accountant Debbie Buck presented the FY09 Unaudited Financial Statements. Highlights reviewed included contributions, which increased 3.8%; investment income decreased 16% and transfers and rollovers increased 8% over last fiscal year. There were no further questions from the Trustees.

Trustee Hayes recommended that Chairman Olson appoint another Trustee to replace him on the Finance and Audit Committee. Trustee Deal volunteered and was appointed to this committee.

Adjournment: There being no further business to come before the Board, meeting adjourned at 10:45.

Donald D. Drum
Executive Director

Jody B. Olson
Chairman