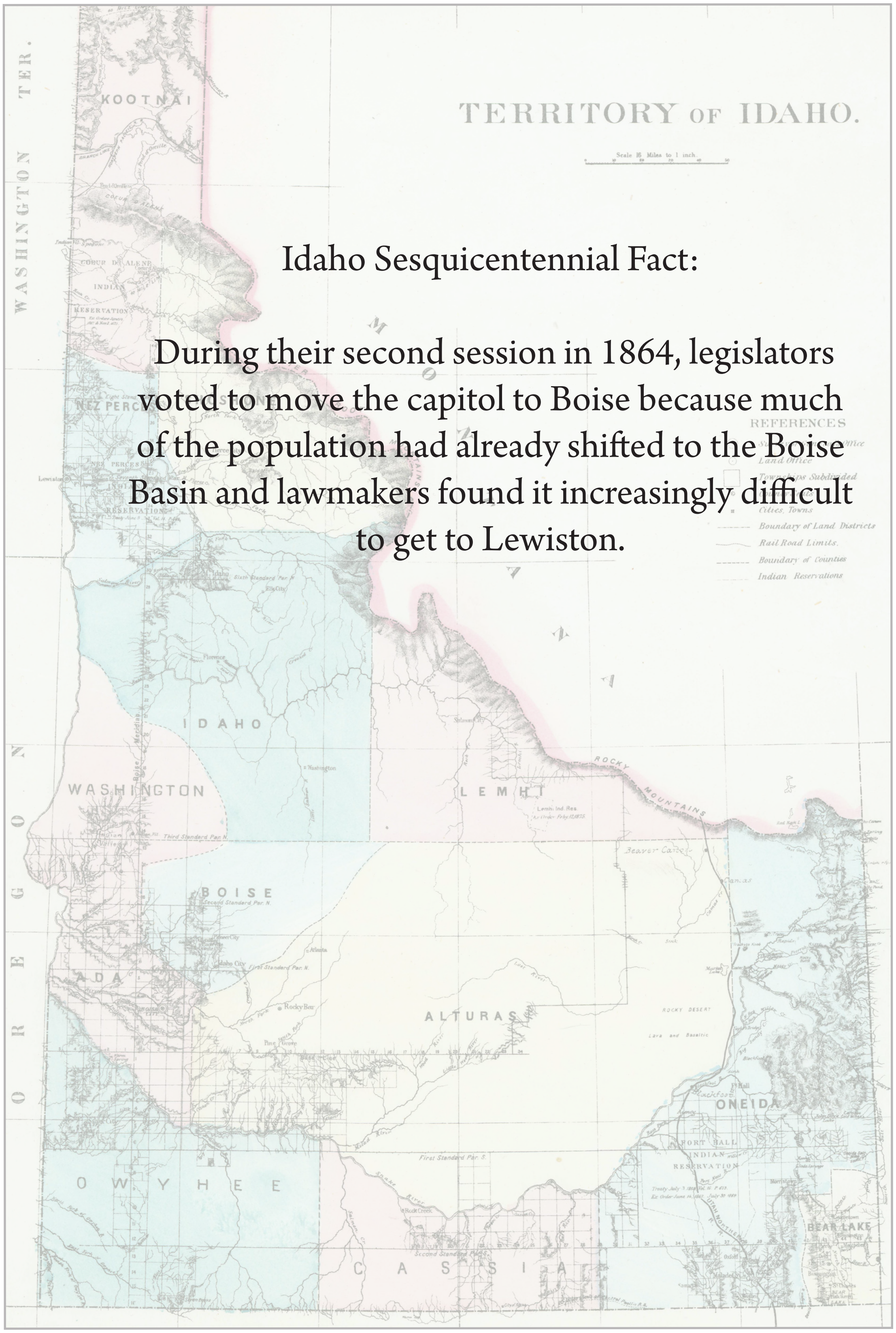
Investment Section



Idaho Sesquicentennial Fact:

During their second session in 1864, legislators voted to move the capitol to Boise because much of the population had already shifted to the Boise Basin and lawmakers found it increasingly difficult to get to Lewiston.

Helping Idaho public employees build a secure retirement.

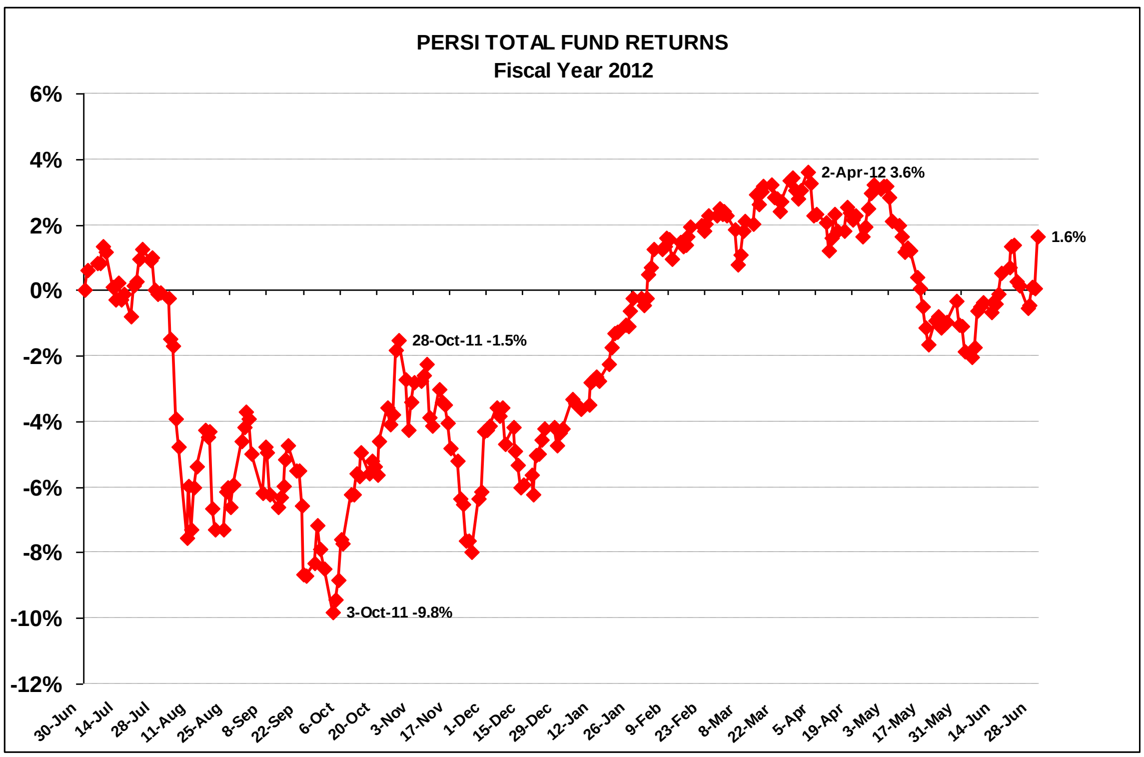
REPORT ON INVESTMENT ACTIVITY
OVERVIEW OF FISCAL YEAR 2012*

Prepared by Robert M. Maynard, Chief Investment Officer

Like a roller coaster ride where one ends up at the same place as one began, PERSI finished FY 2012 with a return of 1.62%, with 1.58% of that return coming on the last day of the fiscal year. PERSI ended the fiscal year with $12.3 billion in assets under management ($11.933 billion in the DB plan and the Total Return Fund, $89 million in other Choice Plan accounts, and $280 million in the Sick Leave fund, which had a return of 2.3% for the year).

But the mediocre nature of the return masks what was, at times, a thrilling ride both up and down during the year. The year led off with a debt showdown in the US and an S&P downgrade, with the rest of the year dominated by the twists and turns of three big "macro" issues: a stumbling but advancing US economy, European near chaos both fiscally and economically, and China's ultimately successful attempt to slow growth to combat inflation, and subsequent battle to prevent a "hard landing". On the "micro" side, equity markets were generally supported by strong corporate earnings and robust balance sheets.

As a result, it was a year that saw some of PERSI's best and worst monthly returns in its history:



** The investment section of the CAFR was compiled using information from the System's custodial bank, Bank of New York Mellon, our consultant, Callan Associates, and internally generated data. Unless otherwise noted, investment returns are based on investment fair market values and made on a time weighted return methodology, gross of investment fees and consistent with Global Investment Performance Standards.*

PERSI found itself in a deep hole early in the fiscal year. August experienced the greatest volatility and losses in the world capital markets since the crash of 2008-2009. Starting with the S&P downgrade, the world equity markets collapsed primarily driven by European sovereign debt concerns, rumors of banking problems and contagion, and noticeable signs of slowing global growth with fears of a "double dip" recession in the U.S. 400 point swings in the Dow became a daily event as the two year Treasury went to an all time low yield, the ten year Treasury went to the very low 2's in yield, and the Fed stated it would keep interest rates at practically 0% until 2013.

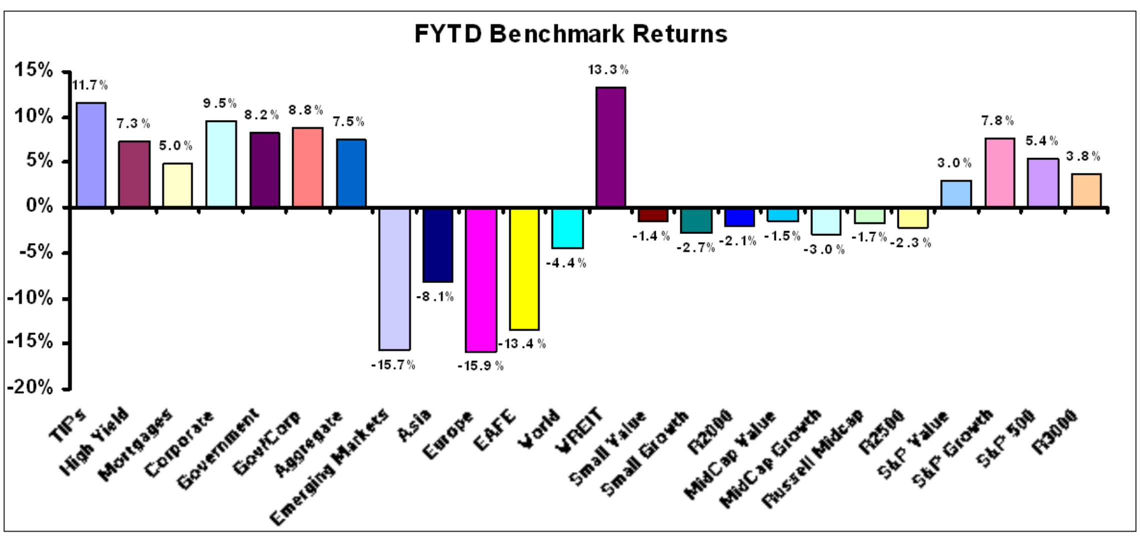
The carnage continued through September, and by the start of October PERSI was down almost -10% for the new fiscal year to date – a dismal start that quickly left the memories of a historic 20.7% return for FY 2011 far in the rear view mirror. But then the US economy started to deliver positive economic surprises, Europe calmed down somewhat, and in October PERSI had its best month ever, with returns of 6.3% for the month – still not enough, however, to lift the fund out of the hole. Then Greece exploded again, the so-called "super committee" disappointed, and markets fell for the rest of the calendar year.

Starting in January, however, warm weather in the US led to positive economic news, Europe began to calm down aided by ECB liquidity support (notably the LTRO – an ECB program to provide three year cheap financing to European banks), and China appeared to be successful in containing a worrisome inflation problem. As a result, PERSI steadily climbed out of the hole and reached an all time high by the end of March and beginning of April ($12.252 billion).

Then, Greece and Europe exploded once again, followed by disappointing US economic news, and fears of a Chinese hard landing. The markets (and fund returns) struggled for the rest of the year, with the final day surging 1.6% in reaction to apparent progress in addressing European fiscal issues.

Thus, instead of "Groundhog Day", the world capital markets seem to in a "Groundhog Year", where for the third year in a row the calendar year starts out with a sense of optimism, peaks by Spring, gets hit with the same European crisis, followed by a slowdown in the U.S. with its plodding economic growth. China issues also come to the fore. As a result the capital markets stall and stumble until short-term clarity seems to return around Christmas.

The fiscal year capital market returns were dominated by great fixed income returns, mediocre US equity returns (positive returns for large cap, losses for small cap), and extremely poor overseas markets:



Overall for the fiscal year, PERSI did well at home and poorly overseas. PERSI's relative performance to strategic benchmarks (-1.0%) was dominated by the severe underperformance of EAFE (-13.4%) and the Emerging Markets (-15.7%) to US equity markets (+3.8%). PERSI's Fixed Income had a stunning year with 12.4% returns. TIPS and REITS had outstanding years and helped relative performance, with the SSGA TIPS account returning 22.2% and the Adelante REIT account gaining 15.5%. At the other end of the spectrum was Bernstein, with the two biggest losing accounts in their emerging markets (-20.2%) and global (-16.1%) products.

US equities also had a very good relative year with returns of 5.8% compared to the R3000 return of 3.8%, with nice contributions from private equity (8.6%) and our active managers (4.5%). The global managers (-8.6%) hurt the most in relative performance to our strategic benchmark and to the world benchmark (-4.4%). All of our global managers except Longview underperformed their benchmark, while all of our US active managers outperformed. Our fixed income managers were around or significantly above their benchmarks.

PERSI’s returns for the fiscal year were a bit above the middle of the pack for institutional funds for the year – above median for all public funds in both the Callan (42nd percentile) and Mellon (43rd percentile), and well above median for billion $ plus public funds (36th percentile). Three year and five year rankings are slightly above or below median, and longer term returns are consistently top quartile:

RANKINGS IN THE CALLAN PUBLIC FUND UNIVERSE AND MELLON PUBLIC FUND UNIVERSE
June 30, 2012
Percentile Rankings over Period
(1 is highest, 100 is lowest)

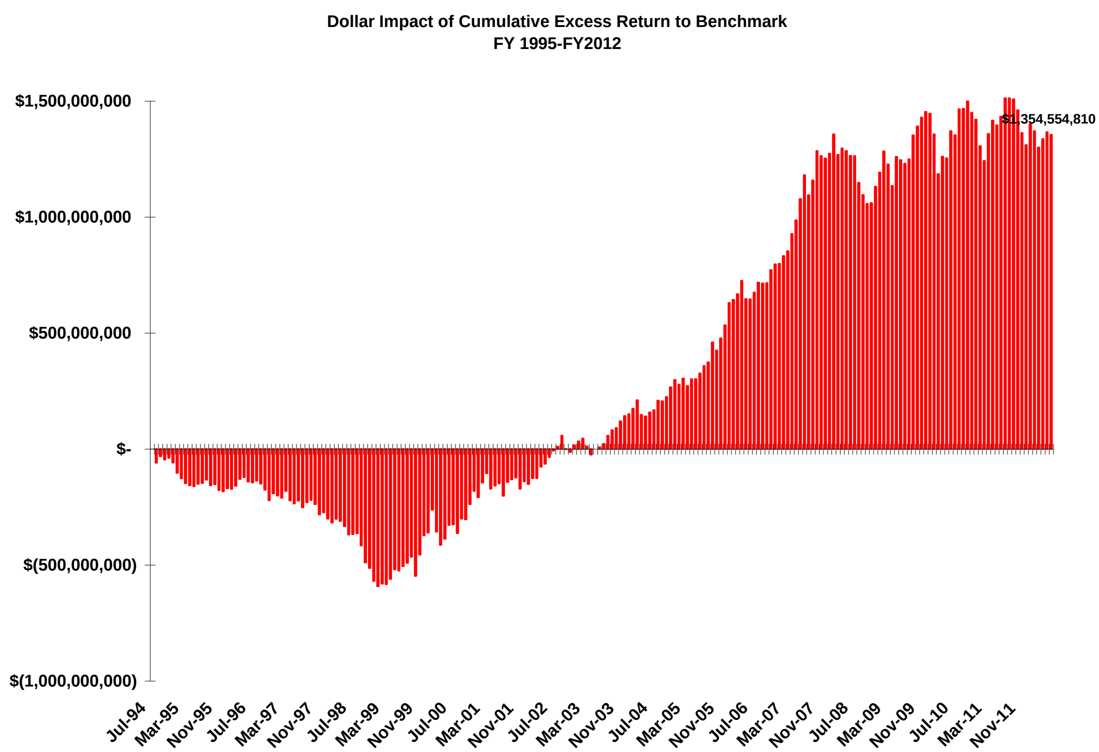
	1Yr	*3Yrs*	*5Yrs*	*7Yrs*	*10Yrs*	*Inception (9/92)*
Return (%)	**1.6**	**11.3**	**2.1**	**5.9**	**7.3**	**8.3**
Policy Return	2.6	12.6	2.2	4.8	6.1	7.6
Callan Median Fund	1.2	11.7	1.8	5.1	6.3	7.8
Mellon Median Fund	1.1	11.7	1.9	5.0	6.3	
Mellon $1 Billion Plus	1.1	11.9	1.8	5.1	6.6	
PERSI Rank (Percentile)						
Callan Public Funds	**42**	**60**	**43**	**12**	**11**	**24**
Mellon All Public	**43**	**64**	**47**	**16**	**16**	
Mellon $1 Billion Plus	**36**	**71**	**45**	**22**	**21**	

PERSI tends to do well in peer comparisons when equities outperform fixed income, and we do extremely well when the order is Emerging Markets, EAFE, Russell 3000, Bonds. This happened through most of the 2000s, and PERSI’s peer rankings were stunningly high. But, when fixed income beats equities PERSI tends to do poorly, and when the order is reversed (Fixed, R3000, EAFE, Emerging), as it was in 1997-1998 (the Asia Crisis), PERSI usually compares poorly to peers. And, last year the order was reversed against PERSI’s biases, with the order as follows: Bonds (7.5%), R3000 (3.8%), EAFE (-13.4%), Emerging (-15.7%), and with large differences between overseas and domestic. Historically, this would have put PERSI deep in the bottom quartile. Thus, an above median result is actually something of a pleasant surprise, and was a bit unexpected.

And, this order has been the pattern now for the last five years. For the five year annualized returns the order has been Fixed (6.8%), R3000 (0.4%), EAFE (-5.6%). Yet it appears that PERSI is around median for all time periods up to five years (sometimes slightly above, sometimes slightly below). If PERSI can hold that pattern in these markets, then when the markets turn the fund will be very, very well positioned in peer rankings.

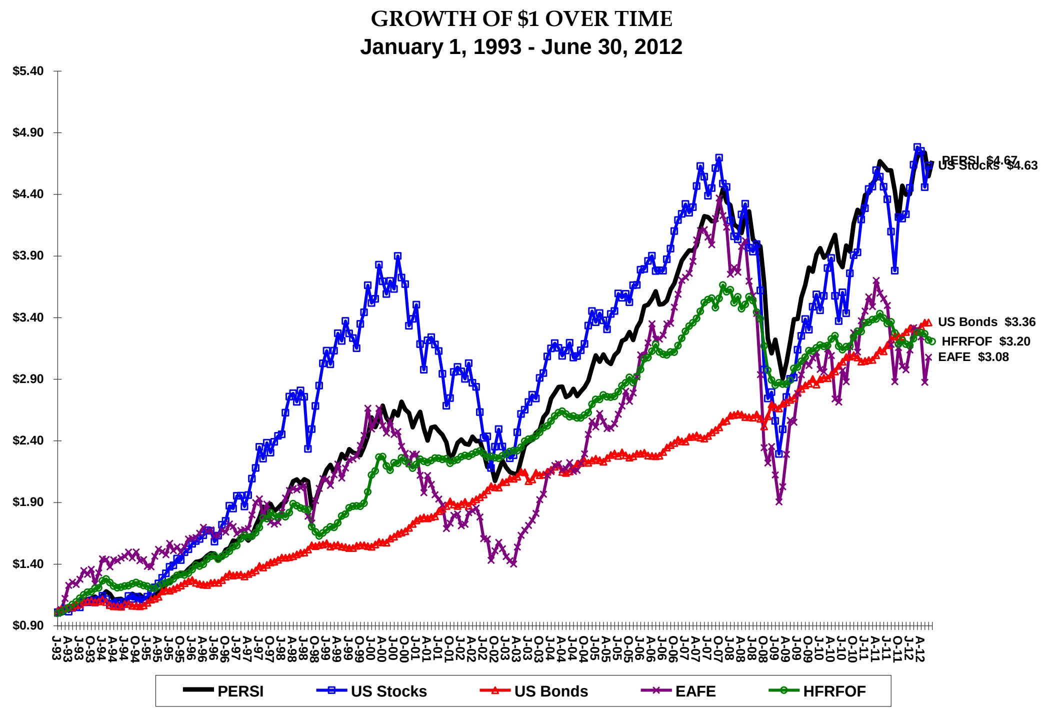
Over the longer term, PERSI's actions have added well over $1 billion to both general market returns (as represented by the strategic benchmark) and to the average public fund through its additional activities in emerging markets, private assets, TIPS, REITS and similar programs, as follows.

Since July of 1994 (when specific records on these numbers were first kept by staff), PERSI has added over $1.3 billion to fund value over what merely matching strategic benchmark returns would have produced, as follows:



According to Callan data, over the past 20 years PERSI has outperformed the median public fund by half a percent a year (8.3% to 7.8%). Twenty years ago PERSI was around a $2.5 billion fund. That half a percent difference in return over 20 years represents approximately $1.1 billion in added value.

Since 1993, every dollar invested in PERSI has turned into $4.67, exceeding the returns of US equities ($4.63), and significantly outperforming US Bonds ($3.36), International Equities ($3.08), and the hedge fund industry generally (as represented by the HFRI hedge fund of funds index) ($3.20).



PERSI's basic and simple approach has served the fund well both over the past year and over the longer term. It encountered few issues in the turbulent period of the last five years, and has survived relatively unscathed through all of the crises of the past 20 years.

As noted previously, the year saw weak US public equity markets with 3.8% returns (Russell 3000), with large capitalization US equities leading the way with returns of 5.4% (S&P 500) and mid and small cap stocks actually losing -2.3% (R2500). PERSI's US equity component outperformed the indices with a 5.8% return. The public equity component returned 4.7%, which was aided by the performance of real estate (9.1%) and private equity (8.5%). Private real estate had an adequate year with returns of 5.5%, and REITs (managed by Adelante had a very good year with 15.5% returns (beating the general REIT index returns of 13.2%).

PERSI's other active public equity managers also had a good year. Most US active managers outperformed their benchmarks, with Peregrine returning 7.9% (+0.1% to benchmark), Tukman at 8.8% (+3.4% to benchmark), Mountain Pacific at 2.3% (+4.6%). Donald Smith at -0.7% was the exception, underperforming the general Russell 3000 by -4.5%, although that underperformance is explained by the portfolio generally being composed of small cap stocks (with D. Smith outperforming small cap indices over the year).

Global Equity had a poor absolute and relative performance year, with returns of -8.6%. This was both below the MSCI World index (at -4.4%) and below US equity general returns. Our new global equity manager, Longview, was the only global equity manager to have positive returns (+0.4%) and beat the benchmark. Barings lost -4.7% (-0.3% to benchmark), Brandes and Cap Guardian both turned in returns of -6.7% (-2.3% to benchmark), Zesiger weighed in with -15.3% (-10.9%), and Bernstein Global continued to severely underperform with losses of -16.1% (-11.7% to benchmark).

Developed market international equity (MSCI EAFE) returned -13.4% for the year, outperforming emerging market equity (MSCI Emerging Markets at -15.7%) for the second year in a row. Mondrian, our developed markets manager, outperformed the EAFE index with a -10.4% return, while Genesis outperformed the emerging markets index with -10.6% returns, and Bernstein underperformed with the worst account performance in the entire portfolio at -20.2%.

PERSI fixed income had a spectacular year again and once again outperformed benchmarks, with a return for the year of 12.4% compared to the returns of investment grade bonds as represented by the Barclay's Aggregate index at 7.5%. This outperformance was due in large part to PERSI's weighting towards TIPS, which had a great relative and absolute (for bonds) year at 18.4%. This return melded our best performing account with the SSGA TIPs return of 21.2% and the Western active TIPs account return of 11.6% (matching the TIPs index). Both of PERSI's active bond managers had good years, with Western returning 8.5% for the year, and Barings at 7.8%. Idaho Mortgages added 9.6% for the year, while the mortgage backed securities managers largely tracked the general mortgage market with returns of 4.2% for Clearwater and 5.4% for DBF.

All in all a solid year for PERSI in difficult world capital markets.

ROBERT M. MAYNARD
Chief Investment Officer

INVESTMENT SUMMARY FOR THE YEAR ENDED 6/30/12

Types of Investment	Market Value		Percent of Total Market Value	
Short-term Investments		$420,342,243		3.6%
Fixed Income				
Domestic	2,713,423,467		23.1%	
International	79,152,672		0.7%	
Commercial Mortgages	489,343,413		4.2%	
Total Fixed Income		3,281,919,552		28.0%
Equity				
Domestic Equity	4,276,621,292		36.4%	
International Equity	2,212,357,272		18.9%	
Total Equity		6,488,978,564		55.3%
Private Equity		1,006,050,309		8.6%
Real Estate		528,484,448		4.5%
Total Base Plan Investments		$11,725,775,116		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		$280,604,369		
Choice Plan 414(k)		56,881,539		
Choice Plan 401(k)		395,031,475		
Total Investments in All Funds		$12,458,292,499		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2012

Base Plan and Firefighters' Retirement Fund

Adelante Capital Management	$ 402,838,738
Advent International, LP	26,945,320
Apollo Management, LP	78,863,285
American Securities Opportunities Associates II, LLC	12,206,634
Baring Asset Management-Global Equity	369,475,736
Baring Asset Management-Global Fixed Income	174,621,572
Bernstein-Emerging Markets	366,964,328
Bernstein-Global Equity	260,474,579
Blackstone Capital Partners, LP	46,541,744
BNY Mellon Capital Management-International Stock Index	434,449,203
BNY Mellon Capital Management-Mid Cap Completion	160,467,798
BNY Mellon Capital Management-R2000 Small Cap	109,595,409
BNY Mellon Capital Management-S&P 500 Large Cap	1,162,266,027
Brandes Investment Partners	448,813,357
Bridgepoint Cap LTD	22,926,013
Capital Guardian	365,974,362
Cascade	113,481,259
Cerberus Investment Partners	38,005,181
Chisholm Management, LP	6,501,459
Clearwater Advisors, LLC-TBAs	131,784,466
CVC European Equity	46,769,187
D.B. Fitzpatrick & Co.-Fixed Income	136,712,342
D.B. Fitzpatrick & Co.-Idaho Mortgages	491,431,879
Donald Smith & Co.	261,578,127
Endeavour Capital	2,722,157
Enhanced Equity, LP	54,559,375
Epic Venture Fund	6,648,849
First Reserve Fund XI	61,211,482
Frazier Technology Ventures II, LP	10,213,663
Galen Associates, LP	34,327,504
Genesis Asset Managers	505,939,816
Goense Bounds & Partners, LP	1,781,205
Gores Capital Partners, LLP	32,691,206
Green Equity Investors IV, LP	54,166,030
Hamilton Lane Co - Investment Fund, LP	49,716,876
Hamilton Lane Secondary Fund, LP	25,534,250
Highway 12 Ventures, LP	54,744,526
Ida-West	3,175,121
JH Whitney & Co, LLC	25,009,400
KKR 2006 Fund, LP	31,791,562
Kohlberg & Co.	45,503,926
Koll Partners, LLP	340,423,582
Lindsay Goldberg & Bessemer	44,998,528
Littlejohn, LP	1,183,844
Longview Partners	243,754,116
McCown DeLeeuw & Co. IV, LP	85,513
Mellon Transition Management Services	1,543,705
Mondrian Investment Partners	275,073,004
Mountain Pacific Investment Advisors	359,490,527

(Continued)

Newbridge Asia, LP	30,307,186	
Olympic IDA Fund II, LLC	145,428,853	
Pareto Partners	(4,082,160)	
Peregrine Capital Management	206,589,627	
PERSI Cash in Short-Term Investment Pool	27,260,503	
Private Debt	22,177,370	
Providence Equity Partners, LLP	64,349,390	
Prudential Investments	36,217,741	
State Street Global Advisors-Fixed Income	697,120,934	
State Street Global Advisors-TIPS	966,819,016	
T3 Partners, LP	78,190,361	
Tukman Capital Management	368,944,798	
Veritas Capital Partners, LP	10,856,253	
W. Capital Partners, LP	4,147,200	
Western Asset Management	167,582,956	
Western Asset-TIPS	398,906,769	
Zesiger Capital Group	391,701,782	
Zesiger Capital Group-Private Equity	21,542,748	
Total Base Plan and Firefighters' Retirement Fund		11,570,039,095
Choice Plan		
BNY Mellon Aggregate Bond Index	13,575,537	
BNY Mellon Dow Jones U.S. Completion Total Stock Market Index	5,314,261	
BNY Mellon Dow Jones U.S. Total Stock Market Index	3,079,904	
BNY Mellon International EAFE Fund	3,185,182	
BNY Mellon S&P 500	7,872,910	
Brandes International Equity Fund	5,722,080	
Calvert SI Balance Fund	727,967	
Dodge and Cox Income Fund	11,650,775	
PERSI Choice Plan Contribution Account	609,834	
PERSI Choice Plan Loans	5,368,214	
Rowe Price Small Cap Fund	12,662,266	
Total Return Fund	363,956,847	
Vanguard Growth & Income Fund	9,699,321	
PERSI Short Term Investment Portfolio	10,305,197	
Total Choice Plan		453,730,294
Sick Leave Insurance Reserve Fund		
State Street Global Advisors-Domestic Equity	163,979,267	
State Street Global Advisors-International Equity	37,416,586	
State Street Global Advisors-Fixed Income	79,208,516	
Total Sick Leave Insurance Reserve Fund		280,604,369
Total Market Value, Including Investment Receivables and Payables		12,304,373,758
Add: Investments Purchased Payable		866,217,329
Less: Investments Sold Receivable		(672,706,973)
Less: Interest and Dividends Receivable		(39,591,615)
Total Market Value, Net of Investment Receivables and Payables		$12,458,292,499

(Concluded)

Investment Results for the Year Ended June 30, 2012

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	FISCAL	1 YR.	3 YRS. *	5 YRS. *	10 YRS. *
			Investment Performance for Periods Ending				
U.S. EQUITY							
MELLON CAPITAL MANAGEMENT MID CAP	165.5	1.4%	(3.3)	(3.3)	18.8	1.8	8.7
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	113.0	0.9%	(1.9)	(1.9)	18.0	0.5	6.9
MELLON CAPITAL MANAGEMENT S&P 500 LC	1,198.8	10.0%	5.4	5.4	16.4	0.3	5.3
MOUNTAIN PACIFIC	370.8	3.1%	2.3	2.3	17.6	3.8	7.5
TUKMAN GROSSMAN CAPITAL MGMT	380.6	3.2%	8.8	8.8	14.5	2.7	4.1
DONALD SMITH & CO.	269.8	2.3%	(0.7)	(0.7)	16.5	0.3	
PEREGRINE	213.1	1.8%	7.9	7.9	14.9	1.9	
TOTAL U.S. PUBLICLY TRADED EQUITY	2,711.6	22.7%	4.1	4.1	16.4	1.6	6.2
BENCHMARK - Russell 3000			3.8	3.8	16.7	0.4	5.8
PRIVATE EQUITY							
IDA-WEST	3.3	0.0%	45.8	45.8	27.5	23.8	29.8
GALEN III	35.4	0.3%	3.2	3.2	2.6	1.0	3.2
HARVEST PARTNERS[1]	-	0.0%	(3.1)	(3.1)	42.1	(3.4)	(16.9)
MCCOWN DE LEEUW	0.1	0.0%	0.0	0.0	21.4	2.1	(32.5)
PROVIDENCE EQ PARTNERS	66.4	0.6%	11.0	11.0	18.5	9.2	25.3
CHISOLM PARTNERS	6.7	0.1%	41.4	41.4	46.6	24.1	16.2
LITTLEJOHN II L.P.	1.2	0.0%	1.1	1.1	34.7	12.8	19.4
GOENSE BOUNDS	1.8	0.0%	6.8	6.8	(9.6)	(13.5)	11.9
HWY 12 FD VENTURE LP	56.5	0.5%	13.2	13.2	12.1	(1.7)	(4.7)
T3 PARTNERS II L.P.	80.6	0.7%	6.4	6.4	18.0	3.6	96.7
APOLLO MGMT LP	81.3	0.7%	3.0	3.0	34.4	18.9	27.8
GREEN EQUITY L.P.	55.9	0.5%	11.5	11.5	28.9	12.1	
GORES CAPITAL AD LLC	33.7	0.3%	1.5	1.5	17.7	13.8	
W CAPITAL PARTNERS	4.3	0.0%	(8.1)	(8.1)	(0.3)	(6.4)	
FRAZIER TECH VENTURES II	10.5	0.1%	(3.9)	(3.9)	(0.9)	(3.6)	
KOHLBERG & CO.	46.9	0.4%	18.0	18.0	16.2	12.1	
HAMILTON SECONDARY	26.3	0.2%	20.4	20.4	13.3	9.4	
CVC EUROPEAN EQUITY	48.2	0.4%	20.2	20.2	18.2	10.6	
HAMILTON LANE CO-INVESTMENT FUND	51.3	0.4%	0.7	0.7	9.5	(1.0)	
BRIDGEPOINT EUROPE III	23.6	0.2%	(7.5)	(7.5)	5.5	0.9	
NEWBRIDGE ASIA LP	31.3	0.3%	0.0	0.0	53.1	28.4	
JH WHITNEY EQUITY PARTNERS	25.8	0.2%	(2.4)	(2.4)	4.2	1.4	
BLACKSTONE CAPITAL PARTNERS	48.0	0.4%	3.4	3.4	12.1	(1.5)	
ENHANCED EQUITY FUND LP	56.3	0.5%	(1.2)	(1.2)	9.1	6.6	
LINDSEY, GOLDBERG, BESSEMER	46.4	0.4%	45.1	45.1	13.6	8.5	
KKR 2006 FUND	32.8	0.3%	6.8	6.8	21.0	4.9	
FIRST RESERVE FUND	63.1	0.5%	14.0	14.0	10.7	2.8	
CERBERUS INST PARTNERS	39.3	0.3%	4.1	4.1	18.5	4.4	
EPIC VENTURE FUND	6.9	0.1%	49.2	49.2	7.8		
ADVENT INTERNATIONAL	27.8	0.2%	17.7	17.7	15.9		
AMERICAN SECURITIES OPPORTUNITIES FUND II	12.6	0.1%	4.4	4.4			
VERITAS CAPITAL PARTNERS	11.2	0.1%	12.0	12.0			
ENDEAVOUR CAPITAL PARTNERS**	2.8	0.0%					
ZESIGER CAPITAL GROUP	22.2	0.2%	(8.2)	(8.2)	3.2	(1.0)	(2.0)
TOTAL PRIVATE EQUITY	1,060.5	9.0%	8.7	8.7	16.0	6.7	10.0
REAL ESTATE							
KOLL PARTNERS	351.1	2.9%	(2.3)	(2.3)	(14.5)	(8.3)	
OLYMPIC IDA FUND II	150.0	1.3%	27.7	27.7	(8.0)	(4.3)	
CASCADE	117.1	1.0%	2.1	2.1	(6.4)	0.0	
ADELANTE - PUBLIC R/E	415.5	3.5%	15.5	15.5	34.2	0.2	10.6
PRUDENTIAL	37.4	0.3%	16.6	16.6	4.3	(1.2)	6.7
TOTAL R/E MANAGERS	1,071.1	9.0%	9.1	9.1	2.9	(2.0)	8.8
BENCHMARK - NCREIF			13.4	13.4	6.0	2.9	8.2
TOTAL U.S. EQUITY	**4,843.2**	**40.7%**	5.8	5.8	13.5	1.5	6.7
BENCHMARK - Russell 3000			3.8	3.8	16.7	0.4	5.8
GLOBAL EQUITY							
BARING ASSET MANAGEMENT	381.1	3.2%	(4.7)	(4.7)	11.4	0.9	7.4
BRANDES INVST PARTNERS	462.9	3.9%	(6.7)	(6.7)	9.2	(6.9)	5.1
CAPITAL GUARDIAN	377.5	3.2%	(6.7)	(6.7)	9.7	(3.0)	5.5
ZESIGER CAPITAL GROUP	404.0	3.4%	(15.3)	(15.3)	9.3	(4.6)	9.7
BERNSTEIN GLOBAL	268.7	2.3%	(16.1)	(16.1)	5.3	(10.4)	
LONGVIEW PARTNERS	251.4	2.1%	0.4	0.4			
TOTAL GLOBAL EQUITY	**2,145.6**	**18.1%**	(8.6)	(8.6)	9.8	(4.4)	6.3
TOTAL U.S./GLOBAL EQUITY	**6,988.8**	**58.8%**	1.1	1.1	12.3	(0.7)	6.4
BENCHMARK - Russell 3000			3.8	3.8	16.7	0.4	5.8

(Continued)

Investment Results for the Year Ended June 30, 2012

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	FISCAL	1 YR.	3 YRS. *	5 YRS. *	10 YRS. *
			Investment Performance for Periods Ending				
INTERNATIONAL EQUITY							
GENESIS INVESTMENTS	521.9	4.4%	(10.6)	(10.6)	15.5	3.9	17.6
MELLON CAPITAL MANAGEMENT INTL STK INDX	448.1	3.8%	(13.5)	(13.5)	6.3	(5.7)	5.3
MONDRIAN	283.7	2.4%	(10.4)	(10.4)	7.0	(4.4)	
BERNSTEIN EMERGING	378.5	3.2%	(20.2)	(20.2)	8.0	(3.2)	
TOTAL INTERNATIONAL EQUITY	**1,632.2**	**13.8%**	(13.7)	(13.7)	9.5	(1.9)	8.8
TOTAL INT'L EQUITY (HEDGED)[2]	**1,628.0**	**13.6%**	(14.0)	(14.0)	9.5	(2.0)	8.6
EAFE INDEX NET			(13.4)	(13.4)	6.5	(5.6)	5.6
TOTAL EQUITY	**8,616.8**	**72.4%**	(2.1)	(2.1)	11.9	(0.8)	7.0
BENCHMARK - Russell 3000			3.8	3.8	16.7	0.4	5.8
FIXED INCOME							
DBF & CO FIXED	141.0	1.2%	5.4	5.4	5.2	6.4	5.2
DBF & CO-IDAHO MTGS	506.9	4.2%	9.6	9.6	8.4	10.0	7.4
STATE ST ADV-FX	719.1	6.0%	8.8	8.8	7.5	7.2	6.0
SSGA-TIPS	997.2	8.4%	21.2	21.2	13.5	10.8	8.7
CLEARWATER-TBA	135.9	1.1%	4.2	4.2	5.3	6.3	5.2
REAL ESTATE PVT DEBT	22.9	0.2%	0.0	0.0	5.2		
BARING ASSET MANAGEMENT	180.1	1.5%	7.8	7.8	7.1	6.9	6.1
WESTERN ASSET	172.9	1.4%	8.5	8.5	13.3	8.1	
WESTERN TIPS	411.5	3.4%	11.6	11.6	9.6	8.4	
TOTAL FIXED INCOME	**3,287.5**	**27.4%**	12.4	12.4	9.7	8.6	7.0
BENCHMARK - BC Aggregate Bonds			7.5	7.5	6.9	6.8	5.6
OTHER							
UNALLOCATED CASH	28.1	0.2%	2.5	2.5	2.6	5.3	6.7
MELLON TRANSITION MANAGEMENT SERVICES	1.6	0.0%	28.1	28.1	160.3	236.2	
TOTAL OTHER	**29.7**	**0.2%**					
COMBINED TOTAL	**11,934.0**	**100.0%**	1.6	1.6	11.3	2.1	7.3
BENCHMARK - 55% Russell 3000 30% BC Aggregate Bonds 15% MSCI EAFE Index			2.5	2.5	12.5	1.8	6.0

Add: Other PERSI DC Choice Plan Investments[3]	89.8
Sick Leave Fixed Income Investments	79.2
Sick Leave Equity Securities	201.4
Investments Purchased	866.2
Less: Interest and Dividends Receivable	(39.6)
Investments Sold	(672.7)
Total Pension Fund Investments Net of Receivables	12,458.3

*Rates of Return are annualized
[1]Liquidated 9/21/11
[2]Includes Pareto Partners currency overlay account
[3]Total Return Fund included in investment results
**accounts opened less than one year
Performance is gross of fees

Prepared using a time weighted rate of return per
Mellon Analytic Solutions, a division of BNY Mellon Asset Servicing

(Concluded)

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Total
2007	152,332,222	150,190,103	1,660,923,284	1,963,445,609
2008	156,095,102	171,450,414	(840,652,088)	(513,106,573)
2009	130,825,841	135,561,686	(2,044,562,509)	(1,778,174,982)
2010	108,025,496	140,722,177	915,045,071	1,163,792,744
2011	116,133,693	161,647,820	1,862,195,995	2,139,977,508
2012	117,140,608	165,467,250	(86,288,779)	196,319,079

*** Includes realized and unrealized gains and losses and other investment income**

Largest Stock Holdings (by Market Value) June 30, 2012

	Shares	Stock	Market Value
1	149,891	APPLE INC	87,536,344
2	1,899,028	WELLS FARGO & CO	63,503,496
3	317,325	INTERNATIONAL BUSINESS MACHINE	62,062,424
4	1,918,171	MICROSOFT CORP	58,676,851
5	364,722	SIMON PROPERTY GROUP INC	56,772,627
6	2,264,552	PFIZER INC	52,084,696
7	688,618	PEPSICO INC	48,657,748
8	546,556	EXXON MOBIL CORP	46,768,797
9	681,670	JOHNSON & JOHNSON	46,053,625
10	476,297	3M CO	42,676,211

A complete list of portfolio holdings is available upon request.

Largest Bond Holdings (by Market Value) June 30, 2012

	Par	Bonds	Description	Market Value
1	206,210,431	US TREASURY INFLATION INDEX SECURITY	3.875% 04/15/2029 DD 04/15/99	333,190,896
2	212,271,477	US TREASURY INFLATION INDEX SECURITY	2.000%001/15/2026 DD 01/15/06	270,894,915
3	137,254,840	US TREASURY INFLATION INDEX SECURITY	2.500% 01/15/2029 DD 01/15/09	190,473,207
4	82,402,195	US TREASURY INFLATION INDEX SECURITY	2.125% 01/15/2019 DD 01/15/09	98,592,908
5	49,680,860	US TREASURY INFLATION INDEX SECURITY	2.375% 01/15/2025 DD 07/15/04	65,427,357
6	34,509,195	US TREASURY INFLATION INDEX SECURITY	3.375%004/15/2032 DD 10/15/01	55,592,174
7	24,641,092	US TREASURY INFLATION INDEX SECURITY	2.125% 02/15/2040 DD 02/15/10	34,974,949
8	27,796,431	US TREASURY INFLATION INDEX SECURITY	1.125% 01/15/2021 DD 01/15/11	31,987,605
9	27,170,572	US TREASURY INFLATION INDEX SECURITY	2.000% 01/15/2014 DD 01/15/04	28,210,689
10	24,643,104	US TREASURY INFLATION INDEX SECURITY	2.000% 01/15/2016 DD 01/15/06	27,265,278

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2012

Broker Name	Base Commission	Total Shares	Commission per Share
MORGAN STANLEY & CO INC, NY	$ 170,941.16	26,915,223	0.00635
DEUTSCHE BK SECS INC, NY (NWSCUS33)	169,697.87	105,773,864	0.00160
CREDIT SUISSE (EUROPE), LONDON	158,999.87	22,287,605	0.00713
MERRILL LYNCH PIERCE FENNER, WILMINGTON	134,863.38	21,353,782	0.00632
JEFFERIES & CO INC, NEW YORK	134,820.69	3,185,366	0.04233
CITATION GROUP/BCC CLRG, NEW YORK	130,387.78	3,394,523	0.03841
UBS EQUITIES, LONDON	118,568.53	22,626,412	0.00524
GOLDMAN SACHS & CO, NY	107,241.07	15,750,189	0.00681
MERRILL LYNCH PIERCE FENNER SMITH INC NY	101,749.06	2,815,634	0.03614
BERNSTEIN SANFORD C & CO, NEW YORK	101,052.27	2,845,470	0.03551
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	94,456.70	9,880,976	0.00956
WATERMILL INSTITUTIONAL TRD, JERSEY CITY	94,378.00	2,359,450	0.04000
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	93,205.93	4,975,980	0.01873
MORGAN STANLEY & CO, LONDON (MSLNGB2X)	92,621.50	11,170,022	0.00829
MERRILL LYNCH INTL LONDON EQUITIES	88,701.16	7,691,030	0.01153
CITIGROUP GBL MKTS INC, NEW YORK	81,810.21	2,341,522	0.03494
WEEDEN & CO, NEW YORK	80,923.95	2,144,595	0.03773
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	71,056.80	35,994,223	0.00197
UBS SECURITIES LLC, STAMFORD	59,759.96	2,265,462	0.02638
CREDIT LYONNAIS SECS (ASIA), HONG KONG	56,923.76	40,471,806	0.00141
J P MORGAN SECURITIES INC, BROOKLYN	55,327.67	1,375,751	0.04022
MACQUARIE SECURITIES LIMITED, HONG KONG	54,087.71	22,381,574	0.00242
INSTINET CORP, NY	50,628.51	1,352,432	0.03744
CITIGROUP GLOBAL MARKETS LTD, LONDON	49,021.75	9,779,370	0.00501
J P MORGAN SECS LTD, LONDON	46,964.00	2,777,850	0.01691
GOLDMAN SACHS INTL, NY	46,008.24	1,025,834	0.04485
NOMURA SECS INTL INC, NEW YORK	45,448.84	2,246,039	0.02024
IVY SECURITIES INC, GREAT NECK	45,197.80	1,298,695	0.03480
BNY CONVERGEX, NEW YORK	44,444.60	827,690	0.05370
MORGAN J P SECS INC, NEW YORK	42,823.74	22,968	1.86450
STRATEGAS SECURITIES LLC, NEW YORK	40,728.93	871,505	0.04673
INSTINET CORP, NEW YORK	39,985.54	1,201,163	0.03329
ISI GROUP INC, NY	39,587.51	936,620	0.04227
BARCLAYS CAPITAL INC./LE, NEW JERSEY	38,742.73	1,362,411	0.02844
ATLANTIC EQUITIES LP, JERSEY CITY	38,645.41	909,822	0.04248
CJS SECURITIES INC, JERSEY CITY	36,841.12	877,278	0.04199
KIM ENG SEC USA INC, NY	36,141.25	115,322,000	0.00031
Other Brokers Under $35,000	1,469,303.76	233,708,562	0.00629
TOTAL BROKER COMMISSIONS	**$4,362,089**	**744,520,698**	0.00586

A complete list of broker commissions is available from PERSI upon request. PERSI does not require that investment managers use specific brokers.

Schedule of Costs for Private Equity Partnerships for the Year Ended June 30, 2012

PRIVATE EQUITY COSTS

Advent International	$112,500
American Securities Opportunities	474,589
Apollo Management	157,316
Blackstone	574,175
Chisholm Partners, LP	(86,028)
CVC European Equity	600,713
Endeavour Capital Partners	314,944
Enhanced Equity	716,317
First Reserve	598,692
Furman Selz	(646)
Gores Capital Partners, LLP	135,080
Hamilton Lane Co-Investment Fund	47,039
Hamilton Lane Secondary Fund	200,000
Highway 12	709,867
J.H. Whitney & Co., LLC	192,457
KKR 2006 Fund	222,156
Kohlberg & Co.	143,340
Lindsay Goldberg & Bessemer	709,962
Littlejohn & Company	(18,861)
Providence Investments	214,190
TPG Partners, LP	933,025
Veritas Capital	142,076
TOTAL	**$7,092,904**

Schedule of Fees and Commissions for the Year Ended June 30, 2012

Investment Fees	Average Assets Under Management	Fees	Basis Points
Investment Manager Fees			
Equity Managers	$6,715,798,780	$27,904,576	42
Fixed Income Managers	3,214,393,350	4,461,583	14
Real Estate Managers	653,802,038	4,211,311	64
Total Average Assets	$10,583,994,168		
Total Investment Manager Fees		36,577,470	35
Other Investment Service Fees			
Custodian/Record Keeping Fees		4,030,664	
Investment Consultant Fees		822,982	
Legal Fees		240,340	
Actuary/Audit Service Fees		296,061	
Total Investment Service Fees		5,390,047	5
Total Defined Benefit Plans Fees		$41,967,516	40
Total Defined Contribution Plans' Fees		343,563	
Total Other Trust Funds' Fees		150,360	
Total Fees		**$42,461,439**	

Note: Broker Fees are Included on a Separate Schedule

STATEMENT OF INVESTMENT POLICY AND GUIDELINES[1]

I. Introduction
The Retirement Board ("Board") of the Public Employee Retirement System of Idaho ("System") hereby establishes its Statement of Investment Policy for the investment of the trust funds ("Trust") in accord with Idaho Code Chapter 13, Title 59.

II. Statutory Requirements
The investment of the Trust will be in accord with all applicable laws of the state of Idaho.

A. Sole Interest of Beneficiaries
Investments will be solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

B. Prudent Investments
Investments will be made with the judgment and care under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable outcome as well as the probable safety of their capital. Investments will be diversified so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

C. Fiduciary Duties
The Board and its agents, including staff, consultants, and investment managers, will discharge their duties with respect to the fund solely in the interest of the members and retired employees, and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

III. Investment Goals
A. General Objective
1. Purpose
The purpose of the investment of Trust assets is to provide funds to meet the obligations of the Public Employee Retirement System of Idaho (PERSI) while incurring the appropriate amount of risk consistent with attaining that goal. The Board will invest the assets of the Trust so as to meet the projected obligations of the System, and will reduce risk through diversification of the assets of the Trust.

2. Considerations
In determining the returns needed by the System, the acceptable risk levels, and the allowable investments, the Board will consider:

- the effect of particular investments on the total portfolio,
- the purpose of the plan,
- the diversification of the portfolio,
- liquidity needs and the current return relative to the anticipated cash flow requirements, and
- the projected return of the portfolio as it relates to the funding objectives of the plan.

[1] The PERSI Board of Directors modified several economic assumptions at the June 26, 2012 meeting following review of the Experience Study conducted by Milliman, Inc. The investment return assumption before fees and expenses was reduced from 7.75% to 7.50%. The net investment return was reduced from 7.25% to 7.00%. Salary growth was reduced from 4.0% to 3.75% and inflation reduced from 3.5% to 3.25%. The 2012 actuarial valuation was calculated using the new assumptions.

B. Specific PERSI return and risk objectives

1. Investment Returns

(a) Actuarial Assumptions

In projecting obligations and the returns needed to meet those obligations, the Board will consider studies performed by actuaries hired by the Board. The actuary uses an investment return assumption of 7.75% before fees and expenses in balancing projected obligations, projected contributions, and projected returns on assets. [The return assumption after fees of administering the system and its investments is 7.25%]. Assuming all of the actuarial assumptions are accurate, this 7.75% return will suffice to: (1) assure the payment of statutorily required benefits, which includes a 1% Cost of Living Adjustment (COLA); and (2) maintain the reduction of the level of the unfunded liability (if any) on the scheduled amortization (one year at a time). The assumed 7.75% return will not be sufficient to fund either discretionary COLAs (2-6%), retroactive COLAs, accelerate the amortization of the unfunded liability, build a stabilization reserve, or allow for gain-sharing distributions.

(b) Inflation and Salary Assumptions

This 7.75% rate before fees and 7.25% rate net of fees assume an inflation rate of 3.5% and an annual general state salary growth rate of 4.0%. To the extent that either inflation or salary growth are higher or lower than these rates, then the investment returns needed will also be higher or lower than the assumed 7.75% [7.25% net], although not on a 1:1 ratio. Consequently, the investment returns actually needed by the system do not have a nominal rate which can be determined with precision in advance -- the 7.75% gross rate currently used by the actuary is only a general midpoint accurate over long (15-20) year periods and is only as accurate as are the inflation, salary, and other actuarial assumptions as set out in the annual actuarial study reviewed annually by the Board.

(c) Relation to Funding Policy

As set out in the Board's funding policy, to the extent investment markets allow, it is the desire of the Board to provide discretionary COLAs, accelerate the amortization of any unfunded liability, and provide for gain-sharing. It is also the goal of the Board to maintain a reasonable amortization of any unfunded liability, and not to exceed the 25 year amortization period set by statute. Therefore, it is the goal of the Board to set an expected rate of return above the actuarially assumed return so that (1) discretionary COLAs will have a reasonable chance of being consistently funded and (2) the scheduled amortization of any unfunded liability is not unreasonably jeopardized. Returns above that amount will be used to build a stabilization reserve and to distribute to the System participants through gain-sharing.

(d) Periodic Specific Return Goals

Because of the inflation sensitivity of both the returns needed by the System and the size of annual COLAs, an exact target return (either real or nominal) cannot be set in advance. Nonetheless, under most reasonable actuarial assumptions, PERSI has a relatively stable real return goal of between 4.75% - 5.25% if consistent funding of discretionary COLAs and providing for gain sharing is included as an objective. Consequently, specific return goals for upcoming periods will be set out in the strategic asset allocations periodically adopted by the Board.

2. Investment Risk and Strategic Asset Allocations

(a) Diversification Among Asset Classes

In controlling the risk level that is appropriate for the Trust, the Board will diversify the assets of the Trust among various asset classes as the Board may from time to time adopt as appropriate asset classes. The specific asset classes to be used will be set in conjunction with the strategic asset allocation adopted from time to time by the Board.

(b) Review of Asset Classes and Asset Allocation

In setting strategic allocations, the Board will focus on assuring that the expected long-term returns will meet expected long-term obligations with the appropriate level of risk sufficient to meet those objectives. The Board will at least once every four years determine the appropriate asset classes for the investment of Trust assets and conduct asset allocation studies to help determine the long term strategic allocations among desired asset classes so as to meet long-term return objectives with the appropriate level of risk.

(c) Content of Strategic Asset Allocations

The strategic asset allocation will set out the asset classes to be used, the long-term strategic “normal” percentage of assets to be invested in each asset class, the short to intermediate term ranges that will be considered allowable temporary deviations from the strategic normal allocation, the investment risk and return expectations for each asset class, the numerical investment return and risk expected to be realized, and the relation of the expected investment return to the real and actuarially assumed investment return.

(d) Strategic Policies

In addition to asset allocation, the Board may from time to time adopt strategic policies. “Strategic policies” are actions by the Board to invest in asset types that have not been singled out as “asset classes” in the asset allocation process, to overweight particular sectors within an asset class, or to employ particular strategies in the investment of Trust assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk.

IV. Investment Structure

A. Overall Structure

In making individual investment policy decisions, the Board will have as an overall goal a flexible, simplified structure with clear roles and accountability. .

1. Board Ultimately Responsible

The Board is ultimately responsible for all investment activities. In exercising this responsibility, the Board will hire investment personnel and agents and delegate various investment functions to those personnel and agents. Where the Board does not delegate investment powers or duties, the Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Board in the exercise of those responsibilities. Where the Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Board will monitor and review the actions of those to whom responsibilities are delegated.

2. General Roles and Responsibilities of Board and Agents

The Board will favor a structure that accommodates a citizen Board and a small staff. The Board and staff will concentrate their activities on:

- making strategic decisions, primarily concerning asset allocation and strategic policies;
- adjusting the mix between passive and active managers depending on, among other considerations, near-term concerns regarding the U.S. and other capital markets;
- delegating and monitoring all other activities, including hiring and monitoring investment managers; and
- maintaining a reporting system that provides a clear picture of the status of the fund on a reasonably concurrent basis to both the Board and PERSI’s constituencies.

The Board will rely on outside agents, and primarily investment managers, to be responsible for non-strategic decisions. This responsibility includes those investment decisions with shorter-term consequences such as the best near-term securities, regions, asset types, or asset classes.

B. Direct (Non-Delegated) Responsibilities of the Board

1. Specific Responsibilities

The Board will be directly responsible for

* Setting investment policy,
* Determining the investment structure of the Trust,
* Determining the asset classes to be utilized,
* Setting the strategic asset allocation,
* Determining strategic policies;
* Hiring agents to implement the strategic asset allocation;
* Hiring agents to implement strategic policies; and
* Monitoring the compliance of those agents with the investment policies and strategic allocations determined by the Board.

2. Delegation and Monitoring of Specific Investment Activities

The Board will normally delegate investment decisions concerning specific securities or assets, or the tactical allocations of assets among asset types, to outside agents. The Board will retain direct responsibility for the monitoring of the activities of those agents through periodic reports from its staff or consultants. The Board may choose to exercise direct investment responsibility if unusual market conditions or other circumstances so indicate.

C. Employees, Consultants, and Advisors to the Board

1. Investment Staff

(a) Duties of Chief Investment Officer and Other Staff

The Board will hire a Chief Investment Officer and such other staff as it considers appropriate who will be generally responsible for the oversight of the investment of Trust assets, and, as part of that overall responsibility, will: (1) supervise, monitor, and evaluate the performance of the investment managers hired by the Board to assure compliance with investment policy and individual guidelines; (2) assist the Board in developing and adjusting investment policy, including reviewing and modifying the asset allocation as conditions warrant; (3) research current market conditions, evaluate new products, and seek out new approaches to improve portfolio return, reduce risk, and reduce costs and fees; (4) work with the consultants, custodians, investment managers, and other agents in the performance of their assigned duties; and (5) assist the Board with education and other efforts to promote good decision making. Except in special circumstances, PERSI staff will not be responsible for the investment, purchase, or sale of specific assets.

(b) Allocation of New Net Contributions

The Chief Investment Officer shall allocate new net contributions to or withdraw net distributions from the system among investment managers in accordance with the strategic and tactical ranges established by the Board in the strategic asset allocation. The Chief Investment Officer shall report to the Board regularly on the allocation of new net contributions or the withdrawal of net distributions.

(**c) Tactical Asset Allocation**

With prior notice to the Board, the Chief Investment Officer may shift assets among managers (including between passive and active managers) as long as the asset allocation is maintained within the strategic ranges. If conditions do not permit giving prior Board notice, the Chief Investment Officer is

authorized to move assets among investment managers within the strategic ranges established by the Board. If such action is taken, the Chief Investment Officer shall notify the Chairman of the Board as soon as is practical either that action is contemplated or has been taken, as circumstances warrant.

(d) Minimum Qualifications of Chief Investment Officer

The Chief Investment Officer shall at least: (a) have a graduate degree in finance, law, or business administration or (b) be a Chartered Financial Analyst; or (c) have three or more years experience in the investment of trust assets.

2. Actuaries

The Board will hire an actuary to provide studies that will: (1) determine the long term obligations faced by the System through annual actuarial valuations, (2) set out return objectives or assumptions that will be sufficient to meet those obligations; and (3) provide reviews at least once every four years of the actuarial valuation process, including updating the projections and assumptions in light of the experience of the System. The Board will set its long-term return objectives after considering information provided by those studies.

3. Investment Consultants

The Board will hire a qualified independent consultant, whose relationship does not impose a conflict of interest with the Board or staff, to provide investment performance measurement at least quarterly with the report available to the Board within three months of the quarter end. The report will at least compare actual investment returns of the system -- in total, by each asset class, and for each managed portfolio -- with both the investment objectives of the system and a composite of returns of other institutional investors. The Board may hire other independent investment consultants as needed to assist the Board in the management of its investment activities, including, but not limited to: (1) performing asset allocation studies, and reviewing and recommending modifications of the asset allocation as conditions warrant; (2) assisting in monitoring the investment managers to assure they are in compliance with the investment policy and their individual guidelines; (3) performing manager evaluations and searches as may be necessary; and (4) assisting in the development and adjustment of investment policy. Except for consultants retained solely for purposes of performance measurement, consultants will be fiduciaries of the Trust.

D. Managers or Agents with Delegated Responsibilities

1. Custodian

(a) Responsibilities

The Board will hire custodians and other agents who will be fiduciaries of the Trust and who will assume full responsibility for the safekeeping and accounting of all assets held on behalf of the Trust. Among other duties as may be agreed to, the custodian will be responsible for: (a) the receipt, delivery, and safekeeping of securities; (b) the transfer, exchange, or redelivery of securities; (c) the claiming, receipt, and deposit of all dividend, interest, and other corporate actions due the Trust; (d) the daily sweep of all uninvested funds into a cash management account or accounts; and, (e) the provision of reports to PERSI upon agreed time intervals that will include all purchases and sales of securities, all dividend declarations on securities held by the Trust, a list of securities held by the Trust, and a cash statement of all transactions for the account of the Trust. Unless the Board provides otherwise, the custodian will also be responsible for monitoring class action litigation, filing and collecting claims on PERSI's behalf, and reporting to PERSI on such activities.

(b) Authorization of Collective Investment Trusts

Assets of the Trust may be invested in any collective investment trust, which at the time of the investment provides for the pooling of the assets of plans described in Section 401(a) of the Internal Revenue Code of 1986, as amended, and which is exempt from Federal income tax. Assets of the Trust may be commingled with assets of other trusts if invested in any collective investment trust authorized by this policy. The provisions of the trust agreement, as amended by the trustee thereof from time to time, of each collective investment trust in which Trust assets are invested are by this reference incorporated as a part of the trust estate comprising the Trust. The provisions of the collective investment trust will govern any investment of Trust assets in that trust.

2. Investment Managers

The Board will hire investment managers who will be fiduciaries of the Trust and who will be responsible for the investment of Trust assets in specific securities or assets within or among the asset classes.

(a) Minimum Qualifications

Investment managers shall be registered with the Securities and Exchange Commission (unless they are banks, insurance companies, or other category exempted from such registration requirements), have been in the business of investment management at least two years (or the main personnel of the investment management firm have worked together in the business of investment management for at least two years), and, usually, have other United States pension fund assets under management.

(b) Guidelines

Investment Managers shall manage assets in accordance with additional guidelines established by contract and as may be added to or modified from time to time. The additional guidelines will contain minimum diversification requirements that must be followed by that manager. These guidelines will also set out the investment return expected to be achieved by that manager, and shall be linked to a benchmark that represents the passive index fund that would be used to replicate the manager's assignment.

(c) Responsibilities and Discretion

Subject to the restrictions set out in this policy or as may be set out in individual contracts or guidelines, an investment manager shall have full discretionary power to direct the investment, exchange, and liquidation of the assets entrusted to that manager. The manager shall place orders to buy and sell securities and, by notice to the custodian, cause the custodian to deliver and receive securities on behalf of the Trust.

(d) Corporate Governance

The Board, unless otherwise stated, will delegate the voting of proxies to the investment manager or custodian. The Board will adopt and from time to time modify a proxy voting policy. The staff will forward PERSI's Proxy Voting Policy to investment managers; however the investment managers will normally have discretion to vote proxies according to their respective proxy voting policies, provided they vote those proxies in the best interest of our Fund. The Board may from time to time take any other action it deems appropriate in exercising PERSI's proxy voting powers, including but not limited to directing staff to vote individual proxys in a particular manner.

(e) Transactions and Brokerage

All securities transactions shall be executed by reputable broker/dealers or banks, and shall be on a best price and best execution basis

3. Use of Passive and Active Managers

(a) Purpose and Use of Active Management

The Board recognizes that passive (index fund) investing has lower costs than active investing, with regard to both management fees and transaction costs. Further, the Board also recognizes that there is uncertainty concerning whether active investing can generally outperform passive investing, particularly in the large, liquid, and efficient portions of the capital markets. Also, the Board has great confidence that a passive investment of assets in an efficient asset allocation will likely meet long-term (20 year) obligations.

Contribution rates, COLAs, and the ability to provide for gain-sharing, however, are based on 1-5 year returns. The Board does have concern that over 1-5 year periods the ability to consistently fund COLAs and to keep contribution rates stable are in considerable jeopardy from two sources: (1) expected "normal" market fluctuations are such that annual returns will likely not meet hurdle rates approximately

40% of the time, with actual negative returns to be expected once every six years; and (2) that most of the Trust assets under the strategic asset allocation will be invested in U.S. capital markets, and are thus vulnerable to poor U.S. returns.

One purpose of active management of Trust assets is to address these two concerns. Active managers will be hired for the purpose of providing greater stability of returns, and better returns, than would be achievable under purely passive management over rolling 3-5 year periods. Active managers will be responsible for timing of markets and the tactical allocation of assets among and within the capital markets (including between the U.S. and international markets).

In addition to providing extra returns, active managers will also be employed to smooth returns, provide higher long-term returns, provide protection in adverse markets, and to add exposure and additional diversification to the portfolio than that achievable solely through investment in passive indices representing the strategic asset allocation and strategic policies.

(b) Structure

In using outside managers, the Board will favor a structure using a reasonable number of managers with broad mandates and benchmarks. This preference will be implemented so as to achieve the following goals: to relieve the Board from making timing decisions in allocating assets among numerous specialized managers, to simplify the structure of the fund, and to reduce the number of active managers and thus expenses to the Trust.

Passive managers will be favored for the core, liquid, efficient markets (such as S&P 500 stocks and U.S. Government/Corporate bonds), and active managers will be favored for relatively inefficient markets (such as international emerging markets). Global managers will be used to provide flexibility in reacting to near-term concerns that may arise concerning any particular region or market, particularly the U.S. capital markets, and to provide an appropriate balance between efficient long-term asset allocations (which favor US assets) and near-term allocations (which have a greater preference for international assets) to meet the real (inflation adjusted) return needs of the System. Consequently, actual allocations to international equities in the overall portfolio from time to time may be above that in the strategic asset allocation due to the activities of the global equity managers. Assets under the management of global equity managers will be considered US equity assets for purposes of asset allocation.

(c) Balance between Passive and Active Management

The balance between active and passive management will be set from time to time with the following considerations in mind: concentration of active investment efforts where there is the most potential for excess returns, implementation of views concerning the state of the U.S. and international capital markets, and reduction of fees and other costs.

(d) Monitoring Standards

Active managers will be monitored under two standards: First, over rolling 3-5 year periods, managers will be expected to exceed, after fees, the benchmark index that represents the passive alternative to the mandate given the manager, and to rank in the top half of the universe of managers that best fits that manager’s mandate. Second, over shorter periods of time, managers will be expected to maintain key personnel, a consistent style, and investment capability. Passive managers will be monitored on their ability to track their benchmark index over both short (1 quarter to one year) and long periods (3 to 5 year). The Board may consider other information it considers relevant, including composite manager indices, in determining whether to retain or terminate managers.

V. Asset Class Policies

A. U.S. Equities

1. Objective

The overall objective of the U.S. equity asset class is to obtain, over time, a return after fees that equals or exceeds the returns of the Russell 3000 Index, both absolutely and on a risk-adjusted basis. For assets under the management of global equity managers, the objective for near-term periods (approximately 5 years or sooner) will be to achieve a return after fees, that is equal to or exceeds the returns of the MSCI World Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in equity securities outside of the Russell 3000 Index, and global equity managers may invest in equity securities outside of the MSCI World Index. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio.

3. Manager Styles

Managers for this asset class may include index funds, style managers (such as value and growth), "core" managers, and global managers. Global managers are managers who may invest in securities located anywhere in the world, both within and outside of the United States

4. Benchmarks

The Russell 3000 index will be the benchmark for the passive index funds, core managers, and global managers. For near term periods (approximately 5 years or less), the MSCI World or MSCI ACWI indexes are the benchmarks for global equity managers. Other style or capitalization indices maintained by a qualified organization may be used as the benchmark for style managers. Active U.S. and global equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

B. International Equities

1. Objective

The overall objective of the International Equity Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Morgan Stanley Capital International Europe, Australia, and Far East (MSCI EAFE) Index (unhedged), or the FT Actuaries World ex U.S. Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in American Depository Receipts or American Depository Shares. Managers may invest in equity securities of companies or in countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Managers may, at their discretion, hedge the currency exposure of all or part of their portfolios. Managers may not overhedge their portfolio, although proxy hedging for purposes of liquidity and cost savings is allowed.

3. Manager Styles

Managers for this asset class may include index funds, general international managers, and regional or specialized managers (such as emerging markets). The Board may from time to time hire a currency overlay manager to hedge the currency exposure in those portfolios where managers do not actively or normally consider hedging their exposure.

4. Benchmarks

The MSCI EAFE Index (unhedged), the MSCI ACW ex US, or the MSCI ACWI ex US index (unhedged) will be the benchmark for the passive index funds and general international managers. Regional or specialized indices (unhedged) maintained by a qualified organization may be used as the benchmark for other active managers. Active international equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates

C. Fixed Income

1. Objectives

The overall objective of the Fixed Income Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Barclays Capital Aggregate Bond Index (Aggregate Bond Index) both absolutely and on a risk-adjusted basis.

The Fixed Income Asset Class shall consist of investments in mortgages and in both dollar and non-dollar fixed income securities. Mortgages shall consist of investments in mortgage backed securities, and direct ownership of commercial mortgages through the Idaho Commercial Mortgage Program.

The objective of the non-mortgage fixed income securities other than real return portfolios is to obtain, over time, a return after fees that equals or exceeds the returns of the Barclays Capital Government/Credit Bond Index (Government/Credit Bond Index) on a risk-adjusted basis. The overall objective of the mortgage securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Barclays Capital Mortgage Index (Mortgage Index) on a risk-adjusted basis. The overall objective of the real return fixed income is to obtain, over time, a return after fees that equals or exceeds the returns of the Barclays Capital TIPS Index on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in debt securities that do not pay interest. Active managers may invest in securities in companies or countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Fixed income managers may, at their discretion and to the extent allowed by their contracts and guidelines, use currency forward or futures markets as may be considered appropriate to implement fixed income strategies.

3. Manager Styles

Managers in this asset class may include index funds, domestic bond managers, specialized managers, and global managers.

4. Benchmarks

The Barclays Capital Government/Corporate Index or Barclays Capital Aggregate Index will be the benchmark for all non-mortgage fixed income managers. The Barclays Capital Mortgage Index will be the benchmark for all mortgage managers. The Barclays Capital Aggregate Index will be the benchmark for the asset class. Active fixed income managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 25 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

D. Real Estate

1. Objectives

Private equity real estate investments will be considered part of the U.S. Equity asset class. The overall objective of private equity real estate investments is to attain a 6% real rate of return overall, over a long-term holding period, as long as this objective is consistent with maintaining the safety of principal. The 6% real rate of return includes both income and appreciation, is net of investment management fees, and is net of inflation as measured annually by the Consumer Price Index. Over a short term basis, the objective is to earn a nominal minimum income yield of 6% on each individual investment, or inflation plus 3%, whichever is greater.

2. Allowable Investments

Allowable private equity real estate investments include open-end and closed-end commingled real estate funds, direct real estate investments, publicly traded real estate investment trusts and other public real estate companies, private real estate companies and real estate operating venture entities. Allowable investments must be originated and managed by real estate advisors with substantial experience originating and managing similar investments with other institutional investors. The real estate asset sector is not intended to include solely debt investments; in particular, straight mortgage interests are considered part of the fixed income asset class. The real estate asset sector may include equity-oriented debt investments, including mezzanine loans, that conform with the return targets of the sector.

3. Need for Income Component of Return

Upon closing, each real estate investment must have as a goal the expectation of an annual income return and overall holding period return measured primarily by realized return rather than expected capital appreciation. Thus, a significant portion of real estate investments made should be in existing income producing properties with measurable return expectations rather than purely development properties. However, existing properties with potential for physical enhancement, including development or redevelopment, are acceptable investments.

4. Protection of the Trust

Investment vehicles should be chosen that will protect the Trust, including provision for investments that do not contain debt or liability with recourse beyond the Trust commitment to the related business entity, provision for inspection and evaluation of environmental hazards prior to the purchase of any specific property, and the provision of insurance coverage to protect against environmental and natural hazards.

5. Reporting

A comprehensive reporting system for individual investments, entities and funds will be maintained so that primary operational and economic characteristics are continually defined, and underperforming investments can be identified and remediated. Active asset and portfolio management is required for the management of all non-publicly traded real estate investments. Investment managers shall be required to present periodic operational reports within approved formats, including statements of fair market value, audited financial statements and annual business plans

E. Alternative Investments

1. Definition and Board Approval

The Board may from time to time authorize the investment of Trust assets in entities or structures that do not fit the asset descriptions listed above. Examples of such investments are venture capital partnerships, private equity, leveraged buy-out funds, private debt, and direct ownership of individual assets such as oil and gas partnerships. These investments shall only be entered into upon the recommendation of a qualified consultant after due diligence and with approval by the Board or a subcommittee appointed by the Board to review the recommendation. Subsequent investments with a previously approved alternative investment manager do not require additional specific approvals by the Board or subcommittee.

2. Objectives and Benchmarks

If the alternative investment is an equity investment, the objective for the investment will be to exceed, over time and after fees, the return achieved by the Russell 2000 Index times 1.35. If the alternative investment is a debt investment, then the objective will be to exceed, over time and after fees, the returns achieved by the Barclays Capital Government/Credit Index plus 3%. It is recognized that these investments will likely experience greater volatility than the comparable publicly traded securities and indices

VI. Asset Allocation

For purposes of asset allocation, alternative equity investments will be treated as part of the U.S. equity asset class, and alternative debt investments will be treated as part of the fixed income asset class.

Strategic Asset Allocation

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities				
U.S./Global Equity	9.35%	18%	55%	**50% - 65%**
International	9.5%	20%	15%	**10% - 20%**
Total Equities			**70%**	**66% - 77%**
Fixed Income	**3.8%**	**4.5%**	**30%**	**23% - 33%**
Cash	**3.0%**	**1%**	**0%**	**0% - 5%**

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.75%	3.5%	4.25%	**n/a**
Portfolio	**7.71%**	**2.5%**	**5.21%**	**12.55%**

(Expected Returns are before fees and expenses)

VII. GASB 40 Reporting (Section VII adopted May 26, 2005)

A. Purpose

The Governmental Accounting Standards Board has identified that state and local governments have deposits and investments which are exposed to risks that may result in losses. GASB Statement number 40 (GASB 40) is intended to inform users of the financial statements about the risks that could affect the ability of a government entity to meet its obligations. GASB 40 has identified general deposit and investment risks as credit risk, including concentration of credit risk and custodial credit risk, interest rate risk, and foreign currency risk and requires disclosures of these risks and of policies related to these risks. This portion of the Investment Policy addresses the monitoring and reporting of those risks.

In general, the risks identified in GASB 40, while present, are diminished when the entire portfolio is viewed as whole. For example, interest rate risk experienced by fixed income instruments often react in the exact opposite direction as that experienced by equities. Thus, interest rate exposure as set out in GASB 40 will not reflect the cross-influences of impacts across the broad range of investments that make up the PERSI portfolio. And, in fact, the general underlying measures used in GASB 40 across most of the risks identified (credit, concentration, and interest rate risk in particular) were tools that were developed primarily for portfolios dominated by fixed income investments, and are often only poorly transferred, if at all, to portfolios, like PERSI's, that are dominated by equity interests.

Consequently, it is the policy of PERSI that the risks addressed in GASB 40 are to be monitored and addressed primarily through the guidelines agreed to by those managers, and by regular disclosures in reports by managers of levels of risks that may exceed expected limits for those portfolios.

B. Specific Areas of Risk

1. Credit Risk

Summary: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to PERSI.

Policy: Managers will provide PERSI with expected credit risk exposures in their portfolio guidelines. If the actual credit risk exposure falls outside of these expectations, managers will be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

2. Custodial Credit Risk

Summary: Custodial credit risk is the risk that in the event of a financial institution or bank failure, the System would not be able to recover the value of their deposits and investments that are in the possession of an outside party.

Policy: PERSI minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to PERSI ownership and further to the extent possible, be held in the System's name.

3. Concentration of Credit Risk

Summary: Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue.

Policy: Managers will provide PERSI with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole, staff will report to the Board at a regular Board meeting if the exposure to a non-US government guaranteed credit instrument exceeds 5% of the total PERSI portfolio.

4. Interest Rate Risk

Summary: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk to PERSI's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account the optionality on the underlying bond.

Policy: Managers will provide PERSI with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

5. Foreign Currency Risk

Summary: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. PERSI's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings.

Policy: The PERSI Board recognizes that international investments (equity or fixed income) will have a component of currency risk associated with it. Currency risk and hedging exposures are dependent on the underlying international exposure, which fluctuates over time. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board..