Boise -- Home to Boise State University

Opening day at Boise Junior College -- September 6, 1932.

In 1965, BJC went from a two-year to a four-year college. Four years later in 1969, it became a state college. In 1974, Boise State University was established.

Boise State University's new Micron Business and Economic Center was dedicated on August 21, 2012.

Helping Idaho public employees build a secure retirement.

INVESTMENT SECTION

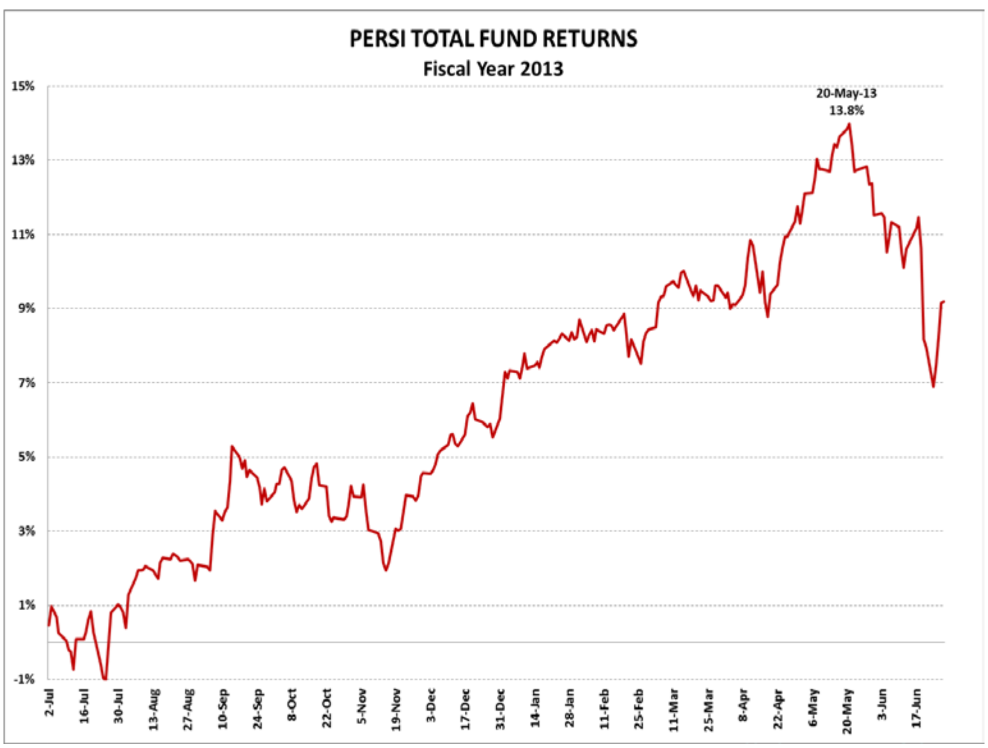
BOISE 1863 150 2013 SESQUICENTENNIAL

REPORT ON INVESTMENT ACTIVITY
OVERVIEW OF FISCAL YEAR 2013*

With returns of 9.1%, investment gains of over $1.092 billion, and asset levels that rose from $11.933 billion at the start of the year to $12.756 billion at the close, Fiscal Year 2013 was a good year – one that, for much of the year, had the potential to be great.

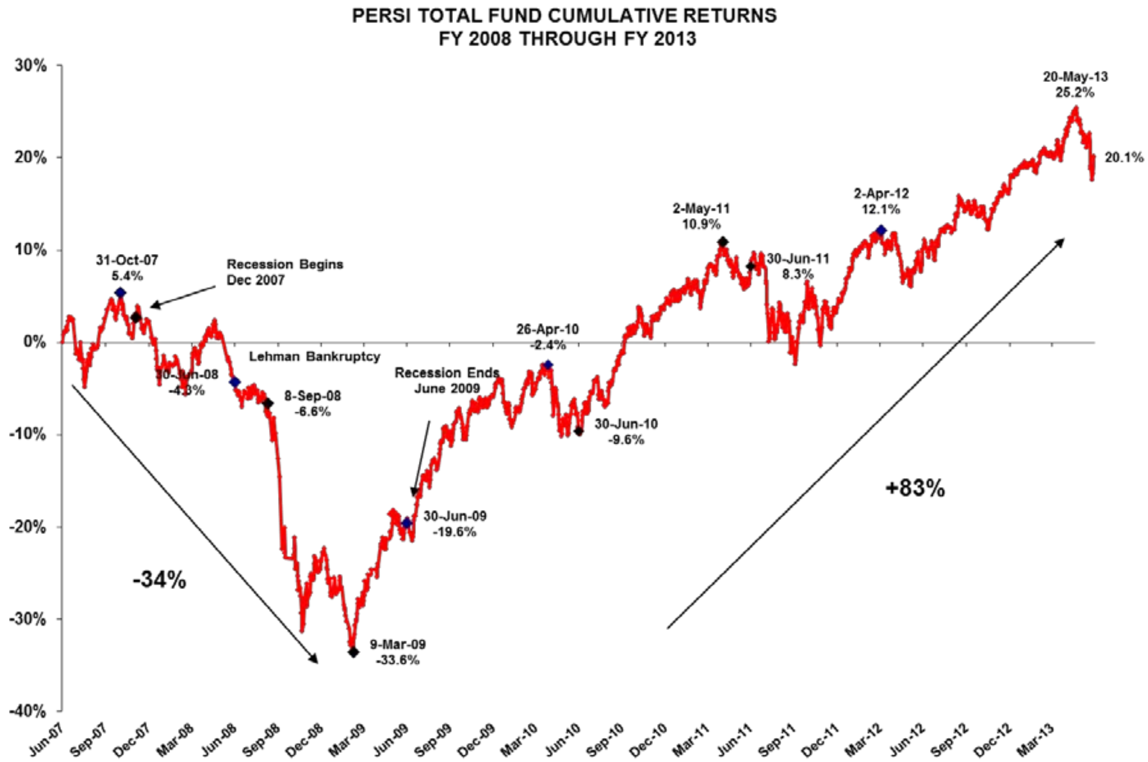
PERSI spent much of the fiscal year with solid double digit returns, funding ratios well above 90%, investment gains of over $1.65 billion, and record assets of substantially over $13 billion. But, with the introduction of a single word – "taper" – the nature of the capital markets switched dramatically in the final weeks of the fiscal year. The term referred to the anticipated slowing of the Federal Reserve purchase of bonds in "QEIII", the third round of quantitative easing. The tangible reference to the eventual end of the almost unlimited provision of liquidity by Chairman Bernanke and other Federal Reserve officials (even if months and years in the future) blunted the upward momentum of the world capital markets. Bond yields rose, dropping fixed income returns, and global equity markets dropped over 6% during late May and June. With China still slowing noticeably, emerging markets continued the sell-off that began at the start of the calendar year, and were down over -14% over the same period. As a result, the fiscal year to date gains retreated from highs reached on May 21 to, at one point, with only a few days remaining, returns of +6.8% for the fiscal year to date [below the 7.5% gross returns (7.0% net) that serves as PERSI's "hurdle rate" for the year]. A late rally in the final days of the fiscal year substantially raised yearlong returns to comfortable levels.

In a break from the past four "Groundhog Years", FY 2013 saw a mostly calm background environment without major European crises, US fiscal dramas, or other heart-stopping events. Instead, until the final few weeks, the markets seemed to be mostly resilient to general economic events, and the fiscal year avoided the deep holes in returns that had characterized the previous five years:

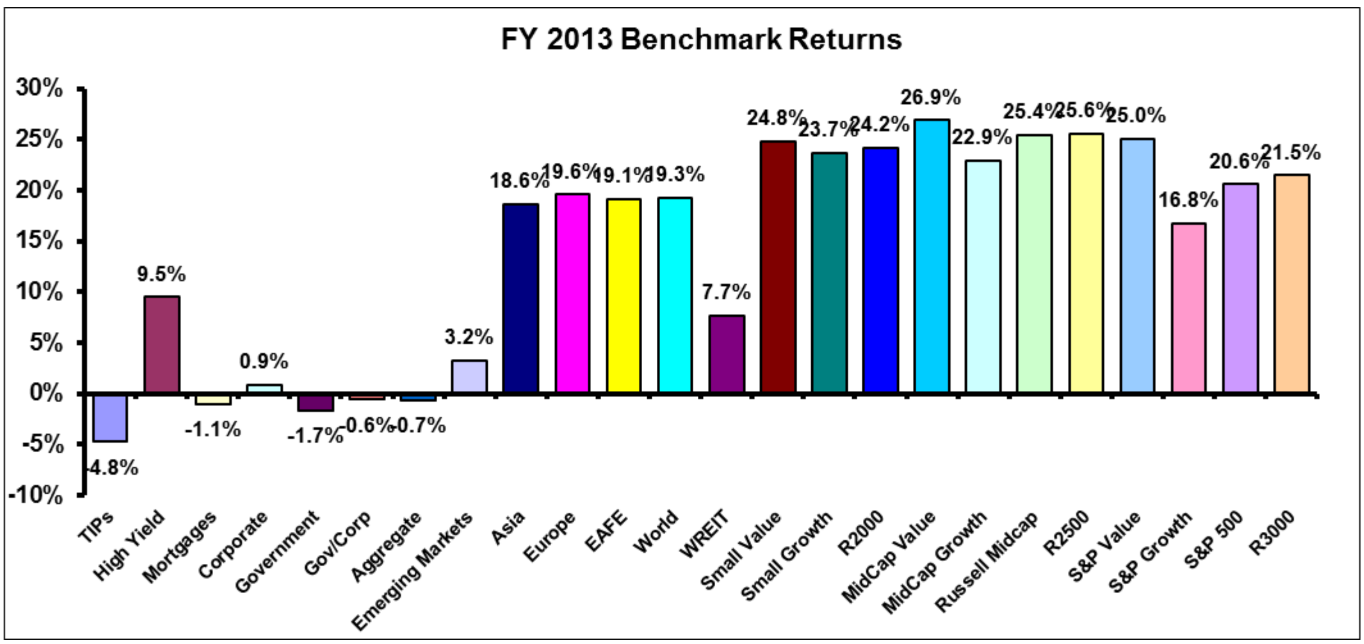


** The investment section of the CAFR was compiled using information from the System's custodial bank, Bank of New York Mellon, our consultant, Callan Associates, and internally generated data. Unless otherwise noted, investment returns are based on investment fair market values and made on a time weighted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

The fiscal year continued the historic rise of +83% for the fund since the crisis lows of March 2009:



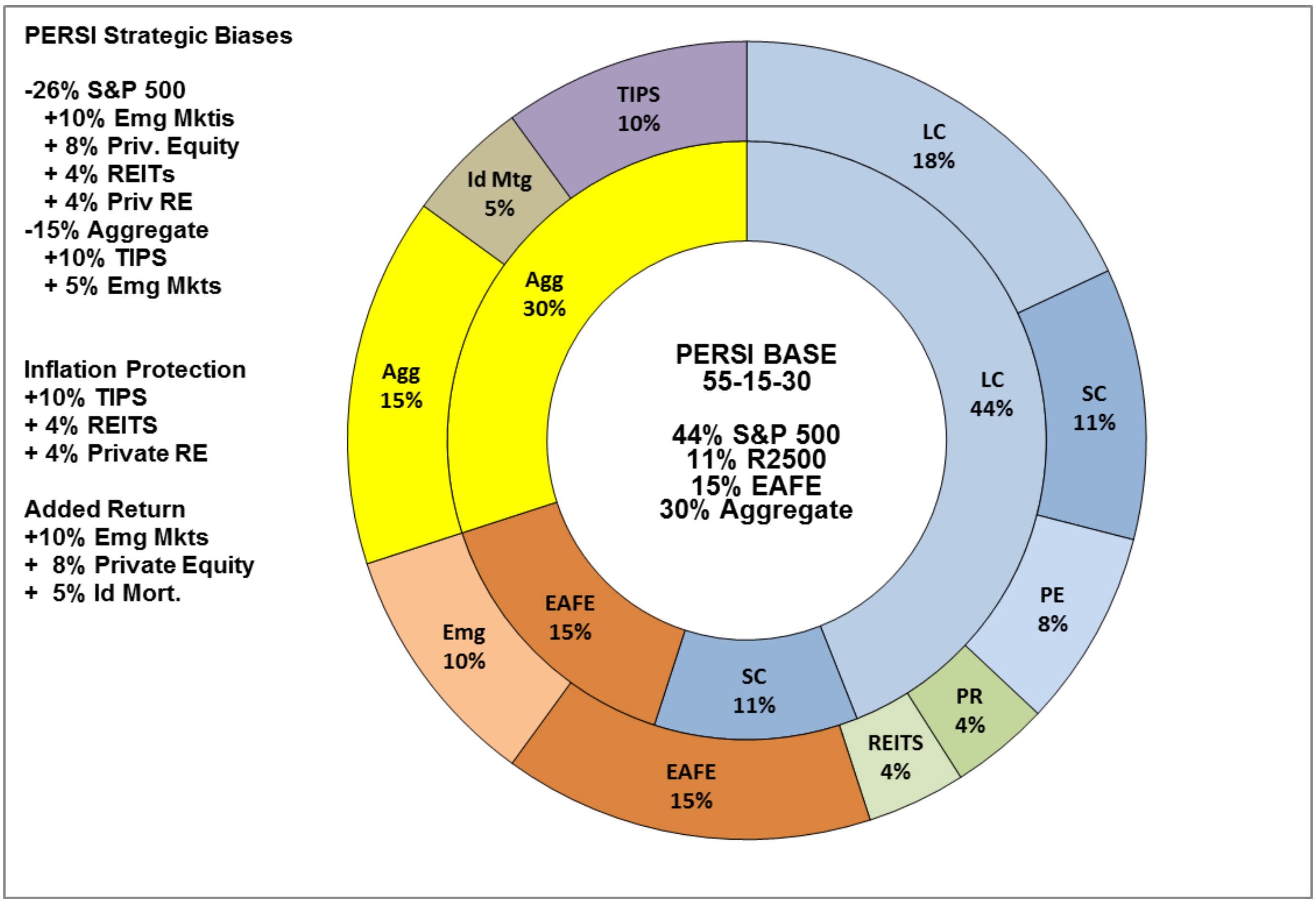
The equity markets saw the bigger "established" markets having the best returns, with the S&P 500 returning 20.6%, the Russell 2500 mid/small cap returning 25.6%, and MSCI EAFE developed markets returning 19.1%. In sharp contrast emerging markets (3.2%), REITs (7.7%), private equity (13.6%) and private real estate (-13.4%) had markedly worse returns (with private real estate reflecting a major portfolio restructuring). Investment grade bonds (-0.7%) had one of the rare negative annual return years, and TIPS [Treasury Inflation Protected Securities] sank -4.8%.



These market trends, in fact, explain the most interesting feature of this fiscal year – that PERSI actual returns trailed the reference 55% Russell 3000, 15% MSCI EAFE, 30% Barclay's Aggregate benchmark ["55-15-30"] by -5.2%.

This "underperformance" in fact exactly reflects PERSI's intended structure – one that has been in place for the past two decades. PERSI's strategic biases have consistently reduced the 55-15-30 benchmark's bias to the S&P 500 by -26% (from a 44% weighting to an 18% weight). That money has been shifted to Emerging Markets (10% weight), Private Equity (8% weight), Private Real Estate (4% weight), and REITS (4% weight). The other major shift, with smaller return consequences, has been to take 15% of the monies from the Barclay's Aggregate 30% reference weight and shifted to a 10% general weighting of TIPS, and 5% weight in the Idaho Commercial Mortgage program. These biases account for all but 60 basis points of the -5.2% disparity.

[PERSI's weighting to small cap equities and EAFE is the same as the 55-15-30 reference benchmark, with an 11% weighting to mid/small cap US stocks, and a 15% weighting to MSCI EAFE stocks. All of these weightings "look through" the activities of the active managers, and account for their biases (such as a tendency to overweight small cap stocks) in individual portfolio construction. Staff monitors active manager portfolios to assure that overall portfolio characteristics remain consistent with our long-term strategic biases].

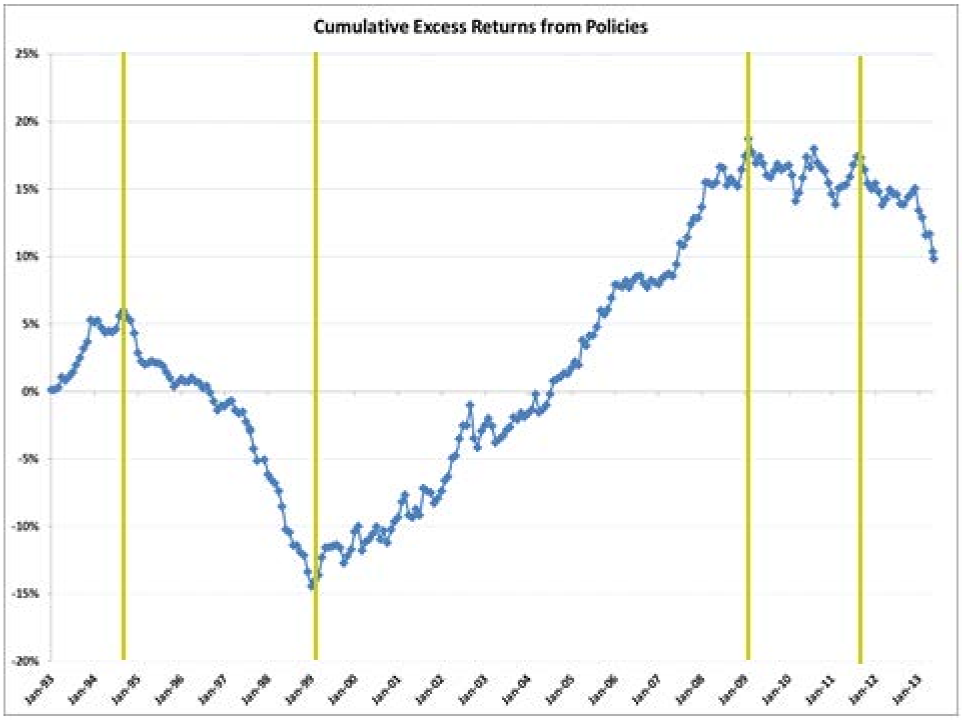


These shifts have been a basic feature of PERSI's strategic structure for at least the past two decades, and have been responsible for practically all of PERSI's relative performance both to peers and to the base reference 55-15-30 benchmark. Active management, rebalancing, currency hedging, and all other PERSI activities have essentially cancelled each other out. These strategic biases put in place collectively by the decisions of the Board, staff, and consultants have driven, are driving, and will drive the performance of the PERSI portfolio.

The central idea is that when the S&P 500 is one of the best performing capital markets in the world, PERSI will normally have no problem meeting its funding goals (as occurred in the mid-1990s). The problem PERSI faces is when the S&P 500 is a mediocre or terrible market both absolutely and relatively that PERSI needs protection – as occurred in the first decade of the 2000s.

Besides additional diversification, PERSI has shifted money to other areas for purposes of increased inflation protection (S&P 500 to REITS and Private Real Estate, Barclay's Aggregate to TIPS) and long-term added return (S&P 500 to emerging markets and private equity, Barclay's Aggregate to private debt in the Idaho Commercial Mortgage Program). All of these strategic biases go back decades, (private real estate began in 1981, the small cap and emerging market bias has been in place since the late 1980s, the Idaho Commercial Mortgage program began in the late 1980s, and the REIT and TIPS biases were added in 1997-1998).

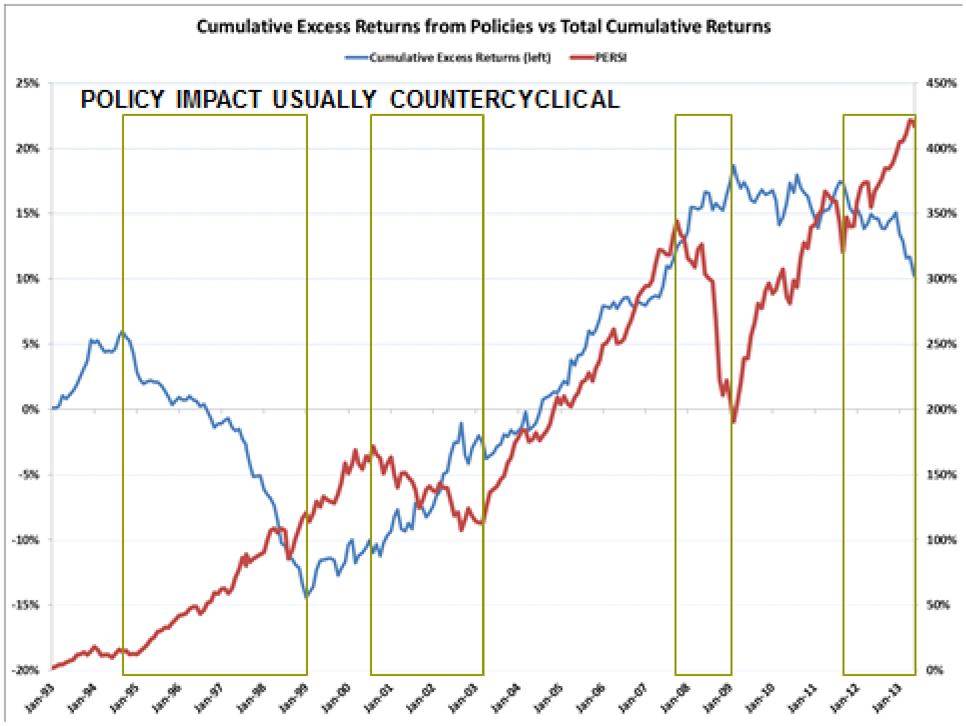
These strategic biases have multi-year impacts, not just over weeks or months:



The above slide shows the cumulative impact of the strategic polices as excess returns to a 55-15-30 portfolio. As can be seen, these strategic shifts added to return from 1992-1994, consistently subtracted from return from late 1994 through early 1999, consistently added to return for over a decade from 1999 to March of 2009, gradually kept pace from 2009 through 2011, and then, starting in December of 2011, have consistently subtracted from returns through this fiscal year, and markedly accelerated in this calendar year.

As a side note, the recent pattern of excess returns is very similar to the 1994-1999 period, with the downward acceleration of 1997 (due to the Asian crisis) similarly impacted by the recent collapse of the emerging markets (both absolutely and relatively) this calendar year. [These returns relative to the 55-15-30 reference benchmark also usually parallels PERSI's peer universe standings].

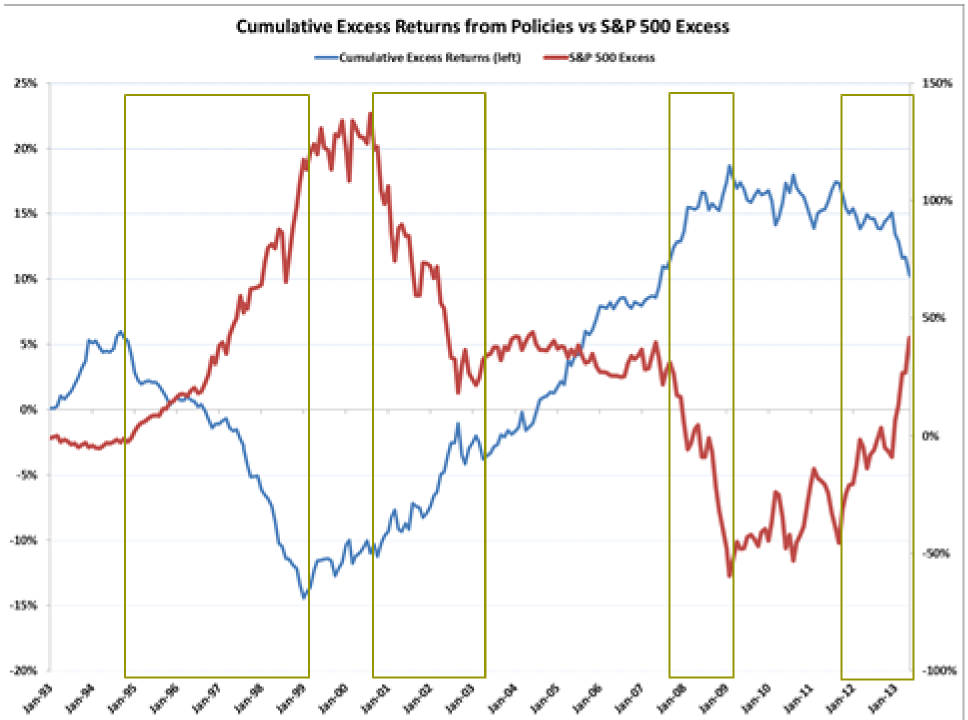
But, most notably, when the strategic policy excess returns are compared to PERSI's overall returns, the counter-cyclical nature of our strategic biases becomes apparent:



Here the cumulative excess returns from the strategic biases (left axis) are overlaid with the cumulative returns of the PERSI fund (right scale). Four time periods are emphasized. First is the period from 1994 through early 1999, when the strategic biases subtracted from return. But this was exactly a period when PERSI had some of its best overall returns in its history. Again this is very similar to the current period beginning around the start of this calendar year, where strategic policies are hurting returns, but PERSI overall is having an excellent absolute year.

And, in contrast, when PERSI overall had terrible (and negative) returns during the Tech Wreck recession of 2001-2003, and the Great Collapse of 2008-2009, PERSI's strategic biases markedly softened the blows. And, PERSI policies added to or generally were neutral to returns in other periods.

The reason is clear – that PERSI returns are primarily counter-cyclical to S&P 500 relative returns – our strategic policies “kick in” when the S&P 500 is a mediocre or poor relative capital market, in exchange for subtracting from return when the S&P 500 has exceedingly good performance:



This chart compares the strategic policy excess return (still on the left axis) with the cumulative excess return of the S&P 500 to overall PERSI returns. The same four periods as in the previous chart are highlighted. Here the relationship is stark – when the S&P 500 is markedly leading all other PERSI assets combined (as in 1994 – 1999, and since November of 2011 and particularly this calendar year), PERSI’s strategic biases hurt overall performance. But, as is the case this year and as shown in the previous chart, these are exactly the multi-year periods when PERSI overall returns are well ahead of the actuarial discount rate.

Further, when the S&P 500 was a mediocre performer (generally paralleling the other capital markets), PERSI’s strategic biases either added to returns (1993-1994, 1999-2001, 2003-2007) or generally kept pace (2009-2011).

Consequently, PERSI’s strategic biases have performed exactly as expected and hoped when they were put in place many years ago. The only environment they have yet to be tested in is one in which unexpected inflation rears its head.

In the first investment section narrative in PERSI’s annual reports (1996), we laid out our long-term investment philosophy and emphasized that “[t]here are two themes which consistently appear in many of PERSI’s investment policies and strategies: [1] Generate Consistent Real (Inflation-Adjusted) Returns; and [2] Provide Protection Against Poor or Mediocre U.S. Markets.” With regard to providing protection, we went on to state:

“Many of PERSI’s investment policies provide ‘insurance’ from poor to mediocre U.S. capital markets. PERSI’s underlying allocation is driven toward U.S. assets, since in the longer term (20 - 50 years), U.S. assets provide the best protection against U.S. inflation. . . .”

"But this also means that the greatest risk in the shorter term (1-5 years) to many PERSI funding goals (such as stable contribution rates and discretionary COLAs) are poor or mediocre U.S. equity and fixed income markets."

"In order to provide protection in those poor or mediocre U.S. markets, PERSI has built in a capacity to have a higher concentration of assets than many public funds in sectors other than the traditional U.S. capital markets – thus usually leading to higher international exposures (including emerging markets) and [other] exposures than the typical public fund. . . ."

"Even with these additional exposures, PERSI will still have the bulk of its investments in the U.S. stock and bond markets. If U.S. capital markets are doing well, then PERSI will have no problem both meeting the funding standards assumed by the actuaries and providing discretionary COLAs. The possibility of giving up . . . returns because of these additional exposures when U.S. markets are doing well is worth it when the trade-off is gaining back that extra return (and possibly more) when U.S. markets are poor and PERSI funding goals and discretionary COLAs are under pressure."

"Consequently, PERSI expects to do poorly in peer comparisons when U.S. capital markets [do] well. But in that instance, PERSI will usually have no problem in meeting its funding goals. PERSI, instead, is generally oriented to providing better returns than many other funds when U.S. capital markets are performing poorly or are mediocre, and when the jeopardy to PERSI's funding goals would otherwise be high. Over the longer term, PERSI expects to perform relatively well with its commitment to equities over fixed income."

1996 Comprehensive Annual Report – p. 33

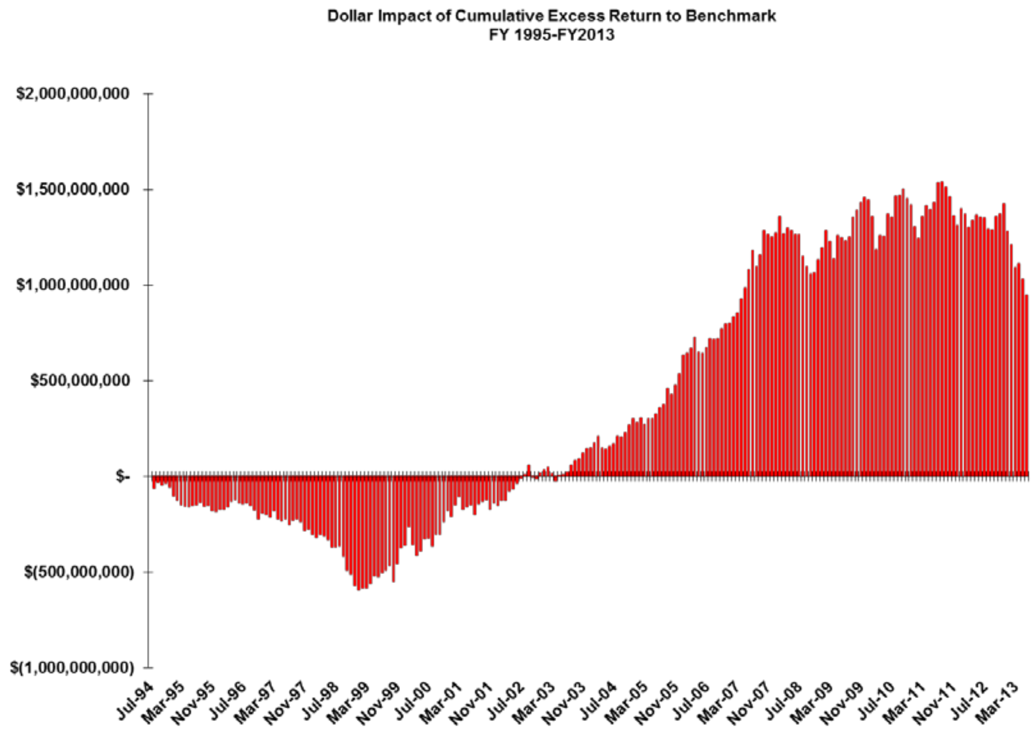
This fiscal year demonstrates the consistency of that policy.

Consequently, PERSI's peer returns for the fiscal year were significantly below median for the year. This recent performance also dragged PERSI's relative three year and five year rankings to below median for the first time since the mid-1990s. Longer term returns continue to be significantly above average:

RANKINGS IN THE CALLAN PUBLIC FUND UNIVERSE
AND MELLON MASTER TRUST (633 funds) UNIVERSE
June 30, 2013
Percentile Rankings over Period
(1 is highest, 100 is lowest)

	1Yr	*3Yrs*	*5Yrs*	*7Yrs*	*10Yrs*	*20 Yrs*
Return (%)	**9.1**	**10.2**	**4.8**	**5.5**	**7.8**	**8.1**
Policy Return	14.2	13.1	6.1	5.6	7.2	7.8
Callan Median Fund	12.0	11.0	5.3	5.4	7.1	7.9
Mellon Median Fund	11.6	10.7	4.9	5.3	7.3	
PERSI Rank (Percentile)						
Callan Public Funds	**88**	**68**	**69**	**49**	**17**	**34**
Mellon All Funds	**75**	**64**	**53**	**45**	**32**	

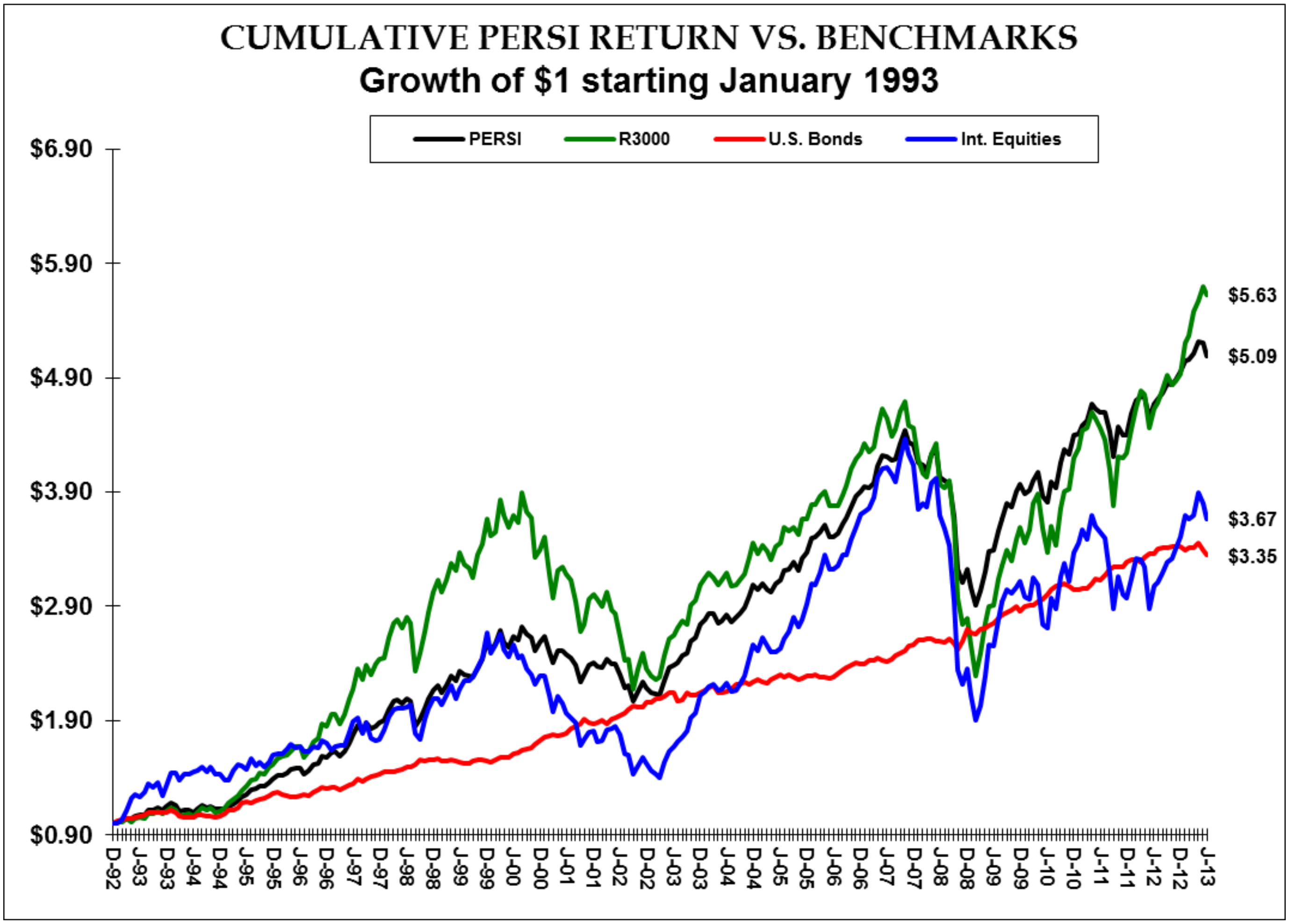
Since July of 1994 (when specific records on these numbers were first kept by staff), PERSI's strategic biases have added well over $1 billion to both general market returns (as represented by the reference 55-15-30 benchmark) through its additional activities in emerging markets, private assets, TIPS, REITS and similar programs, as follows.



PERSI's annualized return over this period was 8.4%, the 55-15-30 benchmark return was 8.0%. The cumulative outperformance over the period has been over 33%.

That approximately half a percent difference in return over 20 years represents over $1.1 billion in added value.

Since 1993, every dollar invested in PERSI has returned more than fivefold, to $5.09:



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 six years, and has survived relatively unscathed through all of the crises of the past 20 years.

During the last fiscal year, PERSI's US public equity component kept pace with the indices with a 21.5% return. Tukman (22.1%), Mountain Pacific (22.5%) and Donald Smith (27.5%) beat the Russell 3000, while Peregrine (our large cap growth manager) lagged significantly (13.3%).

The overall US equity component, however, returned only 14.2%, dragged down by private equity (13.6%) and real estate (-5.1%). Real estate, in turn, was influenced by negative private returns due to portfolio restructuring (-13.4%) and adequate public real estate (REIT) returns of 7.0%.

Global Equity underperformed the MSCI World market index with returns of 18.7%. This was both below the MSCI World index (at 19.3%) and below US equity general returns (21.5%). Our most recent global equity manager, Longview, led the pack with 27.6%, with Brandes (22.1%), Bernstein Global (24.1%), and Cap Guardian (22.7%) also beating the index for the year. Their outperformance, however, was outweighed by poor relative returns from Zesiger (6.2%) (due in large part to emerging markets exposure) and Barings (12.8%).

Developed market international equity (MSCI EAFE) returned 19.1% for the year, dramatically outperforming emerging market equity (MSCI Emerging Markets at 3.2%) for the third year in a row. Mondrian, our developed markets manager lagged the EAFE index with a 16.2% return, while Genesis outperformed the emerging markets index with 5.5% returns, and Bernstein Emerging underperformed with the worst equity account performance at -2.8% (reflecting their general exposure to commodity sensitive countries and their deep value bias).

PERSI fixed income ended its long-standing streak of outperforming benchmarks, with a return for the year of -2.8% compared to the returns of investment grade bonds as represented by the Barclay's Aggregate index at -0.7%. As with the periods of outperformances, this was due in large part to PERSI's weighting towards TIPS, which had a terrible relative and absolute (for bonds) year at -5.2%. This return melded the SSGA TIPs return of -5.4% and the Western active TIPs account return of -4.9%. Western with its nominal bond portfolio had a good year with 2.0% returns, and Barings slightly outperformed at -0.6%. Idaho Mortgages lost -1.1% for the year, while the mortgage backed securities managers largely tracked the general mortgage market with returns of -1.6% for Clearwater and -1.3% for DBF.

All in all a good year for PERSI.

ROBERT M. MAYNARD
Chief Investment Officer

INVESTMENT SUMMARY FOR THE YEAR ENDED JUNE 30, 2013

Types of Investment	Market Value		Percent of Total Market Value	
Short-term Investments		$ 423,931,155		3.4%
Fixed Income				
Domestic	2,583,416,219		20.7%	
International	75,117,428		0.6%	
Commercial Mortgages	470,363,405		3.8%	
Total Fixed Income		3,128,897,052		25.1%
Equity				
Domestic Equity	4,877,990,795		38.9%	
International Equity	2,602,477,387		20.8%	
Total Equity		7,480,468,182		59.8%
Private Equity		988,018,414		7.9%
Real Estate		477,503,930		3.8%
Total Base Plan Investments		$ 12,498,818,733		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		322,861,632		
Choice Plan 414(k)		57,979,323		
Choice Plan 401(k)		464,825,616		
Total Investments in All Funds		$ 13,344,485,304		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2013

Base Plan and Firefighters' Retirement Fund

Adelante Capital Management	$ 369,511,637	
Advent International, LP	35,548,969	
Apollo Management, LP	64,095,800	
American Securities Opportunities Associates II, LLC	14,523,928	
Baring Asset Management-Global Equity	360,111,052	
Baring Asset Management-Global Fixed Income	173,050,066	
Bernstein-Emerging Markets	305,645,860	
Bernstein-Global Equity	396,890,846	
Blackstone Capital Partners, LP	57,142,508	
BNY Mellon Capital Management-International Stock Index	510,033,998	
BNY Mellon Capital Management-Mid Cap Completion	167,231,833	
BNY Mellon Capital Management-R2000 Small Cap	118,186,605	
BNY Mellon Capital Management-S&P 500 Large Cap	1,235,090,543	
BNY Mellon Capital Management-REIT Index	104,791,658	
BNY Mellon Capital Management-Emerging Market Index	313,527,203	
Brandes Investment Partners	399,428,501	
Bridgepoint Cap LTD	17,312,020	
Capital Guardian	377,822,042	
Cascade	87,384,347	
Cerberus Investment Partners	31,577,545	
Chisholm Management, LP	2,945,117	
Clearwater Advisors, LLC-TBAs	129,284,681	
CVC European Equity	42,414,596	
D.B. Fitzpatrick & Co.-Fixed Income	147,119,107	
D.B. Fitzpatrick & Co.-Idaho Mortgages	472,314,160	
Donald Smith & Co.	400,587,314	
Endeavour Capital	8,120,421	
Enhanced Equity, LP	37,792,116	
Epic Venture Fund	10,074,629	
First Reserve Fund XI	63,445,979	
Frazier Technology Ventures II, LP	12,513,069	
Galen Associates, LP	32,890,526	
Genesis Asset Managers	326,120,836	
Goense Bounds & Partners, LP	1,891,774	
Gores Capital Partners, LLP	30,909,312	
Green Equity Investors IV, LP	50,538,543	
Hamilton Lane Co - Investment Fund, LP	54,545,545	
Hamilton Lane Secondary Fund, LP	25,250,611	
Highway 12 Ventures, LP	57,287,288	
Ida-West	3,166,480	
JH Whitney & Co, LLC	32,362,232	
KKR 2006 Fund, LP	29,192,946	
Kohlberg & Co.	40,519,010	
Koll Partners, LLP	260,369,696	
Lindsay Goldberg & Bessemer	48,558,865	
Littlejohn, LP	2,046,670	
Longview Partners	395,739,820	
McCown DeLeeuw & Co. IV, LP	85,280	
Mellon Transition Management Services	1,980,569	(Continued)

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2013

Mondrian Investment Partners	366,631,441	
Mountain Pacific Investment Advisors	391,666,119	
Newbridge Asia, LP	25,699,411	
Olympic IDA Fund II, LLC	166,244,170	
Peregrine Capital Management	368,407,365	
PERSI Cash in Short-Term Investment Pool	35,904,247	
Private Debt	14,696,317	
Providence Equity Partners, LLP	57,071,862	
Prudential Investments	38,044,488	
State Street Global Advisors-Fixed Income	676,856,804	
State Street Global Advisors-TIPS	912,059,581	
T3 Partners, LP	82,178,541	
Tukman Grossman Capital Management	394,751,689	
Veritas Capital Partners, LP	14,172,220	
W. Capital Partners, LP	3,008,143	
Western Asset Management	170,531,702	
Western Asset-TIPS	378,523,034	
Zesiger Capital Group	356,462,495	
Zesiger Capital Group-Private Equity	21,945,197	
Total Base Plan and Firefighters' Retirement Fund		$ 12,333,828,979
Choice Plan		
BNY Mellon Aggregate Bond Index	12,080,254	
BNY Mellon Dow Jones U.S. Completion Total Stock Market Index	7,353,163	
BNY Mellon Dow Jones U.S. Total Stock Market Index	4,081,993	
BNY Mellon International EAFE Fund	4,110,988	
BNY Mellon S&P 500	9,785,877	
Brandes International Equity Fund	6,170,411	
Calvert SI Balance Fund	1,141,331	
Dodge and Cox Income Fund	11,951,576	
PERSI Choice Plan Contribution Holding Account	2,585,228	
PERSI Choice Plan Loan Fund	6,048,831	
T. Rowe Price Small Cap Fund	15,527,921	
Total Return Fund	422,696,937	
Vanguard Growth & Income Fund	11,994,151	
PERSI Short Term Investment Portfolio	11,098,451	
Total Choice Plan		526,627,112
Sick Leave Insurance Reserve Fund		
State Street Global Advisors-Domestic Equity	199,172,755	
State Street Global Advisors-International Equity	42,549,635	
State Street Global Advisors-Fixed Income	81,139,242	
Total Sick Leave Insurance Reserve Fund		322,861,632
Total Market Value, Including Investment Receivables and Payables		13,183,317,723
Add: Investments Purchased Payable		380,949,971
Less: Investments Sold Receivable		(182,452,753)
Less: Interest and Dividends Receivable		(37,329,637)
Total Market Value, Net of Investment Receivables and Payables		$ 13,344,485,304

(Concluded)

Investment Results for the Year Ended June 30, 2013

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	FISCAL	1 YR.	3 YRS. *	5 YRS. *	10YRS. *
U.S. EQUITY							
MELLON CAPITAL MANAGEMENT MID CAP	$ 173.0	1.4%	26.2	26.2	19.7	8.3	10.7
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	122.2	1.0%	24.2	24.2	18.8	8.7	9.4
MELLON CAPITAL MANAGEMENT S&P 500 LC	1,277.4	10.0%	20.6	20.6	18.4	6.9	7.3
MOUNTAIN PACIFIC	405.1	3.2%	22.5	22.5	18.6	10.3	10.3
TUKMAN GROSSMAN CAPITAL MGMT	408.3	3.2%	22.1	22.1	17.5	9.3	6.4
DONALD SMITH & CO.	414.3	3.2%	27.5	27.5	15.5	12.5	
PEREGRINE	381.0	3.0%	13.3	13.3	16.4	7.7	
TOTAL U.S. PUBLICLY TRADED EQUITY	3,181.3	25.0%	21.2	21.2	17.8	8.7	8.3
BENCHMARK - Russell 3000			21.5	21.5	18.6	7.2	7.8
PRIVATE EQUITY							
IDA-WEST	3.3	0.0%	10.1	10.1	25.6	22.3	26.9
GALEN III	34.0	0.3%	8.2	8.2	1.8	(0.5)	5.3
MCCOWN DE LEEUW	-	0.0%	0.0	0.0	0.6	5.6	(32.1)
PROVIDENCE EQ PARTNERS	59.0	0.5%	(1.8)	(1.8)	11.8	3.9	25.4
CHISOLM PARTNERS	3.0	0.0%	42.6	42.6	53.0	31.2	21.8
LITTLEJOHN II L.P.	2.1	0.0%	73.4	73.4	14.9	31.4	31.8
GOENSE BOUNDS	2.0	0.0%	6.5	6.5	(11.9)	(14.1)	14.7
HWY 12 FD VENTURE LP	59.3	0.5%	6.2	6.2	14.4	3.2	(0.6)
T3 PARTNERS II L.P.	85.0	0.7%	17.8	17.8	14.8	3.1	12.9
APOLLO MGMT LP	66.3	0.5%	29.7	29.7	18.4	10.9	31.4
GREEN EQUITY IV L.P.	52.3	0.4%	21.2	21.2	23.1	16.1	
GORES CAPITAL AD LLC	32.0	0.3%	(7.1)	(7.1)	3.0	9.2	
W CAPITAL PARTNERS	3.1	0.0%	(14.8)	(14.8)	(7.6)	(8.5)	
FRAZIER TECH VENTURES II	12.9	0.1%	22.8	22.8	7.4	(1.3)	
KOHLBERG & CO.	41.9	0.3%	12.4	12.4	17.0	9.4	
HAMILTON SECONDARY	26.1	0.2%	4.9	4.9	13.4	7.3	
CVC EUROPEAN EQUITY	43.9	0.3%	25.1	25.1	28.6	6.9	
HAMILTON LANE CO-INVESTMENT FUND	56.4	0.4%	25.4	25.4	10.8	0.8	
BRIDGEPOINT EUROPE III	17.9	0.1%	9.3	9.3	13.3	(1.9)	
NEWBRIDGE ASIA LP	26.6	0.2%	19.9	19.9	24.2	25.6	
JH WHITNEY EQUITY PARTNERS IV	33.5	0.3%	15.3	15.3	6.5	3.6	
BLACKSTONE CAPITAL PARTNERS	59.1	0.5%	26.3	26.3	12.2	3.1	
ENHANCED EQUITY FUND LP	39.1	0.3%	1.4	1.4	6.7	4.5	
LINDSEY, GOLDBERG, BESSEMER	50.2	0.4%	7.6	7.6	17.6	9.7	
KKR 2006 FUND	30.2	0.2%	22.0	22.0	16.1	9.1	
FIRST RESERVE FUND XI	65.6	0.5%	3.3	3.3	7.5	2.6	
CERBERUS INST PARTNERS	32.7	0.3%	15.4	15.4	13.4	8.6	
EPIC VENTURE FUND	10.4	0.1%	30.7	30.7	20.2	7.7	
ADVENT INTERNATIONAL	36.8	0.3%	21.0	21.0	13.9	5.6	
AMERICAN SECURITIES OPPORTUNITIES FUND II	15.0	0.1%	14.8	14.8	12.2		
VERITAS CAPITAL PARTNERS	14.7	0.1%	29.6	29.6			
ENDEAVOUR CAPITAL PARTNERS	8.4	0.1%	(4.9)	(4.9)			
ZESIGER CAPITAL GROUP	22.7	0.2%	(7.2)	(7.2)	(1.2)	(3.0)	1.2
TOTAL PRIVATE EQUITY	1,045.5	8.2%	13.6	13.6	13.9	6.2	12.8
REAL ESTATE							
KOLL PARTNERS	269.3	2.1%	(26.9)	(26.9)	(10.4)	(15.8)	
OLYMPIC IDA FUND II	171.9	1.3%	26.8	26.8	29.5	(1.9)	
CASCADE	90.4	0.7%	(27.0)	(27.0)	(10.6)	(9.1)	
ADELANTE - PUBLIC R/E	382.2	3.0%	7.0	7.0	19.3	6.3	10.7
MELLON CAPITAL MANAGEMENT REIT INDEX**	108.4	0.8%					
PRUDENTIAL	39.3	0.3%	9.8	9.8	17.0	(1.9)	6.7
TOTAL R/E MANAGERS	**1,061.5**	**8.2%**	(5.1)	(5.1)	7.0	(3.0)	7.5
BENCHMARK - NCREIF			10.5	10.5	13.3	2.3	8.5
TOTAL U.S. EQUITY	**5,288.3**	**41.4%**	14.2	14.2	14.9	5.9	8.2
BENCHMARK - Russell 3000			21.5	21.5	18.6	7.2	7.8
GLOBAL EQUITY							
BARING ASSET MANAGEMENT	372.4	2.9%	12.8	12.8	12.1	3.3	8.8
BRANDES INVST PARTNERS	413.1	3.2%	22.1	22.1	13.4	2.2	7.1
CAPITAL GUARDIAN	390.8	3.1%	22.7	22.7	13.6	2.9	7.4
ZESIGER CAPITAL GROUP	368.7	3.0%	6.1	6.1	3.0	0.2	8.0
BERNSTEIN GLOBAL	410.5	3.2%	24.1	24.1	10.0	(2.7)	
LONGVIEW PARTNERS	409.3	3.2%	27.6	27.6			
TOTAL GLOBAL EQUITY	**2,364.8**	**18.6%**	18.7	18.7	11.4	1.8	7.8
TOTAL U.S./GLOBAL EQUITY	**$ 7,653.1**	**60.0%**	15.0	15.0	13.6	4.2	7.9
BENCHMARK - Russell 3000			21.5	21.5	18.6	7.2	7.8

Investment Performance for Periods Ending***

(Continued)

Investment Results for the Year Ended June 30, 2013

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending*** FISCAL	1 YR.	3 YRS. *	5 YRS. *	10YRS. *
INTERNATIONAL EQUITY							
GENESIS INVESTMENTS	$ 337.3	2.6%	5.5	5.5	7.0	4.6	16.9
MELLON CAPITAL MANAGEMENT INTL STK INDX	527.5	4.1%	19.0	19.0	10.5	(0.2)	7.8
MONDRIAN	379.2	3.0%	16.2	16.2	10.6	0.7	
BERNSTEIN EMERGING	316.1	2.5%	(2.8)	(2.8)	(0.4)	(3.9)	
MELLON CAPITAL MANAGEMENT EMERGING STK INDX**	324.3	2.6%					
TOTAL INTERNATIONAL EQUITY	**1,884.4**	**14.8%**	8.8	8.8	6.7	0.7	10.3
TOTAL INT'L EQUITY (HEDGED)[1]	**1,884.4**	**14.8%**	8.7	8.7	6.4	0.7	10.1
EAFE INDEX NET			19.1	19.1	10.6	(0.2)	8.2
TOTAL EQUITY	**9,537.5**	**74.8%**	13.6	13.6	12.1	3.7	8.5
BENCHMARK - Russell 3000			21.5	21.5	18.6	7.2	7.8
FIXED INCOME							
DBF & CO FIXED	152.2	1.2%	(1.3)	(1.3)	2.5	4.5	4.3
DBF & CO-IDAHO MTGS	488.5	3.8%	(1.1)	(1.1)	4.6	6.9	6.0
STATE ST ADV-FX	700.1	5.5%	(0.5)	(0.5)	3.9	5.6	4.6
SSGA-TIPS	943.3	7.4%	(5.4)	(5.4)	7.5	6.7	6.4
CLEARWATER-TBA	133.7	1.0%	(1.6)	(1.6)	2.1	4.4	4.5
REAL ESTATE PVT DEBT	15.2	0.1%	(33.6)	(33.6)	(10.8)	(3.4)	
BARING ASSET MANAGEMENT	179.0	1.4%	(0.6)	(0.6)	4.0	5.0	5.0
WESTERN ASSET	176.4	1.4%	2.0	2.0	6.6	8.3	
WESTERN TIPS	391.5	3.1%	(4.9)	(4.9)	4.4	4.5	
TOTAL FIXED INCOME	**3,179.9**	**24.9%**	(2.8)	(2.8)	5.1	6.0	5.3
BENCHMARK - BC Aggregate Bonds			(0.7)	(0.7)	3.5	5.2	4.5
OTHER							
UNALLOCATED CASH	37.1	0.3%	2.1	2.1	2.5	3.8	6.0
MELLON TRANSITION MANAGEMENT SERVICES	2.0	0.0%	61.3	61.3	37.4	222.2	
TOTAL OTHER	**39.1**	**0.3%**					
COMBINED TOTAL[2]	**$ 12,756.5**	**100.0%**	9.1	9.1	10.2	4.8	7.9
BENCHMARK - 55% Russell 3000 30% BC Aggregate Bonds 15% MSCI EAFE Index			14.1	14.1	12.9	5.9	7.1

Add: Other PERSI DC Choice Plan Investments[2]	103.9
Sick Leave Fixed Income Investments	81.1
Sick Leave Equity Securities	241.7
Investments Purchased	381.0
Less: Interest and Dividends Receivable	(37.3)
Investments Sold	(182.4)
Total Investments Net of Receivables and Payables	**$ 13,344.5**

*Rates of Return are annualized
[1]Includes Pareto Partners currency overlay account-Pareto account suspended January 2013
[2]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
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
2013	110,329,885	180,373,163	817,663,490	1,108,366,538

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

Largest Stock Holdings (by Market Value) June 30, 2013

	Shares	Stock	Market Value
1	1,745,696	WELLS FARGO & CO	$ 72,044,874
2	156,807	APPLE INC	62,108,117
3	365,759	SIMON PROPERTY GROUP INC	57,760,661
4	48,413	SAMSUNG ELECTRONICS CO LTD	56,889,117
5	3,863,271	MICRON TECHNOLOGY INC	55,360,673
6	1,555,778	MICROSOFT CORP	53,721,014
7	57,539	GOOGLE INC	50,655,609
8	1,803,861	PFIZER INC	50,526,147
9	1,127,474	AMERICAN INTERNATIONAL GROUP INC	50,398,088
10	259,639	INTERNATIONAL BUSINESS MACHINE	49,619,609

A complete list of portfolio holdings is available upon request.

Largest Bond Holdings (by Market Value) June 30, 2013

	Par	Bonds	Description	Market Value
1	74,198,796	US TREASURY INFLATION INDEX SECURITY	1.125% 01/15/2021 DD 01/15/11	$ 79,352,125
2	78,399,602	US TREASURY INFLATION INDEX SECURITY	0.125% 01/15/2022 DD 01/15/12	76,788,726
3	73,506,909	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2016 DD 04/15/11	75,396,257
4	67,416,865	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2017 DD 04/15/12	69,170,782
5	46,289,080	US TREASURY INFLATION INDEX SECURITY	3.875% 04/15/2029 DD 04/15/99	66,714,136
6	49,586,562	US TREASURY INFLATION INDEX SECURITY	2.375% 01/15/2025 DD 07/15/04	59,069,992
7	56,333,022	US TREASURY INFLATION INDEX SECURITY	0.125% 01/15/2023 DD 01/15/13	54,621,006
8	51,050,990	US TREASURY INFLATION INDEX SECURITY	0.625% 07/15/2021 DD 07/15/11	52,686,204
9	53,266,982	US TREASURY INFLATION INDEX SECURITY	0.125% 07/15/2022 DD 07/15/12	52,064,320
10	43,624,898	US TREASURY INFLATION INDEX SECURITY	2.000% 01/15/2026 DD 01/15/06	50,376,549

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2013

Broker Name	Base Commission	Total Shares	Commission per Share
DEUTSCHE BK SECS INC, NY (NWSCUS33)	$ 550,506	137,490,887	$ 0.00400
MORGAN STANLEY & CO INC, NY	193,297	22,549,509	0.00857
MERRILL LYNCH INTL LONDON EQUITIES	162,909	30,503,825	0.00534
DEUTSCHE SEC ASIA LTD, HONG KONG	162,729	78,806,756	0.00206
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	153,344	11,675,199	0.01313
CITATION GROUP/BCC CLRG, NEW YORK	151,653	4,544,104	0.03337
GOLDMAN SACHS & CO, NY	148,367	15,461,878	0.00960
CREDIT SUISSE (EUROPE), LONDON	129,936	19,041,038	0.00682
UBS EQUITIES, LONDON	128,513	39,986,803	0.00321
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	116,680	10,894,989	0.01071
INVESTMENT TECHNOLOGY GROUP, NEW YORK	113,037	8,753,372	0.01291
KIM ENG SEC USA INC, NY	102,966	99,841,000	0.00103
MERRILL LYNCH PIERCE FENNER SMITH INC NY	99,632	2,917,236	0.03415
ITG INC, NEW YORK	86,458	6,913,787	0.01251
BERNSTEIN SANFORD C & CO, NEW YORK	85,110	2,519,862	0.03378
J P MORGAN SECURITIES INC, BROOKLYN	82,562	3,281,835	0.02516
CREDIT SUISSE, NEW YORK (CSUS)	81,969	4,156,524	0.01972
UBS SECURITIES LLC, STAMFORD	80,191	3,600,131	0.02227
CITIGROUP GBL MKTS INC, NEW YORK	79,480	2,418,664	0.03286
WEEDEN & CO, NEW YORK	67,591	1,695,165	0.03987
J P MORGAN SECS LTD, LONDON	65,891	5,348,034	0.01232
SIDOTI & CO LLC, NEW YORK	65,189	1,594,147	0.04089
MERRILL LYNCH PIERCE FENNER, WILMINGTON	57,526	7,731,959	0.00744
MORGAN J P SECS INC, NEW YORK	55,525	8,318	6.67528
JEFFERIES & CO INC, NEW YORK	53,002	1,293,354	0.04098
CITIGROUP GLOBAL MARKETS LTD, LONDON	52,259	10,672,968	0.00490
MORGAN STANLEY & CO, LONDON (MSLNGB2X)	51,402	4,268,301	0.01204
RBC CAPITAL MARKETS LLC, NEW YORK	49,885	1,921,926	0.02596
MACQUARIE BANK LTD, HONG KONG	48,241	10,692,063	0.00451
CREDIT LYONNAIS SECS (ASIA), HONG KONG	47,144	58,056,205	0.00081
ISI GROUP INC, NY	46,561	1,178,869	0.03950
WATERMILL INSTITUTIONAL TRD, JERSEY CITY	44,448	1,111,200	0.04000
CJS SECURITIES INC, JERSEY CITY	43,069	1,101,110	0.03911
CREDIT LYONNAIS SECS, SINGAPORE	40,388	5,522,644	0.00731
OPPENHEIMER & CO INC, NEW YORK	40,132	1,252,922	0.03203
BNY CONVERGEX, NEW YORK	39,965	760,455	0.05255
J.P. MORGAN CLEARING CORP, NEW YORK	39,741	4,547,495	0.00874
BARCLAYS CAPITAL LE, JERSEY CITY	38,840	1,046,590	0.03711
GOLDMAN SACHS INTL, NY	37,975	810,046	0.04688
INSTINET CORP, NY	37,463	2,360,774	0.01587
Other Brokers Under $35,000	1,439,880	244,908,103	0.00588
TOTAL BROKER COMMISSIONS	**$ 5,171,456**	**873,240,047**	$ 0.00592

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

Schedule of Fees and Commissions
for the Year Ended June 30, 2013

PRIVATE EQUITY COSTS

Advent International GPE, L.P.	$ 452,500
American Securities Opportunities Fund II, L.P.	300,000
Apollo Investment Fund, L.P.	(375,964)
Blackstone Capital Partners, L.P.	593,267
Chisholm/Nautic Partners , L.P.	(200,883)
CVC European Equity Partners, L.P.	364,970
Endeavour Capital Fund VI, L.P.	367,000
Enhanced Equity Funds, L.P.	329,135
EPIC Venture Fund IV, LLC	300,000
First Reserve, L.P.	505,606
Gores Capital Partners II, L.P.	97,996
Green Equity Investors, L.P.	241,308
Hamilton Lane Co-Investment Fund, L.P.	(108,241)
Hamilton Lane Secondary Funds, L.P.	334,226
Highway 12 Venture Funds, L.P.	552,314
J.H. Whitney, L.P.	(394,537)
KKR 2006 Fund, L.P.	86,565
Kohlberg Investors, L.P.	(248,578)
Lindsay Goldberg, L.P.	705,945
Providence Equity Partners III, L.P.	357,394
T3 Partners II, L.P.	862,457
TOTAL	$ 5,122,478

Schedule of Fees and Commissions for the Year Ended June 30, 2013

Investment Fees	**Average Assets Under Management**	**Fees**	**Basis Points**
Investment Manager Fees			
Equity Managers	$ 7,642,426,620	$ 29,226,902	38
Fixed Income Managers	3,317,674,629	4,655,360	14
Real Estate Managers	636,196,972	4,008,368	63
Total Average Assets	$ 11,596,298,221		
Total Investment Manager Fees		37,890,630	33
Other Investment Service Fees			
Custodian/Record Keeping Fees		3,886,523	
Investment Consultant Fees		863,175	
Legal Fees		174,803	
Actuary/Audit Service Fees		298,411	
Total Investment Service Fees		5,222,912	4
Total Defined Benefit Plans Fees		$ 43,113,542	37
Total Defined Contribution Plans' Fees		347,528	
Total Other Trust Funds' Fees		169,450	
Total Fees		**$ 43,630,520**	

Note: Broker Fees are Included on a Separate Schedule

STATEMENT OF INVESTMENT POLICY AND GUIDELINES

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,
- the 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.

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 7.50% 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 7.00%]. Assuming all of the actuarial assumptions are accurate, this 7.50% 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 7.50% 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 7.50% rate before fees and 7.00% rate net of fees assume an inflation rate of 3.25% and an annual general state salary growth rate of 3.75%. 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 7.50% [7.00% 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 7.50% 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 proxies 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.

3. 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
(*Expected Returns are before fees and expenses*)

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities			**70%**	**66% - 77%**
U.S./Global Equity	9.2%	18.7%	55%	50% - 65%
International	9.3%	20.0%	15%	10% - 20%
Fixed Income	**3.3%**	**4.3%**	**30%**	**23% - 33%**
Cash	**2.8%**	**0.9%**	**0%**	**0% - 5%**

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.50%	3.25%	4.25%	n/a
Portfolio	7.45%	2.50%	4.95%	12.97%

VI. Deposit and Investment Risk Policy - GASB 40

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.