



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., January 26, 2009. The following members were present:

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

Executive Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Director William Oldham, Deputy Attorney General Joanna Guilfoy, and Management Assistant Cheri Campbell were also in attendance. Betsy Griffith handled the electronic projection of materials and documents discussed in the meeting. Other persons attending portions of the meeting were:

Rod MacKinnon	MPIA
Eoin Gill	BNY Mellon
Heidi Simpson	BNY Mellon
Cody Barney	DBF
Brian McGrath	DBF
Mike Boren	Clearwater
Tim Dunn	Clearwater
Solomon Lee	Clearwater
Charlie Brown	IREA
Robert Schmidt	Milliman
Larry Johnson	EFIB
Chris Halvorson	EFIB
Ryan Fitzpatrick	Boston Co
Rich Cochran	BNY Mellon
Greg Lindsey	Mellon Capital
Pat Hughes	Mellon
Tom Loch	Mellon Capital
Keith Kotfica	ACS
Joe Greco	ACS

Debbie Buck	PERSI
Ray Polzin	PERSI
Diane Kaiser	PERSI
Patrice Perow	PERSI
Rose Marie Sawicki	PERSI
Judy Aitken	PERSI
Cecile McMonigle	PERSI
Shawnda Kasma	PERSI
Mike Young	PERSI

MINUTES

Approval of the Minutes: Trustee Deal made a motion to approve the minutes of the December 8, 2010 meeting as written. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: Although generally better than expected earnings and continued, although slow, growth in the world and US economy occurred during the month, policy uncertainty in the US and China's attempt to slow lending led to a severe equity drop in the last few days. The fund is down -0.6% for the month, with a fiscal year to date return of 16.2% at \$10.515 billion. The PERSI fund at various times in the month prior to the drop had recovered all of the record losses of the previous fiscal year.

Emerging markets and REITs continue to perform exceptionally well this year, with Donald Smith, Genesis, Zesiger and Bernstein Global and Emerging having the best relative and good absolute returns. Western has made a strong comeback in both absolute and relative returns, and is the leading manager with Donald Smith and Zesiger against benchmarks. Private real estate has the worst absolute returns and Mountain Pacific, Adelante and TCW have the worst relative returns.

PERSI is even with its strategic benchmark for the fiscal year to date. While the bias towards emerging markets, REITs, global managers, TIPS and rebalancing have materially added to returns, weightings toward private assets have hurt as they mostly have not been revalued during this recent market rise. We expect private real estate to actually have a substantially negative year as valuations in that asset catch up in this year's appraisal process.

In early November of 2008 and in early March of 2009 we made major rebalances totaling around 8% of the fund from fixed income to equities, with about one-third of that amount directed towards emerging markets (the rest was to equity index funds and REITs). Since that rebalance, emerging markets has made over 100% in less than a year and as a result we have a material historical overweight to our emerging market managers. We have initiated a rebalance by taking back the amount given to those managers, which, with the expected write-down in private real estate over the next couple of months, will bring us back within strategic ranges for equities and fixed income.

Investment Manager Comments: Brian McGrath of D.B. Fitzpatrick & Co. stated that over the last couple of weeks, the Fed has been frustrated, discussing the target rate on excess reserves. There is a breakdown in the transmission mechanism; rates are not longer a good indicator of liquidity. There is a big bulge in base money from the

government pumping money into the system to stimulate spending and bank liquidity, yet there was a break in the money and banking system during the recovery in which there was a scramble for reserves at the same time. The discount rates pushed close to zero is not stimulative, and fed funds market remains inactive. In the early 80's they targeted monetary growth rates not interest rates. He believes we are in that phase now.

He is a bit concerned with the M2 money supply. Growth has declined sharply recently; this takes pressure off of inflation, but questions if it is sufficient to maintain a recovery that is slower than a normal recovery. He expects we will probably see slow single digit growth over the next few quarters and possibly into next year.

Rob MacKinnon with MPIA reported that valuations are looking reasonable. Cost cutting which drove earnings is behind us, and now we need to see revenue growth. They are seeing up ticks in retail sales and manufacturing. We need to see employment gains or it will be a flat year.

Mike Boren with Clearwater stated that affirmative political action is needed or taxes will have to be raised at the end of this year. The economic activities of 2010 are a detriment to 2011. He believe things will start looking better this year, but will look worse next year. He is a bit scared of inflation but does not think it will happen soon.

Tim Dunn with Clearwater is looking for positives. GDP expected to be high for the 4th quarter of 2009. Unemployment is lessening but he does not expect that to last.

DIRECTOR UPDATES

Executive Director Status: Director Drum reviewed his status report dated January 21, 2010 that was previously provided to the Board. The Department of Labor has requested PERSI take over administration of their old retirement plan. This plan has been closed for several years, has approximately 30 active members and 400 retirees. The Department of Labor has specified that they want the investments to remain with Prudential and not be moved to PERSI.

The Board agreed that taking on the administration of the plan without moving the investments would be too much of a risk to the fiduciary responsibilities of the Board.

The Judges System has requested that they be allowed to move under the PERSI umbrella. They are requesting that PERSI keep the system separate from the PERSI fund and the judges would prefer to maintain control over their investments.

After some discussion, members of the Board agreed to continue working with the Judges System with the following understandings: 1) the System will obtain a determination letter prior to moving to PERSI; 2) the System would need to be adequately funded; 3) the System should incorporate into the current PERSI system and not be a separate Fund; 4) the PERSI Board would need to have independence over investments in order to protect and maintain their fiduciary responsibilities.

The Board of Education is working on potential legislation that would exclude all substitute teachers from participation in PERSI. Trustee Fisher expressed concern about what future impact this would have on the fund. Director Drum explained that the main concern PERSI has is that this be consistent across all school districts.

Senator Cameron has asked PERSI to provide information to the possible impact of a one time offer to adjust to a Rule of 85 or 87. This offer would include approximately 3800 employees, 1600 of those are educators. Director Drum will continue to work with Milliman to develop this information.

New Employer: Oakley Highway District has requested entrance into PERSI. They have four employee and four paid elected/appointment officials. There is no entry cost for this employer. Trustee Sullivan made a motion to accept Oakley Highway District into the Fund effective February 1, 2010.

Sage International Charter School will enter into PERSI effective February 1, 2010. This is a statutory mandated employer, so no action by the Board was required.

Deputy Director Status Report: Deputy Oldham reviewed the fourth quarter operational statistics that were provided to the Trustees.

LEGAL

Proposed Disability Legislation: Deputy Attorney General Joanna Guilfoy gave the Board an overview on legislation being proposed by Representative Burgoyne that relates to PERSI's disability retirement program.

FISCAL

Fiscal Update: Sr. Accountant Debbie Buck reviewed the Fiscal Update memo dated January 19, 2010. She reviewed and commented on the year to date expense reports and quarterly out-of-state travel report. In response to a question from Chairman Olson, she explained that the travel report is made up of two sections. The first one reports travel that has been completed and the second is anticipated travel with estimated amounts.

Additional Business: Charlie Brown, representative for Retired Educators Association of Idaho, addressed the Trustees. He complimented the Board on their decision last month to give retirees a retro-COLA. Everyone he has spoken to is very appreciative of the time and consideration that the Board puts into the decision each year.

Chairman Olson responded that the Legislation requires the decision be made based on the current valuation. However, the Trustees understand that they must also consider the status of the Fund when making the decision.

Adjournment: There being no further business to come before the Board, meeting adjourned at 10:15.

Donald D. Drum
Executive Director

Jody B. Olson
Chairman