



June 10, 2011

As communicated previously, I will be sharing information with you about PERSI and public pension issues over the next several weeks. In this second communiqué, I wanted to make you aware of an independent report being released June 17, 2011, titled *Sensible Solutions, Model Public Pension Funding Practices: Lessons from Six Well-Funded Systems*. The report is the work of Associate Professor Jun Peng from the University of Arizona School on Government and Public Policy and Ilana Boivie, Director of Programs for the National Institute on Retirement Security (NIRS). This objective analysis identifies six systems as having “plan designs and processes important to maintaining affordable and sustainable public pension plans over the long term.” Idaho is among the six states identified in the report as being well-designed and well-funded. A side-by-side comparison of the six plans shows although they have adopted different funding policies, they share similar practices that increase the likelihood they can remain well-funded at an affordable cost. Although Utah is not among the plans cited in the report, it has garnered significant national attention for implementing system changes. Those changes are now being discussed and evaluated by Idaho and other states. A future communiqué from me will include a comparison of Idaho and Utah you will find interesting and enlightening.

The *Sensible Solutions* report identifies best practices in the areas of:

- Employer Contributions
- Adjustable Employee Contributions
- Cost-of-Living Adjustments
- Anti-Spiking Measures
- Economic Assumptions

As part of its analysis, the report shares lessons learned, makes recommendations, and then concludes: 1) it is important to ensure the financial security of millions of Americans in retirement; 2) offering a public pension is critical to attracting and retaining quality personnel; and 3) the pooled nature of a defined benefit plan makes them a cost-effective way to provide retirement benefits. This report is worth studying, not just because it offers insight into well-managed public pension systems, but also because it was prepared by neutral third-parties who have nothing to lose or gain from the results. The report can be accessed online after June 17<sup>th</sup> at [www.nirsonline.org](http://www.nirsonline.org).

Finally, I wanted to share a copy of a recent article about PERSI in the *Business Insider* magazine section of the Idaho Statesman newspaper. In the article, PERSI’s Chief Investment Officer Bob Maynard describes how having in place and sticking to a solid investment strategy helped PERSI recover from the “Great Recession.”

As always, if you have questions about this report or the earlier one, please give me a call.

Best regards,  
Don Drum  
Executive Director

Enc.

## ■ INVESTING

# Make an investment plan; stick with it

PERSI's advice is simple, and it was tested by a falling stock market

BY BILL ROBERTS

broberts@idahostatesman.com  
© 2011 Idaho Statesman

As the stock market crashed in 2008, there was an overwhelming urge by investors to do something to protect their assets.

Not at the Public Employee Retirement System of Idaho. All the work of laying a solid investment strategy its board believed in had already been done.

Even as the fund careened into depths reminiscent of the Malad Gorge, those monitoring funds that thousands of retired public employees rely on didn't budge.

It paid off.

PERSI sank from a high of \$12 billion in 2007 to a low of \$7.6 billion in 2009. By April, it had recovered and was at \$12.2 billion.

Investors of the find-an-angle-score-a-profit-and-move-on school might learn a lesson from PERSI. Many of them lost big in the crash. As Bob Maynard, PERSI's chief investment officer says, "If in the middle of a panic, you get a bright idea, go to a dark room, lay down and wait for the feeling to pass."

Maynard talked about PERSI's strategy and what it didn't do as the market collapsed. Below are his quotes from our interview, edited for space and clarity.

### BUILDING THE RIGHT STRATEGY

"We have a phrase to wrap up how we invest. We try to be simple, we try to be transparent and focused. There has always been in the industry over the decades two general traditions about investing. One tradition is what you see primarily on CNBC and is oftentimes the popular image. That's ... watching all the markets daily. Making moves in. Making moves out. Trying to be a salmon swimming upstream against the market (and) find the opportunities. That's both mentally and physically exhausting. You're trying to be a Goldman Sachs.

"There is another tradition: more conventional investing, relying on the market to do most of the work.

"The equity markets over time will pro-

vide the returns if you have any belief whatsoever in a growing U.S. and world economy. You just want to lose a little bit less as it goes down, make more or hold on as it goes up, and be around. We are more in the conventional philosophy."

### WHY THAT WORKS FOR PERSI

"If you look at what we are investing for, if you look at the type of system this Legislature and political system has set up, they have done a very good job in terms of making sure we don't have to make that much in order to satisfy the requirements of the fund going forward. Whereas there are other places that have huge return requirements. We're simple in that we rely on the market returns over time ... and as long as they perform over 10- or 20-year periods of time anywhere near what

they've done for the last 200 (years), we'll be fine. If you look at our liabilities, we only need to make 3.75 percent above inflation. We don't have to reach for more."

### PITFALLS WITH PERSI'S APPROACH

"The only problem is that while it is not as physically exhausting or mentally exhausting ... it's emotionally exhausting. You've got to take the market volatility and stick with that discipline as it goes down and goes back up."

### PERSI HELD TIGHT AS THE FUND DROPPED

"The major issue you have in a market crisis is not so much the fact that market values are going down, because, remember, we are looking for longer-term returns. What you are really concerned about — is there

any disruption in your ability to pay what is coming due? Are your assets being frozen anywhere? Do you know what is going on? This is a stress test. You are looking at liquidity. You are looking at (whether) your positions are behaving as you think they should be behaving. Is there any surprise in there besides the market going down? That's what we were concentrating on."

### PERSI WAS PREPARED FOR A STEEPER FALL

"We had no liquidity problems. Everything behaved as expected. We weren't in stuff that suddenly there was no market for. A lot of the strategy that people were doing were the old picking up nickels, and the steamroller accelerated right over them. We weren't doing a lot of those picking-up-nickel strategies."



JOE JASZEWSKI/ jjaszewski@idahostatesman.com  
The recession wasn't the first financial hit PERSI took, says chief investment officer Bob Maynard. But the fund has stuck to its strategy.

## INVESTING ■

## ON PERSI'S INVESTMENT STRATEGY:

You can do this strategy at home. If you look at how we are basically positioned, you could do it by simple index funds and ETFs and replicate it for two-tenths of a percent in fees a year.

Bob Maynard, PERSI chief investment officer

## SEE WHERE PERSI INVESTS, BELOW

## HOW TO HOLD THE COURSE

"One of the things that makes this a wonderful place to do this sort of investing is that it's turned out that everybody talks in our profession about being able to be long-term investors. That sort of pressure to do something in reaction to temporary events makes a lot of other funds react. Here we've never gotten that pressure. The Legislature, the board, the governor have been heroes since day one on this. I do not remember one call from a politician, from a legislator, from the governor saying we've got to do something in reaction. Here, virtue was rewarded quickly by not changing. The people have been very good in this state. They (could) see we (were) going down 34 percent. The stock market (was) going down 60 percent."

## BUT THERE WAS ONE WORRY

"What we were looking at and running scenarios on was how much worse can it get before we do run into pressure? We could have handled comfortably another 50 percent drop in the (portfolio) given our liquid status. We had plenty of cushion. One thing that did surprise us was how quickly it bounced back."

## THEN CAME THE TURNAROUND

"The last two years have been the best investment climate ever. Unfortunately, there was a year and a half before then."

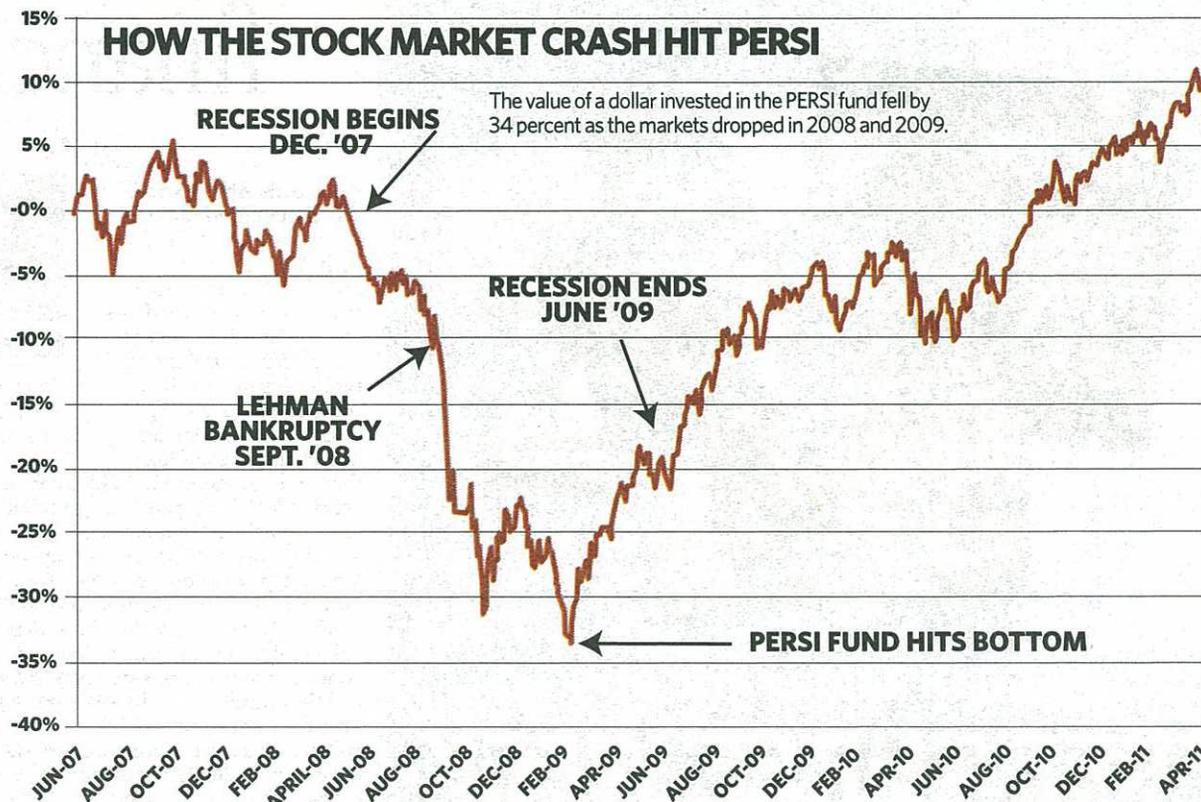
## HOW WELL THE STRATEGY WORKED

"We've been up 64 percent. Anybody who followed this more conventional philosophy and stuck to their guns on it now is richer than they have ever been. Many funds that were the complex funds are still underwater by 10 percent or more. All the way through that, we were sticking to that plan. There was no reason to change what we thought we should be doing."

Bill Roberts: 377-6408

## "INVESTING IN TROUBLED TIMES: IS THIS TIME DIFFERENT?"

Bob Maynard, chief investment manager of PERSI, Henry D'Auria of International Value Equities and Toby Nangle of Baring Asset Management, London, will speak at the City Club of Boise luncheon at 11:45 a.m. Wednesday, June 22, at the DoubleTree Hotel Riverside in Boise. The reservation deadline is noon Monday, June 20. To register, call 371-2221 or visit [cityclubofboise.org](http://cityclubofboise.org). The cost of the luncheon is \$16 for members, \$23 for nonmembers and \$5 to listen only. Student discounts are available.



Source: Public Employee Retirement System of Idaho

## WHO PERSI SERVES

- ▶ 125,000 members, retirees and beneficiaries and more than 740 employers.
- ▶ PERSI paid out \$522 million in 2010, nearly all of it to retirees in Idaho.

Source: Public Employee Retirement System of Idaho

## WHERE PERSI INVESTS

U.S. stocks	25%
Real estate investment trusts	3%
Private real estate	4%
Private equity companies	8%
Global equities	18%
Developed regions such as Europe, Australia and the Far East	8%
Emerging markets in countries such as China, Russia, Brazil	9%
Idaho commercial mortgages	4%
U.S. Treasury inflation-protected securities	10%
U.S. government and investment grade bonds	10%
Cash	1%