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 8:25 a.m. August 24, 2004. The following members were present:

Jody B. Olson
Pamela I. Ahrens
Dennis Johnson
Clifford T. Hayes

Trustee J. Kirk Sullivan was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon	Mountain Pacific Investment Advisors
William Palumbo	Mountain Pacific Investment Advisors
Drew Black	DB Fitzpatrick & Co.
Brian McGrath	DB Fitzpatrick & Co.
Casey Maslonka	DB Fitzpatrick & Co.
Dennis Fitzpatrick	DB Fitzpatrick & Co.
Mike Boren	Clearwater Advisors
Charlie Brown	REAI
Jim Coleman	PERC – Retired Teachers
Jim Shakelford	IEA
Matt Haertzen	Endowment Fund
Brent Nye	Boise Schools
Dona VanTrease	IPEA
Geoff Bridges	Milliman
Richelle Sugiyama	PERSI

Diane Berg	PERSI
Rhonda Yadon	PERSI

EXECUTIVE SESSION

Citing Idaho Code Section 67-2345(b) which allows the Board to discuss personnel issues privately, by motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board went into Executive Session at 8:25. They reconvened in regular session at 8:50 a.m.

PERSONNEL MATTERS

Chairman Olson said that during the Executive Session the trustees had completed the performance evaluation of Chief Investment Officer Robert Maynard. Saying he is doing a superb job, Trustee Johnson said that as an investment manager, Mr. Maynard is the finest in the country and is managing the largest fund in the State of Idaho. Trustee Ahrens added that she's heard our members say how much they appreciate their retirement money going in the right direction. In addition, retirees are enjoying Cost-of-Living Adjustments and good times in retirement as a result of Mr. Maynard's work. He is a pleasure to work with and ought to be rewarded. Trustee Hayes said the program is well managed and he appreciates the protection it will afford him and other members in retirement. By motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board unanimously approved a 2% merit increase and a bonus of 30% of salary to Mr. Maynard.

MINUTES

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the July 27, 2004 regular meeting of the Retirement Board as submitted.

PORTFOLIO

Monthly Portfolio Update: Mr. Maynard began his presentation with a short explanation of equity factors, discussing price-to-earnings (PE) ratios and their impact on returns. He also explained charts of forward PE ratios and 10-Year-Bond Yields.

Mr. Maynard had distributed his investment report dated August 22, 2004, which was an update from a version previously provided to the Board. That report noted that the fund is up 0.7% for the month with a negative 1.4% fiscal year-to-date return. The ending value of the fund was reported as $7,635,752,575. He reviewed the impact of Board Policies and Active Management on Total Fund Returns and said TIPS is still adding value. Managers hired recently have helped returns slightly. The fiscal year is starting off sideways and down.

Private Equity Report: Mario Gianinni of Hamilton Lane Advisors reviewed PERSI holdings as of June 30, 2004. During the first quarter of 2004, PERSI received $11.3 million from the underlying private equity partnerships. That figure increased to $29.2 million during the second

quarter of 2004. Mr. Gianinni plans to attend the October board meeting and talk with the Trustees about the direction and strategic plan for the future of this portfolio. Responding to a question from the Chair, CIO Robert Maynard said we do not have a specific allocation to Private Equity investments. While we commit between 5%-6% to private equity, it is very slowly paid out resulting in only 50%-60% of the commitment being funded. Mr. Maynard said PERSI has received a lot of money from significant distribution activity from our Private Equity investments. Companies have been able to refinance their debt and return money to their investors.

Callan Associates, Inc. – Mike O'Leary and Janet Becker-Wold had previously provided reports to the Trustees on both the DB Base Plan and the DC Choice Plan. Their primary focus has been on the completion of the DB Plan equity manager search and the initiation of a fixed income structure review. The report noted an excellent year with the fund being rewarded by PERSI's equity emphasis. The strategic tilts of TIPS rather than traditional bonds, global equity rather than domestic equity and emerging markets rather than developed markets provided a positive impact on returns.

In the DC plan, it is the members who are making the investment choices. They have a broad range of options from which to choose. The Total Return fund continues to receive the highest allocation of investments. Market timing practices seem to be under control which protects the other participants in those funds. Dreyfus Premier MC Stock is underperforming its benchmark for the longer time periods; staff continues to watch this. It is not a cause for action at this point. The other funds are performing as expected.

Mr. O'Leary said his company will soon be providing a survey response report to the Board which looks at investment fees. Callan Associates provides it to their plan sponsor clients who find it useful to assess costs of different types of investment strategies.

The currency management of Pareto Partners will be fully acquired by Mellon. We have been assured that the investment process will not be affected by this transaction and are satisfied that our interests are protected. There was also a brief discussion of changes at Lend Lease Rosen which should not have an adverse effect on PERSI's interests. Delaware International officially changed their name to Mondrian a result of their recent organizational changes.

Investment Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy.

EXECUTIVE DIRECTOR

Disability Program Presentation: Membership Manager Judy Aitken and Administrative Assistant Judy Shock provided statistics on the PERSI disability program. The number of applicants continues to increase each year. PERSI disability coverage is catastrophic coverage as the member must be totally and permanently disabled. In response to a question from the Board, Ms. Aitken said post traumatic stress syndrome accounts for at

least two of the mental disorder claims. There were 26 applicants identified as having less than ten years of service, being able to apply because of the law change in 2000. Referencing the actuarial report data, Mr. Winkle said disability applications are gradually rising and our actuarial assumption will be changed to reflect that experience.

Legislative ideas: Three bills are being prepared for potential legislative action. Police Officer Status Clarification for Jailors/Dispatchers, Clarification of Board Duties and Responsibilities, and Effect of Prospective Only Benefit Enhancements. The legislation will be presented for Board approval at the September meeting.

Status Update: Mr. Winkle reviewed his August 17, 2004, memorandum to the Board which provided a summary of the projects in which PERSI is involved. He will sit in on a Police Chief's meeting in Twin Falls in September to answer questions as a technical resource and receive feedback from the police.

The FRF Cola, with adjustments for this transition year, is calculated to be 4.33% for the year ending June 30, 2004.

A new charter school became a member of PERSI effective August 1, 2004. The Idaho Distance Education Academy (IDEA) in Boville is mandated into PERSI so no Board action is required.

A full report on the Business Process Review (BPR) is scheduled for next month's Board meeting. Because of the size of the project, staff will plan individual meetings with each trustee before the meeting presentation.

Annual statements will be ready September 1. They use data that is available no earlier than the last week of July. For the first time, we will have the current and previous years' statements available on line to our members. On-line data for the DB plan is updated each month; the DC plan data is updated weekly.

We are mailing PERSI member handbooks to members this month. Responding to a question from Trustee Hayes, Mr. Winkle said we want to take the opportunity to educate our members. Receiving it at home increases the probability that they will read at least part of the handbook. Trustee Ahrens added that it is an excellent retention tool because it illustrates what their benefit can be at different ages and service. Trustee Hayes suggested offering the option of e-mail rather than hard copy of our publications to reduce costs. Mr. Winkle said we are hoping to provide that option in the near future.

The September meeting will include the preliminary actuarial valuation, the presentation on BPR, our budget request and a session with Attorney Joe Wyatt on Fiduciary Responsibility. We will also have a Real Estate report by Paul Saylor.

FISCAL:

Administrative and Portfolio Reports: Mr. Monroe reviewed the reports that had previously been furnished to the Board. He said the annual audit is in progress; auditors are on-site and performing the audit. Chairman Olson

had wanted the Board to sit as a whole as the audit committee. However, the date has been moved to October 13. Chairman Olson will meet with the auditors without PERSI staff present to discuss their findings.

The budget request will be presented at the next meeting. We are waiting for results of the BPR study and may have a Decision Unit based on recommendations of that study. Our base budget of around $6 million includes both administrative and portfolio expenses.

ANSER Charter school has leased the 820 Washington Street building for the school year with options to renew.

Mr. Monroe reviewed the administrative report, explaining various entries. July was a three-pay-period month, so those costs seem high compared to the other months. All administrative and portfolio expenses are paid from the fund and our target is 50 bp.

The portfolio budget report had a larger than expected entry for legal consultants. Mr. Monroe said there was some delay in paying legal fees related to real estate due to discussions as to how they should be allocated. Some of the real estate legal advice fees are paid by the private real estate venture, so the payment was delayed until agreement was reached to our benefit. About eight months costs are shown in one entry.

Senior Accountant Rhonda Yadon reviewed the unaudited financial statements for the years ended June 30, 2004 and 2003. She then told the Board that PERSI has once again been awarded the GFOA financial reporting award.

FUTURE MEETINGS:

Thursday, September 23, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, October 26, 2004, 8:30 a.m., Boise - PERSI office
Tuesday, November 30, 2004, 8:30 a.m. Boise - PERSI office
Tuesday, December 14, 2004, 8:30 a.m., Boise, PERSI office

Adjournment: There being no further business before the Board, by motion duly made by Trustee Johnson, seconded by Trustee Ahrens and unanimously approved by members present, the meeting concluded at 11:10 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director