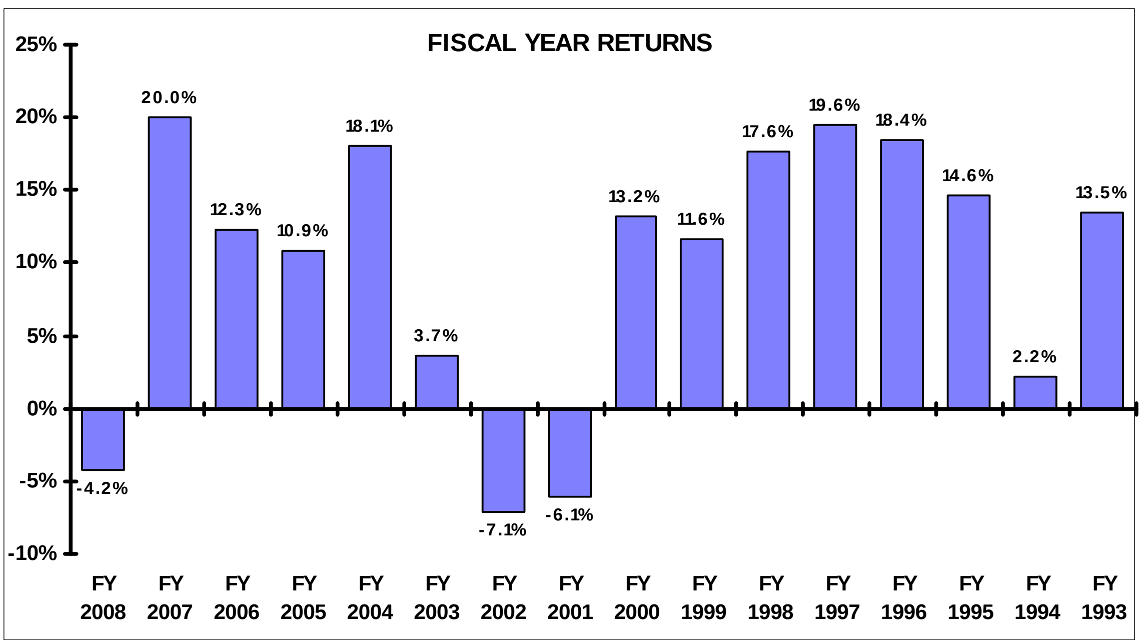
REPORT ON INVESTMENT ACTIVITY
Prepared by Robert M. Maynard, Chief Investment Officer

OVERVIEW OF FISCAL YEAR 2008

With returns of -4.2%, PERSI had its first negative fiscal year in six years. The returns, although negative, were significantly ahead of the strategic benchmark (namely, the returns that would have been generated by matching the general market returns of a 55% US equity, 15% international equity, and 30% investment grade bond portfolio) by 2.5%. The fiscal year return was also above the median peer public fund return for the year. Longer term returns continue to be in the top decile and top quartile of our peer public funds, and over 2% per year above our strategic benchmarks.

The value of the fund ended at $10,911,725,873 -- a decline of $550.85 million since June 30 of 2007 from investment returns of - $491.3 million minus net payments (contributions minus benefit payments and PERSI expenses) of $59.5 million.

PERSI's US equity substantially outperformed the Russell 3000 (-7.4% to -12.7%), international equity also beat the MSCI EAFE index by about 5% (-5. 2% to -10.2%), and PERSI's fixed income handily outperformed the Lehman Aggregate (9.7% to 7.1%). For the first time in over a decade, only PERSI's global managers collectively underperformed, with a loss of -13.5% compared to the MSCI World index return of -10.3%.



The year was an excellent year compared to strategic benchmarks. If PERSI had been indexed to the strategic benchmark of 55% US Equities (Russell 3000), 15% international (MSCI EAFE), and 30% fixed income (Lehman Aggregate), and had rebalanced at the start of every month, the fiscal year return would have been -6.55%. The additional return of 2.3%, worth over $230 million, came from three primary sources:

(1) 2.4% from the strategic dedication of assets to private equity and private real estate managers,
(2) 0.93% from using managers dedicated to the emerging markets instead of EAFE, and
(3) 0.54% from using TIPS rather than general investment grade bonds.

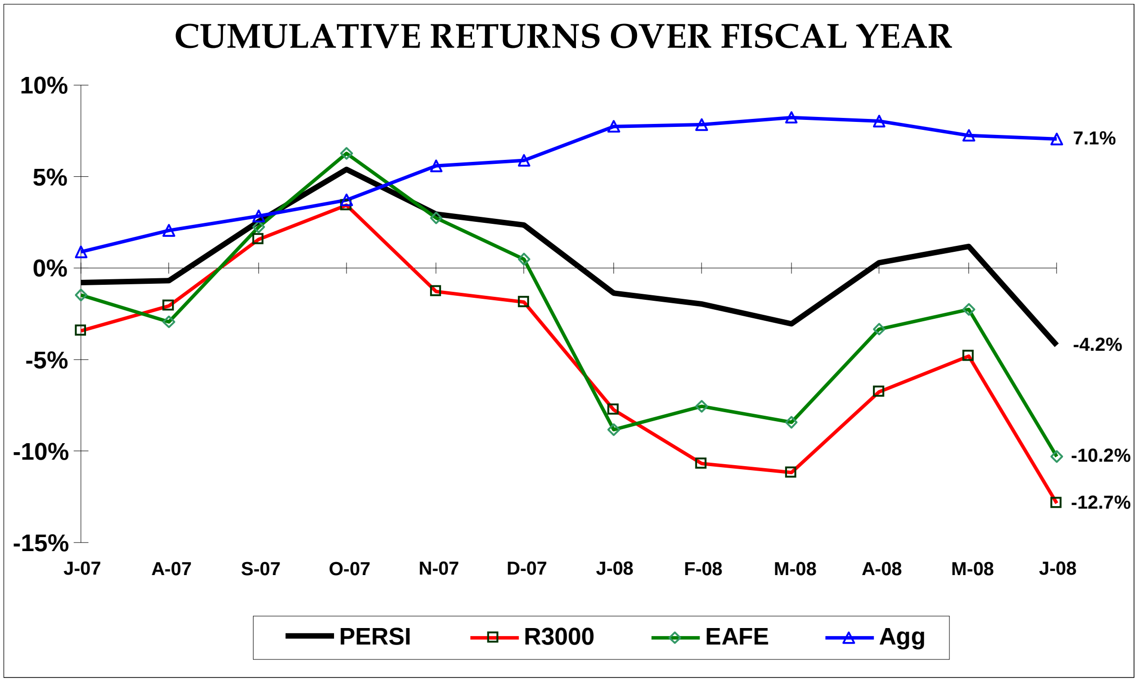
Other strategic biases and active manager efforts collectively hurt returns compared to our strategic benchmarks. In particular, active equity manager underperformance of benchmarks, particularly in the global equity area, cost PERSI about 1.7% over the fiscal year.

PERSI's returns compared to peers also ended up nicely for the fiscal year, although not as spectacularly so as in previous years. PERSI has ranked in the top quartile of comparable institutional funds through all annual time periods over the past 15 years. Of particular interest is that if PERSI had simply met its strategic returns over the past 15 years, it would have uniformly ranked in the bottom third or fourth quartiles, and would have been significantly below average for the last fiscal year. Our top performance was due solely to our additional efforts at the Board and staff level:

RANKINGS IN THE CALLAN PUBLIC FUND UNIVERSE
JUNE 30, 2008
Percentile Rankings over Period
(1 is highest, 100 is lowest)

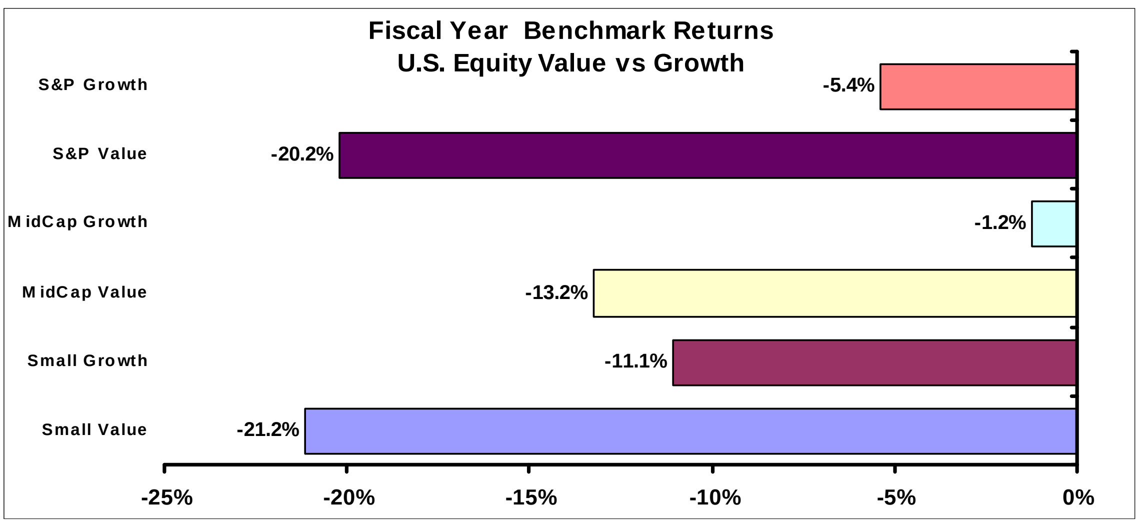
	1Y	3Y	5Y	10Y	15-3/4 Y
Return (%)	**-4.2**	**8.9**	**11.0**	**6.8**	**9.5**
Policy Return (%)	-6.7	5.9	8.4	5.0	8.7
Median Fund (%)	-4.8	6.9	9.1	6.2	9.1
PERSI Rank	**43**	**10**	**12**	**22**	**17**
Policy Rtn Rank	**84**	**78**	**67**	**95**	**64**

The year was dominated first by the collapse of the US housing market and the financial credit crisis in the fall and winter, turning into serious general economic concerns with inflation scares as oil shot higher, inflation numbers accelerated, and growth in the US and worldwide slowed. "Stagflation" became the watchword as the fiscal year came to an end. Relative optimism about the strength of the US and world economy dominated the early fall, with the fears of a financial meltdown surrounding the sub prime crisis started a precipitous collapse in the markets from October through early March. Once the Fed rescued Bear Stearns in the middle of March, the markets recovered through mid May, only to collapse in late May and June as oil and inflation fears began to affect the general economy:



Expectations for corporate profits in 2008 dropped steadily from October onward, and expectations for a big bounce back for profits in 2009 took a tumble in June.

Another significant feature of the year was the dominance of “growth” strategies over “value” disciplines. In the US, for example, and for the first time in years, growth indices dominated the value indices, by 13%-15% over the course of the fiscal year over all capital ranges:



The forces leading to this disparity hurt many of PERSI’s managers, particularly global managers such as Brandes and Bernstein, and domestic managers like Donald Smith. But the same factors (particularly an avoidance of commodity stock plays and financial exposures) also hurt “quality growth” managers like Peregrine. Reliance on credit also hurt the Fidelity and Western bond portfolios over the year.

Not all was bad news, however. PERSI did end up the year substantially outperforming its base benchmarks in three of its four major investment areas. US equities outperformed the general equity market by over 5%, losing “only” -7.6% compared to the general equity market returns of -12.7%. The main reason for this outperformance was the increasing reliance on private equity (which returned +16% for the year) and private real estate (+12%). International equities also outperformed the developed market index (EAFE) by about 5% (-5.2% to -10.2%), here due to the predominance of emerging markets, which had a slightly positive return for the year.

PERSI's fixed income also outperformed the investment grade fixed income market by 2.6%, with returns of 9.7% compared to the Lehman Aggregate returns of 7.1%. This was due largely to our weightings in TIPS and the Idaho Mortgage program, which were both up around 14% for the fiscal year.

Global equities collectively, however, suffered, underperforming the World index by over -3% (losing over -13.5% compared to the loss of the world index of -10.2%). The high points were Barings and Fortis, who managed to basically break even for the fiscal year with returns of 0% and -1.7% (and outperformed their benchmarks by 10.2% and 9.0% respectively). Brandes had a disastrous year, losing -23.4%, followed closely by Bernstein Global, another value oriented manager, losing around -17.9% for the year and Zesiger -16.9%. All substantially underperformed their benchmarks, Brandes by -13.1%, Bernstein by -7.6%, and Zesiger by -6.6%. Cap Guardian slightly outperformed their benchmark with a return of -8.6%, and a relative out performance of their benchmark by 1.6%.

Fixed income had a standout year, with the Lehman Aggregate up slightly over 7% for the year, and PERSI's fixed income returning 9.7%. While the credit crunch affected many credit bonds,government-oriented bonds more than made up for those problems. Absolute returns were led by the SSGA and Western TIPS accounts both with 14.4% returns, followed closely by the Idaho Mortgage program (which bases its returns off of spreads to Treasury bonds) at 14.0%. Barings fixed income came in next with returns of 8.8% (a relative out performance of 1.7%), with the DBF and Clearwater Mortgage Backed Securities portfolios returning 7.7% and 7.3% respectively. Fidelity and Western fixed income had very poor returns for the year, returning only 3.8% and 0.9% respectively, which led to equity-like underperformance of -3.3% and -6.1% behind their benchmarks. These two accounts showed the most direct consequences of the financial crisis that hit the capital markets this year.

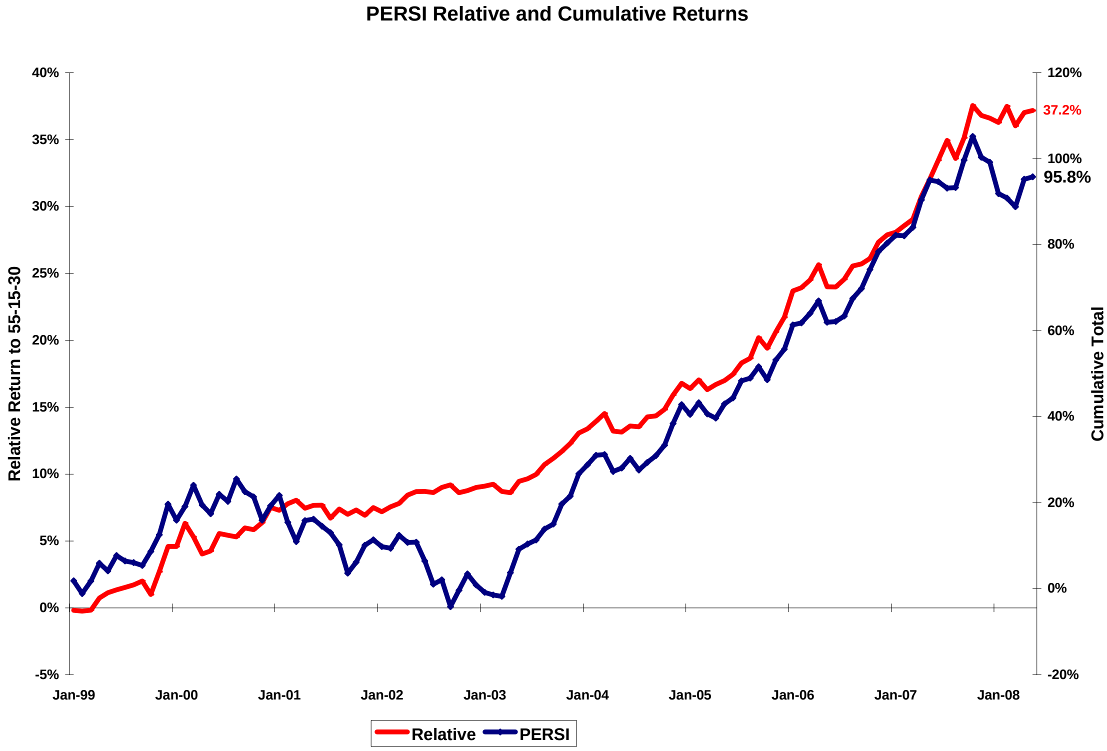
PERSI's solely international equity portion of the portfolio benefited greatly from the dedicated emerging market mandates, and, since emerging markets outperformed the developed markets by more than 12%, resulted in PERSI's international sector outperforming the benchmark EAFE index with returns of -5.0% vs. -10.1%. Genesis and Bernstein Emerging led all public equity managers with returns of 2.1% and 0.8% for the fiscal years, which lagged the general emerging market index returns by -3%. Mondrian, with a loss of -10.6% for the year, slightly underperformed the international index.

The US equity only portion of PERSI's investments benefited hugely from its private portfolio outperforming the public equity markets. Private equity was the star of the year, with returns of 16.4% for the year, followed by private real estate with a return of 12.3%. While these numbers are certainly benefiting from the lagged nature of private valuations, their reported returns certainly came at a welcome moment. Otherwise, the public equity portions of PERSI's US returns were a mixed bag. All US public equity managers lost during the year, with Mountain Pacific losing the least with -9.5%, followed by Tukman (-10.3%), and TCW (-11.2%). The rest of the US equity managers lost ground to the Russell 3000, with Peregrine losing -14.1%, Adelante losing -20.5%, and Donald Smith having the distinction of being our worst manager of the year with losses of -28.1%, and with a relative underperformance of -15.4%.

Overall it was a poor fiscal year in absolute terms and in public market active manager performance. On the other hand, the fiscal year was a good year in relative returns against strategic benchmarks and for private assets. The star performers this year were private equity, Barings and Fortis, and the laggards were Donald Smith, Brandes, Bernstein, and Western. In general, the previous years' winners turned into this year's losers, and previously struggling managers seem to be gaining traction.

Nonetheless, the longer term record, even with the recent fiscal year, continues to be good, particularly compared to general market returns and the returns of peers. Starting in January of 1999, through the equity market crash of 2000-2003, and until today, PERSI has been on a very good investment streak. Even with the recession and equity market depression, PERSI is up over 95% cumulatively over that period, and has handily exceeded the high points in total value of the boom years ($7.2 billion in January of 2001), having reached new highs starting in December of 2003, and hasn't looked back (at least not yet).

And, compared to simply being passively invested in the market, PERSI has almost doubled its market return from extra efforts. PERSI has added 37% of extra value over the past almost 10 years:



These excess returns have added over $2.2 billion of value to the total fund size.

The future remains uncertain, both financially and economically. But the PERSI fund has had a long-term record of success, and we expect that, whatever the near-term future may bring, the long-term stability of the fund and the system is assured.

ROBERT M. MAYNARD
Chief Investment Officer

For the numbers presented, the source of the above-disclosed data is the Mellon Analytical Solutions reporting system.

INVESTMENT SUMMARY FOR THE YEAR ENDED
June 30, 2008

Types of Investment		Market Value		Percent of Total Market Value
Short-term Investments		$705,390,702		6.4%
Fixed Income				
Domestic	2,900,041,693		26.3%	
International	58,082,650		0.5%	
Commercial Mortgages	330,440,924		3.0%	
Total Fixed Income		3,288,565,267		29.9%
Equity				
Domestic Equity	3,459,782,054		31.3%	
International Equity	2,373,750,304		21.6%	
Total Equity		5,833,532,358		53.0%
Private Equity		716,783,860		6.5%
Real Estate		466,672,559		4.2%
Total Base Plan Investments		$11,010,944,746		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		207,833,734		
Choice Plan 414(k)		63,766,805		
Choice Plan 401(k)		244,580,923		
Total Investments in All Funds		$11,527,126,208		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2008

Adelante Capital Management	$210,183,226
Apollo Management, LP	52,941,278
Baring Asset Management-Global Equity	364,509,466
Baring Asset Management-Global Fixed Income	247,992,599
Bernstein-Emerging Markets	386,481,445
Bernstein-Global Equity	301,058,855
Blackstone Capital Partners, LP	27,144,453
Brandes Investment Partners	528,295,717
Brandes International Equity Fund - Choice Plan	8,870,229
Bridgepoint Cap LTD	31,061,203
Calvert SI Balance Fund - Choice Plan	168,185
Capital Guardian	401,977,021
Cascade	72,774,301
Cerberus Investment Partners	20,984,506
Chisholm Management, LP	20,422,397
Clearwater Advisors, LLC	174,560,387
CVC European Equity	43,602,319
D.B. Fitzpatrick & Co.-Fixed Income	170,915,627
D.B. Fitzpatrick & Co.-Idaho Mortgages	339,839,008
Dodge and Cox Income Fund - Choice Plan	4,276,973
Donald Smith & Co.	190,927,056
Enhanced Equity, LP	22,670,542
Epic Venture Fund	2,725,000
Fidelity Management Trust Company	224,792,918
First Reserve Fund XI	27,039,695
Fortis Investments	248,686,212
Frazier Technology Ventures II, LP	13,677,551
Furman Selz Investments, LP	11,211,309
Galen Associates, LP	46,309,707
Genesis Asset Managers	387,971,399
Goense Bounds & Partners, LP	6,420,822
Gores Capital Partners, LLP	21,276,781
Green Equity Investors IV, LP	23,193,463
Hamilton Lane Co - Investment Fund, LP	43,723,761
Hamilton Lane Secondary Fund, LP	16,680,957
Harvest Partners III, LP	775,789
Highway 12 Ventures, LP	14,615,989
Ida-West	3,275,000
JH Whitney & Co, LLC	17,829,719
KKR 2006 Fund, LP	28,489,109
Kohlberg & Co.	26,358,489

(Continued)

Koll Partners, LLP	314,461,329
Lindsay Goldberg & Bessemer	23,509,628
Littlejohn, LP	8,373,222
McCown DeLeeuw & Co. IV, LP	1,848,390
Mellon Aggregate Bond Index - Choice Plan	2,278,250
Mellon Capital Management-R2000 Small Cap	76,743,779
Mellon Capital Management-S&P 500 Large Cap	777,104,113
Mellon Capital Management-Mid Cap Completion	110,181,549
Mellon Capital Management-International Stock Index	542,590,327
Mellon International EAFE Fund - Choice Plan	3,444,448
Mellon S&P 500 - Choice Plan	6,438,147
Mellon Transition Management Services	211,102
Mellon Wilshire 4500 - Choice Plan	3,133,655
Mellon Wilshire 5000 - Choice Plan	1,904,292
Mondrian Investment Partners	318,119,863
Mountain Pacific Investment Advisors	278,248,053
Newbridge Asia, LP	26,498,827
Oaktree Capital Management, LLC	1,804,854
Olympic IDA Fund II, LLC	110,331,484
Pareto Partners	(2,313,467)
Peregrine Capital Management	166,529,194
PERSI Cash in Short-Term Investment Pool	109,738,390
PERSI Choice Plan Contribution Holding Account	959,778
PERSI Choice Plan Loan Fund	2,703,027
Private Debt	12,207,359
Providence Equity Partners, LLP	74,054,936
Prudential Investments	52,855,412
Rowe Price Small Cap Fund - Choice Plan	5,357,219
SEI Stable Asset Fund - Choice Plan	11,488,744
State Street Global Advisors-Fixed Income	843,125,500
State Street Global Advisors-TIPS	736,473,960
State Street Global Advisors-Sick Leave Insurance Reserve	207,833,734
T3 Partners, LP	65,285,065
TCW Domestic	190,138,509
Thomas H. Lee, LP	377,070
Tukman Capital Management	298,252,607
Vanguard Growth & Income Fund - Choice Plan	7,443,295
W. Capital Partners, LP	9,546,013
Western Asset Management	221,330,635
Western Asset-TIPS	303,455,908
Zesiger Capital Group	441,147,126
Zesiger Capital Group-Private Equity	26,100,062
Total Market Value, Including Investment Receivables and Payables	$11,178,025,849
Add: Investments Purchased Payable	1,375,704,493
Less: Investments Sold Receivable	(978,653,811)
Less: Interest and Dividends Receivable	(47,950,323)
Total Market Value, Net of Investment Receivables and Payables	$11,527,126,208

(Concluded)

Investment Results

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR.	3 YRS. *	5 YRS. *
U.S. EQUITY						
MELLON CAPITAL MANAGEMENT MID CAP	110.2	1.0%	(7.5)	(7.5)	7.9	13.1
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	76.7	0.7%	(15.8)	(15.8)	3.7	10.1
MELLON CAPITAL MANAGEMENT S&P 500 LC	777.1	7.1%	(12.2)	(12.2)	4.6	7.7
MOUNTAIN PACIFIC	278.2	2.5%	(9.5)	(9.5)	6.4	10.4
TUKMAN CAPITAL MGMT	298.3	2.7%	(10.3)	(10.3)	3.2	3.7
TCW	190.1	1.7%	(11.2)	(11.2)	6.1	
DONALD SMITH & CO.	190.9	1.7%	(28.1)	(28.1)	4.3	
PEREGRINE	166.5	1.5%	(14.1)	(14.1)	1.8	
TOTAL U.S. PUBLICLY TRADED EQUITY	2,088.1	19.1%	(13.6)	(13.6)	4.5	7.8
BENCHMARK - Russell 3000			(12.7)	(12.7)	4.7	8.4
PRIVATE EQUITY						
IDA-WEST	3.3	0.0%	17.1	17.1	26.8	31.7
GALEN III	46.3	0.4%	16.5	16.5	13.7	11.4
HARVEST PARTNERS	0.8	0.0%	(68.0)	(68.0)	(58.3)	(40.0)
FURMAN SELZ	11.2	0.1%	76.4	76.4	48.9	57.9
MCCOWN DE LEEUW	1.8	0.0%	(15.5)	(15.5)	(75.4)	(56.3)
PROVIDENCE EQ PARTNERS	74.1	0.7%	26.0	26.0	26.1	51.3
CHISOLM PARTNERS	20.4	0.2%	7.9	7.9	22.5	13.0
LITTLEJOHN II L.P.	8.4	0.1%	(19.3)	(19.3)	17.1	32.2
OAKTREE CAP	1.8	0.0%	10.6	10.6	53.4	43.8
GOENSE BOUNDS	6.4	0.1%	10.6	10.6	11.6	53.3
HWY 12 FD VENTURE LP	14.6	0.1%	(16.4)	(16.4)	(3.6)	(4.2)
T3 PARTNERS II L.P.	65.3	0.6%	20.9	20.9	35.5	23.7
THOMAS LEE L.P.	0.4	0.0%	(85.9)	(85.9)	(50.0)	(29.2)
APOLLO MGMT LP	52.9	0.5%	83.8	83.8	52.2	55.7
GREEN EQUITY IV L.P.	23.2	0.2%	1.7	1.7	0.6	
GORES CAPITAL AD LLC	21.3	0.2%	13.8	13.8	24.6	
W CAPITAL PARTNERS	9.5	0.1%	(4.6)	(4.6)	3.2	
FRAZIER TECH VENTURES II	13.7	0.1%	8.7	8.7	9.2	
KOHLBERG & CO.	26.4	0.2%	27.1	27.1	1.2	
HAMILTON SECONDARY	16.7	0.2%	15.6	15.6	21.8	
CVC EUROPEAN EQUITY	43.6	0.4%	48.7	48.7		
HAMILTON LANE CO-INVESTMENT FUND	43.7	0.4%	14.5	14.5		
BRIDGEPOINT EUROPE III	31.1	0.3%	25.6	25.6		
NEWBRIDGE ASIA LP	26.5	0.2%	34.0	34.0		
JH WHITNEY EQUITY PARTNERS IV	17.8	0.2%	3.2	3.2		
BLACKSTONE CAPITAL PARTNERS	27.1	0.2%	0.3	0.3		
ENHANCED EQUITY FUND LP	22.7	0.2%	12.3	12.3		
LINDSEY, GOLDBERG, BESSEMER	23.5	0.2%	1.6	1.6		
KKR 2006 FUND	28.5	0.3%	0.4	0.4		
FIRST RESERVE FUND XI	27.0	0.2%	4.4	4.4		
CERBERUS INST PARTNERS	21.0	0.2%	(5.1)	(5.1)		
EPIC VENTURE FUND**	2.7		0.0	0.0		
ZESIGER CAPITAL GROUP	26.1	0.2%	2.7	2.7	9.6	5.5
TOTAL PRIVATE EQUITY	759.8	6.9%	16.4	16.4	18.2	19.9
REAL ESTATE						
KOLL PARTNERS	314.5	2.9%	12.1	12.1	9.0	
OLYMPIC IDA FUND II	110.3	1.0%	12.2	12.2		
CASCADE**	72.8	0.7%				
ADELANTE - PUBLIC R/E[1]	210.2	1.9%	(20.5)	(20.5)	4.4	15.2
PRUDENTIAL	52.9	0.5%	13.9	13.9	18.0	16.1
TOTAL R/E MANAGERS	760.6	7.0%	(0.4)	(0.4)	12.8	19.1
BENCHMARK - NCREIF			9.2	9.2	15.0	14.7
TOTAL U.S. EQUITY	**3,608.6**	**32.9%**	(7.4)	(7.4)	7.5	10.5
BENCHMARK - Russell 3000			(12.7)	(12.7)	4.7	8.4

Continued

Investment Results

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR.	3 YRS. *	5 YRS. *
GLOBAL EQUITY						
BARING ASSET MANAGEMENT	364.5	3.3%	0.0	0.0	14.2	14.5
BRANDES INVST PARTNERS	528.3	4.8%	(23.4)	(23.4)	5.7	12.3
CAPITAL GUARDIAN	402.0	3.7%	(8.6)	(8.6)	9.5	12.2
ZESIGER CAPITAL GROUP	441.1	4.0%	(16.9)	(16.9)	16.4	16.4
BERNSTEIN GLOBAL	301.1	2.8%	(17.9)	(17.9)	9.8	
FORTIS INVESTMENTS	248.7	2.3%	(1.7)	(1.7)		
TOTAL GLOBAL EQUITY	**2,285.7**	**20.9%**	(13.5)	(13.5)	11.2	14.1
TOTAL U.S./GLOBAL EQUITY	**5,894.2**	**53.9%**	(9.8)	(9.8)	8.7	11.7
BENCHMARK - Russell 3000			(12.7)	(12.7)	4.7	8.4
INTERNATIONAL EQUITY						
GENESIS INVESTMENTS	388.0	3.6%	2.1	2.1	24.7	30.7
MELLON CAPITAL MANAGEMENT INTL STK INDX	542.6	5.0%	(10.2)	(10.2)	12.7	16.4
MONDRIAN[2]	318.1	2.9%	(10.6)	(10.6)	13.1	
BERNSTEIN EMERGING	386.5	3.5%	0.8	0.8	25.7	
TOTAL INTERNATIONAL EQUITY	**1,635.2**	**15.0%**	(4.9)	(4.9)	17.8	20.7
TOTAL INT'L EQUITY (HEDGED)[3]	**1,632.8**	**15.0%**	(5.2)	(5.2)	17.4	20.4
EAFE INDEX NET			(10.2)	(10.2)	13.3	17.2
TOTAL EQUITY	**7,527.1**	**68.9%**	(8.9)	(8.9)	10.5	13.5
BENCHMARK - Russell 3000			(12.7)	(12.7)	4.7	8.4
U.S. FIXED INCOME						
DBF & CO FIXED	170.9	1.6%	7.7	7.7	4.8	4.1
DBF & CO-IDAHO MTGS	339.8	3.1%	14.0	14.0	6.7	5.1
STATE ST ADV-FX	843.1	7.7%	7.5	7.5	3.9	3.7
SSGA-TIPS	736.5	6.7%	14.3	14.3	4.9	6.1
CLEARWATER-TBA	174.6	1.6%	7.3	7.3	4.6	4.5
REAL ESTATE PVT DEBT**	12.2	0.1%				
TOTAL U.S. FIXED INCOME	**2,277.1**	**20.9%**	10.9	10.9	4.9	4.9
GLOBAL FIXED INCOME						
BARING ASSET MANAGEMENT	248.0	2.3%	8.8	8.8	4.9	5.0
PYRAMIS[4]	224.8	2.1%	3.8	3.8	3.4	
WESTERN ASSET	221.3	2.0%	0.9	0.9	2.7	
WESTERN TIPS	303.5	2.8%	14.4	14.4		
TOTAL GLOBAL FIXED INCOME	**997.6**	**9.1%**	4.6	4.6	3.4	4.1
TOTAL FIXED INCOME	**3,274.7**	**29.5%**	9.7	9.7	4.7	4.7
BENCHMARK - LB Aggregate			7.1	7.1	4.1	3.9
OTHER						
UNALLOCATED CASH	109.7	1.0%	9.4	9.4	11.3	8.3
MELLON TRANSITION MANAGEMENT SERVICES	0.2	0.0%	99.7	99.7	252.5	
TOTAL OTHER	**109.9**					
COMBINED TOTAL	**10,911.7**	**100.0%**	(4.2)	(4.2)	8.9	11.0
BENCHMARK - 55% Russell 3000 30% Lehman Aggregate 15% MSCI EAFE Index			(6.7)	(6.7)	5.9	8.4
Add: Mutual Fund Holdings in 401(K) Plan	58.4					
Sick Leave Fixed Income Investments	63.3					
Sick Leave Equity Securities	144.5					
Investments Purchased	1,375.7					
Less: Interest and Dividends Receivable	(48.0)					
Investments Sold	(978.7)					
Total Pension Fund Investments Net of Receivables	11,527.1					

* Rates of Return are annualized
1 Formerly Lend Lease
2 Formerly Delaware
3 Includes Pareto Partners currency overlay account
4 Formerly Fidelity
** Accounts opened less than one year

(Concluded)

Prepared using a time-weighted rate of return per Mellon Analytical Solutions – a division of Mellon Global Securities Services.

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Total
2003	107,626,722	82,726,663	47,095,088	237,448,473
2004	105,106,092	99,565,950	1,005,291,439	1,209,963,481
2005	108,964,781	121,363,908	622,839,336	853,168,025
2006	128,071,925	135,998,068	804,450,498	1,068,520,491
2007	152,332,222	150,190,103	1,660,923,284	1,963,445,609
2008	156,095,102	171,450,414	(840,652,088)	(513,106,573)

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

Largest Bond Holdings (by Market Value) June 30, 2008

	Par	Bonds	Description	Market Value
1	227,716,418	US TREASURY INFLATION INDEX BOND	3.875% 04/15/2029 DD 04/15/99	$ 295,906,782
2	220,607,518	US TREASURY INFLATION INDEX NOTE	4.250% 01/15/2010 DD 01/15/00	236,601,563
3	196,906,194	US TREASURY INFLATION INDEX BOND	2.000%001/15/2026 DD 01/15/06	195,229,341
4	44,700,000	COMMIT TO PUR FNMA SF MTG	6.000% 08/01/2023 DD 08/01/08	45,705,750
5	46,710,000	COMMIT TO PUR FNMA SF MTG	5.000% 07/01/2038 DD 07/01/08	44,768,639
6	42,800,000	COMMIT TO PUR FNMA SF MTG	5.500% 08/01/2038 DD 08/01/08	42,077,750
7	32,398,553	US TREASURY INFLATION INDEX BOND	3.375% 04/15/2032 DD 10/15/01	40,769,011
8	42,000,000	COMMIT TO PUR FHLMC GOLD SFM	5.000% 08/01/2038 DD 08/01/08	40,149,396
9	36,000,000	COMMIT TO PUR FNMA SF MTG	5.000% 08/01/2038 DD 08/01/08	34,425,000
10	30,797,704	US TREASURY INFLATION INDEX NOTE	2.000% 01/15/2016 DD 01/15/06	32,438,637

Largest Stock Holdings (by Market Value) June 30, 2008

	Shares	Stock	Market Value
1	1,899,344	MICROSOFT CORP.	$ 52,250,953
2	1,662,944	GENERAL ELEC CO.	44,383,975
3	477,010	EXXON MOBIL CORP.	42,038,891
4	234,310	GOLDMAN SACHS GROUP INC.	40,980,819
5	1,538,294	AMERICAN INTERNATIONAL GROUP INC.	40,703,259
6	614,257	JOHNSON & JOHNSON CO.	39,521,295
7	330,209	IBM CORP.	39,139,673
8	640,756	PROCTER & GAMBLE CO.	38,964,372
9	687,595	WAL MART STORES INC.	38,642,839
10	1,521,076	GLAXOSMITHKLINE CO.	33,692,395

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2008

Investment Fees	**Average Assets Under Management**	**Fees**	**Basis Points**
Investment Manager Fees			
Equity Managers	$7,320,047,095	$27,574,239	38
Fixed Income Managers	2,700,306,613	2,267,794	8
Private Equity Managers	656,235,348	6,999,591	107
Real Estate Managers	731,960,238	5,408,977	74
Total Average Assets	$11,408,549,294		
Total Investment Manager Fees		42,250,600	37
Other Investment Service Fees			
Custodian/Record Keeping Fees		4,531,740	
Investment Consultant Fees		632,306	
Legal Fees		1,367,338	
Actuary/Audit Service Fees		284,875	
Total Investment Service Fees		6,816,258	6
Total Defined Benefit Plans Fees		$49,066,859	43
Defined Contribution Plans' Fees		156,246	
Other Trust Funds' Fees		60,962	
Total Fees		**$49,284,067**	

Note: Broker Fees are Included on a Separate Schedule

Schedule of Fees and Commissions for the Year Ended June 30, 2008

Broker Name	Base Commission	Total Shares	Commission per Share
LEHMAN BROS INC, NEW YORK	$230,928	15,233,267	0.0152
MORGAN STANLEY & CO INC, NY	225,335	16,167,457	0.0139
CITIGROUP GBL MKTS/SALOMON, NEW YORK	180,630	34,785,343	0.0052
INSTINET CORP, NY	161,472	4,198,692	0.0385
CITIGROUP GBL MKTS INC, NEW YORK	157,705	14,637,088	0.0108
BEAR STEARNS & CO INC, NY	150,974	3,366,644	0.0448
MORGAN J P SECS INC, NEW YORK	138,294	8,131,066	0.0170
MERRILL LYNCH PIERCE FENNER SMITH INC NY	130,488	3,283,552	0.0397
GOLDMAN SACHS & CO, NY	127,764	4,558,324	0.0280
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	126,175	12,769,466	0.0099
BEAR STEARNS INTL TRADING LTD, LONDON	124,239	7,780,631	0.0160
CITATION GROUP, NY	119,693	2,764,959	0.0433
CREDIT SUISSE (EUROPE), LONDON	117,668	14,364,385	0.0082
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	116,255	5,782,050	0.0201
DEUTSCHE BK SECS INC, NY (NWSCUS33)	114,741	25,423,846	0.0045
BEAR STEARNS SEC CORP, BROOKLYN	111,625	2,341,940	0.0477
LEHMAN BROS INTL, LONDON	107,129	4,850,270	0.0221
MERRILL LYNCH PIERCE FENNER, WILMINGTON	106,567	18,850,075	0.0057
UBS WARBURG ASIA LTD, HONG KONG	98,257	23,473,284	0.0042
CITIGROUP GLOBAL MARKETS LTD, LONDON	94,067	6,845,108	0.0137
BERNSTEIN SANFORD C & CO, NEW YORK	89,848	2,703,145	0.0332
UBS SECURITIES LLC, STAMFORD	82,489	3,211,510	0.0257
MERRILL LYNCH INTL LONDON EQUITIES	78,566	3,903,029	0.0201
JEFFERIES & CO INC, NEW YORK	75,347	1,929,517	0.0390
JP MORGAN SECS ASIA PACIFIC, HONG KONG	72,894	10,956,935	0.0067
CREDIT LYONNAIS SECS (ASIA), HONG KONG	70,220	31,996,928	0.0022
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	69,264	3,256,563	0.0213
J P MORGAN SECS LTD, LONDON	63,517	3,668,754	0.0173
MACQUARIE SECURITIES LIMITED, HONG KONG	60,834	9,534,253	0.0064
Other Brokers Under $60,000	2,383,745	192,512,935	0.0124
TOTAL BROKER COMMISSIONS	**$5,786,731**	**493,281,016**	0.0117

(Concluded)

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

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

(b) Inflation and Salary Assumptions

This 7.75% rate before fees and 7.25% rate net of fees assumes an inflation rate of 3.75% and an annual general state salary growth of 4.50%. To the extent that either inflation or salary growth are higher or lower than these rates, then the investment returns needed will also be higher or lower than the assumed 7.75% [7.25% net], although not on a 1:1 ratio. Consequently, the investment returns actually needed by the system do not have a nominal rate which can be determined with precision in advance -- the 7.75% gross rate currently used by the actuary is only a general midpoint accurate over long (15-20) year periods and is only as accurate as are the inflation, salary, and other actuarial assumptions as set out in the annual actuarial study reviewed annually by the Board.

(c) Relation to Funding Policy

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

(d) Periodic Specific Return Goals

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

2. Investment Risk and Strategic Asset Allocations

(a) Diversification Among Asset Classes

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

(b) Review of Asset Classes and Asset Allocation

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

(c) Content of Strategic Asset Allocations

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

(d) Strategic Policies

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

IV. Investment Structure

A. Overall Structure

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

1. Board Ultimately Responsible

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

2. General Roles and Responsibilities of Board and Agents

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

* making strategic decisions, primarily concerning asset allocation and strategic policies;
* adjusting the mix between passive and active managers depending on, among other considerations, near-term concerns regarding the U.S. and other capital markets; and
* delegating and monitoring all other activities, including hiring and monitoring investment managers

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.

(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 have discretion to vote proxies according to their respective proxy voting policies, provided they vote those proxies in the best interest of our Fund.

(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 consistently to 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

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 equals 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 index be the benchmark 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, general international managers, and global 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 Lehman Brothers 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 Lehman Brothers 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 Lehman Brothers 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 Lehman Brothers 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 Lehman Government/Corporate Index or Lehman Aggregate Index will be the benchmark for all non-mortgage fixed income managers. The Lehman Mortgage Index will be the benchmark for all mortgage managers. The Lehman 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 is 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 with the specific approval by the Board or a subcommittee appointed by the Board of each investment vehicle or investment manager. 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 Lehman Brothers Government/Credit Index plus 3%. It is recognized that these investments will likely experience greater volatility than the comparable publicly traded securities and indices.

VI. Asset Allocation

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

Strategic Asset Allocation

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges
Equities				
U.S./Global Equity	9.65%	17%	55%	50% - 65%
International	9.65%	19%	15%	10% - 20%
Total Equities			70%	66% - 77%
Fixed Income	5.8%	5%	30%	23% - 33%
Cash	4.0%	1%	0%	0% - 5%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.75%	3.75%	4.00%	n/a
Portfolio	8.50%	3.50%	5.00%	11.7%

(Expected Returns are before fees and expenses)

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

A. Purpose

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

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

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

B. Specific Areas of Risk

1. Credit Risk

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

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

2. Custodial Credit Risk

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

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

3. Concentration of Credit Risk

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

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