Investment Section

Helping Idaho public employees build a secure retirement.

REPORT ON INVESTMENT ACTIVITY
OVERVIEW OF FISCAL YEAR 2010

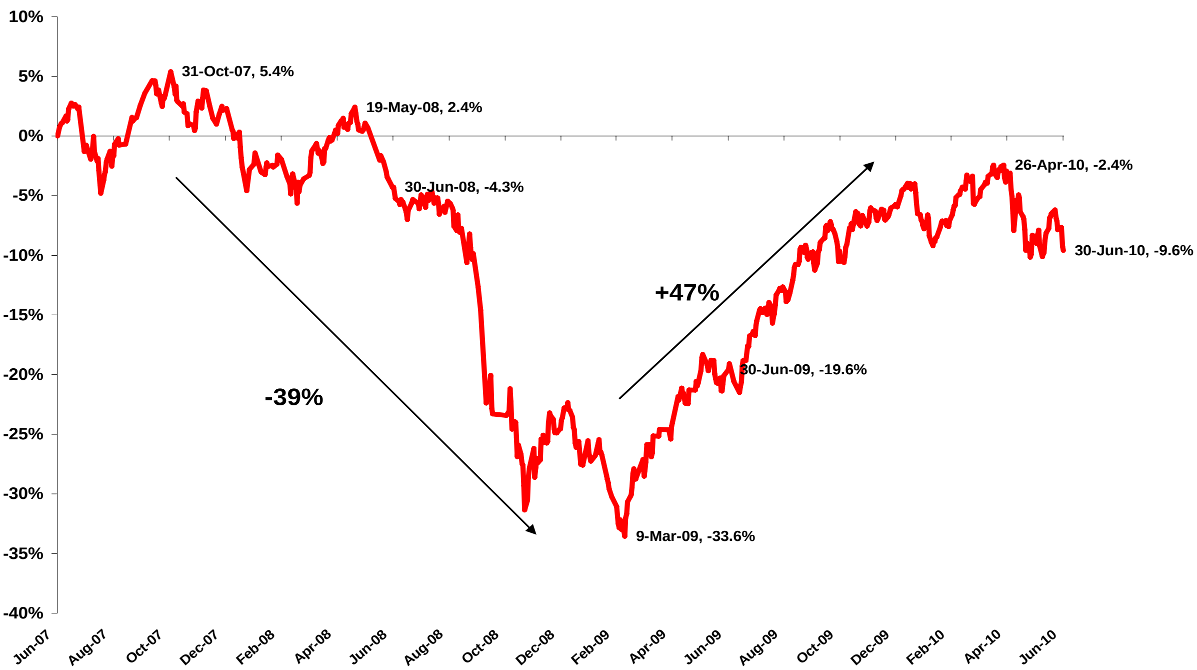
Prepared by Robert M. Maynard, Chief Investment Officer

THE LONG ROAD BACK

With double digit returns of 12.4%, investment gains of over $1.1 billion, assets once again over $10 billion, and market cycle peer comparisons (five years) still in the top 5% of institutional funds, Fiscal Year 2010 would objectively seem to be a cause for celebration.

As the year closed, however, it felt vaguely disappointing. This was largely due to the continued impact of the last three years, which have seen both the worst sustained drops and one of the most spectacular rises in PERSI history.

PERSI TOTAL FUND RETURNS
Fiscal Years 2008 - 2010



It has been like a journey into the depths of the Grand Canyon and a hard climb out (that is not yet completed). Starting with the recession at the end of 2007 and greatly accelerated with the collapse of Lehman on September 11th, 2008, the world capital markets went into a nose dive the likes of which haven't been seen since 1929-1930. PERSI lost 39% from its highs in October of 2007 to the lows of March, 2009. Then, as fears of Armageddon receded, the next year saw gains of 47%. By the middle of last April nearly all of the collapse had been recovered, only to stall at the end of the 2010 fiscal year and fall back as the global economic recovery slowed noticeably, Europe confronted severe fiscal problems in the periphery (the "PIIGS" – Portugal, Ireland, Italy, Greece, and Spain), and the Euro itself came under intense pressure.

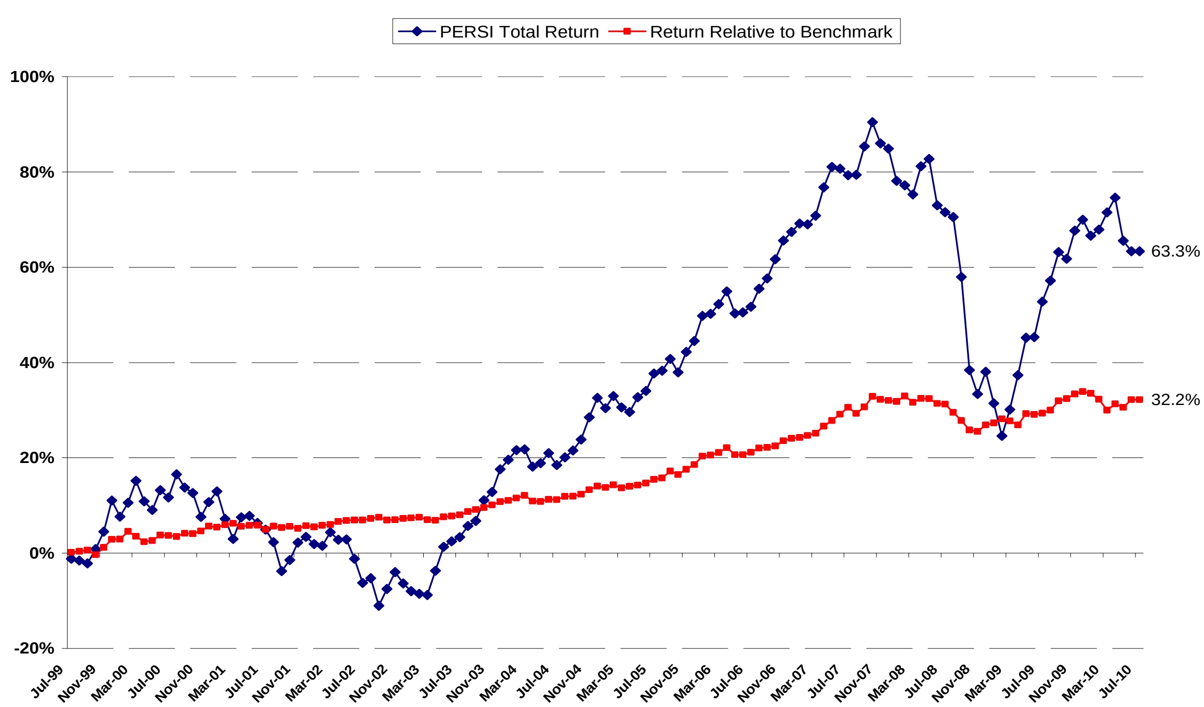
The lingering impact of the Great Collapse, the almost-but-not-quite complete recovery, the fall back at the very end of the fiscal year, and the remaining uncertainties of the world economic outlook, all contributed to a subjective sense of slight disappointment as the fiscal year drew to a close.

The backdrop was also clouded by the conclusion of a very tough decade for the capital markets, with two episodes that were characterized as the "worst since the Great Depression". The "Tech wreck" of 2001-2003 and the Great Collapse of 2008-2009 both devastated the capital market landscape, and wrecked havoc on the return assumptions underpinning PERSI's funding. From the beginning of Fiscal Year 2000 through the end of FY2010, an investor actually lost $0.15 for every $1.00 invested in US large capitalization stocks (the S&P 500), and the returns in most other capital markets were barely positive.

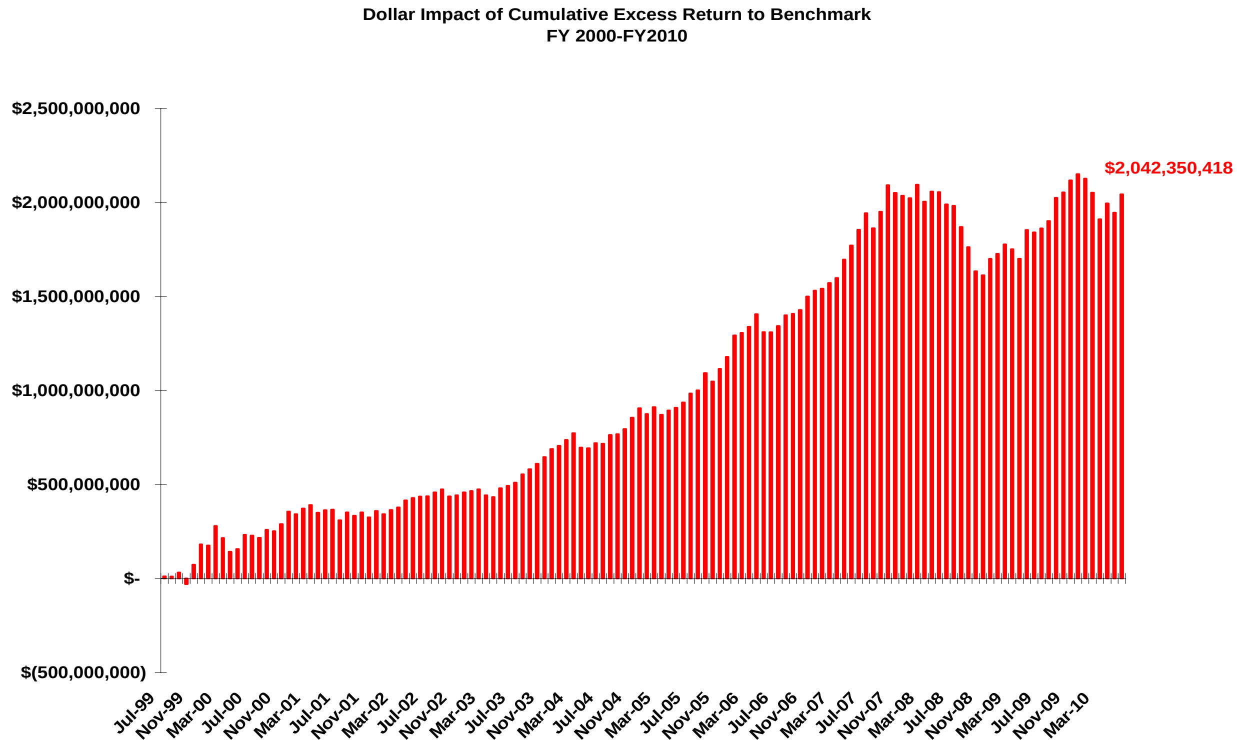
But, FY 2010 can also be seen as confirmation of a very positive trend for PERSI in achieving its long-term goals. PERSI as a fund has had as its primary objective generally achieving long-term public market returns, and, in addition, attempting to lose less in difficult markets while keeping up in good market environments. This past decade has seen one disastrous period (2001-2003), one bull market run (2003-2007), one catastrophic collapse (2007-2009), and one sharp partial recovery (2009-2010). While the Great Collapse of 2008-2009 was a great stress test for short-term market performance, this past decade was an excellent test of PERSI's long-term market posture. A review of that longer term performance is at least very encouraging: PERSI has kept its head well above water through a very challenging opening decade of the new millennium.

In the past year PERSI managed to retain most of the strategic outperformance it had gained during the collapse to complete a decade of sustained outperformance of the general markets. The overall fund outperformed the strategic benchmark (55% Russell 3000, 15% EAFE, 30% BC Aggregate) by over 3.0% in FY 2007 and by over 2.0% in FY 2009. FY 2010 saw 0.3% of that excess return given back due to lagging valuations from private real estate, which brought the total outperformance for the PERSI fund over the past decade to 32.2% over market performance. Over half of PERSI's total cumulative return of 63.3% through the 2000-2010 fiscal years was due to that outperformance:

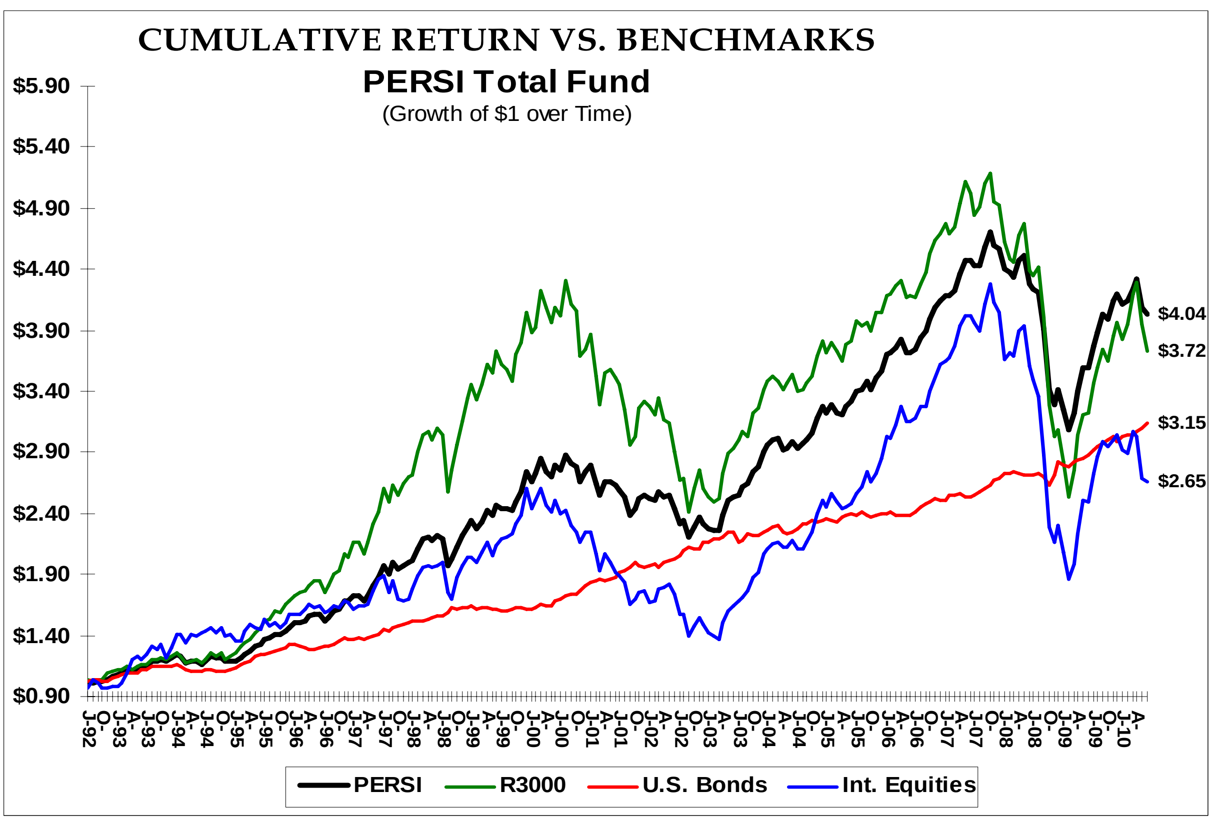
CUMULATIVE RETURNS FY 2000-2010



This outperformance added over $2 billion to PERSI's coffers from what would have been the case if PERSI had simply matched general market returns as represented by the strategic benchmark:



PERSI's cumulative returns have also been excellent when compared to the general capital markets. Since 1992, PERSI returns have exceeded every major capital market, and $1 dollar invested with the PERSI fund would now be worth $4.04, compared with $3.72 in US equities, $3.15 in bonds, and $2.85 in international equities.



For PERSI, this fiscal year was dominated by real estate, emerging markets, and trouble in Europe. As mentioned, overall PERSI was within half a percent of the strategic benchmark, but this close to benchmark performance hid a number of very exceptional individual trends, both good and bad.

Real estate was schizophrenic, with an exceptional year for public real estate (REITS) being totally dominated by the lagged recognition (due to appraisal procedures) of substantial losses in the private real estate holdings. PERSI's public REIT portfolio, managed by Adelante, was PERSI's best performing account, returning 52.3% for the fiscal year, and adding 0.66% to the total fund's returns relative to benchmark. But this was overwhelmed by the private real estate portfolio's recognition of the drop in values engendered by the Great Collapse, which resulted in a loss for the year of -34.7%, and a negative impact on total fund relative performance of -3.33%. Adelante's 52.3% return was behind the general REIT market return of 56.1%. Within private real estate the Koll industrial portfolio lost -36.4%, the Olympic multi-family portfolio lost -54.5%, the Cascade affordable housing portfolio lost -16.2%, and the PRISA open-ended fund lost -22.1%.

Emerging markets, once again, was PERSI's best relative performer to strategic benchmarks, and an exceptional absolute performer, with returns of 28.7% for the year. Since the broad international developed market return was only 6.4%, this added 1.83% to PERSI's relative returns. Both of PERSI's dedicated emerging markets managers outperformed the emerging markets index returns of 23.5%, with Bernstein Emerging Markets returning 23.6%, and Genesis returning 32.6%.

With returns of 13.5%, PERSI's global equity managers outperformed the MSCI World Index return of 10.8%. However, since the strategic benchmark treats the global managers as an alternative to US equity, this had a negative impact of -0.35% on relative performance, since the Russell 3000 had returns of 15.7% for the fiscal year. Zesiger, once again, led the way for the year at 25.7%, followed by Barings at 10.6% and Cap Guardian at 10.5%. PERSI's value managers had another rough year, with Brandes returning 9.2% and Bernstein returning 9.1%. PERSI's sole international developed market active managers, Mondrian, had a mediocre year with a return of 5.3%, below a generally lackluster MSCI EAFE return for the year of 6.4%.

PERSI's US only public equity managers had a good year in both absolute and relative returns. Overall, our US only equity portfolio made 17.0% for the year compared to the Russell 3000 return of 15.7%. This added 0.18% to PERSI's return relative to the strategic benchmark. Donald Smith led this area with a return of 31.0%, and was the only US only manager to beat his particular benchmark for the year (by 9.5%). Peregrine (9.0%), Tukman (12.9%), and Mountain Pacific (19.4%) all trailed their particular benchmarks for the year, although with positive absolute returns. TCW at 25.4% for the fiscal year return also trailed its benchmark and was terminated at the end of the fiscal year. Private equity had a time-weighted return of 20.0% for the fiscal year, and ended up being a positive contributor to overall portfolio relative returns for the year (after being a drag for most of the year).

Fixed income had a very nice year for PERSI, returning 10.5% for the year compared to 9.5% returns for the broad US investment grade market represented by the re-named Barclay's Aggregate Index. Western led the way, rebounding from a disastrous FY 2009 with returns of 22.3% -- an equity like outperformance of benchmarks. Barings underperformed the benchmark index with returns of 8.3% for the year. Treasury Inflation Protected Securities (TIPS) had a very nice year returning 11.0% for the year. (The SSGA passively managed fund returned 11.3% and the Western active TIPS fund returned 10.1%). The Clearwater mortgage backed securities portfolio with returns of 7.9% outperformed the MBS index return of 7.5%, while the DBF MBS portfolio lagged at 6.7%. The Idaho Commercial Mortgage program had another good year with returns of 10.1%. Overall, the fixed income area added 0.25% to total fund relative returns to strategic benchmark.

For individual manager performance, overall Western, Genesis, Zesiger, and Donald Smith had the best relative returns and good absolute returns for the fiscal year. Private real estate had the worst absolute returns and, of the public managers, Peregrine, Mountain Pacific and TCW had the worst relative returns to particular benchmarks.

Overall, a very good year that had the potential to be a spectacular year, but fell short at the end. As a concluding year to a very rough opening decade of the new millennium, it managed to retain almost all the gains PERSI had achieved relative to the markets through a disastrous opening part of the decade, a hot streak in the middle, a catastrophic ending with a partial sharp rebound at the close. Given that our primary goal is to be a market fund that loses less when the markets are poor and keeps up when markets are good, FY 2010 showed that we are still on track in achieving that goal.

ROBERT M. MAYNARD
Chief Investment Officer

For the numbers presented, the source of the above-disclosed data is the Mellon Analytic Solutions Reporting System.

INVESTMENT SUMMARY FOR THE YEAR ENDED JUNE 30, 2010

Types of Investment	Market Value		Percent of Total Market Value	
Short-term Investments		$366,055,984		3.7%
Fixed Income				
Domestic	2,402,932,292		24.1%	
International	48,755,220		0.5%	
Commercial Mortgages	493,885,456		5.0%	
Total Fixed Income		2,945,572,968		29.5%
Equity				
Domestic Equity	3,451,208,849		34.5%	
International Equity	2,137,803,987		21.4%	
Total Equity		5,589,012,836		56.1%
Private Equity		763,640,459		7.7%
Real Estate		304,814,272		3.1%
Total Base Plan & FRF Investments		$9,969,096,519		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		217,800,200		
Choice Plan 414(k)		53,584,173		
Choice Plan 401(k)		287,227,296		
Short-term Investments, Choice Plan		685,679		
Total Investments in All Funds		$10,528,393,867		

Schedule of Investments by Account (including interest and dividends receivable)
As of June 30. 2010

Base Plan and Firefighters' Retirement Fund

Adelante Capital Management	$254,662,869
Advent International, LP	10,160,581
Apollo Management, LP	62,441,881
American Securities Opportunities Associates II, LLC	4,208,474
Baring Asset Management-Global Equity	296,789,518
Baring Asset Management-Global Fixed Income	154,654,238
Bernstein-Emerging Markets	398,185,967
Bernstein-Global Equity	244,035,850
Blackstone Capital Partners, LP	27,922,448
BNY Mellon Capital Management-International Stock Index	518,279,224
BNY Mellon Capital Management-Mid Cap Completion	156,512,600
BNY Mellon Capital Management-R2000 Small Cap	106,139,442
BNY Mellon Capital Management-S&P 500 Large Cap	1,050,197,829
Brandes Investment Partners	392,724,012
Bridgepoint Cap LTD	20,647,195
Capital Guardian	307,290,568
Cascade	104,183,594
Cerberus Investment Partners	33,756,536
Chisholm Management, LP	17,537,874
Clearwater Advisors, LLC-TBAs	122,173,549
CVC European Equity	37,318,165
D.B. Fitzpatrick & Co.-Fixed Income	54,329,509
D.B. Fitzpatrick & Co.-Idaho Mortgages	495,869,877
Donald Smith & Co.	217,528,318
Enhanced Equity, LP	34,915,313
Epic Venture Fund	3,135,204
First Reserve Fund XI	42,802,598
Frazier Technology Ventures II, LP	9,740,630
Furman Selz Investments, LP	2,476,254
Galen Associates, LP	39,715,909
Genesis Asset Managers	474,542,779
Goense Bounds & Partners, LP	2,712,734
Gores Capital Partners, LLP	26,708,453
Green Equity Investors IV, LP	32,916,648
Hamilton Lane Co - Investment Fund, LP	36,262,453
Hamilton Lane Secondary Fund, LP	17,670,716
Harvest Partners III, LP	1,110,275
Highway 12 Ventures, LP	23,915,236
Ida-West	3,186,913
JH Whitney & Co, LLC	24,116,552
KKR 2006 Fund, LP	28,745,492
Kohlberg & Co.	32,046,655
Koll Partners, LLP	229,525,161
Lindsay Goldberg & Bessemer	34,165,445
Littlejohn, LP	1,714,734
McCown DeLeeuw & Co. IV, LP	1,354,702
Mellon Transition Management Services	2,454,327
Mondrian Investment Partners	237,211,566
Mountain Pacific Investment Advisors	264,792,787

Continued

Newbridge Asia, LP	20,539,202	
Oaktree Capital Management, LLC	5,620	
Olympic IDA Fund II, LLC	47,951,817	
Pareto Partners	12,375,884	
Peregrine Capital Management	148,849,167	
PERSI Cash in Short-Term Investment Pool	16,559,315	
Private Debt	22,259,737	
Providence Equity Partners, LLP	66,221,141	
Prudential Investments	27,282,491	
State Street Global Advisors-Fixed Income	712,890,191	
State Street Global Advisors-TIPS	797,358,638	
T3 Partners, LP	56,904,937	
Tukman Capital Management	278,741,859	
W. Capital Partners, LP	6,563,488	
Western Asset Management	141,515,596	
Western Asset-TIPS	335,088,183	
Zesiger Capital Group	401,483,740	
Zesiger Capital Group-Private Equity	18,877,795	
Total Base Plan and Firefighters' Retirement Fund		$9,806,958,456
<u>Choice Plan</u>		
BNY Mellon Aggregate Bond Index Fund	5,565,770	
BNY Mellon Dow Jones U.S. Completion Stock Index	3,772,108	
BNY Mellon Dow Jones U.S. Total Stock Market Index	1,967,499	
BNY Mellon International EAFE Fund	2,720,394	
BNY Mellon S&P 500 Stock Index Fund	5,754,812	
Brandes International Equity Fund	6,335,037	
Calvert SI Balance Fund	452,148	
Dodge and Cox Income Fund	7,585,954	
Choice Plan Contribution Account	685,679	
Choice Plan Loans	4,383,999	
Rowe Price Small Cap Fund	7,154,598	
SEI Stable Asset Fund	18,932,552	
Total Return Fund	271,066,049	
Vanguard Growth & Income Fund	6,256,925	
Total Choice Plan		$342,633,525
<u>Sick Leave Insurance Reserve Fund</u>		
State Street Global Advisors - Domestic Equity	119,063,842	
State Street Global Advisors - International Equity	33,447,931	
State Street Global Advisors - Fixed Income	65,288,427	
Total Sick Leave Insurance Reserve Fund		$217,800,200
Total Market Value, Including Investment Receivables and Payables		$10,367,392,182
Add: Investments Purchased Payable		1,356,947,498
Less: Investments Sold Receivable		(1,154,073,891)
Less: Interest and Dividends Receivable		(41,871,922)
Total Market Value, Net of Investment Receivables and Payables		$10,528,393,867

(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. PUBLIC EQUITY						
MELLON CAPITAL MANAGEMENT MID CAP	160.8	1.6%	23.3	23.3	(7.0)	1.8
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	109.1	1.1%	21.6	21.6	(8.7)	0.1
MELLON CAPITAL MANAGEMENT S&P 500 LC	1,079.2	10.7%	14.4	14.4	(9.7)	(0.8)
MOUNTAIN PACIFIC	272.1	2.7%	19.4	19.4	(4.0)	3.3
TUKMAN CAPITAL MGMT	286.4	2.8%	12.9	12.9	(4.8)	1.1
TCW[1]	0.2	0.0%	25.4	25.4	(7.6)	1.2
DONALD SMITH & CO.	223.5	2.2%	31.0	31.0	(5.6)	5.9
PEREGRINE	153.0	1.5%	9.0	9.0	(7.6)	(0.6)
TOTAL U.S. PUBLIC EQUITY	2,284.4	22.7%	17.0	17.0	(7.1)	1.2
BENCHMARK - Russell 3000			15.7	15.7	(9.5)	(0.5)
PRIVATE EQUITY						
IDA-WEST	3.3	0.0%	15.3	15.3	17.4	23.0
GALEN III	40.8	0.4%	10.7	10.7	2.5	6.3
HARVEST PARTNERS	1.1	0.0%	91.4	91.4	(17.5)	(33.8)
FURMAN SELZ	2.5	0.0%	(64.3)	(64.3)	(25.1)	(4.7)
MCCOWN DE LEEUW	1.4	0.0%	75.3	75.3	2.9	(54.6)
PROVIDENCE EQ PARTNERS	68.1	0.7%	16.9	16.9	3.0	11.7
CHISOLM PARTNERS	18.0	0.2%	25.6	25.6	5.4	14.8
LITTLEJOHN II L.P.	1.8	0.0%	179.2	179.2	27.8	33.0
OAKTREE CAP	0.0	0.0%	(69.7)	(69.7)	(31.0)	1.4
GOENSE BOUNDS	2.8	0.0%	15.0	15.0	(8.9)	(1.0)
HWY 12 FD VENTURE LP	24.6	0.2%	(0.2)	(0.2)	(13.3)	(6.9)
T3 PARTNERS II L.P.	58.5	0.6%	27.8	27.8	(2.4)	13.8
THOMAS LEE L.P.[2]	0.0	0.0%	0.0	0.0	1.5	(1.5)
APOLLO MGMT LP	64.2	0.6%	89.5	89.5	22.9	28.9
GREEN EQUITY IV L.P.	33.8	0.3%	39.1	39.1	4.8	2.9
GORES CAPITAL AD LLC	27.4	0.3%	38.7	38.7	17.4	22.4
W CAPITAL PARTNERS	6.7	0.1%	7.1	7.1	(8.2)	(2.3)
FRAZIER TECH VENTURES II	10.0	0.1%	(3.4)	(3.4)	(6.2)	(0.2)
KOHLBERG & CO.	32.9	0.3%	10.1	10.1	7.5	0.3
HAMILTON SECONDARY	18.2	0.2%	4.7	4.7	4.0	12.0
CVC EUROPEAN EQUITY	38.3	0.4%	(3.0)	(3.0)	(0.9)	
HAMILTON LANE CO-INVESTMENT FUND	37.3	0.4%	21.1	21.1	(4.3)	
BRIDGEPOINT EUROPE III	21.2	0.2%	(11.8)	(11.8)	(7.7)	
NEWBRIDGE ASIA LP	21.1	0.2%	124.6	124.6	29.7	
JH WHITNEY EQUITY PARTNERS IV	24.8	0.2%	8.1	8.1	0.7	
BLACKSTONE CAPITAL PARTNERS	28.7	0.3%	25.8	25.8	(6.1)	
ENHANCED EQUITY FUND LP	35.9	0.4%	8.1	8.1	4.7	
LINDSEY, GOLDBERG, BESSEMER	35.1	0.3%	(2.9)	(2.9)	(0.2)	
KKR 2006 FUND	29.5	0.3%	38.0	38.0	(0.3)	
FIRST RESERVE FUND XI	44.0	0.4%	12.5	12.5	(1.5)	
CERBERUS INST PARTNERS	34.7	0.3%	31.6	31.6	(0.6)	
EPIC VENTURE FUND	3.2	0.0%	(5.8)	(5.8)		
ADVENT INTERNATIONAL	10.4	0.1%	27.4	27.4		
AMERICAN SECURITIES OPPORTUNITIES FUND II**	4.3	0.0%	0.0	0.0		
ZESIGER CAPITAL GROUP	19.4	0.2%	5.9	5.9	(2.8)	3.3
TOTAL PRIVATE EQUITY	804.1	8.0%	20.0	20.0	2.0	8.5
REAL ESTATE						
KOLL PARTNERS	235.9	2.3%	(36.4)	(36.4)	(12.9)	(5.3)
OLYMPIC IDA FUND II	49.3	0.5%	(54.5)	(54.5)	(22.2)	
CASCADE	107.1	1.1%	(16.2)	(16.2)		
ADELANTE - PUBLIC R/E	261.7	2.6%	52.3	52.3	(14.0)	(1.8)
PRUDENTIAL	28.0	0.3%	(22.1)	(22.1)	(13.6)	(1.4)
TOTAL REAL ESTATE	681.9	6.8%	(15.8)	(15.8)	(11.3)	0.1
BENCHMARK - NCREIF			(9.6)	(9.6)	(4.3)	4.2
TOTAL U.S. EQUITY	**3,770.5**	**37.3%**	10.0	10.0	(6.7)	1.7
BENCHMARK - Russell 3000			15.7	15.7	(9.5)	(0.5)

(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	305.0	3.0%	10.6	10.6	(5.8)	4.5
BRANDES INVST PARTNERS	403.6	4.0%	9.2	9.2	(16.3)	(2.0)
CAPITAL GUARDIAN	315.8	3.1%	10.4	10.4	(10.5)	0.6
ZESIGER CAPITAL GROUP	412.6	4.1%	26.6	26.6	(8.4)	7.8
BERNSTEIN GLOBAL	250.8	2.5%	9.1	9.1	(18.6)	(2.8)
TOTAL GLOBAL EQUITY	**1,687.7**	**16.7%**	13.5	13.5	(11.9)	1.7
TOTAL U.S./GLOBAL EQUITY	**5,458.3**	**54.1%**	11.1	11.1	(8.8)	1.5
BENCHMARK - Russell 3000			15.7	15.7	(9.5)	(0.5)
INTERNATIONAL EQUITY						
GENESIS INVESTMENTS	487.7	4.8%	32.6	32.6	1.4	14.6
MELLON CAPITAL MANAGEMENT INTL STK INDX	532.6	5.3%	6.1	6.1	(13.0)	1.0
MONDRIAN	243.8	2.4%	5.3	5.3	(11.8)	2.1
BERNSTEIN EMERGING	409.2	4.1%	23.6	23.6	(5.9)	10.4
TOTAL INTERNATIONAL EQUITY	**1,673.2**	**16.6%**	17.6	17.6	(6.7)	6.9
TOTAL INT'L EQUITY (HEDGED)[3]	**1,685.9**	**16.7%**	18.5	18.5	(6.6)	6.9
EAFE INDEX NET			6.4	6.4	(12.9)	1.4
TOTAL EQUITY	**7,144.2**	**70.8%**	12.9	12.9	(8.1)	2.8
BENCHMARK - Russell 3000			15.7	15.7	(9.5)	(0.5)
U.S. FIXED INCOME						
DBF & CO FIXED	55.8	0.6%	6.7	6.7	7.7	5.9
DBF & CO-IDAHO MTGS	509.6	5.1%	10.1	10.1	11.7	8.2
STATE ST ADV-FX	732.6	7.3%	10.0	10.0	7.9	5.6
SSGA-TIPS	819.4	8.1%	11.3	11.3	8.3	5.1
CLEARWATER-TBA	125.6	1.2%	7.9	7.9	7.8	6.0
REAL ESTATE PVT DEBT	22.9	0.2%	8.9	8.9		
TOTAL U.S. FIXED INCOME	**2,265.8**	**22.5%**	10.3	10.3	8.7	6.0
GLOBAL FIXED INCOME						
BARING ASSET MANAGEMENT	158.9	1.6%	8.3	8.3	7.3	5.5
WESTERN ASSET	145.4	1.4%	22.3	22.3	7.4	5.9
WESTERN TIPS	344.4	3.4%	10.2	10.2	7.8	
TOTAL GLOBAL FIXED INCOME	**648.7**	**6.4%**	13.4	13.4	6.8	5.2
TOTAL FIXED INCOME	**2,914.5**	**29.5%**	10.7	10.7	8.1	5.7
BENCHMARK - BC Aggregate Bonds			9.5	9.5	7.5	5.5
OTHER						
UNALLOCATED CASH	17.0	0.2%	2.2	2.2	7.0	9.1
MELLON TRANSITION MANAGEMENT SERVICES	2.3	0.0%	995.4	995.4	543.8	285.9
TOTAL OTHER	**19.3**					
COMBINED TOTAL	**10,078.0**	**100.0%**	12.4	12.4	(3.3)	4.0
BENCHMARK - 55% Russell 3000 30% BC Aggregate Bonds 15% MSCI EAFE Index			12.7	12.7	(4.8)	1.9
Add: Other PERSI DC Choice Plan Investments[4]	71.6					
Sick Leave Fixed Income Investments	65.3					
Sick Leave Equity Securities	152.5					
Investments Purchased	1,356.9					
Less: Interest and Dividends Receivable	-41.9					
Investments Sold	-1,154.1					
Total Pension Fund Investments						
Net of Receivables	10,528.4					

(Concluded)

*Rates of Return are annualized
[1]Terminated 6/22/10
[2]Account Liquidated 12/09
[3]Includes Pareto Partners currency overlay account
[4]Total Return Fund included in investment results
**Accounts opened less than one year
Prepared using a time weighted rate of return per Mellon Analytic Solutions, a division of BNY Mellon Asset Servicing

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Total
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)
2009	130,825,841	135,561,686	(2,044,562,509)	(1,778,174,982)
2010	108,025,496	140,722,177	915,045,071	1,163,792,744

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

Largest Bond Holdings (by Market Value) June 30, 2010

	Par	Bonds	Description	Market Value
1	187,831,185	US TREASURY INFLATION INDEX BOND	3.875% 04/15/2029 DD 04/15/99	252,060,622.41
2	188,255,476	US TREASURY INFLATION INDEX BOND	2.000%001/15/2026 DD 01/15/06	199,065,481.94
3	126,502,457	US TREASURY INFLATION INDEX BOND	2.500% 01/15/2029 DD 01/15/09	142,977,377.42
4	113,719,200	US TREASURY INFLATION INDEX NOTE	2.125% 01/15/2019 DD 01/15/09	124,096,077.00
5	29,664,225	US TREASURY INFLATION INDEX BOND	2.375% 01/15/2025 DD 07/15/04	32,906,435.80
6	26,129,509	US TREASURY INFLATION INDEX BOND	2.000%001/15/2026 DD 01/15/06	27,629,917.24
7	24,575,625	US TREASURY INFLATION INDEX BOND	2.375% 01/15/2025 DD 07/15/04	27,261,667.09
8	17,331,735	US TREASURY INFLATION INDEX BOND	3.875% 04/15/2029 DD 04/15/99	23,258,373.64
9	2,436,840	US TREASURY INFLATION INDEX NOTE	2.125% 01/15/2019 DD 01/15/09	2,659,201.65
10	2,313,000	US TREASURY INFLATION INDEX BOND	2.375% 01/15/2025 DD 07/15/04	2,565,803.96

A complete list of holdings is available upon request.

Largest Stock Holdings (by Market Value) June 30, 2010

	Shares	Stock	Market Value
1	435,217	INTERNATIONAL BUSINESS MACHINE	53,740,595.16
2	885,234	THE PROCTER & GAMBLE CO	53,096,335.32
3	2,217,552	MICROSOFT CORP	51,025,871.52
4	185,224	APPLE INC	46,589,392.72
5	328,478	THE GOLDMAN SACHS GROUP INC	43,119,307.06
6	697,369	JOHNSON & JOHNSON	41,186,613.14
7	783,837	WAL-MART STORES INC	37,679,044.59
8	630,895	EXXON MOBIL CORP	36,005,188.61
9	1,390,012	WELLS FARGO & CO	35,584,307.20
10	662,733	THE COCA-COLA CO	33,216,177.96

A complete list of holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2010

Broker Name	Commission	Total Shares	Commission per Share
MORGAN STANLEY & CO INC, NY	$214,769	41,705,693	0.00515
CREDIT SUISSE (EUROPE), LONDON	171,562	27,272,036	0.00629
INSTINET CORP, NY	169,195	4,141,120	0.04086
UBS EQUITIES, LONDON	160,965	48,711,237	0.00330
CITIGROUP GBL MKTS INC, NEW YORK	146,759	5,493,313	0.02672
MERRILL LYNCH INTL LONDON EQUITIES	146,071	11,353,995	0.01287
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	132,847	9,608,639	0.01383
ITG INC, NEW YORK	132,785	13,356,270	0.00994
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	127,933	30,321,316	0.00422
BERNSTEIN SANFORD C & CO, NEW YORK	127,611	4,349,119	0.02934
MERRILL LYNCH PIERCE FENNER, WILMINGTON	123,923	23,535,569	0.00527
DEUTSCHE BK SECS INC, NY (NWSCUS33)	119,555	16,811,057	0.00711
CITIGROUP GLOBAL MARKETS LTD, LONDON	113,636	22,540,241	0.00504
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	110,655	14,566,210	0.00760
J P MORGAN SECS LTD, LONDON	100,966	6,413,042	0.01574
JPMORGAN SECURITIES INC, NEW YORK	100,137	4,998,814	0.02003
MERRILL LYNCH PIERCE FENNER SMITH INC NY	93,481	3,186,652	0.02934
JEFFERIES & CO INC, NEW YORK	91,543	2,350,927	0.03894
CREDIT SUISSE (HK) LIMITED, HONG KONG	83,299	22,236,440	0.00375
CITATION GROUP/BCC CLRG, NEW YORK	81,403	1,726,804	0.04714
CITIGROUP GBL MKTS/SALOMON, NEW YORK	73,649	18,099,374	0.00407
MORGAN STANLEY & CO, LONDON (MSLNGB2X)	73,165	10,638,241	0.00688
UBS SECURITIES LLC, STAMFORD	70,563	5,293,462	0.01333
WEEDEN & CO, NEW YORK	69,287	1,975,852	0.03507
GOLDMAN SACHS & CO, NY	66,153	8,583,788	0.00771
DAIWA SECS AMER INC, NEW YORK	62,463	25,421,340	0.00246
JP MORGAN SECS ASIA PACIFIC, HONG KONG	57,519	28,977,061	0.00198
CJS SECURITIES INC, WHITE PLAINS	56,284	1,205,671	0.04668
J P MORGAN SECURITIES INC, BROOKLYN	56,207	1,472,367	0.03817
BLOOMBERG TRADEBOOK LLC, NEW YORK	52,647	1,048,822	0.05020
CSI US INSTITUTIONAL DESK,NEW YORK	52,233	1,259,587	0.04147
MACQUARIE SECURITIES LIMITED, HONG KONG	49,595	37,759,477	0.00131
CREDIT LYONNAIS SECS (ASIA), HONG KONG	47,800	20,224,655	0.00236
ISI GROUP INC, NY	44,625	1,047,882	0.04259
HC ISTANBUL MENKUL DEGERLER, ISTANBUL	44,477	7,683,867	0.00579
KING (CL) & ASSOCIATES, ALBANY	43,276	944,900	0.04580
RBC CAPITAL MARKETS CORP, MINNEAPOLIS	42,899	1,552,153	0.02764
EXECUTION LTD, LONDON	40,889	2,151,851	0.01900
RODMAN & RENSHAW LLC, JERSEY CITY	38,736	3,125,021	0.01240
INSTINET EUROPE LIMITED, LONDON	37,809	7,085,535	0.00534
CALYON SECURITIES, NEW YORK	36,423	21,666,500	0.00168
Other Brokers Under $35,000	1,829,203	255,932,954	0.00715
TOTAL BROKER COMMISSIONS	**$5,494,997**	**777,828,854**	0.00706

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

Schedule of Fees and Commissions for the Year Ended June 30, 2010

Investment Fees	Average Assets Under Management	Fees	Basis Points
Investment Manager Fees			
Equity Managers	6,099,152,130	25,407,639	42
Fixed Income Managers	2,758,772,832	2,345,736	9
Private Equity Managers	735,871,676	5,127,320	70
Real Estate Managers	761,598,758	5,064,027	66
Total Average Assets	$10,355,395,395		
Total Investment Manager Fees		37,944,722	37
Other Investment Service Fees			
Custodian/Record Keeping Fees		4,001,014	
Investment Consultant/Advisor Fees		773,817	
Legal Fees		388,200	
Actuary/Audit Service Fees		379,158	
Total Investment Service Fees		5,542,189	5
Total Defined Benefit Plans Fees		$43,486,911	43
Total Defined Contribution Plans' Fees		292,201	
Total Other Trust Funds' Fees		109,260	
Total Fees		$43,888,372	

Note: Broker Fees are Included on a Separate Schedule

STATEMENT OF INVESTMENT POLICY AND GUIDELINES

I. Introduction
The Retirement Board ("Board") of the Public Employee Retirement System of Idaho ("System") hereby establishes its Statement of Investment Policy for the investment of the trust funds ("Trust") in accord with Idaho Code Chapter 13, Title 59.

II. Statutory Requirements
The investment of the Trust will be in accord with all applicable laws of the state of Idaho.

A. Sole Interest of Beneficiaries
Investments will be solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

B. Prudent Investments
Investments will be made with the judgment and care under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable outcome as well as the probable safety of their capital. Investments will be diversified so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

C. Fiduciary Duties
The Board and its agents, including staff, consultants, and investment managers, will discharge their duties with respect to the fund solely in the interest of the members and retired employees, and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

III. Investment Goals
A. General Objective

1. Purpose
The purpose of the investment of Trust assets is to provide funds to meet the obligations of the Public Employee Retirement System of Idaho (PERSI) while incurring the appropriate amount of risk consistent with attaining that goal. The Board will invest the assets of the Trust so as to meet the projected obligations of the System, and will reduce risk through diversification of the assets of the Trust.

2. Considerations
In determining the returns needed by the system, the acceptable risk levels, and the allowable investments, the Board will consider:

- the effect of particular investments on the total portfolio,
- the purpose of the plan,
- the diversification of the portfolio,
- 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%	3.50%	4.25%	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.