Investment Section

Helping Idaho public employees
build a secure retirement.

REPORT ON INVESTMENT ACTIVITY
OVERVIEW OF FISCAL YEAR 2011

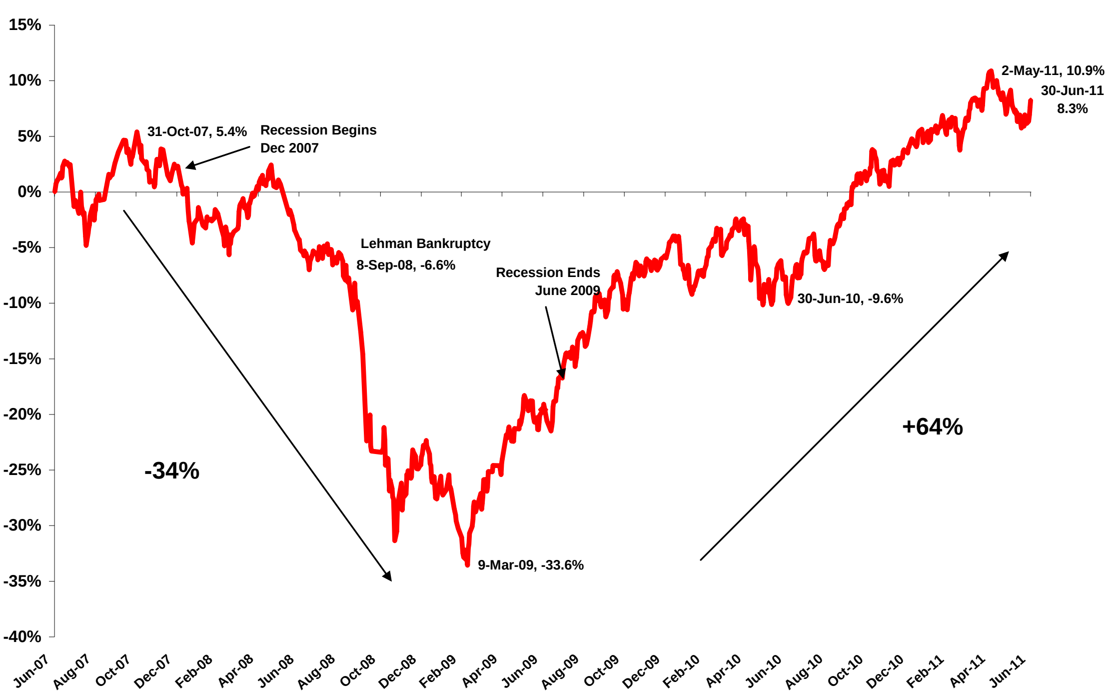
Prepared by Robert M. Maynard, Chief Investment Officer

THE ROAD BACK

With a 20.7% return, PERSI enjoyed its best fiscal year in 25 years. It was a spectacular year, allowing the fund to recover all losses suffered during the Great Recession, and, during the year, reach all time highs in both returns and assets under management. PERSI ended the year with over $12.25 billion under management ($11.976 billion in the Defined Benefit/Total Return fund, $270 million in the sick leave fund, and $82 million in other DC plan funds with outside managers) and with investment gains of over $2 billion for the year. The market value funded level from fiscal year returns and other actuarial gains rose to 90.2%.

The return of 64% and the around $4.5 billion gained since early March, 2009 is the best sustained return over a two to three year period in PERSI's history. PERSI reached new all time market return and asset level records on May 2, 2011 before retreating slightly in the last couple of months due to European turmoil. Of course, this recovery follows the worst market environment in recent memory – the Great Collapse of 2008-2009, when PERSI lost 34% in a year and a half. The past four years have been remarkable, making the "Tech Wreck" of the early 2000s seem mild in comparison:

PERSI TOTAL FUND RETURNS STARTING FY 2008
June 30, 2007 to June 30, 2011

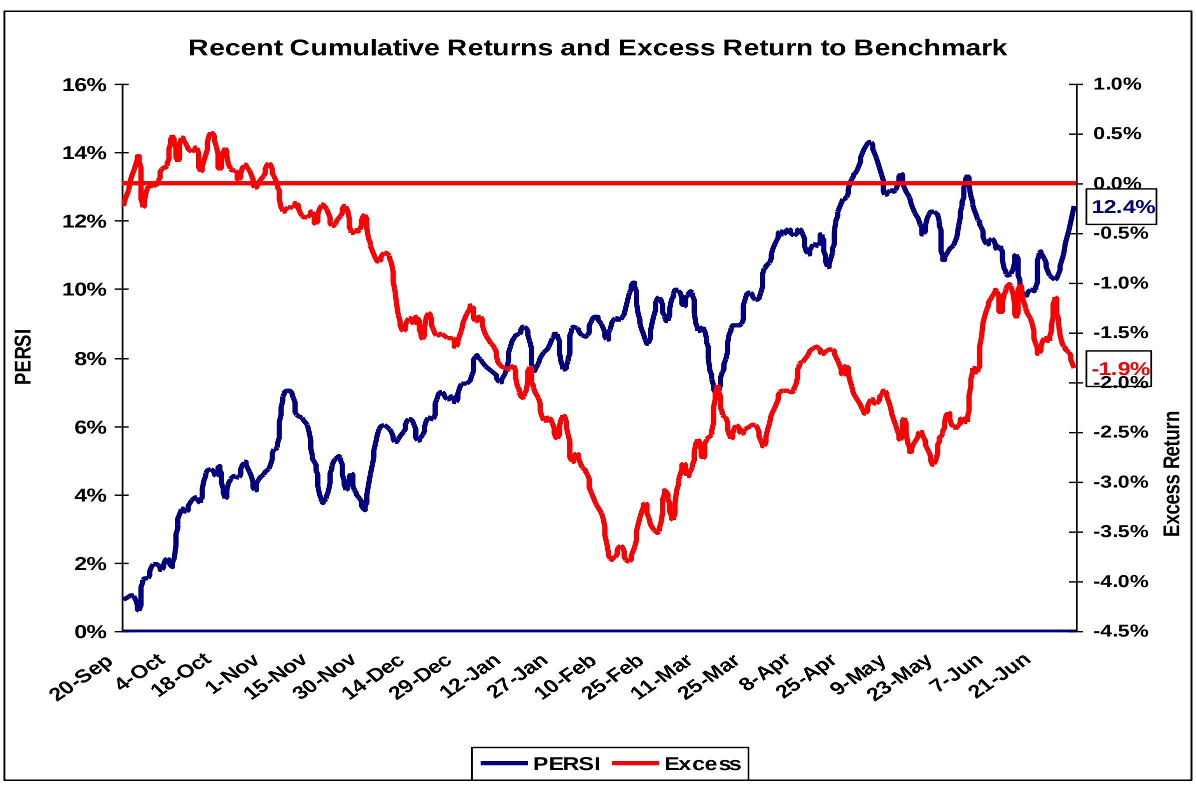


PERSI's returns for the fiscal year should be around the middle of the pack for institutional funds for the year. As is normal for our portfolio in rapidly rising markets, PERSI lagged its strategic benchmark (55% Russell 3000, 15% EAFE, and 30% Barclays Aggregate) by 2.6%. Most of this relative gap was due to the lagged valuations from PERSI's private assets (private equity and real estate), which accounted for around 2.1% of that difference. PERSI's active managers also had a difficult year compared to the benchmarks, and contributed 1.1% of that relative underperformance. PERSI's emerging market bias, which over the decade has produced stunning outperformance, paused in its recent advance and was also a minor drag on our performance against benchmark (subtracting -0.2%). On the other hand, PERSI's rebalancing practices added 0.4% to relative returns, and TIPS had an extremely good year as well, adding 0.5% to returns against benchmark. REITS and the Idaho Mortgage program contributed marginally to relative returns, and currency movements slightly detracted.

There were no surprises for the year given the market environment. Much of the market explosion over the year was driven by continued stimulus efforts from fiscal and, particularly, monetary sources – led by the Federal Reserves initiative through "QE2" (Quantitative Easing 2 – a program whereby the Fed purchased hundreds of billions of government bonds and thereby injected a large amount of cash into the banking system). Along with extremely low short term interest rates, these policies provided a huge liquidity boost to US and world capital markets. Consequently, PERSI's active managers, who tend to favor companies that produce tangible earnings or assets and rely less on capital market liquidity, generally underperformed market benchmarks (although producing hefty absolute returns). Similarly, the other major relative underperformer – private assets, both equity and real estate – while producing overall positive returns (+7.7% for real estate and + 19.0% for private equity) could not keep up with the public capital market advances.

Further, both of these areas did their work when PERSI really needed them – during the market collapse of 2008-2009. As noted at the time, it is when markets suffer declines that PERSI usually "makes its money" – by losing less than the market – and holding on when markets rally. This pattern has, once again, reasserted itself.

This pattern also asserted itself during the fiscal year as well. During the year there were a number of sustained market drops – due variously to European peripheral country sovereign debt concerns (led by Greece, Portugal, and Ireland) as well as periodic fears of pauses in China's growth as the government there combated an increasingly serious inflation problem. During these market drops, both the private assets and the active manager performance moderated those falls, and PERSI showed relative outperformance during those brief periods.



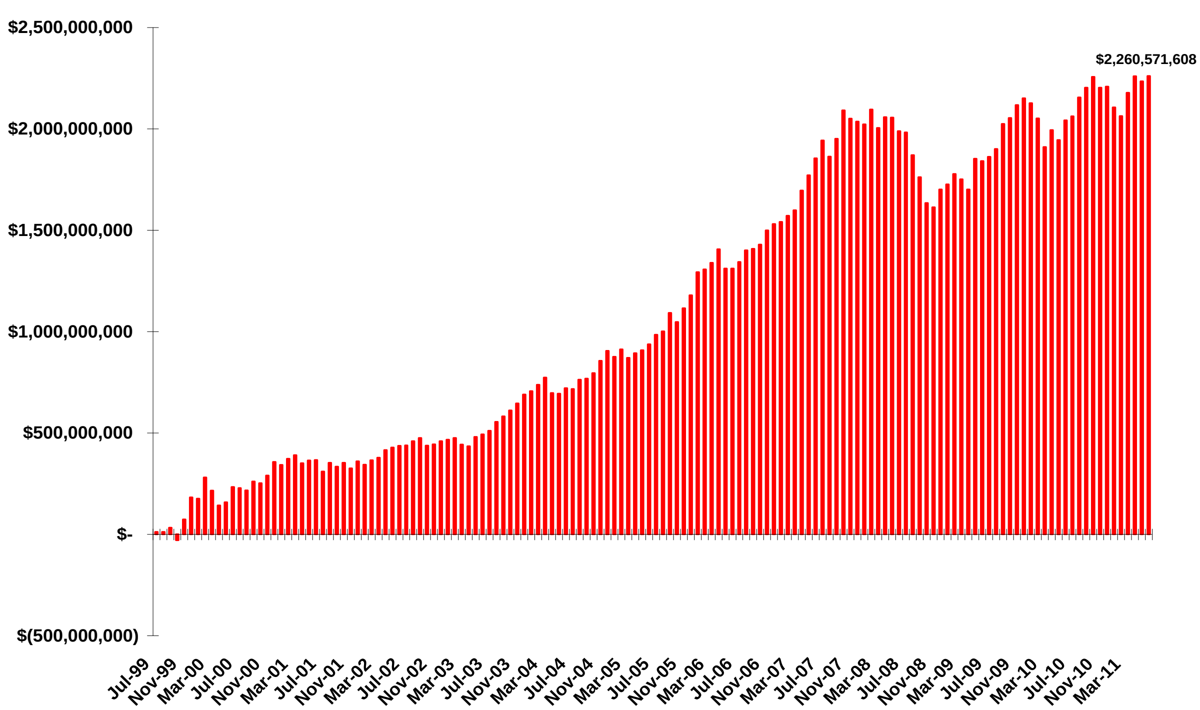
PERSI's longer term (5 year and longer) relative performance to both benchmarks and peers remains strong, with benchmark outperformance running 1% to 1.5% annually, and peer rankings in or near top quartile. PERSI was roughly in the middle of the institutional pack for last fiscal year, but well above median and generally well into the top quartile when compared over longer term time horizons against all public funds as well as against all institutional funds (public, corporate, endowment, and foundation). Over the past market cycle (the bull market of the mid 2000s and the crash and recovery of the past five years) and over all time periods since the early 1990s, PERSI ranks in or near the top quartile of all public and other institutional funds:

RANKINGS IN THE CALLAN PUBLIC FUND UNIVERSE
AND MELLON MASTER TRUST UNIVERSE
June 30, 2011
Percentile Rankings over Period
(1 is highest, 100 is lowest)

	1Yr	*3Yrs*	*5Yrs*	*7Yrs*	*10Yrs*	*Inception (9/92)*
Return (%)	**20.7**	**4.4**	**5.5**	**7.2**	**6.4**	**8.7**
Policy Return	23.2	4.7	4.6	5.7	5.0	8.1
Callan Median Fund	21.6	4.3	4.7	6.3	5.7	8.3
Mellon Master Trust	20.2	4.0	4.8	6.2	5.6	
PERSI Rank (Percentile)						
Callan Public Funds	**64**	**43**	**23**	**13**	**24**	**24**
Mellon Master Trusts	**44**	**42**	**29**	**21**	**28**	

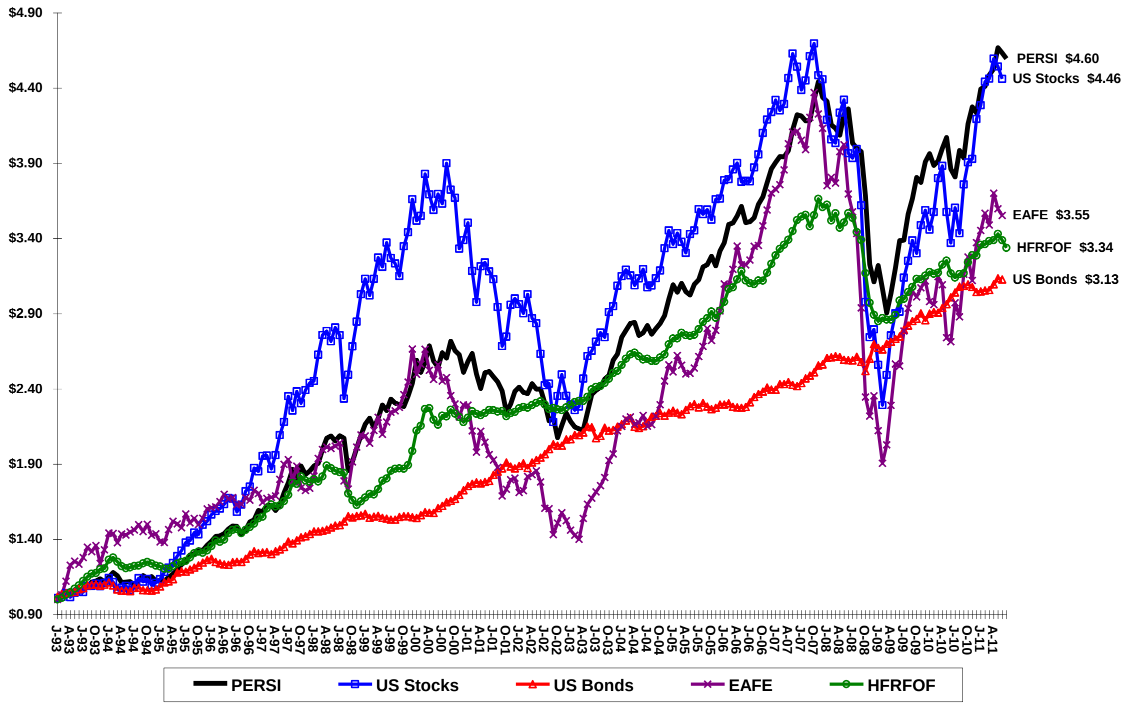
Over the longer term, PERSI's actions have added over $2.26 billion to general market returns (as represented by the strategic benchmark) through its additional activities in emerging markets, private assets, active management, and similar programs, as follows.

Dollar Impact of Cumulative Excess Return to Benchmark
FY 2000-FY2011



Since 1993, every dollar invested in PERSI has turned into $4.60, exceeding the returns of US equities ($4.46), and significantly outperforming US Bonds ($3.13), International Equities ($3.55), and the hedge fund industry generally (as represented by the HFRI hedge fund of funds index) ($3.34).

GROWTH OF $1 OVER TIME
January 1, 1993 - June 30, 2011



The year was dominated by US public equity markets with 32.4% returns (Russell 3000), with mid and small capitalization US equities again leading the way with returns of 39.3% (R2500) and large cap stocks returning 30.7% (S&P 500). PERSI's US equity component lagged significantly, returning "only" 25.6%. The public equity component returned 29.7%, with the relative underperformance of private real estate (7.7%) and private equity (19.0%) dominating the area. The private equity returns were mostly due to lagged valuations, while real estate as an industry still suffered the effects of the recent downturn (although REITs had a very good year with 37.5% returns).

PERSI's active public equity managers had a tough year. Adelante, our public real estate managers (REITs) was the exception, with a return of 37.5% for the year, beating the general REIT market by 2.9%) and turning in the best overall performance of the year. All other US active managers underperformed their benchmarks, with Peregrine returning 29.1% (-5.6% to benchmark), Tukman at 22.1% (-8.6%), Mountain Pacific at 33.2% (-6.1%), and Donald Smith at 21.5% (-15.9%) (becoming the worst relative performer in the portfolio, after a couple of years as one of the best).

Global Equity also had a great absolute but tough relative performance year, with returns of 27.0%. This was both below the MSCI World index (at 31.2%) and below US equity general returns. Barings, with returns of 31.2% was the only global equity manager to keep up with World Index. Brandes turned in returns of 27.8% (-3.4% to benchmark), Bernstein returned 27.7% (-3.5%), Cap Guardian weighed in with 28.2% (-3.0%), and Zesiger trailed at 21.7% (-9.5%).

Developed market international equity (MSCI EAFE) returned 30.9% for the year, outperforming emerging market equity (MSCI Emerging Markets at 28.2%) for the first time in a number of years. Mondrian, our developed markets manager, underperformed the EAFE index with a 30.0% return, while Genesis outperformed the emerging markets index with 29.9% returns, and Bernstein underperformed at 27.6%.

PERSI fixed income was the only segment to outperform benchmarks, with a return for the year of 6.2% compared to the returns of investment grade bonds as represented by the Barclay's Aggregate index at 3.9%. This outperformance was due in large part to PERSI's weighting towards TIPS, which had a great relative and absolute (for bonds) year at 7.9%. Both of PERSI's active bond managers had good years, with Western returning 9.6% for the year, and Barings at 5.1%. Idaho Mortgages added 5.5% for the year, while the mortgage backed securities managers largely tracked the general mortgage market with returns of 3.9% for Clearwater and 3.5% for DBF.

All in all a record year for PERSI, and one that substantially aided in the recovery from the devastation suffered a couple of years ago. And, a year that fit in well with PERSI's general approach of losing less in down markets and generally keeping up with advancing markets.

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, 2011

Types of Investment		Market Value		Percent of Total Market Value
Short-term Investments		$ 372,503,807		3.2%
Fixed Income				
Domestic	$2,467,988,570		21.0%	
International	63,640,758		0.5%	
Commercial Mortgages	495,368,651		4.2%	
Total Fixed Income		3,026,997,979		25.8%
Equity				
Domestic Equity	4,337,532,428		36.8%	
International Equity	2,658,766,200		22.6%	
Total Equity		6,996,298,628		59.5%
Private Equity		904,970,896		7.7%
Real Estate		454,230,391		3.9%
Total Base Plan Investments		$11,755,001,701		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		272,288,926		
Choice Plan 414(k)		60,194,439		
Choice Plan 401(k)		366,715,108		
Total Investments in All Funds		$12,454,200,174		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2011

Base Plan and Firefighters' Retirement Fund

Adelante Capital Management	$ 349,481,420
Advent International, LP	16,534,417
Apollo Management, LP	74,201,699
American Securities Opportunities Associates II, LLC	3,986,980
Baring Asset Management-Global Equity	388,535,743
Baring Asset Management-Global Fixed Income	162,237,153
Bernstein-Emerging Markets	479,718,026
Bernstein-Global Equity	311,100,045
Blackstone Capital Partners, LP	32,056,759
BNY Mellon Capital Management-International Stock Index	519,189,177
BNY Mellon Capital Management-Mid Cap Completion	184,102,151
BNY Mellon Capital Management-R2000 Small Cap	124,456,044
BNY Mellon Capital Management-S&P 500 Large Cap	1,188,851,070
Brandes Investment Partners	481,844,905
Bridgepoint Cap LTD	28,690,166
Capital Guardian	393,050,034
Cascade	109,270,492
Cerberus Investment Partners	42,293,095
Chisholm Management, LP	8,243,651
Clearwater Advisors, LLC-TBAs	126,696,971
CVC European Equity	51,343,829
D.B. Fitzpatrick & Co.-Fixed Income	80,525,030
D.B. Fitzpatrick & Co.-Idaho Mortgages	497,715,433
Donald Smith & Co.	263,796,977
Enhanced Equity, LP	48,592,017
Epic Venture Fund	3,758,825
First Reserve Fund XI	43,877,606
Frazier Technology Ventures II, LP	10,649,518
Galen Associates, LP	34,747,812
Genesis Asset Managers	586,507,421
Goense Bounds & Partners, LP	1,671,343
Gores Capital Partners, LLP	28,372,269
Green Equity Investors IV, LP	50,283,002
Hamilton Lane Co - Investment Fund, LP	44,868,627
Hamilton Lane Secondary Fund, LP	20,587,988
Harvest Partners III, LP	529,670
Highway 12 Ventures, LP	41,242,637
Ida-West	3,180,801
JH Whitney & Co, LLC	27,182,063
KKR 2006 Fund, LP	31,462,918
Kohlberg & Co.	38,785,122
Koll Partners, LLP	300,339,370
Lindsay Goldberg & Bessemer	36,783,347
Littlejohn, LP	1,329,603
Longview Partners	243,183,223
McCown DeLeeuw & Co. IV, LP	85,656
Mellon Transition Management Services	2,168,195
Mondrian Investment Partners	307,680,114
Mountain Pacific Investment Advisors	351,989,007
Newbridge Asia, LP	29,874,669
Olympic IDA Fund II, LLC	115,844,661
Pareto Partners	(3,363,417)
Peregrine Capital Management	191,761,806

(Continued)

PERSI Cash in Short-Term Investment Pool	9,258,362	
Private Debt	22,217,044	
Providence Equity Partners, LLP	70,916,610	
Prudential Investments	32,775,759	
State Street Global Advisors-Fixed Income	698,970,966	
State Street Global Advisors-TIPS	863,264,984	
T3 Partners, LP	73,927,653	
Tukman Grossman Capital Management	339,664,841	
Veritas Capital Partners, LP	5,963,590	
W. Capital Partners, LP	4,522,833	
Western Asset Management	154,785,307	
Western Asset-TIPS	358,176,981	
Zesiger Capital Group	459,363,939	
Zesiger Capital Group-Private Equity	26,585,562	
Total Base Plan and Firefighters' Retirement Fund		11,632,291,571
Choice Plan		
BNY Mellon Aggregate Bond Index	12,233,084	
BNY Mellon Dow Jones U.S. Completion Total Stock Market Index	5,809,742	
BNY Mellon Dow Jones U.S. Total Stock Market Index	2,512,911	
BNY Mellon International EAFE Fund	3,814,068	
BNY Mellon S&P 500	7,770,587	
Brandes International Equity Fund	7,026,412	
Calvert SI Balance Fund	581,660	
Dodge and Cox Income Fund	9,344,193	
PERSI Choice Plan Contribution Account	670,767	
PERSI Choice Plan Loans	5,268,370	
Rowe Price Small Cap Fund	12,286,143	
Total Return Fund	344,489,159	
Vanguard Growth & Income Fund	8,598,114	
PERSI Short Term Investment Portfolio	8,387,967	
Total Choice Plan		428,793,177
Sick Leave Insurance Reserve Fund		
State Street Global Advisors-Domestic Equity	157,728,520	
State Street Global Advisors-International Equity	43,438,331	
State Street Global Advisors-Fixed Income	71,122,075	
Total Sick Leave Insurance Reserve Fund		272,288,926
Total Market Value, Including Investment Receivables and Payables		12,333,373,674
Add: Investments Purchased Payable		990,103,226
Less: Investments Sold Receivable		(827,108,863)
Less: Interest and Dividends Receivable		(42,167,863)
Total Market Value, Net of Investment Receivables and Payables		$ 12,454,200,174

(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	189.6	1.6%	40.5	40.5	6.9	6.4
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	128.1	1.1%	37.6	37.6	7.6	4.0
MELLON CAPITAL MANAGEMENT S&P 500 LC	1,224.1	10.2%	30.7	30.7	3.1	3.0
MOUNTAIN PACIFIC	362.4	3.0%	33.2	33.2	9.2	6.9
TUKMAN GROSSMAN CAPITAL MGMT	349.7	2.9%	22.1	22.1	5.4	4.3
DONALD SMITH & CO.	271.6	2.3%	21.5	21.5	12.5	5.3
PEREGRINE	197.4	1.6%	29.1	29.1	5.8	3.9
TOTAL U.S. PUBLICLY TRADED EQUITY	2,722.9	22.7%	29.7	29.7	6.4	4.5
BENCHMARK - Russell 3000			32.4	32.4	4.0	3.4
PRIVATE EQUITY						
IDA-WEST	3.3	0.0%	23.4	23.4	19.5	19.2
GALEN III	35.8	0.3%	(5.5)	(5.5)	(4.4)	6.9
HARVEST PARTNERS	0.5	0.0%	54.9	54.9	39.5	(21.2)
FURMAN SELZ	-	0.0%	(53.2)	(53.2)	(51.9)	(24.1)
MCCOWN DE LEEUW	0.1	0.0%	1.9	1.9	9.5	6.4
PROVIDENCE EQ PARTNERS	73.0	0.6%	28.3	28.3	3.6	10.8
CHISOLM PARTNERS	8.5	0.1%	77.5	77.5	24.4	20.9
LITTLEJOHN II L.P.	1.4	0.0%	(13.5)	(13.5)	30.8	29.0
OAKTREE CAP[1]	-	0.0%	17.9	17.9	(29.5)	5.0
GOENSE BOUNDS	1.7	0.0%	(39.8)	(39.8)	(25.6)	(13.3)
HWY 12 FD VENTURE LP	42.5	0.4%	24.6	24.6	(1.0)	(5.4)
T3 PARTNERS II L.P.	76.1	0.6%	20.8	20.8	(2.4)	6.3
APOLLO MGMT LP	76.4	0.6%	24.4	24.4	7.9	23.2
GREEN EQUITY IV L.P.	51.9	0.4%	38.2	38.2	16.1	11.8
GORES CAPITAL AD LLC	29.2	0.2%	15.9	15.9	18.1	20.8
W CAPITAL PARTNERS	4.7	0.0%	0.8	0.8	(6.5)	(4.3)
FRAZIER TECH VENTURES II	11.0	0.1%	4.9	4.9	(7.3)	0.4
KOHLBERG & CO.	39.9	0.3%	20.7	20.7	5.7	9.2
HAMILTON SECONDARY	21.2	0.2%	15.4	15.4	4.0	8.3
CVC EUROPEAN EQUITY	52.9	0.4%	41.4	41.4	(2.5)	16.7
HAMILTON LANE CO-INVESTMENT FUND	46.2	0.4%	7.8	7.8	(6.3)	(1.1)
BRIDGEPOINT EUROPE III	29.5	0.2%	43.9	43.9	(3.5)	2.3
NEWBRIDGE ASIA LP	30.8	0.3%	60.0	60.0	37.6	29.8
JH WHITNEY EQUITY PARTNERS IV	28.0	0.2%	7.3	7.3	2.0	6.1
BLACKSTONE CAPITAL PARTNERS	33.0	0.3%	8.1	8.1	(3.7)	(1.5)
ENHANCED EQUITY FUND LP	50.0	0.4%	21.4	21.4	7.5	3.1
LINDSEY, GOLDBERG, BESSEMER	37.9	0.3%	4.1	4.1	0.6	
KKR 2006 FUND	32.4	0.3%	20.2	20.2	5.9	
FIRST RESERVE FUND XI	45.2	0.4%	5.6	5.6	(1.1)	
CERBERUS INST PARTNERS	43.5	0.4%	21.4	21.4	7.9	
EPIC VENTURE FUND	3.9	0.0%	(10.9)	(10.9)	(9.4)	
ADVENT INTERNATIONAL	17.0	0.1%	3.7	3.7	(2.6)	
AMERICAN SECURITIES OPPORTUNITIES FUND II	4.1	0.0%	17.9	17.9		
VERITAS CAPITAL PARTNERS**	6.1	0.1%	0.0	0.0		
ZESIGER CAPITAL GROUP	27.4	0.2%	13.1	13.1	0.3	0.9
TOTAL PRIVATE EQUITY	965.0	8.1%	19.6	19.6	3.0	8.2
REAL ESTATE						
KOLL PARTNERS	309.2	2.6%	0.6	0.6	(16.0)	(5.4)
OLYMPIC IDA FUND II	119.3	1.0%	34.0	34.0	(17.5)	(5.8)
CASCADE	112.5	0.9%	(4.2)	(4.2)	(5.9)	
ADELANTE - PUBLIC R/E	359.7	3.0%	37.5	37.5	3.2	(0.2)
PRUDENTIAL	33.7	0.3%	25.1	25.1	(10.9)	(1.3)
TOTAL R/E MANAGERS	934.5	7.8%	18.5	18.5	(6.0)	(0.5)
BENCHMARK - NCREIF			16.0	16.0	(3.6)	3.5
TOTAL U.S. EQUITY	**4,622.4**	**38.5%**	25.6	25.6	3.3	4.0
BENCHMARK - Russell 3000			32.4	32.4	4.0	3.4
GLOBAL EQUITY						
BARING ASSET MANAGEMENT	400.0	3.3%	31.2	31.2	3.1	6.9
BRANDES INVST PARTNERS	496.1	4.1%	27.8	27.8	(0.8)	(0.5)
CAPITAL GUARDIAN	404.7	3.4%	28.2	28.2	0.2	2.2
ZESIGER CAPITAL GROUP	473.0	3.9%	21.7	21.7	4.0	6.1
BERNSTEIN GLOBAL	320.3	2.7%	27.7	27.7	(5.7)	(2.5)
LONGVIEW PARTNERS**	250.4	2.1%	0.0	0.0	0.0	0.0
TOTAL GLOBAL EQUITY	**2,344.5**	**19.6%**	27.0	27.0	0.2	2.5
TOTAL U.S./GLOBAL EQUITY	**6,966.9**	**58.1%**	26.0	26.0	1.9	3.3

BENCHMARK - Russell 3000			32.4	32.4	4.0	3.4

Investment Results

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR.	3 YRS. *	5 YRS. *
INTERNATIONAL EQUITY						
GENESIS INVESTMENTS	603.9	5.0%	29.9	29.9	9.9	14.2
MELLON CAPITAL MANAGEMENT INTL STK INDX	534.6	4.5%	30.8	30.8	(1.4)	1.7
MONDRIAN	316.8	2.6%	30.0	30.0	(0.1)	2.9
BERNSTEIN EMERGING	493.9	4.1%	27.6	27.6	1.8	9.4
TOTAL INTERNATIONAL EQUITY	**1,949.2**	**16.3%**	29.5	29.5	3.4	7.2
TOTAL INT'L EQUITY (HEDGED)[2]	**1,945.7**	**16.2%**	28.9	28.9	3.5	7.2
EAFE INDEX NET			30.9	30.9	(1.3)	2.0
TOTAL EQUITY	**8,912.6**	**74.3%**	26.7	26.7	2.6	4.3
BENCHMARK - Russell 3000			32.4	32.4	4.0	3.4
U.S. FIXED INCOME						
DBF & CO FIXED	82.9	0.7%	3.4	3.4	6.2	6.5
DBF & CO-IDAHO MTGS	512.5	4.3%	5.5	5.5	8.9	9.7
STATE ST ADV-FX	719.7	6.0%	3.8	3.8	6.6	6.7
SSGA-TIPS	888.8	7.4%	8.5	8.5	6.5	7.4
CLEARWATER-TBA	130.4	1.1%	3.9	3.9	6.6	6.7
REAL ESTATE PVT DEBT	22.9	0.2%	6.9	6.9	8.2	
TOTAL U.S. FIXED INCOME	**2,357.2**	**19.7%**	5.9	5.9	7.1	7.5
GLOBAL FIXED INCOME						
BARING ASSET MANAGEMENT	167.0	1.4%	5.1	5.1	6.0	6.8
WESTERN ASSET	159.4	1.3%	9.6	9.6	10.4	7.9
WESTERN TIPS	368.8	3.1%	7.1	7.1	5.5	
TOTAL GLOBAL FIXED INCOME	**695.2**	**5.8%**	7.3	7.3	7.7	6.7
TOTAL FIXED INCOME	**3,052.4**	**25.5%**	6.2	6.2	6.9	7.2
BENCHMARK - BC Aggregate Bonds			3.9	3.9	6.5	6.5
OTHER						
UNALLOCATED CASH	9.5	0.1%	2.9	2.9	4.8	7.8
MELLON TRANSITION MANAGEMENT SERVICES	2.2	0.0%	25.7	25.7	451.8	279.2
TOTAL OTHER	**11.8**					
COMBINED TOTAL	**11,976.8**	**100.0%**	20.7	20.7	4.4	5.5
BENCHMARK - 55% Russell 3000 30% BC Aggregate Bonds 15% MSCI EAFE Index			23.2	23.2	4.4	4.4

Add: Other PERSI DC Choice Plan Investments[3]	84.3
Sick Leave Fixed Income Investments	71.1
Sick Leave Equity Securities	201.2
Investments Purchased	990.1
Less: Interest and Dividends Receivable	(42.2)
Investments Sold	(827.1)
Total Pension Fund Investments Net of Receivables	12,454.2

*Rates of Return are annualized
[1] Account Liquidated 12/31/10
[2] Includes Pareto Partners currency overlay account
[3] Total Return Fund included in investment results
** accounts opened less than one year
Performance is gross of fees

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
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
2011	116,133,693	161,647,820	1,862,195,995	2,139,977,508

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

Largest Stock Holdings (by Market Value) June 30, 2011

	Shares	Stock	Market Value
1	383,834	INTERNATIONAL BUSINESS MACHINE	$65,846,723
2	2,247,331	MICROSOFT CORP	58,430,606
3	167,889	APPLE INC	56,355,301
4	2,557,229	PFIZER INC	52,678,917
5	1,747,180	WELLS FARGO & CO	49,025,871
6	592,085	EXXON MOBIL CORP	48,183,877
7	708,709	JOHNSON & JOHNSON	47,143,323
8	520,764	SCHLUMBERGER LTD	44,994,010
9	704,003	THE PROCTER & GAMBLE CO	44,753,471
10	57,522	SAMSUNG ELECTRONICS CO LTD	44,502,595

A complete list of portfolio holdings is available upon request.

Largest Bond Holdings (by Market Value) June 30, 2011

	Par	Bonds	Description	Market Value
1	210,683,774	US TREASURY INFLATION INDEX SECURITY	3.875% 04/15/2029 DD 04/15/99	$288,686,071
2	221,132,703	US TREASURY INFLATION INDEX SECURITY	2.000% 01/15/2026 DD 01/15/06	241,621,975
3	137,291,868	US TREASURY INFLATION INDEX SECURITY	2.500% 01/15/2029 DD 01/15/09	159,451,599
4	119,812,264	US TREASURY INFLATION INDEX SECURITY	2.125% 01/15/2019 DD 01/15/09	136,136,685
5	48,556,995	US TREASURY INFLATION INDEX SECURITY	2.375% 01/15/2025 DD 07/15/04	55,810,196
6	33,728,816	US TREASURY INFLATION INDEX SECURITY	3.375% 04/15/2032 DD 10/15/01	44,619,547
7	33,270,073	US TREASURY INFLATION INDEX SECURITY	2.125% 02/15/2040 DD 02/15/10	36,204,593
8	32,044,201	US TREASURY INFLATION INDEX SECURITY	2.000% 01/15/2014 DD 01/15/04	34,522,627
9	24,635,601	US TREASURY INFLATION INDEX SECURITY	1.625% 01/15/2015 DD 01/15/05	26,721,941
10	23,899,971	US TREASURY INFLATION INDEX SECURITY	1.250% 07/15/2020 DD 07/15/10	25,281,676

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2011

Broker Name	Base Commission	Total Shares	Commission per Share

MORGAN STANLEY & CO INC, NY	$ 155,174	23,768,146	0.00653
UBS EQUITIES, LONDON	139,386	50,643,312	0.00275
CITATION GROUP/BCC CLRG, NEW YORK	136,833	4,658,997	0.02937
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	128,364	12,218,917	0.01051
GOLDMAN SACHS & CO, NY	126,991	8,742,845	0.01453
CREDIT SUISSE (EUROPE), LONDON	123,783	21,648,953	0.00572
DEUTSCHE BK SECS INC, NY (NWSCUS33)	107,990	10,330,225	0.01045
BERNSTEIN SANFORD C & CO, NEW YORK	104,161	3,176,715	0.03279
MERRILL LYNCH PIERCE FENNER, WILMINGTON	101,437	23,991,145	0.00423
MORGAN STANLEY & CO, LONDON (MSLNGB2X)	99,686	16,337,802	0.00610
UBS SECURITIES LLC, STAMFORD	96,209	4,833,430	0.01990
J P MORGAN SECURITIES INC, BROOKLYN	95,240	3,209,586	0.02967
MERRILL LYNCH INTL LONDON EQUITIES	94,327	9,832,549	0.00959
PERSHING LLC, JERSEY CITY	92,616	13,873,747	0.00668
CITIGROUP GBL MKTS INC, NEW YORK	89,656	3,593,796	0.02495
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	86,295	4,159,416	0.02075
JPMORGAN SECURITIES INC, NEW YORK	84,419	3,000,007	0.02814
CITIGROUP GBL MKTS/SALOMON, NEW YORK	73,440	17,991,483	0.00408
MERRILL LYNCH PIERCE FENNER SMITH INC NY	71,268	3,719,831	0.01916
JEFFERIES & CO INC, NEW YORK	69,561	1,986,334	0.03502
CITIGROUP GLOBAL MARKETS LTD, LONDON	67,860	13,025,635	0.00521
CALYON SECURITIES, NEW YORK	58,783	22,127,894	0.00266
MACQUARIE SECURITIES LIMITED, HONG KONG	57,828	30,042,902	0.00192
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	57,198	5,706,483	0.01002
CREDIT LYONNAIS SECS (ASIA), HONG KONG	53,486	69,070,066	0.00077
IVY SECURITIES INC, GREAT NECK	52,928	1,323,200	0.04000
INSTINET CORP, NEW YORK	52,748	1,771,966	0.02977
LIQUIDNET INC, BROOKLYN	52,260	4,754,657	0.01099
MERRILL LYNCH GILTS LTD, LONDON	51,866	2,863,306	0.01811
JP MORGAN SECS ASIA PACIFIC, HONG KONG	47,550	29,518,594	0.00161
WATERMILL INSTITUTIONAL TRD, JERSEY CITY	47,444	1,186,100	0.04000
DAIWA SECS AMER INC, NEW YORK	47,121	24,676,700	0.00191
CANTOR FITZGERALD & CO INC, NEW YORK	46,159	1,731,230	0.02666
WEEDEN & CO, NEW YORK	45,411	1,196,138	0.03796
BARCLAYS CAPITAL LE, JERSEY CITY	45,091	1,440,869	0.03129
INSTINET CORP, NY	40,158	1,131,543	0.03549
NOMURA SECS INTL INC, NEW YORK	39,819	1,687,169	0.02360
BNY CONVERGEX, NEW YORK	37,594	1,760,457	0.02135
ISI GROUP INC, NY	37,241	873,297	0.04264
SIDOTI & CO LLC, NEW YORK	36,605	919,290	0.03982
Other Brokers Under $35,000	1,652,821	178,815,499	0.00924
TOTAL BROKER COMMISSIONS	**$4,704,807**	**637,340,231**	0.00738

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

Investment Fees	Average Assets Under Management	Fees	Basis Points
Investment Manager Fees			
Equity Managers	$ 7,157,626,736	$26,934,558	38
Fixed Income Managers	2,980,523,768	4,250,867	14
Private Equity Managers	909,338,606	810,164	9
Real Estate Managers	536,300,526	3,691,943	69
Total Average Assets	$11,583,789,636		
Total Investment Manager Fees		35,687,532	31
Other Investment Service Fees			
Custodian/Record Keeping Fees		4,201,563	
Investment Consultant Fees		915,159	
Legal Fees		155,847	
Actuary/Audit Service Fees		455,739	
Total Investment Service Fees		5,728,308	5
Total Defined Benefit Plans Fees		41,415,840	36
Total Defined Contribution Plans' Fees		311,323	
Total Other Trust Funds' Fees		123,751	
Total Fees		**$41,850,914**	

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.