PERSI

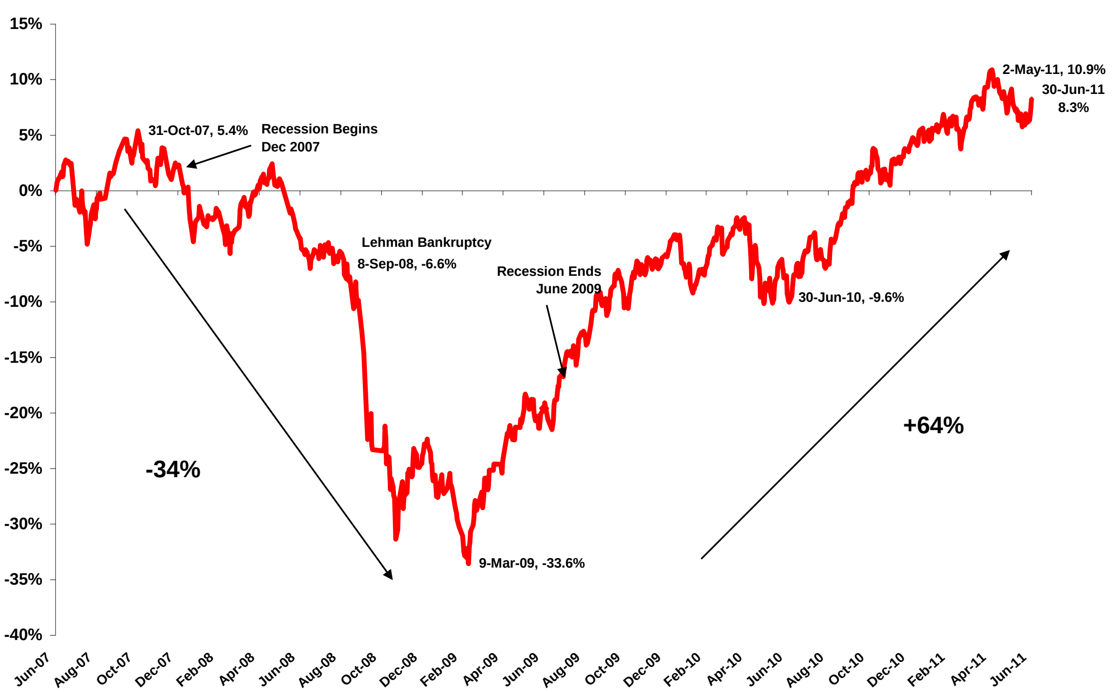
P. O. Box 83720, Boise, ID 83720-0078
208-334-3365 1-800-451-8228 FAX: 208-334-3805

PERSI FISCAL YEAR-END RESULTS: THE ROAD BACK
Boise, Idaho – July 13, 2011

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 rose to almost 89% -- and, with expected actuarial gains from salary increases likely to match the previous year's gains, the overall funded status should be above 90%.

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

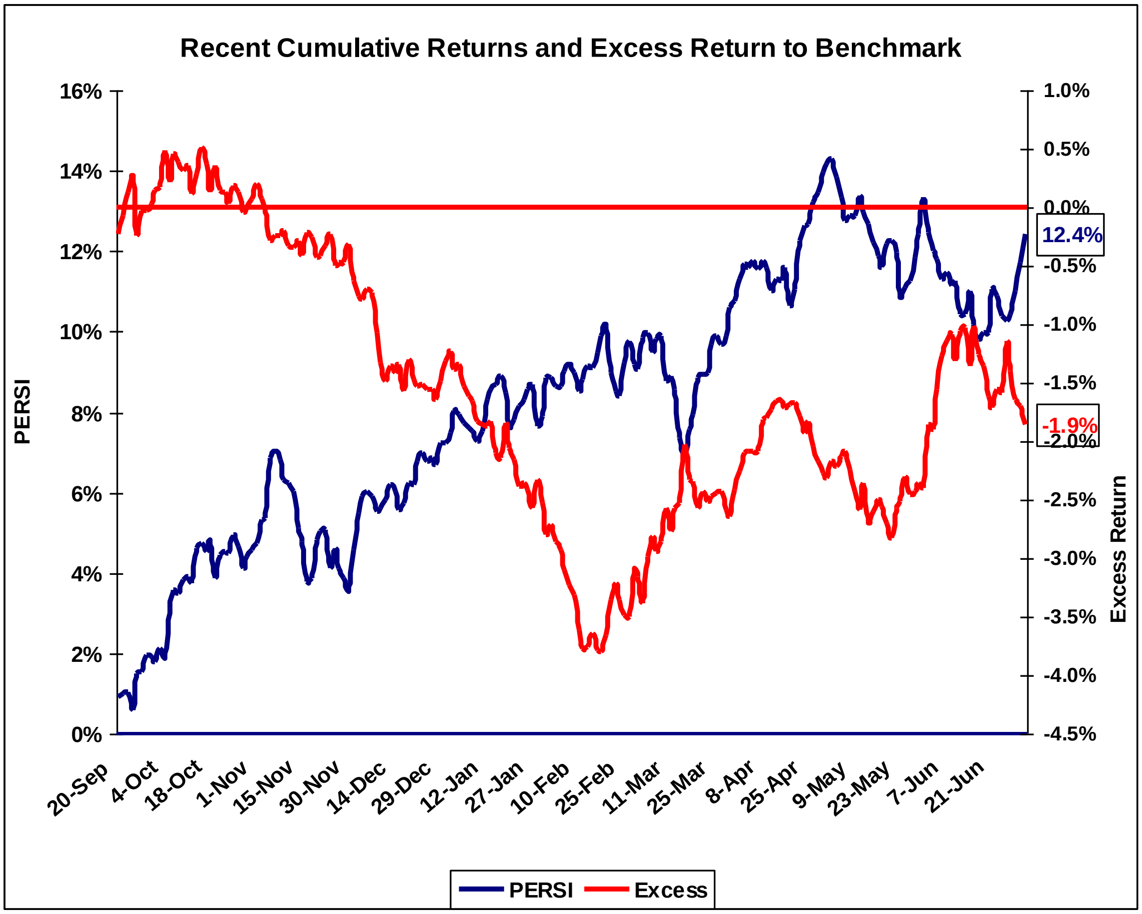


PERSI's returns for the fiscal year should be around the middle of the pack for institutional funds for the year. As is normal for our portfolio in rapidly rising markets, PERSI lagged its strategic benchmark (55% Russell 3000, 15% EAFE, and 30% Barclays Aggregate) by 2.6%. Most of this relative gap 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.

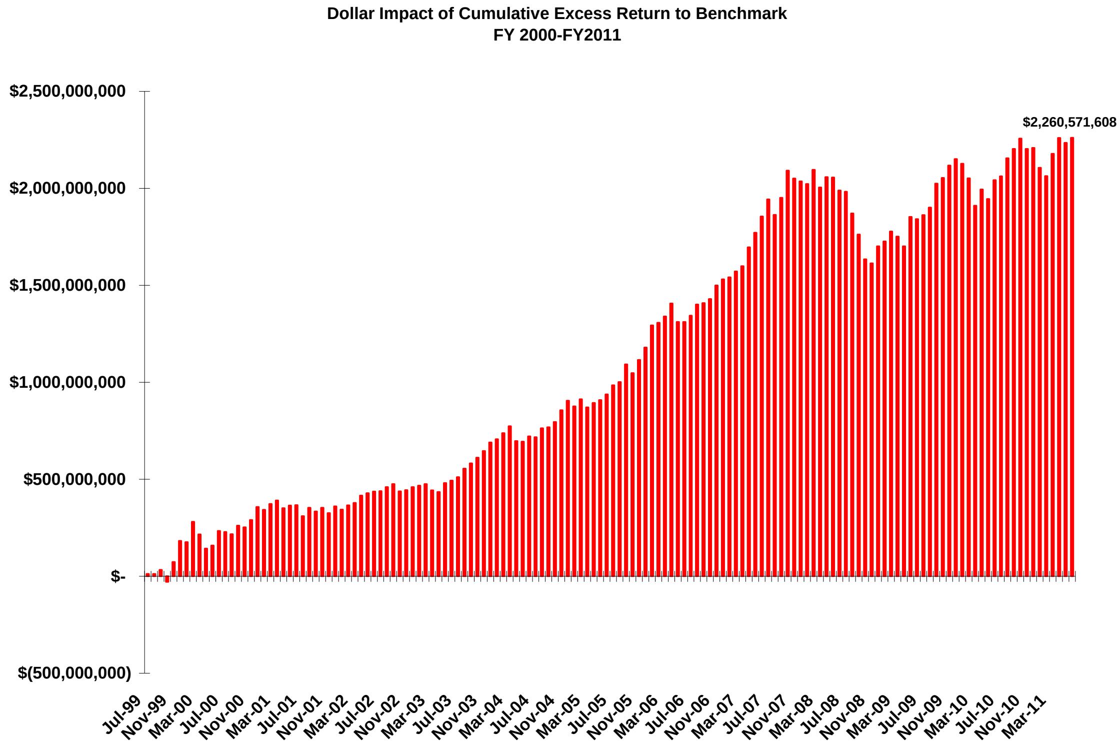
There were no surprises for the year given the market environment. Much of the market explosion over the year was driven by continued stimulus efforts from fiscal and, particularly, monetary sources – led by the Federal Reserves initiative through "QE2" (Quantitative Easing 2 – a program whereby the 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.

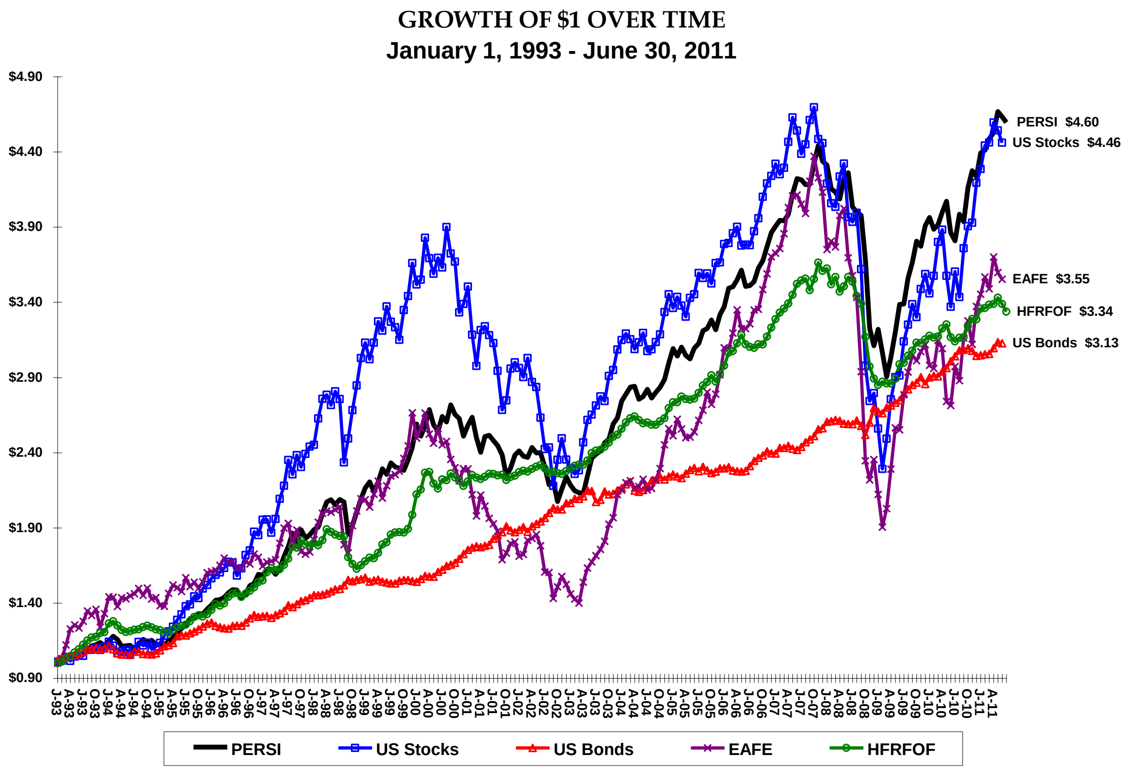
This pattern also asserted itself during the fiscal year as well. During the year there were a number of sustained market drops – due variously to European peripheral country sovereign debt concerns (led by Greece, Portugal, and Ireland) as well as periodic fears of pauses in China's growth as the government 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. Over the longer term, PERSI's actions have added $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.



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).



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" 25.1%. The public equity component returned 29.2%, 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 manager (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 27.8%. 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 22.5% (-8.7%).

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 29.8% returns, and Bernstein underperformed at 27.7%.

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 9.3% for the year, and Barings at 5.1%. Idaho Mortgages added 5.6% 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.

\# # #