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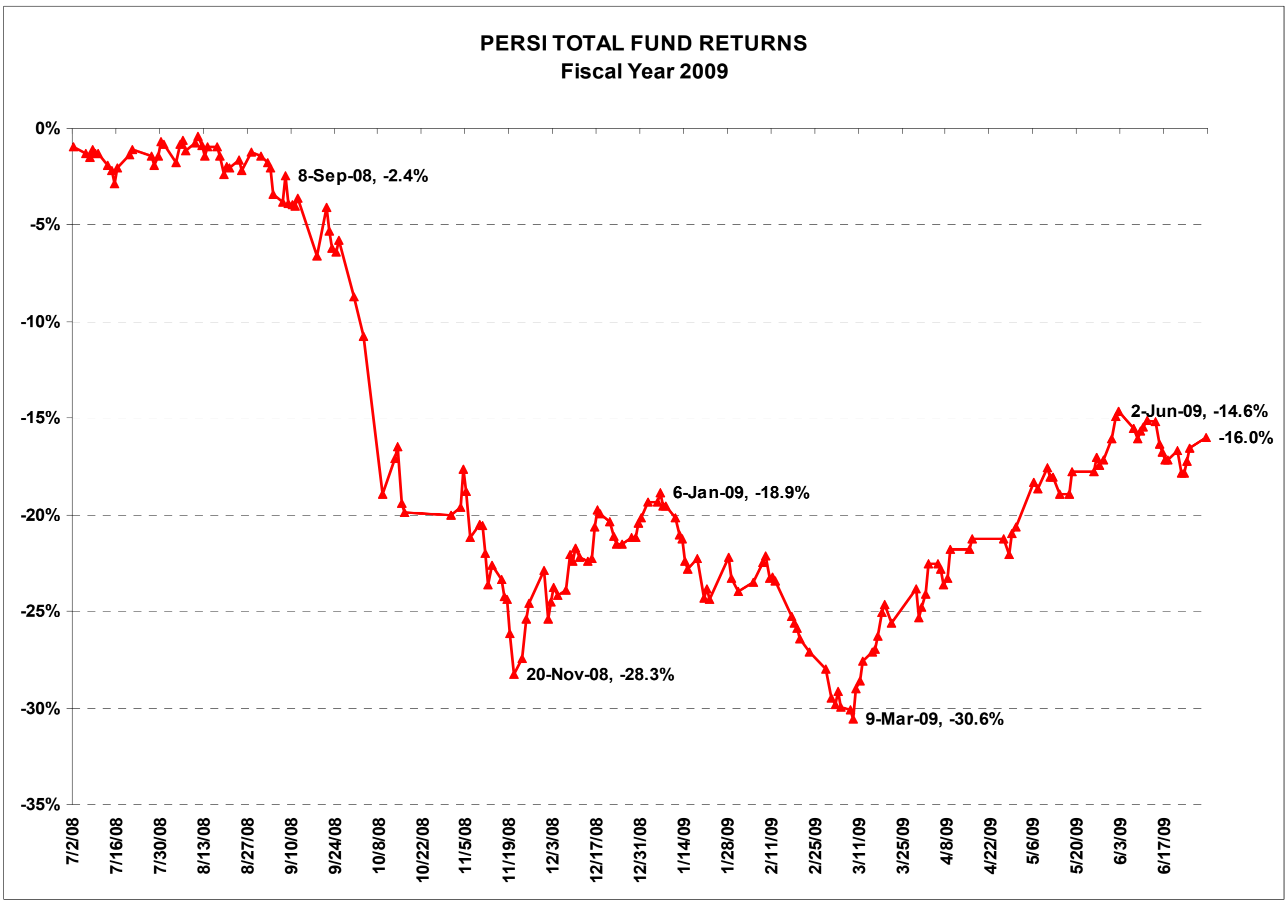
Investment Section

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

OVERVIEW OF FISCAL YEAR 2009

It was a terrible year. As befits the worst economic, financial, and market crisis since the Great Depression, PERSI matched the lowest previous fiscal year return in our history (1974) with a return of -16.0%. The fund ended the year at $9,075,049,353, representing an investment loss of $1.75 billion.

It could have been even worse – and for most of the year it was. At one point during the year, PERSI was down over -30%, and was down to below $7.6 billion. The year was characterized by stunning drops and similarly large and rapid recoveries.

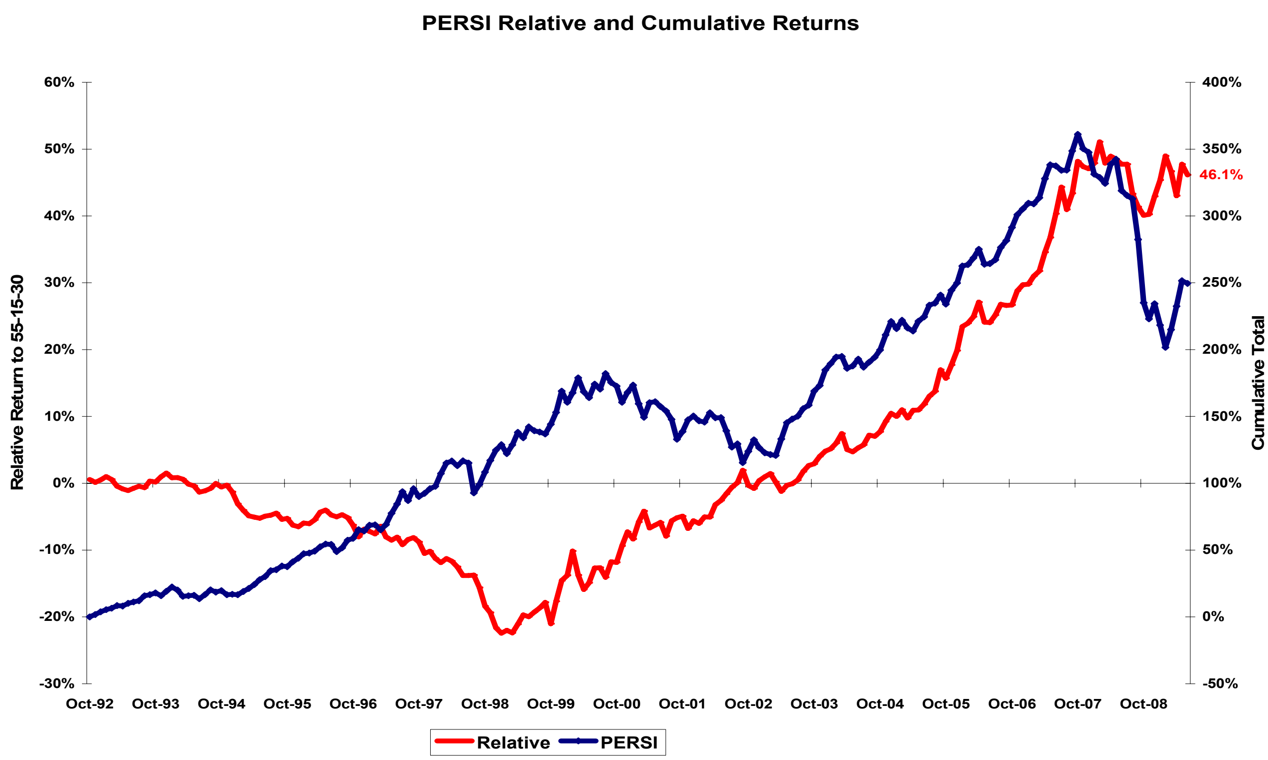


With the collapse of Lehman on September 11, 2008, the world capital markets went into a nose dive the likes of which haven't been seen since 1929-1930. PERSI lost over 26% in the following two months, recovered almost 13% in the next month and a half, lost 14% in the next two months, then made 23% in the succeeding two and a half months. Overall, the returns for the year actually felt much worse than our ending point indicated.

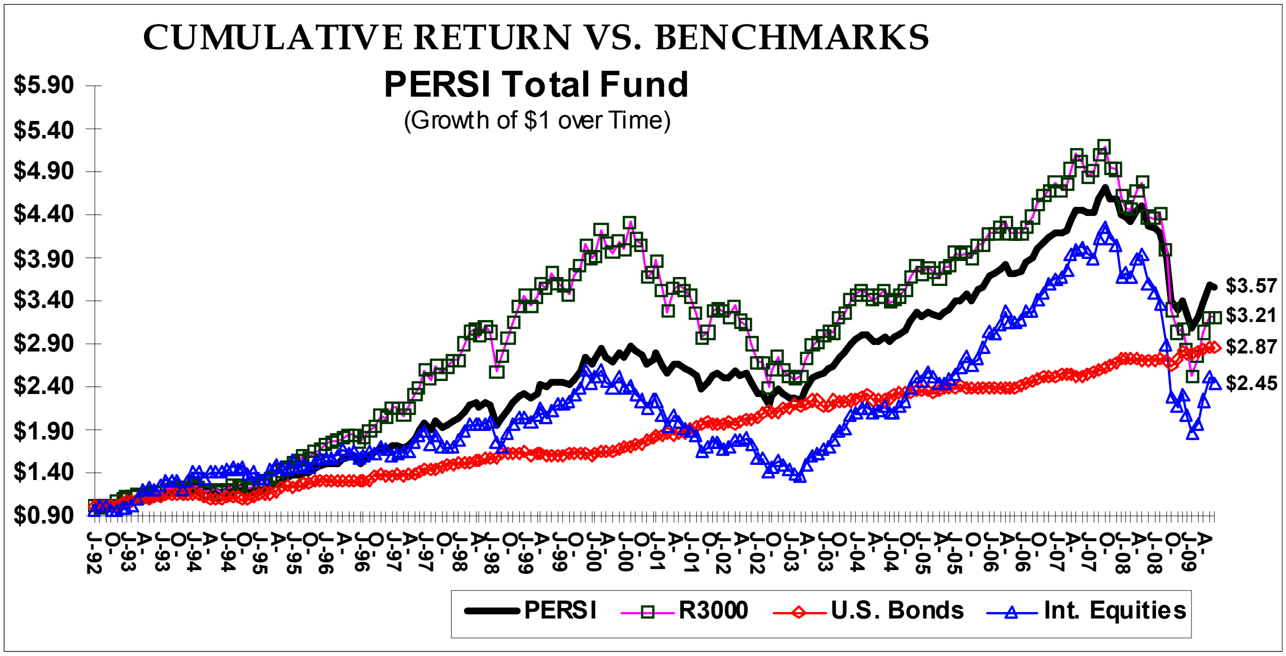
On the other hand, it may have been PERSI's best year, as well. Although from a purely return perspective we ended the year absolutely depressed, we were actually relatively happy, for three primary reasons: our returns relative to benchmarks (and peers) were excellent, the fund (given the markets) benefited from diversification, from careful rebalancing, and from certain managers stepping up their relative performance to help our returns. Importantly, in one of the most severe stress tests a portfolio could endure, the PERSI fund experienced no liquidity or operational stresses or strains (unlike many of our peers in pension and endowment land).

In fact, last year was the type of year where, in the long term, PERSI “makes its money”. As a long term investor that depends on market returns over extended periods of time, our basic goal is to lose less than the markets when markets collapse, and keep up with the markets when they rise. Over time, the cumulative impact of this activity has served PERSI well, and the performance of the portfolio over the past year may turn out to position us very well for the next decade.

PERSI ended up the year well ahead of its strategic benchmarks, and also well ahead of most of its peers. The overall fund outperformed the strategic benchmark (55% Russell 3000, 15% EAFE, 30% BC Aggregate) by 2.0%, which brings the total outperformance for the PERSI fund over the past 17 years to over 46%:



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 $3.57, compared with $3.21 in US equities, $2.87 in bonds, and $2.45 in international equities. This outperformance has added over $1.2 billion dollars to total fund value over the past 15 years.



Another silver lining was that during the most severe “stress test” that a portfolio could encounter, PERSI had few, and even then, only very minor problems. Our liquidity remained secure at all times, our insistence on independent, third party daily pricing for our securities kept us out of the toxic and illiquid assets that plagued many institutions, and our avoidance of commingled funds - including custodial STIF funds - protected us from any "rush to the exits" behavior by other investors. Our non-participation in securities lending also kept us out of the problems fostered on most of the industry in that arena. Our avoidance of hedge funds, portable alpha, and the new asset classes of commodities and similar strategies allowed us to be spectators, and not participants, when much of the industry ran into both performance and liquidity problems (and headline risk with incidents such as the Madoff Ponzi scheme and the Westridge and other frauds causing severe publicity problems for some public funds in addition to the lost money).

Unlike the past where we have usually experienced poor peer returns when equities significantly underperform bonds, we also performed very well when compared with our peers over the past year. For example, using Callan’s database (PERSI’s general consultant), PERSI is well above median and generally well into the top quartile when compared over near and long term time horizons both against all public funds and also when compared with only large ($1 billion plus) pension funds:

RANKINGS IN THE CALLAN PUBLIC FUND UNIVERSE
June 30, 2009
Percentile Rankings over Period
(1 is highest, 100 is lowest)

	1Yr	*3Yrs*	*5Yrs*	*10Yrs*	*Inception (9/92)*
Return (%)	**-16.0**	**-1.2**	**3.7**	**3.8**	**7.8**
Median Fund (%)	-18.1	-2.8	2.3	3.1	7.2
Median Large Fund (%)	-19.1	-2.8	2.3	3.1	7.3
PERSI Rank All Funds	**33**	**20**	**10**	**18**	**14**
Rank vs. Large Funds	**22**	**17**	**13**	**21**	**19**

In other words, our emphasis on being “simple, transparent, and focused” not only turned out to be the best risk control, but also led to better returns than that experienced by many of our peers. But, “better” is a relative term, and whether one is doing better than others is of faint comfort when everyone is down -16% or more for a year.

The year saw some reversals of roles in contributions to PERSI’s performance, both absolutely and relatively. For the first time this millennium, PERSI’s US only equity contributed substantially to relative outperformance, losing -20.3% compared to the Russell 3000’s loss of -26.6%. The US equity outperformance was due to private real estate and US equity only active manager outperformance (led by Donald Smith and Tukman). Global equities for the first time in many years both underperformed their benchmark and underperformed the US public equity market, with returns of -30.2% (compared to the MSCI World Index return of -29.2%). Bernstein Global was the primary driver of the relative underperformance. International equity outperformed EAFE by losing -27.3% compared to the index return of -31.0%. The comeback of emerging markets late in the fiscal year drove this result. And, fixed income had a great absolute year with returns of +4.1%, but a terrible relative year compared to the BC Aggregate return of 6.1%. Active manager underperformance (“led” by Western) and a very poor relative year for TIPS were the driving negative factors for this segment of the portfolio.

PERSI’s adherence to rebalancing in volatile times also was a major contributor to fiscal year relative returns. PERSI rebalances after major market moves, and did so in late October and early November, and again in early March. And, our rebalancing favored moving money to emerging markets and REITS. Both the decision to rebalance and the favoring of these areas added over 1% to total portfolio returns (0.7% from rebalancing to equities, and over 0.3% from favoring emerging markets and REITs in the rebalance).

U.S. only equity had a very good relative year, outperforming the Russell 3000 by 6.3%. The general U.S. equity market had one of its worst fiscal years ever, with a loss by the index of 26.6%. In comparison, PERSI lost only -20. 3%, and had a number of segments and managers that did much better (meaning lost a lot less) than the general markets. PERSI’s private real estate was down -7.7% for the year, with the Olympic/Cascade portion down -7.9%, and the Koll properties down -7.4%. The PRISA fund, our open-ended commingled fund, was down -27.3% for the year. Private equity slightly outperformed the public equity markets with a time-weighted loss of -24.1% for the year.

PERSI’s US only public equity managers had a stand-out year in relative returns. Donald Smith lost -10.6% for the year, 16.0% better than either the Russell 3000’s loss of -26.6% or the Russell 2000’s loss of -25.1%. Tukman, with losses of -14.9%, Peregrine, with a loss of -15.7%, and Mountain Pacific, with a loss of -18.1% all had standout relative performances. Only TCW Domestic, with a loss of -29.1%, and Adelante, with a loss of -47.5%, had below benchmark returns (REITs as an area lost more than -45% although with some recovery at the end of the year).

PERSI’s global managers had a disappointing year, both against benchmark and compared to US equity markets. The MSCI World Index was down -29.2% for the year, underperforming US markets by over -2.5%, and PERSI’s global managers collectively did even worse by losing -30.2%. Bernstein Global with a loss of -39.9% for the year had the worst of it. Baring’s equity, with a loss of -24.3% and Zesiger, with a loss of -27.0% beat their benchmark, while Capital Guardian (-28.9%) and Brandes (-30.1%) had close to benchmark returns. Fortis, who was terminated during the year because of personnel losses, had generally benchmark performance.

International equity, thanks to a late and spectacular run by the emerging markets, had a very good relative year, losing -27.3% compared to the MSCI EAFE loss of -31.0%. The MSCI emerging markets index was down -28.0% for the year, with Genesis substantially outperforming that index with returns of -23.0%, and Bernstein Emerging Markets underperforming with returns of -33.2%. Mondrian (-27.2%) had a relatively good year compared to the markets.

Fixed income did its general work in a disastrous capital market by retaining its value and actually making +4.1% for the fiscal year – unfortunately it could have done better. The general investment grade fixed income market, represented by the re-named Barclay's Aggregate Index, made 6.1% for the year. With liquidity and credit issues at the center of the "Great Collapse", government bonds did well, and everything else had a very rough year. PERSI's underperformance was due to credit exposures by all three of our active bond managers: (Barings with 4.7% returns, Fidelity (now terminated for other than performance reasons) at 2.4%, and Western at 0.4%). The TIPS market also had a very poor year, with the index actually down -1.1% over the fiscal year. Both of PERSI's TIPS exposures did better than the index, with the buy and hold portfolio losing -0.1%, and the Western active TIPS portfolio losing -0.5%, but our exposure to the area still hurt overall relative returns.

The mortgage backed security market and the Idaho mortgage programs were the standout areas of the portfolio, and the best performing segment of the entire portfolio. The Idaho Commercial Mortgage program made 11.0% for the year, far better than the general mortgage index of 8.8%. Although default rates in that program are near 0%, the real driver of the outperformance is our convention of pricing these mortgages off of the Treasury yield curve, which was the standout segment of the fixed income market for the year. Our mortgage backed securities managers both had good years with returns near the benchmark (DBF at +8.7% and Clearwater at +8.2%).

All in all as bad a year as PERSI has ever experienced since its founding in 1965. Given the near collapse and severe devastation wrought over the past year by the Great Collapse and its consequences, however, it was one of PERSI's best relative years ever. A little moderation on both counts over the next few years would be welcome.

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, 2009

Types of Investment	Market Value		Percent of Total Market Value	
Short-term Investments		$361,869,430		4.0%
Fixed Income				
Domestic	2,111,301,654		23.5%	
International	34,058,097		0.4%	
Commercial Mortgages	431,915,613		4.8%	
Total Fixed Income		2,577,275,364		28.7%
Equity				
Domestic Equity	2,896,746,016		32.1%	
International Equity	2,045,062,149		22.8%	
Total Equity		4,941,808,165		55.0%
Private Equity		617,455,531		6.9%
Real Estate		485,331,385		5.4%
Total Base Plan Investments		$ 8,983,739,875		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		$ 186,295,209		
Choice Plan 414(k)		50,452,055		
Choice Plan 401(k)		235,711,470		
Choice Plan Short-term Investments		655,896		
Total Investments in All Funds		$ 9,456,854,505		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2009

Adelante Capital Management	$171,825,276
Advent International, LP	4,420,050
Apollo Management, LP	36,359,559
Baring Asset Management-Global Equity	275,860,189
Baring Asset Management-Global Fixed Income	146,683,154
Bernstein-Emerging Markets	402,409,620
Bernstein-Global Equity	229,803,045
Blackstone Capital Partners, LP	21,438,627
Brandes Investment Partners	369,471,959
Brandes International Equity Fund - Choice Plan	6,424,651
Bridgepoint Cap LTD	23,511,900
Calvert SI Balance Fund - Choice Plan	270,637
Capital Guardian	285,971,810
Cascade	93,531,458
Cerberus Investment Partners	24,350,398
Chisholm Management, LP	16,665,798
Clearwater Advisors, LLC-TBAs	116,355,734
Clearwater Advisors, LLC-Fixed Income	79,390,289
CVC European Equity	34,811,139
D.B. Fitzpatrick & Co.-Fixed Income	50,744,746
D.B. Fitzpatrick & Co.-Idaho Mortgages	444,935,295
Dodge and Cox Income Fund - Choice Plan	4,897,334
Donald Smith & Co.	170,632,932
Enhanced Equity, LP	27,304,251
Epic Venture Fund	2,109,722
First Reserve Fund XI	35,699,469
Frazier Technology Ventures II, LP	10,366,749
Furman Selz Investments, LP	7,158,008
Galen Associates, LP	35,824,102
Genesis Asset Managers	439,310,458
Goense Bounds & Partners, LP	3,869,189
Gores Capital Partners, LLP	22,004,598
Green Equity Investors IV, LP	22,799,089
Hamilton Lane Co - Investment Fund, LP	27,962,126
Hamilton Lane Secondary Fund, LP	14,976,764
Harvest Partners III, LP	710,557
Highway 12 Ventures, LP	18,193,154
Ida-West	3,275,000
JH Whitney & Co, LLC	21,471,747
KKR 2006 Fund, LP	21,448,202
Kohlberg & Co.	32,347,790
Koll Partners, LLP	351,555,467

(Continued)

Lindsay Goldberg & Bessemer	32,898,696
Littlejohn, LP	7,669,046
McCown DeLeeuw & Co. IV, LP	887,547
Mellon Aggregate Bond Index - Choice Plan	5,108,507
Mellon Capital Management-R2000 Small Cap	76,485,349
Mellon Capital Management-S&P 500 Large Cap	870,652,112
Mellon Capital Management-Mid Cap Completion	112,964,205
Mellon Capital Management-International Stock Index	538,822,519
Mellon International EAFE Fund - Choice Plan	2,275,560
Mellon S&P 500 - Choice Plan	4,916,891
Mellon Transition Management Services	691,917
Mellon Wilshire 4500 - Choice Plan	2,480,141
Mellon Wilshire 5000 - Choice Plan	1,504,546
Mondrian Investment Partners	231,508,724
Mountain Pacific Investment Advisors	227,863,685
Newbridge Asia, LP	20,775,287
Oaktree Capital Management, LLC	1,327,021
Olympic IDA Fund II, LLC	109,614,512
Pareto Partners	(6,143,667)
Peregrine Capital Management	140,352,301
PERSI Cash in Short-Term Investment Pool	11,867,123
PERSI Choice Plan Contribution Holding Account	655,896
PERSI Choice Plan Loan Fund	3,214,047
Private Debt	20,180,971
Providence Equity Partners, LLP	55,955,926
Prudential Investments	36,543,479
Rowe Price Small Cap Fund - Choice Plan	4,669,838
SEI Stable Asset Fund - Choice Plan	19,370,183
State Street Global Advisors-Fixed Income	548,050,355
State Street Global Advisors-TIPS	735,920,469
State Street Global Advisors-Sick Leave Insurance Reserve	186,295,209
TALF Investment Fund, LLC	5,002,145
T3 Partners, LP	37,189,965
TCW Domestic	134,829,792
Thomas H. Lee, LP	64,224
Tukman Capital Management	253,801,201
Vanguard Growth & Income Fund - Choice Plan	5,336,292
W. Capital Partners, LP	7,425,335
Western Asset Management	118,640,591
Western Asset-TIPS	302,022,853
Zesiger Capital Group	329,439,133
Zesiger Capital Group-Private Equity	14,187,119
Total Market Value, Including Investment Receivables and Payables	$9,322,469,087
Add: Investments Purchased Payable	1,127,886,499
Less: Investments Sold Receivable	(956,187,923)
Less: Interest and Dividends Receivable	(37,313,158)
Total Market Value, Net of Investment Receivables and Payables	$9,456,854,505

(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	113.0	1.2%	(29.5)	(29.5)	(7.7)	0.7
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	76.5	0.8%	(25.6)	(25.6)	(10.1)	(1.9)
MELLON CAPITAL MANAGEMENT S&P 500 LARGE CAP	870.7	9.6%	(26.6)	(26.6)	(8.1)	(2.2)
MOUNTAIN PACIFIC	227.9	2.5%	(18.1)	(18.1)	(4.2)	1.2
TUKMAN GROSSMAN CAPITAL MGMT	253.8	2.8%	(14.9)	(14.9)	(3.6)	(2.3)
TCW	134.8	1.5%	(29.1)	(29.1)	(9.0)	(2.6)
DONALD SMITH & CO.	170.6	1.9%	(10.6)	(10.6)	(6.7)	1.6
PEREGRINE	140.4	1.5%	(15.7)	(15.7)	(4.9)	
TOTAL U.S. PUBLICLY TRADED EQUITY	1,987.6	21.9%	(20.6)	(20.6)	(6.3)	(0.8)
BENCHMARK - Russell 3000			(26.6)	(26.6)	(8.3)	(1.8)
PRIVATE EQUITY						
IDA-WEST	3.3	0.0%	19.8	19.8	19.2	23.3
GALEN III	35.8	0.4%	(16.6)	(16.6)	10.1	2.6
HARVEST PARTNERS	0.7	0.0%	(8.4)	(8.4)	(53.2)	(39.1)
FURMAN SELZ	7.2	0.1%	(33.3)	(33.3)	14.8	26.6
MCCOWN DE LEEUW	0.9	0.0%	(26.5)	(26.5)	(8.6)	(58.6)
PROVIDENCE EQ PARTNERS	56.0	0.6%	(25.8)	(25.8)	3.6	17.5
CHISOLM PARTNERS	16.7	0.2%	(13.6)	(13.6)	5.0	11.5
LITTLEJOHN II L.P.	7.7	0.1%	(7.4)	(7.4)	13.9	31.8
OAKTREE CAP	1.3	0.0%	(1.8)	(1.8)	53.0	33.4
GOENSE BOUNDS	3.9	0.0%	(40.6)	(40.6)	(10.9)	0.3
HWY 12 FD VENTURE LP	18.2	0.2%	(21.9)	(21.9)	(15.2)	(7.0)
T3 PARTNERS II L.P.	37.2	0.4%	(39.8)	(39.8)	(4.3)	12.9
THOMAS LEE L.P.	0.1	0.0%	(81.9)	(81.9)	(71.7)	(51.0)
APOLLO MGMT LP	36.4	0.4%	(46.7)	(46.7)	6.4	26.0
GREEN EQUITY IV L.P.	22.8	0.3%	(18.6)	(18.6)	(3.2)	5.3
GORES CAPITAL AD LLC	22.0	0.2%	2.6	2.6	17.0	8.6
W CAPITAL PARTNERS	7.4	0.1%	(24.3)	(24.3)	(9.3)	(5.6)
FRAZIER TECH VENTURES II	10.4	0.1%	(21.4)	(21.4)	0.3	(3.2)
KOHLBERG & CO.	32.3	0.4%	(11.1)	(11.1)	5.3	
HAMILTON SECONDARY	15.0	0.2%	(6.9)	(6.9)	7.2	
CVC EUROPEAN EQUITY	34.8	0.4%	(32.5)	(32.5)	16.4	
HAMILTON LANE CO-INVESTMENT FUND	28.0	0.3%	(36.9)	(36.9)	(10.2)	
BRIDGEPOINT EUROPE III	23.5	0.3%	(29.1)	(29.1)	(4.0)	
NEWBRIDGE ASIA LP	20.8	0.2%	(27.5)	(27.5)	0.9	
JH WHITNEY EQUITY PARTNERS IV	21.5	0.2%	(8.5)	(8.5)	5.0	
BLACKSTONE CAPITAL PARTNERS	21.4	0.2%	(34.3)	(34.3)	(12.0)	
ENHANCED EQUITY FUND LP	27.3	0.3%	(5.4)	(5.4)	(3.8)	
LINDSEY, GOLDBERG, BESSEMER	32.9	0.4%	0.7	0.7		
KKR 2006 FUND	21.4	0.2%	(28.5)	(28.5)		
FIRST RESERVE FUND XI	35.7	0.4%	(18.6)	(18.6)		
CERBERUS INST PARTNERS	24.4	0.3%	(21.4)	(21.4)		
EPIC VENTURE FUND	2.1	0.0%	(11.4)	(11.4)		
ADVENT INTERNATIONAL**	4.4	0.0%	(30.1)	(30.1)		
ZESIGER CAPITAL GROUP	14.2	0.2%	(15.7)	(15.7)	(4.5)	0.9
TOTAL PRIVATE EQUITY	647.5	7.1%	(24.0)	(24.0)	1.1	8.9
REAL ESTATE						
KOLL PARTNERS	351.6	3.9%	(7.4)	(7.4)	5.7	4.9
OLYMPIC IDA FUND II	109.6	1.2%	(7.8)	(7.8)	6.8	
CASCADE	93.5	1.0%	3.8	3.8		
ADELANTE	171.8	1.9%	(47.5)	(47.5)	(22.1)	(4.3)
PRUDENTIAL	36.5	0.4%	(27.3)	(27.3)	(1.3)	6.7
TOTAL R/E MANAGERS	763.1	8.4%	(16.8)	(16.8)	(0.7)	9.1
BENCHMARK - NCREIF			(19.6)	(19.6)	1.0	7.6
TOTAL U.S. EQUITY	**3,398.1**	**37.3%**	(20.3)	(20.3)	(4.1)	1.6
BENCHMARK - Russell 3000			(26.6)	(26.6)	(8.3)	(1.8)
GLOBAL EQUITY						
BARING ASSET MANAGEMENT	275.9	3.0%	(24.3)	(24.3)	(1.2)	3.9
BRANDES INVST PARTNERS	369.5	4.1%	(30.1)	(30.1)	(11.3)	(2.0)
CAPITAL GUARDIAN	286.0	3.2%	(28.9)	(28.9)	(7.7)	0.1
ZESIGER CAPITAL GROUP	329.4	3.6%	(27.0)	(27.0)	(4.4)	5.7
BERNSTEIN GLOBAL	229.8	2.5%	(39.9)	(39.9)	(14.2)	(1.4)
FORTIS INVESTMENTS[1]	0.7	0.0%	(34.5)	(34.5)		
TOTAL GLOBAL EQUITY	**1,491.2**	**16.4%**	(30.2)	(30.2)	(7.7)	1.2
TOTAL U.S./GLOBAL EQUITY	**4,889.3**	**53.8%**	(24.4)	(24.4)	(5.6)	1.2
BENCHMARK - Russell 3000			(26.6)	(26.6)	(8.3)	(1.8)

Continued

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	439.3	4.8%	(23.0)	(23.0)	4.1	16.3
MELLON CAPITAL MANAGEMENT INTL STK INDX	538.8	5.9%	(30.9)	(30.9)	(7.8)	2.4
MONDRIAN	231.5	2.6%	(27.2)	(27.2)	(5.5)	4.7
BERNSTEIN EMERGING	402.4	4.4%	(33.2)	(33.2)	(0.2)	14.6
TOTAL INTERNATIONAL EQUITY	**1,612.1**	**17.8%**	(27.3)	(27.3)	(2.4)	7.3
TOTAL INT'L EQUITY (HEDGED)[2]	**1,605.9**	**17.7%**	(27.3)	(27.3)	(2.5)	7.1
EAFE INDEX NET			(31.0)	(31.0)	(7.5)	2.8
TOTAL EQUITY	**6,495.2**	**71.5%**	(24.6)	(24.6)	(4.8)	2.6
BENCHMARK - Russell 3000			(26.6)	(26.6)	(8.3)	(1.8)
U.S. FIXED INCOME						
DBF & CO FIXED	50.7	0.6%	8.7	8.7	7.5	5.7
DBF & CO-IDAHO MTGS	444.9	4.9%	11.0	11.0	10.9	7.8
STATE ST ADV-FX	548.1	6.0%	6.2	6.2	6.6	5.1
SSGA-TIPS	735.9	8.1%	(0.1)	(0.1)	5.8	5.2
CLEARWATER-TBA	116.4	1.3%	8.2	8.2	7.2	5.5
CLEARWATER TALF INVESTMENT**	5.0	0.1%	0.0	0.0	0.0	0.0
PRIVATE DEBT	20.2	0.2%	8.7	8.7		
TOTAL U.S. FIXED INCOME	**1,921.2**	**21.2%**	5.1	5.1	7.1	5.7
GLOBAL FIXED INCOME						
BARING ASSET MANAGEMENT	146.7	1.6%	4.7	4.7	6.9	5.4
PYRAMIS/CLEARWATER[3]	79.4	0.9%	3.0	3.0	4.3	
WESTERN ASSET	118.6	1.3%	0.4	0.4	2.9	
WESTERN TIPS	302.0	3.3%	(0.5)	(0.5)		
TOTAL GLOBAL FIXED INCOME	**646.7**	**7.1%**	2.8	2.8	4.5	4.2
TOTAL FIXED INCOME	**2,567.9**	**29.5%**	4.1	4.1	6.4	5.3
BENCHMARK - BC Aggregate Bonds			6.0	6.0	6.4	5.0
OTHER						
UNALLOCATED CASH	11.9	0.1%	9.5	9.5	11.4	9.7
MELLON TRANSITION MANAGEMENT SERVICES	0.0	0.0%	1,120.3	1,120.3	284.7	271.0
TOTAL OTHER	**11.9**					
COMBINED TOTAL	**9,075.0**	**100.0%**	(16.0)	(16.0)	(1.2)	3.7
BENCHMARK - 55% Russell 3000 30% BC Aggregate Bonds 15% MSCI EAFE Index			(18.0)	(18.0)	(3.6)	1.1
Add: Other PERSI DC Choice Plan Investments[4]	61.1					
Sick Leave Investments	186.3					
Investments Purchased	1,127.9					
Less: Interest and Dividends Receivable	(37.3)					
Investments Sold	(956.2)					
Total Pension Fund Investments Net of Receivables	9,456.8					

Concluded

*Rates of Return are annualized
[1]Terminated 6/09
[2]Includes Pareto Partners currency overlay account
[3]Pyramis terminated 04/09
[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
2004	$105,106,092	$ 99,565,950	$ 1,005,291,439	$ 1,209,963,481
2005	108,964,781	121,363,908	622,839,336	853,168,025
2006	128,071,925	135,998,068	804,450,498	1,068,520,491
2007	152,332,222	150,190,103	1,660,923,284	1,963,445,609
2008	156,095,102	171,450,414	(840,652,088)	(513,106,573)
2009	130,825,841	135,561,686	(2,044,562,509)	(1,778,174,982)

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

Largest Bond Holdings (by Market Value) June 30, 2009

Par	Bonds	Description	Market Value
230,735,152	US TREASURY INFLATION INDEX BOND	3.875% 04/15/2029 DD 04/15/99	$ 292,745,224
194,371,290	US TREASURY INFLATION INDEX BOND	2.000% 01/15/2026 DD 01/15/06	190,301,544
116,195,040	US TREASURY INFLATION INDEX BOND	2.500% 01/15/2029 DD 01/15/09	123,457,230
113,612,928	US TREASURY INFLATION INDEX NOTE	2.125% 01/15/2019 DD 01/15/09	117,340,795
31,983,281	US TREASURY INFLATION INDEX BOND	3.375% 04/15/2032 DD 10/15/01	40,139,018
31,276,851	US TREASURY INFLATION INDEX BOND	2.375% 01/15/2025 DD 07/15/04	32,146,722
28,850,000	COMMIT TO PURCHASE FNMA SF MTG	5.500% 08/01/2038 DD 08/01/08	29,670,436
25,138,386	US TREASURY INFLATION INDEX NOTE	2.000% 01/15/2016 DD 01/15/06	25,515,462
24,397,022	US TREASURY INFLATION INDEX NOTE	2.000% 01/15/2014 DD 01/15/04	24,953,567
24,756,574	US TREASURY INFLATION INDEX NOTE	1.625% 01/15/2015 DD 01/15/05	24,640,515

Largest Stock Holdings (by Market Value) June 30, 2009

Shares	Stock	Market Value
2,254,973	MICROSOFT CORP COM	53,600,708
284,932	GOLDMAN SACHS GROUP INC COM	42,010,374
396,973	IBM CORP COM	41,451,921
580,414	EXXON MOBIL CORP	40,576,743
647,837	JOHNSON & JOHNSON COM	36,797,142
697,217	PROCTER & GAMBLE CO COM	35,627,789
718,060	WAL MART STORES INC COM	34,782,826
1,376,659	AT & T INC COM	34,196,210
631,989	COCA COLA CO COM	30,329,152
1,865,632	PFIZER INC COM STK USD0.05	27,984,480

A complete list of portfolio managers' holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2009

Broker Name	Base Commission	Total Shares	Commission per Share
GOLDMAN SACHS & CO, NY	$177,214	12,830,827	0.01381
UBS EQUITIES, LONDON	151,010	90,813,881	0.00166
UBS SECURITIES LLC, STAMFORD	144,790	8,669,814	0.01670
CITIGROUP GBL MKTS INC, NEW YORK	141,667	7,782,975	0.01820
MERRILL LYNCH PIERCE FENNER SMITH INC NY	140,821	5,018,363	0.02806
INSTINET CORP, NY	140,069	3,644,027	0.03844
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	123,120	16,869,677	0.00730
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	122,502	7,012,035	0.01747
MORGAN J P SECS INC, NEW YORK	120,778	7,142,473	0.01691
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	117,016	31,884,614	0.00367
MORGAN STANLEY & CO INC, NY	117,008	11,254,755	0.01040
JEFFERIES & CO INC, NEW YORK	114,529	3,059,128	0.03744
CREDIT SUISSE (EUROPE), LONDON	110,174	27,593,689	0.00399
ITG INC, NEW YORK	107,634	10,805,449	0.00996
PERSHING LLC, JERSEY CITY	106,491	13,483,456	0.00790
MERRILL LYNCH PIERCE FENNER, WILMINGTON	99,098	16,808,968	0.00590
CITIGROUP GBL MKTS/SALOMON, NEW YORK	96,713	29,719,571	0.00325
DEUTSCHE BK SECS INC, NY (NWSCUS33)	92,251	5,639,479	0.01636
CITIGROUP GLOBAL MARKETS LTD, LONDON	82,035	19,994,907	0.00410
CITATION GROUP, NY	77,514	3,906,722	0.01984
BNY CONVERGEX, NEW YORK	73,019	4,615,640	0.01582
BERNSTEIN SANFORD C & CO, NEW YORK	70,217	3,365,643	0.02086
MACQUARIE SECURITIES LIMITED, HONG KONG	65,367	35,349,126	0.00185
ITG (EUROPE) LTD, DUBLIN	63,442	10,063,425	0.00630
MERRILL LYNCH INTL LONDON EQUITIES	56,494	5,423,169	0.01042
JOHNSON RICE & CO, NEW ORLEANS	52,906	1,062,127	0.04981
J P MORGAN SECS LTD, LONDON	47,039	6,817,560	0.00690
JP MORGAN SECS ASIA PACIFIC, HONG KONG	46,407	34,878,020	0.00133
BANC OF AMERICA SECS LLC, CHARLOTTE	45,712	1,181,225	0.03870
INSTINET EUROPE LIMITED, LONDON	45,088	4,271,782	0.01055
WEEDEN & CO, NEW YORK	45,076	1,584,080	0.02846
LIQUIDNET INC, BROOKLYN	42,688	2,113,666	0.02020
BAIRD, ROBERT W & CO INC, MILWAUKEE	40,306	970,505	0.04153
CANTOR FITZGERALD & CO INC, NEW YORK	39,596	2,497,486	0.01585
BARCLAYS CAPITAL LE, JERSEY CITY	39,312	1,751,816	0.02244
GREEN STREET ADVISORS, JERSEY CITY	38,595	857,655	0.04500
ABEL NOSER CORP, NEW YORK	36,258	1,402,500	0.02585
INVESTMENT TECHNOLOGY GROUP, NEW YORK	35,742	1,882,827	0.01898
LEHMAN BROS INC, NEW YORK	35,440	1,094,818	0.03237
Other Brokers Under $35,000	1,788,729	297,097,349	0.00602
TOTAL BROKER COMMISSIONS	$5,089,870	752,215,229	0.00677

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, 2009

Investment Fees	Average Assets Under Management	Fees	Basis Points
Investment Manager Fees			
Equity Managers	$ 4,715,645,663	$ 20,335,190	43
Fixed Income Managers	2,813,243,779	2,897,260	10
Private Equity Managers	736,459,656	8,276,322	112
Real Estate Managers	747,766,109	4,407,198	59
Total Average Assets	$ 9,013,115,208		
Total Investment Manager Fees		35,915,970	40
Other Investment Service Fees			
Custodian/Record Keeping Fees		3,685,421	
Investment Consultant Fees		678,713	
Legal Fees		372,565	
Actuary/Audit Service Fees		253,682	
Total Investment Service Fees		4,990,382	6
Total Defined Benefit Plans Fees		40,906,352	45
Total Defined Contribution Plans' Fees		266,896	
Total Other Trust Funds' Fees		90,063	
Total Fees		$ 41,263,311	

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%	3.75%	4.00%	n/a
Portfolio	8.50%	3.50%	5.00%	11.7%

(Expected Returns are before fees and expenses)

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

A. Purpose

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

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

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

B. Specific Areas of Risk

1. Credit Risk

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

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

2. Custodial Credit Risk

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

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

3. Concentration of Credit Risk

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

Policy: Managers will provide PERSI with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole, staff will report to the Board at a regular Board meeting if the exposure to a non-US government guaranteed credit exceeds 5% of the total PERSI portfolio.

4. Interest Rate Risk

Summary: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk to PERSI's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account the optionality on the underlying bond.

Policy: Managers will provide PERSI with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

5. Foreign Currency Risk

Summary: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. PERSI's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings.

Policy: The PERSI Board recognizes that international investments (equity or fixed income) will have a component of currency risk associated with it. Currency risk and hedging exposures are dependent on the underlying international exposure, which fluctuates over time. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.