Three Island Crossing State Park

Just south of Glenns Ferry, Idaho, Three Island Crossing State Park is located on the Snake River and is home to The Oregon Trail History & Education Center.

Oregon Trail pioneers knew this spot well. It was one of the most famous river crossings on the historic trail. Pioneer travelers used the three-island crossing until 1869, when Gus Glenn constructed a ferry about two miles upstream. From 1986 to 2009, the Glenns Ferry community sponsored a crossing commemoration each August. Events often include living history presentations and historic skills fair. The actual reenactment was discontinued due to an aging pool of participants and a lack of wagons, though related activities continue to take place each summer.

Helping Idaho public employees build a secure retirement.

INVESTMENT SECTION

PERSI
Public Employee Retirement System of Idaho

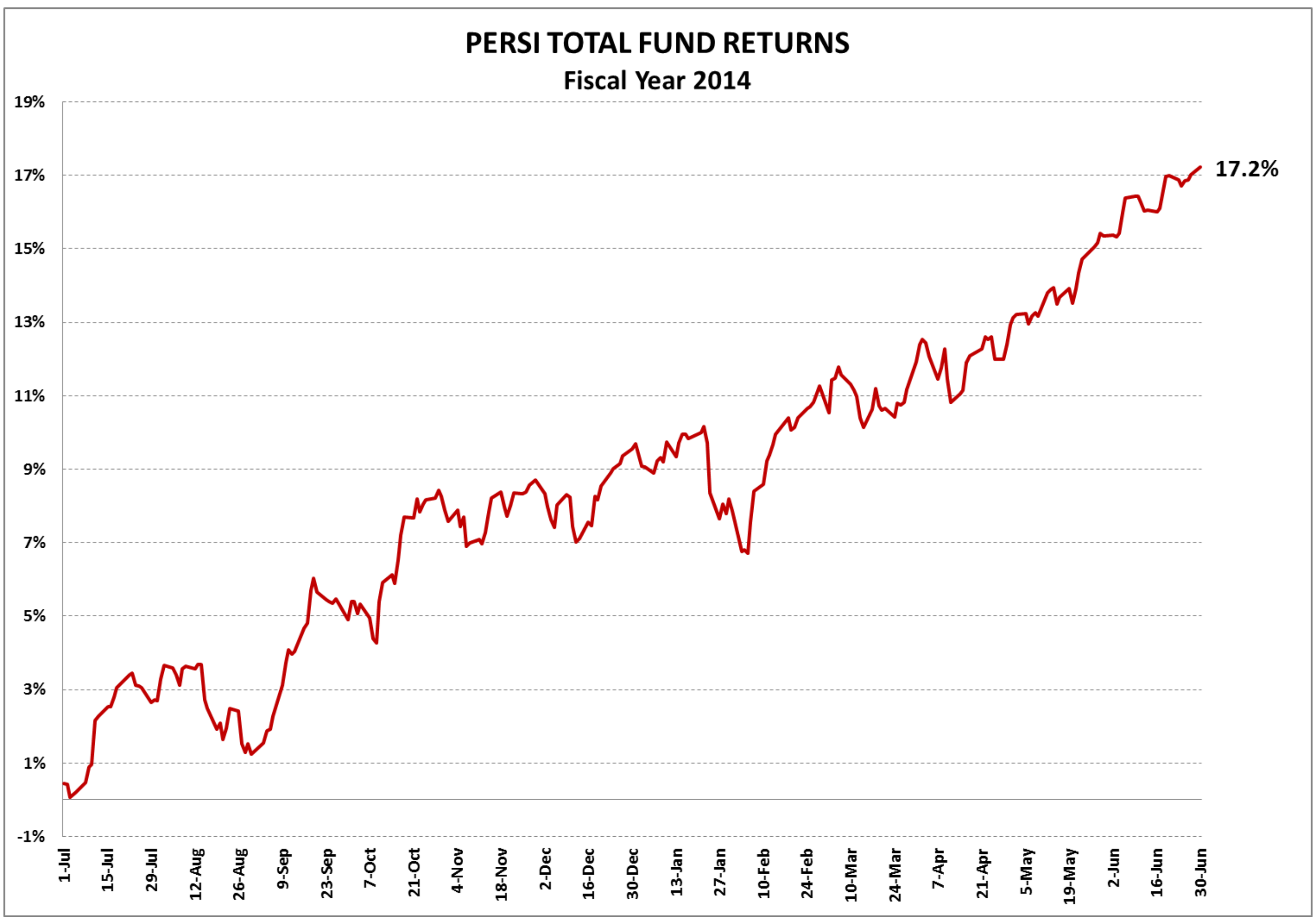
REPORT ON INVESTMENT ACTIVITY
OVERVIEW OF FISCAL YEAR 2014

It was a great fiscal year – one of our best. With returns to the main Defined Benefit/Total Return fund of over 17.2% and assets of $14.686 billion, PERSI reached all-time highs as the fiscal year drew to a close. With the sick leave fund at $384 million (with 18.6% returns), and other DC externally managed assets at over $110 million, total PERSI overseen investment assets rose above $15 billion for the first time in its history. PERSI funded status rose well above 90%, ending the year at 93.9%– one of the best in the nation (if not the world).

U.S. stocks as well ended at all-time highs, and equity volatility was near all-time lows. Over the year the capital markets continued to grind ever higher in an atmosphere of slow, somewhat stumbling, but steady economic growth.

The U.S. equity market was up 25.2% for the fiscal year. Developed market equities (EAFE) were up 24.1%, and bonds returned +4.4%. Despite better relative performance in the last few months, emerging markets lagged developed markets for the fiscal year with 14.7% index returns (PERSI's emerging markets were up 17.0%). Treasury Inflation Protected Securities (TIPS) continued to keep pace with general markets with 4.4% returns. Private equity (with 15.6% returns) and real estate [with 12.2% returns (PERSI REITS at 16.2% and private real estate at 6.8%)] had good years, but also trailed the general public markets substantially.

All in all, the markets seemed to be mostly resilient to general economic and political events, and avoided the deep holes in returns that had characterized the previous dramatic years of 2007 to 2012: As a result, the PERSI fund, with a couple of mild setbacks, enjoyed relatively consistent gains throughout the year:



The fiscal year began with the markets absorbing the new investment term “taper”, which had been introduced as a concept in May of 2013 by then chairman Bernanke. With the expectation of less quantitative easing in the US, there was a general belief that interest rates would rise in a slow but accelerating US economy. Overseas the markets were becoming concerned with a decelerating China, a moribund Europe, and even weaker emerging markets.

As the Fall began, the markets weathered uncertainty over potential Syria air strikes, choppy economic waters, murky tapering prospects, and a dysfunctional government. After a disappointing August, September witnessed mildly positive economic news and a pause in the Syrian crisis, a delay in tapering, and the opening salvos of a political budget war in Washington. October saw the resolution of the Washington political standoff that had resulted in a brief government shutdown (without major economic consequences), continued QEIII, and generally positive earnings from corporations. November brought reasonable US economic news supporting subdued growth, continuity in the Fed policy guidance, and a relatively benign international scene. December witnessed the arrival of the long-anticipated “taper”, and the fund ended the first half of the fiscal year up a robust 9.7%

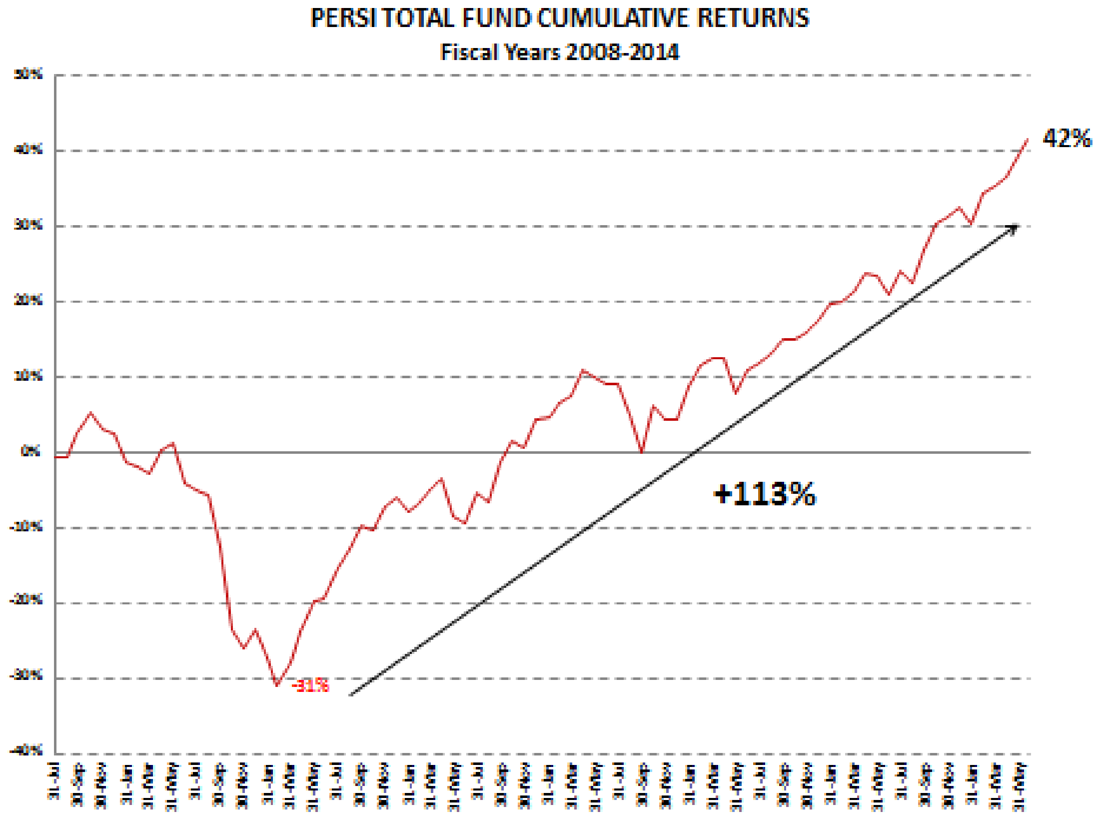
The new calendar year, however, experienced one of the harshest winters on record, which had a marked impact on the US economy, along with a growing belief in a “fully valued” US equity market and troubled European and emerging markets. The markets dropped through the early part of February, and then rebounded as the harsh weather impacts faded, China appeared to be bottoming, a confrontation on the US debt ceiling was avoided, and there was a smooth transition from Bernanke to new Fed Chairperson Yellen. By the end of February, the PERSI fund had recovered and was up 11.3%. For the rest of the fiscal year, the PERSI fund had a steady and very consistent advance to the ending new highs.

The surprise of the new calendar year, however, was a marked shift in the inner dynamics of the capital markets, with bond yields ending the fiscal year around 2.5% after having started the calendar year at 3% - a drop which confounded most experts. Small cap tech and momentum stocks experienced a "mini-crash", and emerging markets broke out of their doldrums of the past few years. This was with the backdrop of continued moderate US economic growth, a moribund China, and a stumbling Europe. As the fiscal year ended, equity valuations appeared a bit high in the US, moderate in Europe, and relatively undervalued in the emerging markets.

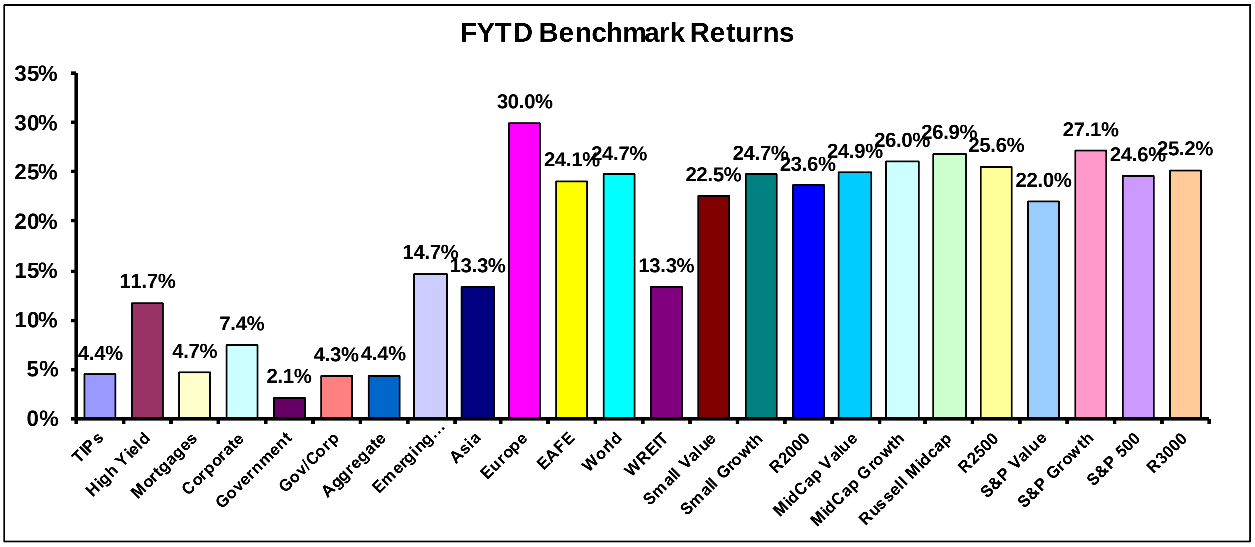
All in all, the “boredom” of the recent capital and economic markets was the outstanding feature of the last half of the fiscal year, with the excitement located in political and military events in the Ukraine and in Northwest Iraq - areas with little direct economic or capital market impact.

Thus FY 2014 was a continuation of the FY 2013 capital market dynamics – a mostly calm background environment without major European crises, US fiscal dramas (except for a brief government shutdown), or other heart-stopping events (at least compared to previous years). Instead, the markets seemed to be mostly resilient to general economic and political events, and the fiscal year avoided the deep holes in returns that had characterized the previous dramatic years of 2007-2012.

The fiscal year continued the historic rise of +113% for the fund since the crisis lows of March 2009:



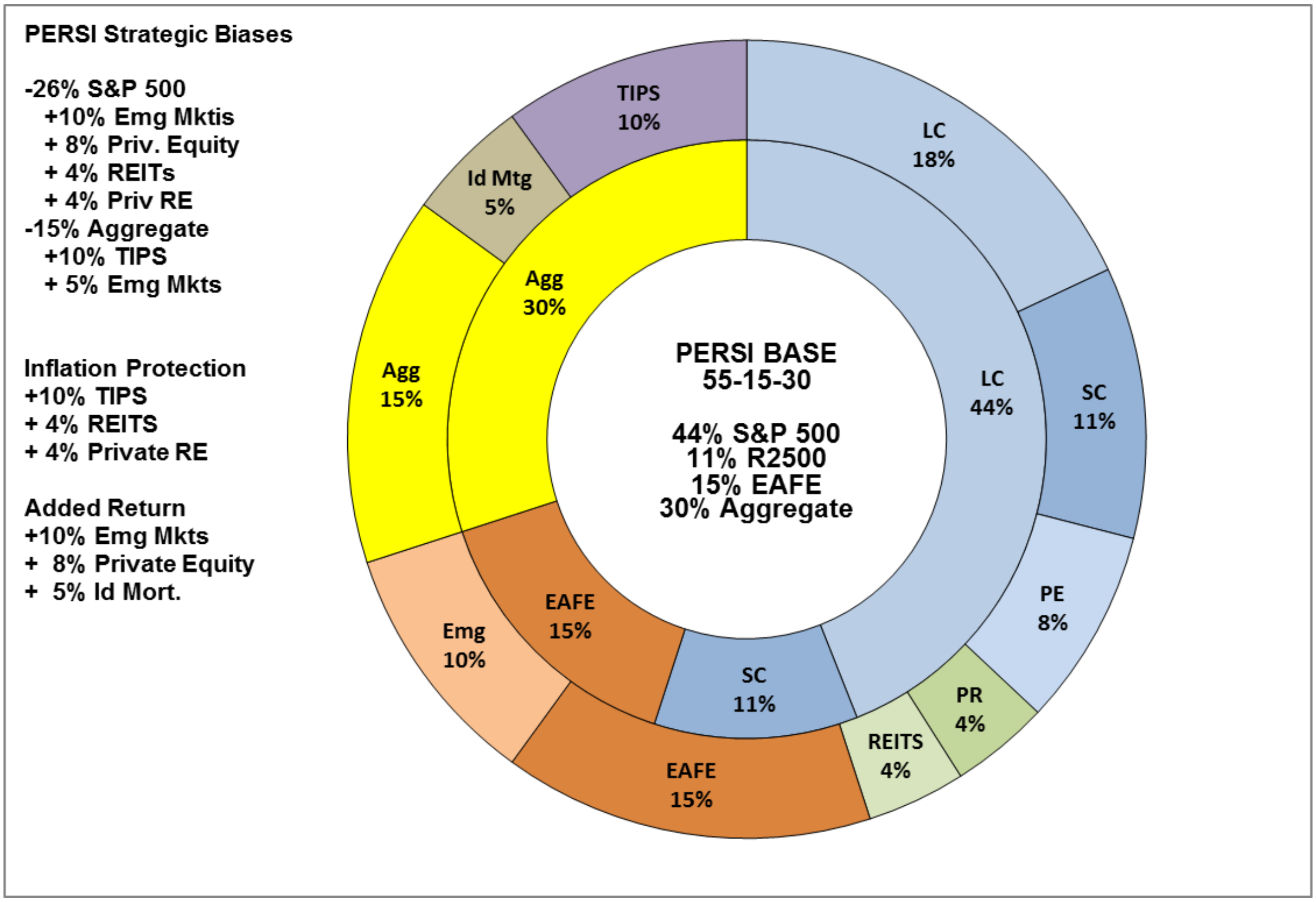
The equity markets continued to see the bigger "established" markets having the best returns, with the S&P 500 returning 24.6%, the Russell 2500 mid/small cap returning 25.6%, and MSCI EAFE developed markets returning 24.1%. In sharp contrast emerging markets (14.7%), REITs (13.3%), private equity (15.6%) and private real estate (6.8%) had good but, compared to developed markets, markedly worse returns (with private real estate reflecting the completion of a multi-year major portfolio restructuring). Investment grade bonds (4.4%) recovered from one of the rare negative annual return years in Fiscal Year 2013, and TIPS kept pace at 4.4%.



These markets, in fact, explain another feature of this fiscal year – that PERSI actual returns trailed the reference 55% Russell 3000, 15% MSCI EAFE, 30% Barclay's Aggregate benchmark ["55-15-30"] by -1.3%.

As with fiscal year 2013, this "underperformance" exactly reflects PERSI's intended structure – one that has been in place for the past two decades. PERSI's strategic biases have consistently reduced the 55-15-30 benchmark's bias to the S&P 500 by -26% (from a 44% weighting to an 18% weight). That money has been shifted to Emerging Markets (10% weight), Private Equity (8% weight), Private Real Estate (4% weight), and REITS (4% weight). The other major shift, with smaller return consequences, has been to take 15% of the monies from the Barclay's Aggregate 30% reference weight and shifted to a 10% general weighting of TIPS, and 5% weight in the Idaho Commercial Mortgage program. These biases account for all of the disparity between actual returns and the 55-15-30 return.

[PERSI's weighting to small cap equities and EAFE is the same as the 55-15-30 reference benchmark, with an 11% weighting to mid/small cap US stocks, and a 15% weighting to MSCI EAFE stocks. All of these weightings "look through" the activities of the active managers, and account for their biases (such as a tendency to overweight small cap stocks) in individual portfolio construction. Staff monitors active manager portfolios to assure that overall portfolio characteristics remain consistent with our long-term strategic biases].

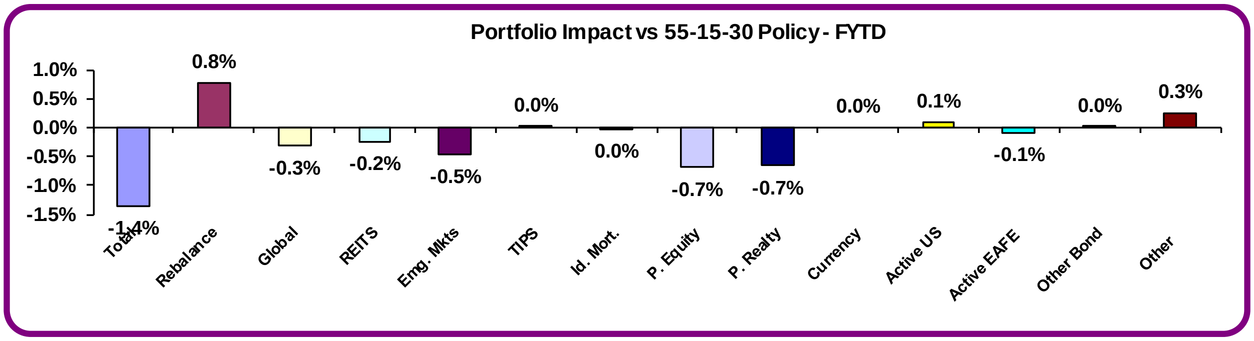


These shifts have been a basic feature of PERSI's strategic structure for at least the past two decades, and have been responsible for practically all of PERSI's relative performance both to peers and to the base reference 55-15-30 benchmark – both when PERSI is a top performing fund and also when it lags its peers.

The central idea is that when the S&P 500 is one of the best performing capital markets in the world, PERSI will normally have no problem meeting its funding goals (as occurred in the mid-1990s and recently). The problem is that PERSI needs protection when the S&P 500 is a mediocre or terrible market both absolutely and relatively – as occurred in the first decade of the 2000s.

Besides additional diversification, PERSI has shifted money to other areas for purposes of increased inflation protection (S&P 500 to REITS and Private Real Estate, Barclay's Aggregate to TIPS) and long-term added return (S&P 500 to emerging markets and private equity, Barclay's Aggregate to private debt in the Idaho Commercial Mortgage Program). All of these strategic biases go back decades, (private real estate began in 1981, the small cap and emerging market bias has been in place since the late 1980s, the Idaho Commercial Mortgage program began in the late 1980s, and the REIT and TIPS biases were added in 1997-1998).

The overall impacts of each of the PERSI strategic biases were largely negative, which was partially overcome by decisions to not strictly rebalance the portfolio during the fiscal year:



PERSI's institutional peer returns for the fiscal and calendar year were very good: handily above the median institutional and public fund. Long term returns (ten years plus) also continue to be significantly above average: Medium term returns (3-5 years), however, reflect the significant underperformance of emerging markets, private real estate, and REITs over the past 3 years and are slightly below median:

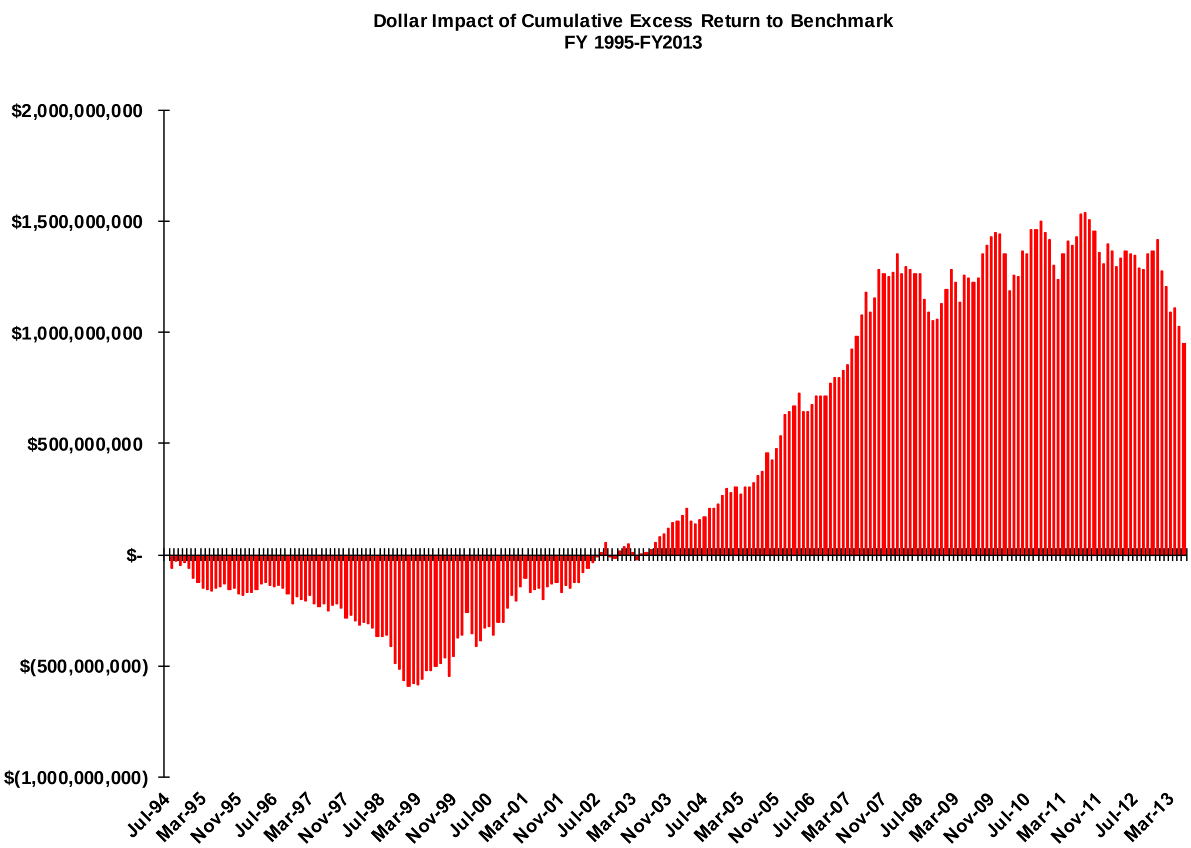
RANKINGS IN MELLON MASTER TRUST (667 funds) and CALLAN PUBLIC FUND UNIVERSES June 30, 2014

	QTR	*CYTD*	*1Yr*	*3Yrs*	*5Yrs*	*10Yrs*
PERSI Return (%)	**4.7**	**6.9**	**17.2**	**9.1**	**12.0**	**7.8**
Callan Median Public	3.5	5.3	16.1	9.7	12.5	7.3
Mellon Median Master	3.7	5.8	16.2	9.6	12.3	7.4

PERSI Rank (Percentile) (1 is highest, 100 is lowest)

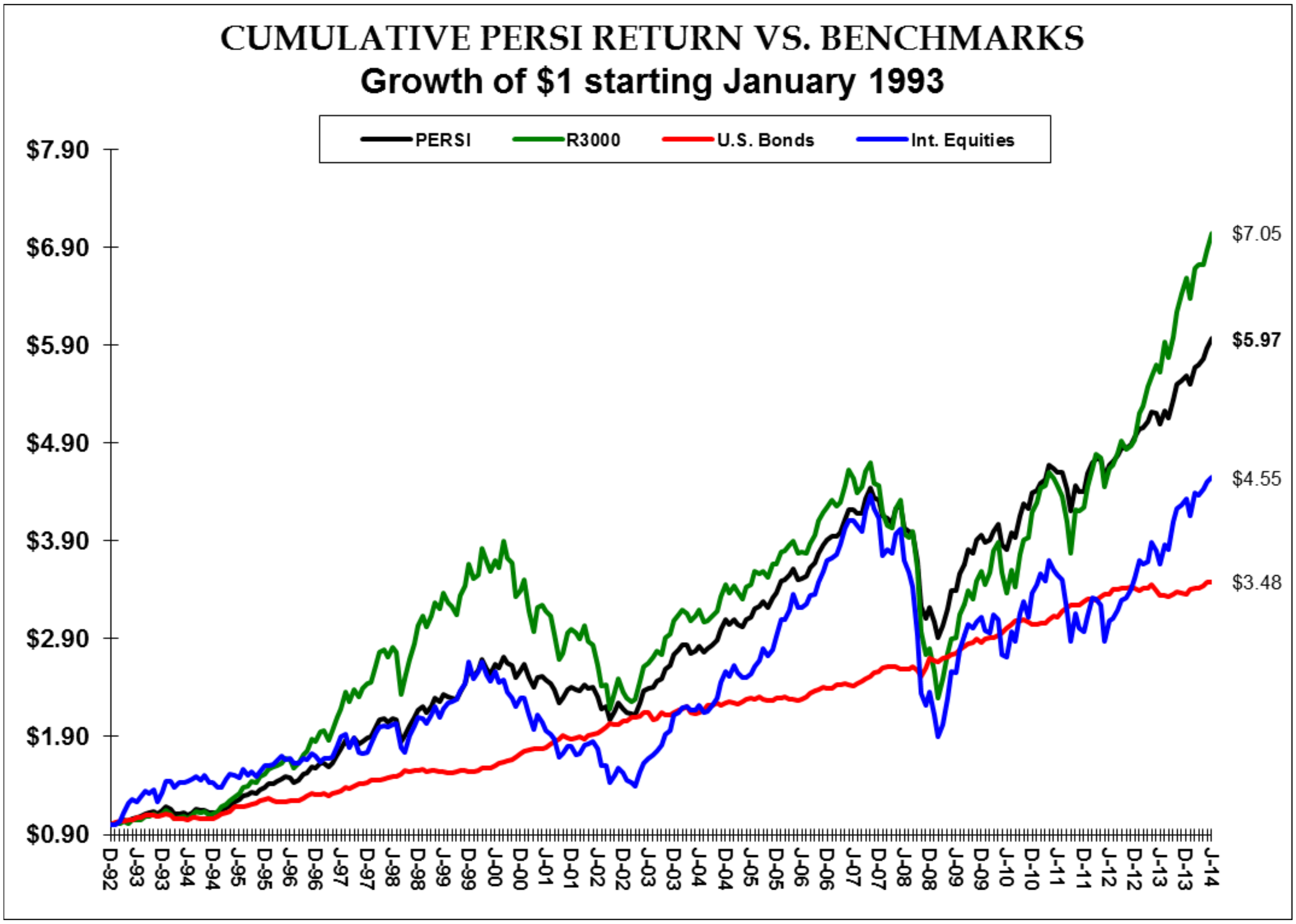
Callan Public Funds	**2**	**3**	**31**	**64**	**64**	**18**
Mellon All Funds	**9**	**28**	**35**	**61**	**60**	**34**

Since July of 1994 (when specific records on these numbers were first kept by staff), PERSI's strategic biases have added almost $1 billion ($950 million) to both general market returns (as represented by the reference 55-15-30 benchmark) through its additional activities in emerging markets, private assets, TIPS, REITS and similar programs, as follows:



PERSI's annualized return over this period was 8.8% while the 55-15-30 benchmark return was 8.0%. That difference in return over 20 years represents almost $1 billion in added value.

Since 1993, every dollar invested in PERSI has returned almost six fold, to $5.97:



PERSI's basic and simple approach has served the fund well both over the past year and over the longer term. It encountered few issues in the turbulent period of the last seven years, and has survived relatively unscathed through all of the crises of the past 20 years.

During the last fiscal year, PERSI's US public active equity component outpaced the indices with a 26.2% return. Donald Smith was the star, with 33.9% returns, followed by Mountain Pacific with 26.0% returns. Peregrine (23.6%) and Tukman (20.7%) underperformed.

The overall US equity component, however, returned "only" 21.0%, dragged down by private equity (15.6%) and real estate (12.2%). Real estate, in turn, was influenced by modest private returns due, in part, to portfolio restructuring (6.8%) and adequate public real estate (REIT) returns of 16.2% (although above the Wilshire REIT index of 13.3%). Adelante active REITs had a good relative year with 17.7% returns.

Global Equity underperformed the MSCI World market index with returns of 23.3%. This was both below the MSCI World index (at 24.7%) and below US equity general returns (25.2%). Bernstein Global (31.2%), Longview (28.0%), and Brandes (27.5%) all had stellar years, while the Capital Group (21.7%), Barings (18.9%) and particularly Zesiger (10.7%) had noticeably poor years.

Total PERSI international equity only returns, both developed markets and emerging combined, returned 21.2% for the year. Developed market international equity (MSCI EAFE) returned 23.6% for the year, outperforming emerging market equity (MSCI Emerging Markets) at 14.7% for the fourth year in a row. Mondrian, our developed markets manager outpaced the EAFE index with a 28.1% return, Both Bernstein Emerging (19.9%) and Genesis (16.7%) handily outperformed the emerging markets index (14.7*%).*

PERSI fixed income matched the returns of investment grade bonds as represented by the Barclay's Aggregate index at 4.4%. TIPS, at least temporarily, stopped a run of underperformance with matching 4.4% returns for the year. This return melded the SSGA TIPs return of 4.8% and the Western active TIPs account return of 4.1%. Western with its nominal bond portfolio had another great bond year with 7.5% returns, and Barings slightly outperformed at 5.2%. Clearwater, whose mandate changed to the Aggregate Bond Index from mortgage backed only, also outperformed with 5.1% returns. Idaho Mortgages, which are priced off of the Treasury yield curve, were up 3.7%, while the DBF mortgage backed securities portfolio tracked the general mortgage market 4.6% returns.

In summary, another great year for PERSI.

ROBERT M. MAYNARD
Chief Investment Officer

INVESTMENT SUMMARY FOR THE YEAR ENDED JUNE 30, 2014

Types of Investment	Market Value		Percent of Total Market Value	
Short-term Investments		$ 407,451,910		2.9%
Fixed Income				
Domestic	$ 2,721,632,789		19.1%	
International	73,373,641		0.5%	
Commercial Mortgages	494,449,586		3.5%	
Total Fixed Income		3,289,456,016		23.1%
Equity				
Domestic Equity	5,977,475,706		42.0%	
International Equity	3,119,152,887		21.9%	
Total Equity		9,096,628,593		63.9%
Private Equity		1,013,199,546		7.1%
Real Estate		424,641,351		3.0%
Total Base Plan Investments		$ 14,231,377,416		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		384,536,247		
Choice Plan 414(k)		63,580,829		
Choice Plan 401(k)		583,536,433		
Total Investments in All Funds		$ 15,263,030,925		

Schedule of Investments by Account (including interest and dividends receivable) for the Year Ended June 30, 2014

Base Plan and Firefighters' Retirement Fund

Adelante Capital Management	$ 433,676,462	
Advent International, LP	46,643,452	
American Securities Opportunities Associates II, LLC	14,628,512	
Apollo Management, LP	55,809,374	
Baring Asset Management-Global Equity	426,894,939	
Baring Asset Management-Global Fixed Income	181,490,749	
Bernstein-Emerging Markets	365,505,273	
Bernstein-Global Equity	519,143,141	
Blackstone Capital Partners, LP	72,281,436	
BNY Mellon Capital Management-International Stock Index	548,611,572	
BNY Mellon Capital Management-Mid Cap Completion	219,712,863	
BNY Mellon Capital Management-R2000 Small Cap	141,331,263	
BNY Mellon Capital Management-S&P 500 Large Cap	1,499,220,688	
BNY Mellon Capital Management-REIT Index	208,137,179	
BNY Mellon Capital Management-Emerging Market Index	357,649,127	
Brandes Investment Partners	507,706,387	
Bridgepoint Cap LTD	16,975,146	
Capital Guardian	458,327,727	
Cascade	88,621,630	
Cerberus Investment Partners	29,713,042	
Chisholm Management, LP	2,498,215	
Clearwater Advisors, LLC-TBAs	135,528,311	
CVC European Equity	36,633,598	
D.B. Fitzpatrick & Co.-Fixed Income	145,272,301	
D.B. Fitzpatrick & Co.-Idaho Mortgages	496,221,094	
Donald Smith & Co.	534,735,545	
Endeavour Capital	14,721,299	
Enhanced Equity, LP	38,834,446	
Epic Venture Fund	11,203,292	
First Reserve Fund XI	52,767,984	
Frazier Technology Ventures II, LP	23,126,366	
Galen Associates, LP	32,933,682	
Genesis Asset Managers	379,427,438	
Goense Bounds & Partners, LP	1,524,648	
Gores Capital Partners, LLP	32,662,170	
Green Equity Investors IV, LP	45,939,664	
Hamilton Lane Co - Investment Fund, LP	64,322,188	
Hamilton Lane Secondary Fund, LP	20,634,354	
Highway 12 Ventures, LP	64,630,864	
Ida-West	3,157,450	
JH Whitney & Co, LLC	29,062,983	
KKR 2006 Fund, LP	43,456,268	
Kohlberg & Co.	29,816,557	
Koll Partners, LLP	235,246,632	
Lindsay Goldberg & Bessemer	41,613,689	
Littlejohn, LP	2,392,939	
Longview Partners	504,969,948	
McCown DeLeeuw & Co. IV, LP	85,037	
Mellon Transition Management Services	1,743,132	(Continued)

Schedule of Investments by Account (including interest and dividends receivable) for the Year Ended June 30, 2014

Mondrian Investment Partners	468,144,767
Mountain Pacific Investment Advisors	491,980,984
Newbridge Asia, LP	16,230,175
Olympic IDA Fund II, LLC	140,472,305
Peregrine Capital Management	454,214,422
PERSI Cash in Short-Term Investment Pool	26,882,565
Private Debt	10,143,360
Providence Equity Partners, LLP	53,459,477
Prudential Investments	41,527,543
State Street Global Advisors-Fixed Income	704,381,094
State Street Global Advisors-TIPS	952,760,874
T3 Partners, LP	95,215,183
Tukman Capital Management	475,098,392
Veritas Capital Partners, LP	17,670,332
W. Capital Partners, LP	2,555,724
Western Asset Management	182,858,179
Western Asset-TIPS	392,990,759
Zesiger Capital Group	393,670,272
Zesiger Capital Group-Private Equity	21,937,931
Total Base Plan and Firefighters' Retirement Fund	**14,159,436,394**
Choice Plan	
BNY Mellon Aggregate Bond Index	10,235,016
BNY Mellon Dow Jones U.S. Completion Total Stock Market Index	10,083,893
BNY Mellon Dow Jones U.S. Total Stock Market Index	4,826,791
BNY Mellon International EAFE Fund	5,221,649
BNY Mellon S&P 500	13,315,461
Brandes International Equity Fund	8,164,384
Calvert SI Balance Fund	1,836,112
Dodge and Cox Income Fund	11,537,576
PERSI Choice Plan Contribution Holding Account	936,136
PERSI Choice Plan Loan Fund	7,872,656
Rowe Price Small Cap Fund	20,211,560
Total Return Fund	527,146,701
Vanguard Growth & Income Fund	16,565,594
PERSI Short Term Investment Portfolio	11,476,013
Total Choice Plan	**649,429,542**
Sick Leave Insurance Reserve Fund	
State Street Global Advisors-Domestic Equity	219,889,124
State Street Global Advisors-International Equity	58,389,790
State Street Global Advisors-Fixed Income	106,257,333
Total Sick Leave Insurance Reserve Fund	**384,536,247**
Total Market Value, Including Investment Receivables and Payables	15,193,402,183
Add: Investments Purchased Payable	245,991,212
Less: Investments Sold Receivable	(138,022,415)
Less: Interest and Dividends Receivable	(38,340,055)
Total Market Value, Net of Investment Receivables and Payables	**$ 15,263,030,925**

(Concluded)

Investment Results for the Year Ended June 30, 2014

MANAGERS	TOTAL MKT VAL ($ MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending** FISCAL	1 YR.	3 YRS. *	5 YRS. *	10YRS. *
U.S. EQUITY							
MELLON CAPITAL MANAGEMENT MID CAP	227.9	1.5%	30.1	30.1	16.7	22.4	11.0
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	146.6	1.0%	23.7	23.7	14.6	20.3	8.6
MELLON CAPITAL MANAGEMENT S&P 500 LC	1,555.0	10.6%	24.5	24.5	16.5	18.8	7.8
MOUNTAIN PACIFIC	510.3	3.5%	26.0	26.0	16.4	20.2	10.3
TUKMAN GROSSMAN CAPITAL MGMT	492.8	3.3%	20.7	20.7	17.0	17.2	7.0
DONALD SMITH & CO.	554.7	3.8%	33.9	33.9	19.3	22.0	11.3
PEREGRINE	471.1	3.2%	23.6	23.6	14.8	16.3	
TOTAL U.S. PUBLICLY TRADED EQUITY	3,958.4	26.9%	25.6	25.6	16.6	19.2	8.7
BENCHMARK - Russell 3000			25.2	25.2	16.5	19.3	8.2
PRIVATE EQUITY							
IDA-WEST	3.3	0.0%	8.1	8.1	20.1	19.8	21.5
GALEN III	34.2	0.2%	(1.8)	(1.8)	3.1	2.8	2.7
MCCOWN DE LEEUW	-	0.0%	0.0	0.0	0.0	12.3	(31.8)
PROVIDENCE EQ PARTNERS	55.4	0.4%	11.6	11.6	6.7	12.8	15.1
CHISOLM PARTNERS	2.6	0.0%	8.9	8.9	30.0	37.4	23.8
LITTLEJOHN II L.P.	2.5	0.0%	17.3	17.3	27.1	37.8	34.8
GOENSE BOUNDS	1.6	0.0%	(19.1)	(19.1)	(2.7)	(8.6)	(4.3)
HWY 12 FD VENTURE LP	67.0	0.4%	16.7	16.7	12.0	11.8	2.0
T3 PARTNERS II L.P.	98.8	0.7%	26.5	26.5	16.6	19.6	16.2
APOLLO MGMT LP	57.9	0.4%	35.0	35.0	21.7	33.5	29.7
GREEN EQUITY IV L.P.	47.6	0.3%	26.7	26.7	19.7	26.9	15.6
GORES CAPITAL AD LLC	33.9	0.2%	10.2	10.2	1.3	10.8	9.7
W CAPITAL PARTNERS	2.7	0.0%	(17.7)	(17.7)	(13.6)	(7.0)	(6.3)
FRAZIER TECH VENTURES II	24.0	0.2%	85.4	85.4	29.8	17.2	6.5
KOHLBERG & CO.	30.9	0.2%	1.2	1.2	10.3	12.3	
HAMILTON SECONDARY	21.4	0.1%	13.0	13.0	12.6	11.5	
CVC EUROPEAN EQUITY	38.0	0.3%	16.1	16.1	20.4	19.1	
HAMILTON LANE CO-INVESTMENT FUND	66.7	0.4%	23.3	23.3	15.9	15.2	
BRIDGEPOINT EUROPE III	17.6	0.1%	16.9	16.9	5.7	8.5	
NEWBRIDGE ASIA LP	16.8	0.1%	(9.7)	(9.7)	2.7	31.2	
JH WHITNEY EQUITY PARTNERS IV	30.1	0.2%	10.1	10.1	7.4	7.5	
BLACKSTONE CAPITAL PARTNERS	75.0	0.5%	25.3	25.3	17.8	17.4	
ENHANCED EQUITY FUND LP	40.3	0.3%	3.9	3.9	1.4	6.4	
LINDSEY, GOLDBERG, BESSEMER	43.2	0.3%	12.2	12.2	20.5	12.1	
KKR 2006 FUND	45.1	0.3%	13.0	13.0	13.8	19.6	
FIRST RESERVE FUND XI	54.7	0.4%	(4.7)	(4.7)	3.9	5.9	
CERBERUS INST PARTNERS	30.8	0.2%	8.3	8.3	9.2	15.8	
EPIC VENTURE FUND	11.6	0.1%	3.8	3.8	26.5	11.2	
ADVENT INTERNATIONAL	48.4	0.3%	35.5	35.5	24.5	20.6	
AMERICAN SECURITIES OPPORTUNITIES FUND II	15.2	0.1%	12.1	12.1	10.4		
VERITAS CAPITAL PARTNERS	18.3	0.1%	23.4	23.4	21.4		
ENDEAVOUR CAPITAL PARTNERS	15.3	0.1%	10.1	10.1			
ZESIGER CAPITAL GROUP	22.8	0.1%	1.6	1.6	(4.7)	0.7	0.8
TOTAL PRIVATE EQUITY	1,073.7	7.0%	15.6	15.6	12.6	15.4	12.1
REAL ESTATE							
KOLL PARTNERS	244.0	1.7%	(5.8)	(5.8)	(12.4)	(15.5)	(5.9)
OLYMPIC IDA FUND II	145.7	1.0%	23.6	23.6	26.0	4.1	
CASCADE	91.9	0.6%	18.1	18.1	(4.2)	(6.7)	
ADELANTE - PUBLIC R/E1	449.8	3.1%	17.7	17.7	13.3	25.0	9.3
MELLON CAPITAL MANAGEMENT REIT INDEX	215.9	1.5%	12.7	12.7			
PRUDENTIAL	43.1	0.3%	13.9	13.9	13.4	7.3	7.0
TOTAL R/E MANAGERS	1,190.4	8.2%	12.2	12.2	5.1	3.0	6.0
BENCHMARK - NCREIF			11.2	11.2	11.7	7.9	8.7
TOTAL U.S. EQUITY	6,222.5	42.1%	21.5	21.5	13.7	15.2	8.2
BENCHMARK - Russell 3000			25.2	25.2	16.5	19.3	8.2

(Continued)

Investment Results for the Year Ended June 30, 2014

MANAGERS	TOTAL MKT VAL ($ MILLION	% OF TOTAL FUND	FISCAL	1 YR.	3 YRS. *	5 YRS. *	10YRS. *
			Investment Performance for Periods Ending**				
GLOBAL EQUITY							
BARING ASSET MANAGEMENT	442.7	3.0%	18.9	18.9	8.5	13.1	8.4
BRANDES INVST PARTNERS	526.6	3.6%	27.5	27.5	13.3	15.2	6.3
CAPITAL GUARDIAN	475.4	3.2%	21.7	21.7	11.7	14.5	7.1
ZESIGER CAPITAL GROUP	408.3	2.9%	10.7	10.7	(0.2)	8.9	7.3
BERNSTEIN GLOBAL	538.5	3.7%	31.2	31.2	11.0	13.7	5.9
LONGVIEW PARTNERS	523.8	3.6%	28.0	28.0	17.9		
TOTAL GLOBAL EQUITY	2,915.3	20.0%	23.3	23.3	10.2	14.1	7.5
TOTAL U.S./GLOBAL EQUITY	9,137.8	62.1%	21.7	21.7	12.3	14.7	7.7
BENCHMARK - Russell 3000			25.2	25.2	16.5	19.3	8.2
INTERNATIONAL EQUITY							
GENESIS INVESTMENTS	393.6	2.7%	16.7	16.7	3.2	13.6	14.9
MELLON CAPITAL MANAGEMENT INTL STK INDX	569.0	3.9%	23.9	23.9	8.5	12.1	7.1
MONDRIAN	485.6	3.3%	28.1	28.1	10.0	12.8	8.6
BERNSTEIN EMERGING	379.1	2.6%	19.9	19.9	(2.4)	8.0	11.2
MELLON CAPITAL MANAGEMENT EMERGING STK INDX	371.0	2.6%	14.4	14.4			
TOTAL INTERNATIONAL EQUITY	2,198.3	15.1%	21.2	21.2	4.4	11.6	9.4
EAFE INDEX NET			23.6	23.6	8.1	11.8	6.9
TOTAL EQUITY	11,336.1	77.1%	77.2	2.1	5.3	21.6	21.6
BENCHMARK - Russell 3000			0.0	2.5	4.9	25.2	25.2
FIXED INCOME							
DBF & CO FIXED	150.7	1.0%	4.6	4.6	2.9	3.7	4.7
DBF & CO-IDAHO MTGS	514.7	3.5%	3.7	3.7	4.0	5.5	6.6
STATE ST ADV-FX	730.6	5.0%	4.4	4.4	4.1	5.2	5.1
SSGA-TIPS	988.2	6.7%	4.8	4.8	6.3	7.7	6.5
CLEARWATER-TBA	140.6	1.0%	5.1	5.1	2.5	3.9	4.7
REAL ESTATE PVT DEBT	10.5	0.1%	(30.8)	(30.8)	(22.8)	(11.7)	
BARING ASSET MANAGEMENT	188.2	1.3%	5.2	5.2	4.1	5.1	5.3
WESTERN ASSET	189.7	1.3%	7.5	7.5	6.0	9.8	
WESTERN TIPS	407.6	2.8%	4.1	4.1	3.4	5.5	
TOTAL FIXED INCOME	3,320.8	22.7%	4.4	4.4	4.5	6.0	5.7
BENCHMARK - BC Aggregate Bonds			4.4	4.4	3.7	4.9	4.9
OTHER							
UNALLOCATED CASH	27.9	0.2%	2.3	2.3	2.3	2.4	6.0
MELLON TRANSITION MANAGEMENT SERVICES[1]	1.8	0.0%	27.2	27.2	38.0	105.0	175.8
TOTAL OTHER	29.7	0.2%					
COMBINED TOTAL[2]	14,686.6	100.0%	17.2	17.2	9.1	12.0	7.8
BENCHMARK: 55% Russell 3000, 30% BC Aggregate Bonds, 15% MSCI EAFE Index			18.5	18.5	11.5	14.0	7.4

Add: Other PERSI DC Choice Plan Investments[2]	122.3
Sick Leave Fixed Income Investments	106.2
Sick Leave Equity Securities	278.2
Investments Purchased	246.0
Less: Interest and Dividends Receivable	(38.3)
Investments Sold	(138.0)
Total Pension Fund Investments Net of Receivables	15,263.0

*Rates of Return are annualized
**Performance is gross of fees
[1]Returns vary due to transaction size relative to market value
[2]Total Return Fund included in investment results

Prepared using a time weighted rate of return per
Mellon Analytic Solutions, a division of BNY Mellon Asset Servicing

(Concluded)

Schedule of Investment Income for the Last Six Years

Year		Interest		Dividends		Gains & Losses*		Total
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
2012		117,140,608		165,467,250		(86,288,779)		196,319,079
2013		110,329,885		180,373,163		817,663,490		1,108,366,538
2014		105,237,909		220,530,606		1,907,625,265		2,233,393,780

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

Largest Stock Holdings (by Market Value) June 30, 2014

	Shares	Stock		Market Value
1	1,822,868	WELLS FARGO & CO	$	95,809,942
2	939,335	APPLE INC		87,292,402
3	2,415,017	MICRON TECHNOLOGY INC		79,574,810
4	1,448,309	AMERICAN INTERNATIONAL GROUP INC		79,048,705
5	446,992	SIMON PROPERTY GROUP INC		74,325,830
6	614,461	SCHLUMBERGER LTD		72,475,675
7	50,271	SAMSUNG ELECTRONICS CO LTD		65,683,226
8	1,977,077	PFIZER INC		58,679,645
9	554,272	JOHNSON & JOHNSON		57,987,937
10	313,026	GOLDMAN SACHS GROUP INC		52,413,073

A complete list of portfolio holdings is available upon request.

Largest Bond Holdings (by Market Value) June 30, 2014

	Par	Bonds	Description		Market Value
1	72,685,566	US TREASURY INFLATION INDEX SECURITY	1.125% 01/15/2021 DD 01/15/11	$	78,733,223
2	76,397,769	US TREASURY INFLATION INDEX SECURITY	0.125% 01/15/2022 DD 01/15/12		76,905,127
3	71,872,096	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2016 DD 04/15/11		73,758,739
4	64,862,848	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2017 DD 04/15/12		67,092,508
5	61,768,583	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2018 DD 04/15/13		63,805,032
6	43,310,087	US TREASURY INFLATION INDEX SECURITY	3.875% 04/15/2029 DD 04/15/99		63,313,934
7	47,680,359	US TREASURY INFLATION INDEX SECURITY	2.375% 01/15/2025 DD 07/15/04		57,763,992
8	49,241,415	US TREASURY INFLATION INDEX SECURITY	0.625% 07/15/2021 DD 07/15/11		51,868,888
9	50,858,609	US TREASURY INFLATION INDEX SECURITY	0.125% 07/15/2022 DD 07/15/12		51,204,295
10	42,526,134	US TREASURY INFLATION INDEX SECURITY	2.000% 01/15/2026 DD 01/15/06		50,104,418

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2014

Broker Name	Base Commission	Total Shares	Commission per Share
UBS SECURITIES LLC, STAMFORD	$ 245,716	5,413,627	$ 0.04539
MORGAN STANLEY & CO INC, NY	213,122	16,776,565	0.01270
MERRILL LYNCH INTL LONDON EQUITIES	137,550	33,460,219	0.00411
DEUTSCHE BK SECS INC, NY	126,114	41,977,817	0.00300
GOLDMAN SACHS & CO, NY	122,581	12,078,936	0.01015
UBS EQUITIES, LONDON	115,597	21,909,645	0.00528
GOLDMAN SACHS INTL, LONDON	100,817	11,230,660	0.00898
MERRILL LYNCH PIERCE FENNER SMITH INC NY	95,975	2,885,832	0.03326
CREDIT SUISSE, NEW YORK	95,819	4,807,891	0.01993
BARCLAYS CAPITAL INC./LE, NEW JERSEY	91,211	1,795,422	0.05080
CREDIT SUISSE (EUROPE), LONDON	88,200	5,892,449	0.01497
DEUTSCHE BK INTL EQ, LONDON	86,547	7,994,624	0.01083
BARCLAYS CAPITAL LE, JERSEY CITY	84,862	2,330,699	0.03641
CITIGROUP GLOBAL MARKETS LTD, LONDON	82,979	14,189,970	0.00585
CITIGROUP GBL MKTS INC, NEW YORK	82,525	2,455,874	0.03360
SIDOTI & CO LLC, NEW YORK	82,091	2,206,044	0.03721
MORGAN STANLEY & CO, LONDON	72,946	4,469,869	0.01632
BERNSTEIN SANFORD C & CO, NEW YORK	64,095	2,247,712	0.02852
BARCLAYS CAPITAL, LONDON	63,990	6,829,519	0.00937
JEFFERIES & CO INC, NEW YORK	61,950	2,019,497	0.03068
CREDIT LYONNAIS SECS (ASIA), HONG KONG	60,703	34,074,003	0.00178
CITATION GROUP/BCC CLRG, NEW YORK	59,747	1,553,118	0.03847
J P MORGAN SECURITIES INC, BROOKLYN	58,877	2,857,582	0.02060
BNY CONVERGEX, NEW YORK	57,609	1,447,886	0.03979
MERRILL LYNCH PIERCE FENNER, WILMINGTON	55,929	5,908,098	0.00947
JOHNSON RICE & CO, NEW ORLEANS	53,138	1,328,439	0.04000
J.P. MORGAN CLEARING CORP, NEW YORK	51,154	3,100,979	0.01650
MORGAN J P SECS INC, NEW YORK	50,014	12,794	3.90918
JPMORGAN SECURITIES INC, NEW YORK	43,892	3,497,899	0.01255
INSTINET PACIFIC LTD, HONG KONG	42,674	16,220,840	0.00263
HSBC BANK PLC (MIDLAND BK)(JAC), LONDON	41,991	2,441,045	0.01720
INSTINET EUROPE LIMITED, LONDON	41,231	8,875,158	0.00465
INSTINET CORP, NY	41,124	1,750,030	0.02350
WEEDEN & CO, NEW YORK	40,555	1,080,580	0.03753
IVY SECURITIES INC, GREAT NECK	39,604	1,039,057	0.03812
MACQUARIE BANK LTD, HONG KONG	38,881	10,674,519	0.00364
KIM ENG SEC USA INC, NY	38,807	14,457,000	0.00268
J P MORGAN SECS LTD, LONDON	38,547	1,292,606	0.02982
CREDIT RESEARCH & TRADING LLC, JERSEY	36,350	1,097,486	0.03312
ROYAL BANK OF CANADA EUROPE LTD, LONDON	35,728	3,039,060	0.01176
WELLS FARGO SECURITIES LLC, CHARLOTTE	35,205	1,082,108	0.03253
Other Brokers Under $35,000	15,671,119	174,180,436	0.08997
TOTAL BROKER COMMISSIONS	**$ 4,643,566**	**493,983,594**	$ 0.00940

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, 2014

PRIVATE EQUITY COSTS

Advent International GPE, L.P.	$ 337,500
American Securities Opportunities Fund II, L.P.	300,000
Apollo Investment Fund, L.P.	171,723
Blackstone Capital Partners, L.P.	286,301
Chisholm/Nautic Partners , L.P.	(17,992)
CVC European Equity Partners, L.P.	397,405
Endeavour Capital Fund VI, L.P.	215,543
Enhanced Equity Funds, L.P.	204,207
EPIC Venture Fund IV, LLC	50,043
First Reserve, L.P.	513,193
Gores Capital Partners II, L.P.	192,018
Hamilton Lane Co-Investment Fund, L.P.	243,061
Hamilton Lane Secondary Funds, L.P.	200,000
Highway 12 Venture Funds, L.P.	144,055
J.H. Whitney, L.P.	125,508
KKR 2006 Fund, L.P.	152,889
Kohlberg Investors, L.P.	500,981
Lindsay Goldberg, L.P.	495,857
Littlejohn Associates LLC	267,092
Providence Equity Partners III, L.P.	156,303
T3 Partners II, L.P.	466,998
Veritas Capital Partners, LLC	39,552
W Capital Partners	110,906
	$ 5,553,143

Schedule of Fees and Commissions for the Year Ended June 30, 2014

Investment Fees	**Average Assets Under Management**	**Fees**	**Basis Points**
Investment Manager Fees			
Equity Managers	$ 9,183,339,823	$ 33,390,925	36
Fixed Income Managers	3,247,977,436	4,680,985	14
Real Estate Managers	536,348,836	4,456,046	83
Total Average Assets	$ 12,967,666,095		
Total Investment Manager Fees		42,527,956	33
Other Investment Service Fees			
Custodian/Record Keeping Fees		4,065,498	
Investment Consultant & Advisor Fees		818,484	
Legal Fees		160,981	
Actuary Service Fees		422,744	
Audit Fees		76,200	
Total Investment Service Fees		5,543,907	4
Total Defined Benefit Plans Fees		$ 48,071,863	37
Total Defined Contribution Plans' Fees		369,407	
Total Other Trust Funds' Fees		155,620	
Total Fees		$ 48,596,890	

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,
- the 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 7.50% 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 7.00%]. Assuming all of the actuarial assumptions are accurate, this 7.50% 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 7.50% 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 7.50% rate before fees and 7.00% rate net of fees assume an inflation rate of 3.25% and an annual general state salary growth rate of 3.75%. 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 7.50% [7.00% 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 7.50% 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;
- delegating and monitoring all other activities, including hiring and monitoring investment managers; and
- maintaining a reporting system that provides a clear picture of the status of the fund on a reasonably concurrent basis to both the Board and PERSI's constituencies.

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. Unless the Board provides otherwise, the custodian will also be responsible for monitoring class action litigation, filing and collecting claims on PERSI’s behalf, and reporting to PERSI on such activities.

(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 will normally have discretion to vote proxies according to their respective proxy voting policies, provided they vote those proxies in the best interest of our Fund. The Board may from time to time take any other action it deems appropriate in exercising PERSI's proxy voting powers, including but not limited to directing staff to vote individual proxies in a particular manner.

(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 to consistently 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 the 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 is equal to 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 or MSCI ACWI indexes are the benchmarks 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 and general international 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 Barclays Capital 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 Barclays Capital 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 Barclays Capital 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 Barclays Capital 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 Barclays Capital Government/Corporate Index or Barclays Capital Aggregate Index will be the benchmark for all non-mortgage fixed income managers. The Barclays Capital Mortgage Index will be the benchmark for all mortgage managers. The Barclays Capital 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 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 upon the recommendation of a qualified consultant after due diligence and with approval by the Board or a subcommittee appointed by the Board to review the recommendation. 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 Barclays Capital Government/Credit Index plus 3%. It is recognized that these investments will likely experience greater volatility than the comparable publicly traded securities and indices.

3. 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

(Expected Returns are before fees and expenses)

Asset Class	Expected Return	Expected Risk	Stretegic Normal	Strategic Ranges
Equities			70%	66%-77%
U.S./Global Equity	9.2%	19.0%	55%	50%-65%
International	9.3%	20.2%	15%	10%-20%
Fixed Income	3.1%	3.8%	30%	23%-33%
Cash	2.0%	0.9%	0%	0%-5%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.50%	3.25%	4.25%	n/a
Portfolio	7.34%	2.25%	5.09%	13.06%

VI. Deposit and Investment Risk Policy - GASB 40

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 instrument 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.