INVESTMENT SECTION

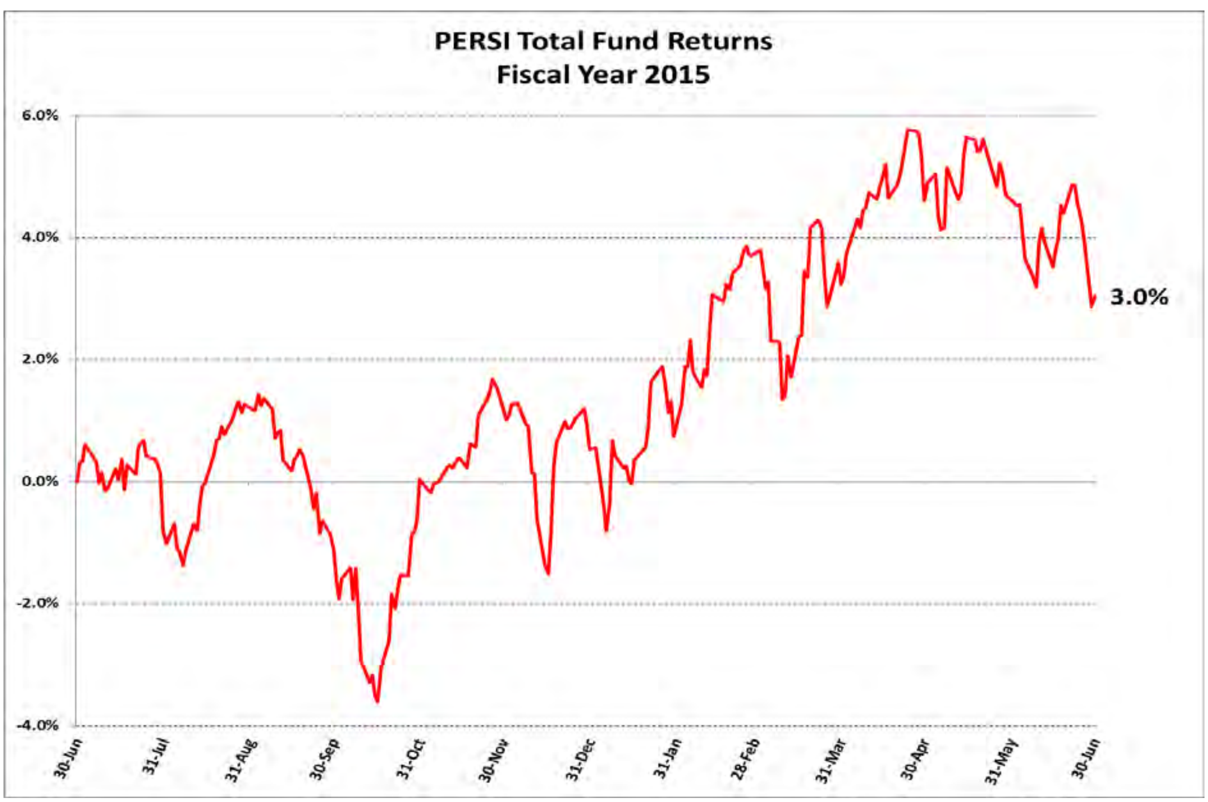
Helping Idaho public employees
build a secure retirement.

REPORT ON INVESTMENT ACTIVITY
OVERVIEW OF FISCAL YEAR 2015*

It was a tepid and below average year. With returns to the Defined Benefit Plans and Total Return fund of 3.0% and assets of $14.915 billion, the double digit market advances of the post 2008-2009 crash markedly slowed over the year. The end of quantitative easing by the Federal Reserve, an oil market crash, overseas economic woes (attended by yet another Greek crisis and actual default as the fiscal year drew to a close), a cold winter both climatically and economically, and a rapidly advancing dollar all combined to moderate the pace of capital market advancement. Nonetheless, the retirement funds broke through the $15 billion level before dropping back at the very end of the year and the funded status of the plan was 90.4% as the year closed.

It was another year where diversification hurt rather than helped overall fund returns. As has been the case for the past five years, the best performing public capital market was the S&P 500, with returns of 7.4%. The worst was again emerging market equities, with returns of -4.8%. Private real estate had a stellar year with returns of 16.9%, while private equity slightly lagged the public markets with a 7.2% return. In between were mid to small cap equities (R2500: 5.9%), REITS (5.2%), Aggregate bonds (1.9%), TIPS (-1.7%) and developed market equities (EAFE: -4.2%).

All in all, the markets mostly wandered sideways during the year, with moderate drops and recoveries characterizing much of the year, with a final drop at the end as Greece defaulted on its debt. The major capital market event was the end of the Federal Reserve's quantitative easing in the Fall, and the beginning of European quantitative easing in the early Spring. As a result, the PERSI fund, with a couple of mild setbacks, enjoyed moderate gains over the year – hitting bottom in mid-October and peaking in late April:



** The investment section of the CAFR was compiled using information from the System's custodial bank, Bank of New York Mellon, our consultant, Callan Associates, and internally generated data. Unless otherwise noted, investment returns are based on investment fair market values and made on a time weighted return methodology, gross of investment fees and consistent with Global Investment Performance Standards.*

The fiscal year began with the US equity markets almost (but not quite) hitting a "correction" level (defined as a 10% drop), as a stronger economy led to increasing bond yields and a rising dollar. With the expectation of the end of 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. Turmoil in the Middle East with ISIL, a spreading Ebola pandemic, continued Ukrainian tensions, and major democracy demonstrations in Hong Kong added to market uncertainty.

The late Fall and early Winter was characterized by a relatively strong and steadily recovering U.S. economy coupled with a depressing picture in almost all of the rest of the world economies (Japan, China, emerging markets and, particularly, Europe). As the non-market tensions of Ebola, the Ukraine, and ISIL moved away from center stage, the US markets, at least, resumed their slow but relatively steady rise. The fund ended the calendar year essentially even for the fiscal year to date at +0.5% and $14.7 billion.

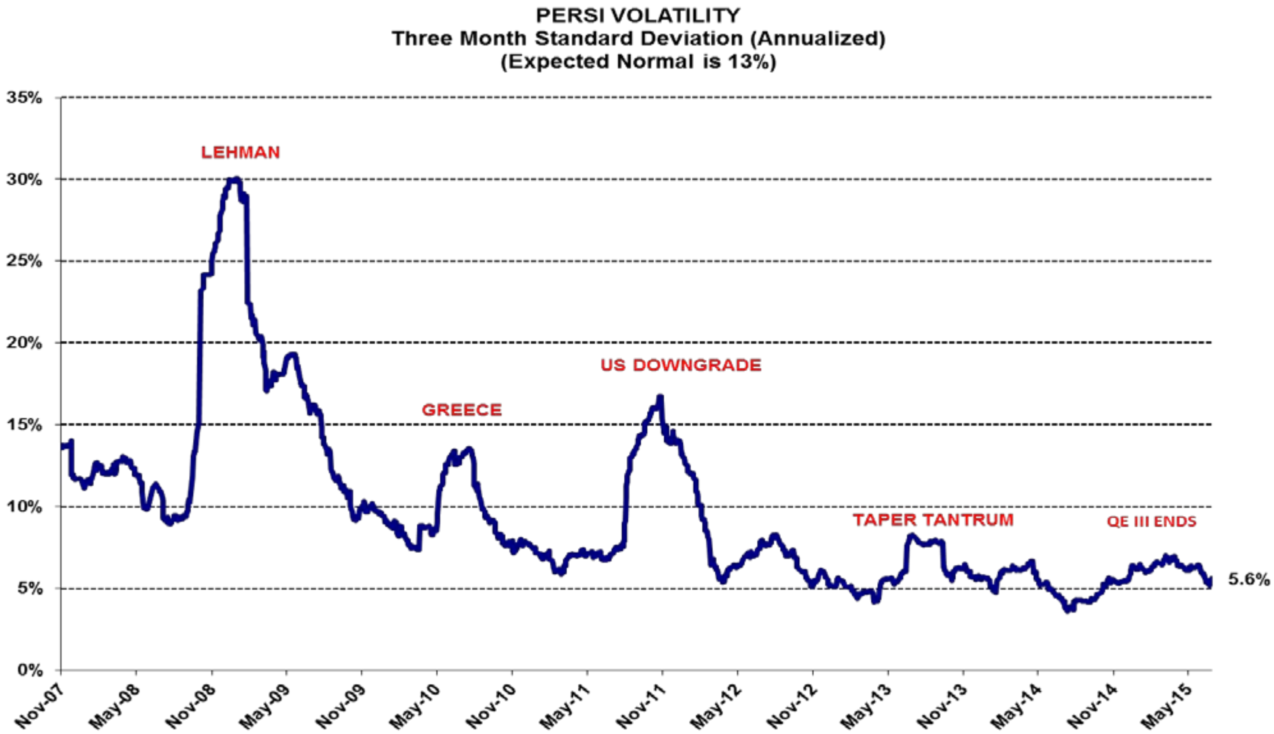
The new calendar year, however, saw another harsh winter, a major U.S. port strike, collapsing oil prices, continued Asian uncertainties and the return of European financial issues with yet another "Grexit" possibility. This offset continued global central bank loose monetary policies and, after an economic pause in the first quarter, a slowly rebounding US economy and a bottoming developed market economy. The markets dropped in early March and then rebounded as the harsh weather impacts faded, China appeared to be bottoming, and Japan and Europe showed incipient signs of recovery. By the end of April the PERSI fund reached all time return and asset level highs – well above $15 billion. For the rest of the fiscal year, the fund moved essentially sideways and then down as the prospect of generally increasing interest rates, full valuations, and potential European financial problems (Greece) were absorbed into expectations.

The surprise of the year, however, was the remarkable drop in European interest rates, with shorter term and even 10 year yields actually turning negative for part of the year. This put a cap on interest rates worldwide, and US government yields once again dropped below 2% before rising towards the end of the fiscal year (ending at around 2.3%). Most of Europe, including Spain, spent much of the year with even lower interest rates than the U.S., which resulted in a strong rebound in the dollar as the new calendar year began.

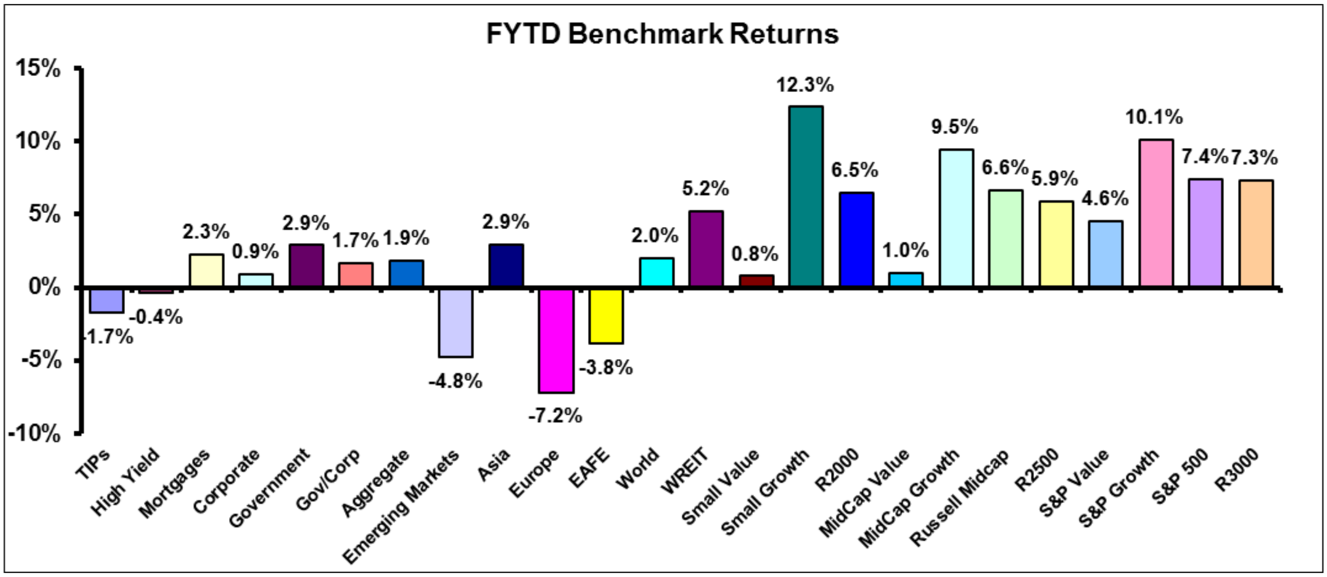
Nonetheless, volatility in all of the capital markets remained muted, and even the corrections and recovery of the past year was mild. All in all, the "boredom" of the recent capital and economic markets was the outstanding feature of the last year and a half, with the excitement located in political and military events in the Ukraine and in Northwest Iraq - areas with little direct economic or capital market impact – and the small economy of Greece.

Although mild, the fiscal year continued the historic rise of +120% for the fund since the crisis lows of March 2009:

This was combined with much lower than normal capital market volatility, with PERSI "risk" continuing to be well below half of what is normally expected (even with the latest Greece events):



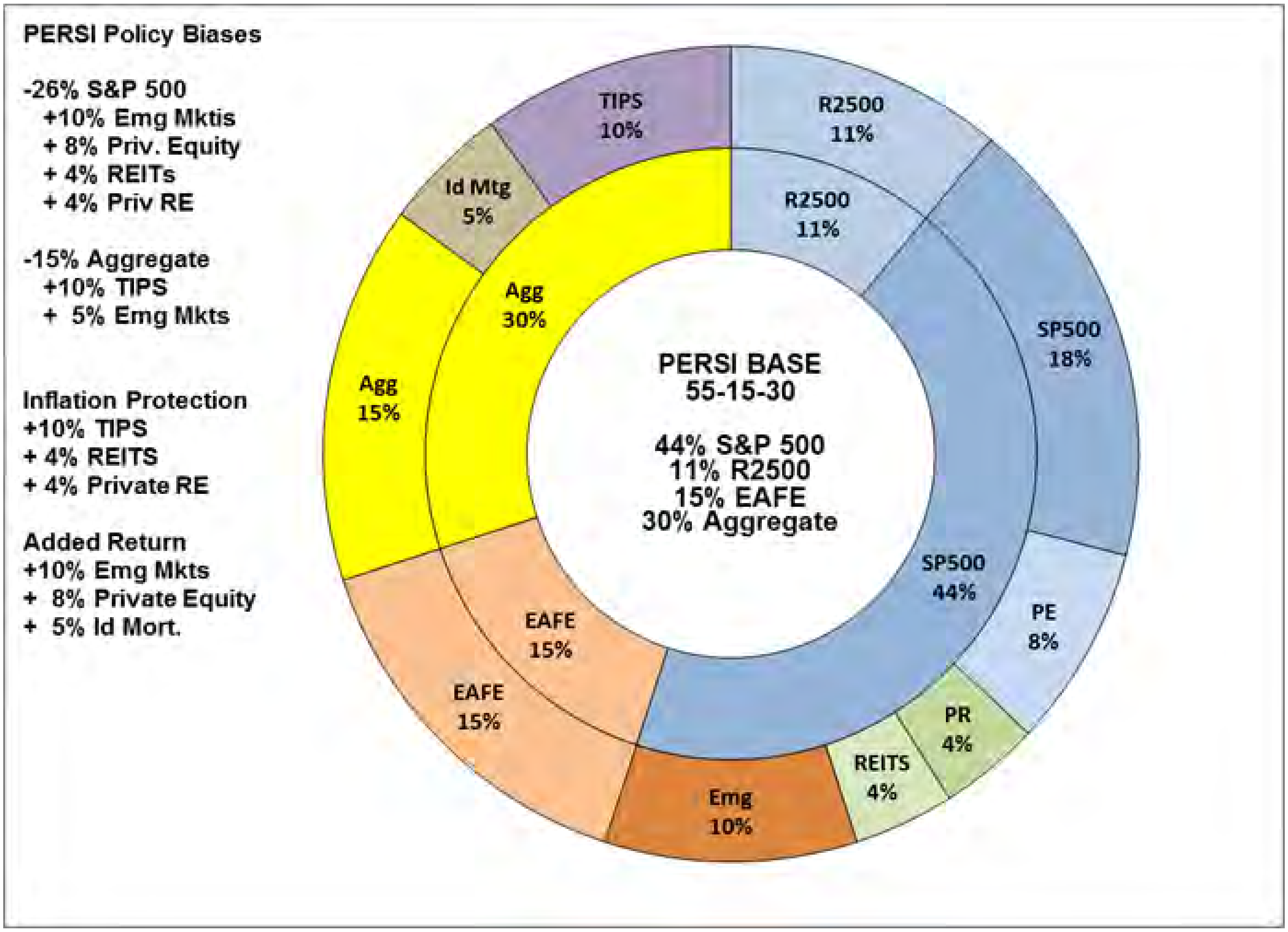
The equity markets continued to see the US equity markets having the best returns, with the S&P 500 returning 7.4% and the Russell 2500 mid/small cap returning 5.9%. "Growth" stocks handily outpaced "value" stocks for the year. MSCI EAFE developed markets had a poor year, with -3.8% returns, with Europe significantly underperforming Asia. Emerging markets, as has been the case for the past 5 years, noticeably underperformed the developed markets with losses of -4.8%. REITs (5.2%) and private equity (7.2%) also underperformed the public markets. The brightest spot was PERSI private real estate, which returned 16.9% reflecting the completion of a multi-year major portfolio restructuring. Investment grade bonds (1.9%) basically treaded water for the year and TIPS [Treasury Inflation Protected Securities] had one of their worst years on record with losses of -1.7%.



These markets, in fact, explain another feature of this fiscal year – that PERSI actual returns again trailed the reference 55% Russell 3000, 15% MSCI EAFE, 30% Barclay's Aggregate benchmark ["55-15-30"] by -1.0%.

As with fiscal year 2014, 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].

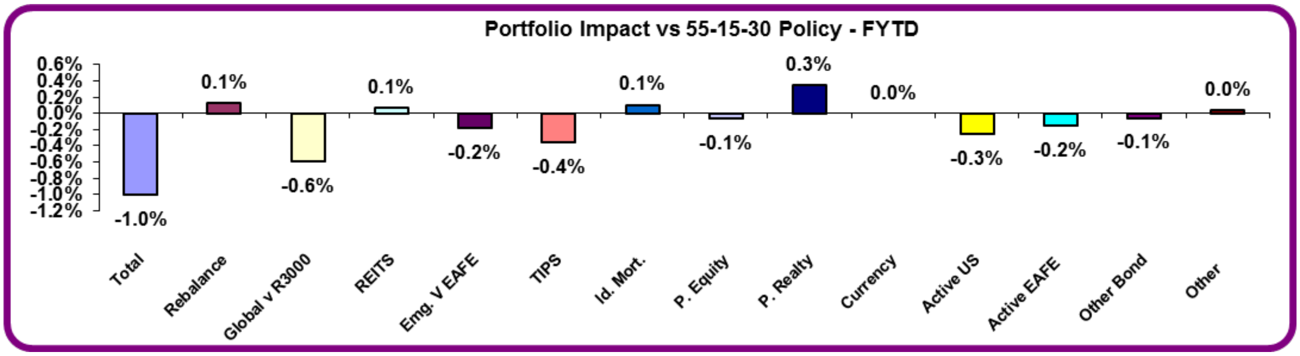


These shifts have been a basic feature of PERSI's strategic structure for at least the past two decades, and have been responsible for practically all of PERSI's relative performance both to peers and to the base reference 55-15-30 benchmark – both when PERSI is a top performing fund and also when it 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 PERSI faces is when the S&P 500 is a mediocre or terrible market both absolutely and relatively that PERSI needs protection – 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:

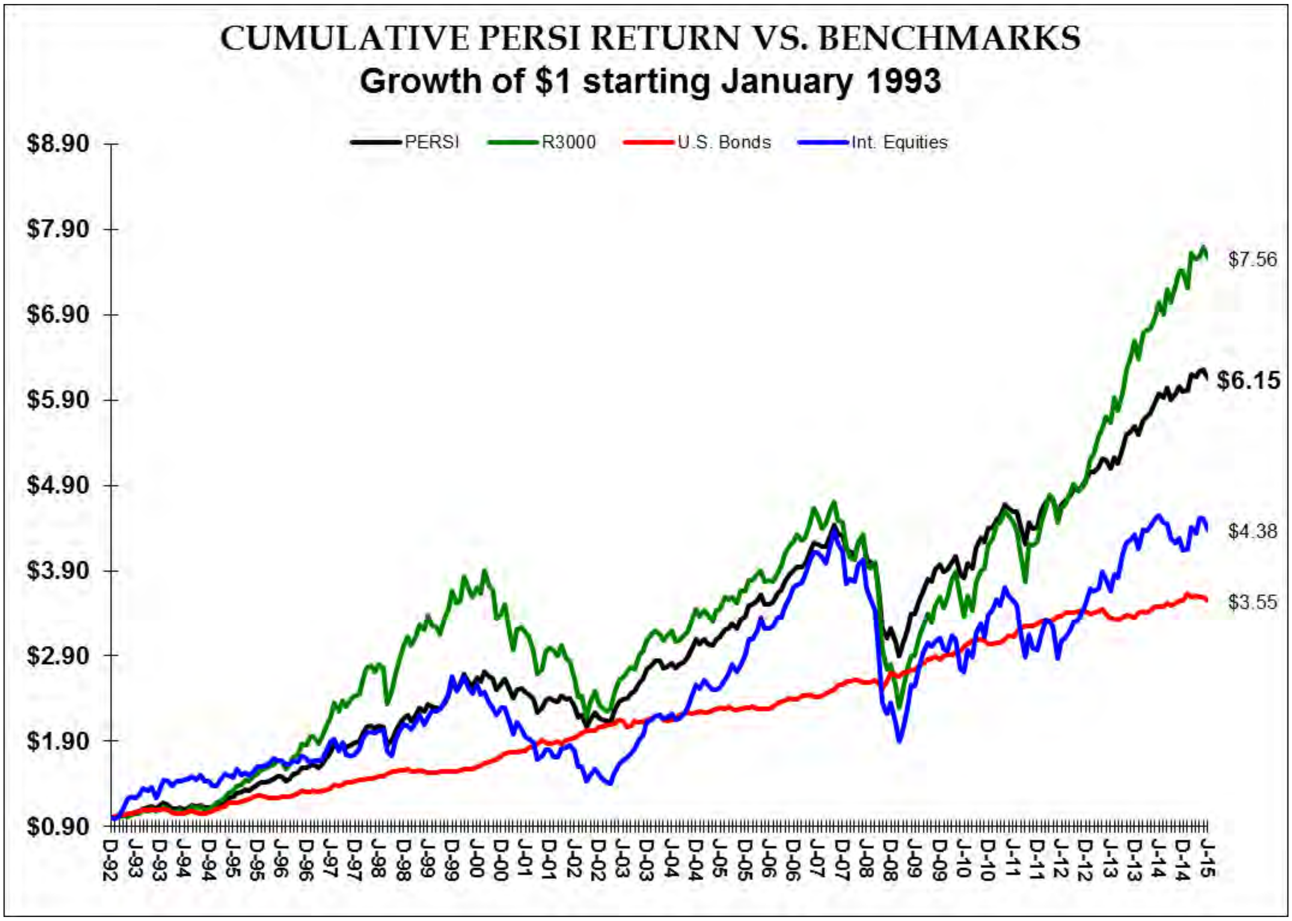


PERSI's institutional peer returns for the fiscal year have been around the median institutional and public fund. Long term returns (ten years plus) also continue to be significantly above average: Medium term returns (3-7 years), however, reflect the significant underperformance of emerging markets, private real estate, REITs and TIPS over the past few years:

RANKINGS IN MELLON MASTER TRUST
and CALLAN PUBLIC FUND UNIVERSES
June 30, 2015
Percentile Rankings over Period
(1 is highest, 100 is lowest)

	CY	*1Y*	*2Y*	*3Y*	*5Y*	*10Y*	*20Y*
Return (%)	**2.5**	**3.0**	**9.9**	**9.6**	**10.1**	**7.0**	**8.3**
Mellon Median Master	2.2	2.9	9.4	10.0	10.4	6.8	
Callan Median Public		3.2		10.3	10.4	6.6	7.8
PERSI Rank (Percentile)							
Mellon All Funds	**37**	**48**	**39**	**60**	**56**	**34**	
Callan Public Funds		**56**		**65**	**58**	**24**	**24**

PERSI's annualized return over the last 20 years have been 8.3% while the 55-15-30 reference benchmark return was 7.9% and the median public fund return has been 7.8%. Since 1993, every dollar invested in PERSI has returned over six fold, to $6.15:



PERSI's basic and relatively 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.

The overall PERSI US equity component returned 7.7%, outperforming the general US equity market (R3000) which returned 7.3%. Private real estate was the outstanding performer after completing a multi-year restructuring, with 16.9% returns. Peregrine large cap growth was the star of the public markets, with total returns of 16.3% for the year, outperforming their S&P growth index by 6.3%. Mountain Pacific, with 10.4% returns, also outperformed their midcap index by 4.5%. Tukman slightly underperformed their large cap mandate with returns of 6.3%, underperforming by -1.1%. After a multi-year run of outstanding returns, Donald Smith crashed with a loss of -10.4% for the year, trailing the general market by -16.9%. The Adelante REIT account outperformed not only their general benchmark by 4.0% but also the general market with 9.2% returns. Private equity underperformed marginally with 7.2% returns.

Global Equity outperformed the MSCI World market index with returns of 4.1%. This was above the MSCI World index (at 2.0%). Longview (12.2%) had another great year, while Barings (7.7%), Bernstein (4.3%), and Capital Group (4.5%), outperformed. Brandes lagged with -1.6% returns for the year.

Developed market international equity (MSCI EAFE) lost -3.8% for the year, although outperforming emerging market equity (MSCI Emerging Markets) at -4.8% for the fifth year in a row. Mondrian, our developed markets manager lagged the EAFE index with a -5.1% return, Bernstein Emerging (-2.4%) outperformed their index, while Genesis (-11.9%) had a very poor absolute and relative performance year.

PERSI fixed income made only 0.7% and lost to investment grade bonds as represented by the Barclay's Aggregate index at 1.9%. The reason was TIPS, which lost -1.8% for the year. This return melded the SSGA TIPs return of -1.7% and the Western active TIPs account return of -2.0%. Western with its nominal bond portfolio had an index like return of 1.8%, and Barings underperformed at 0.9%. Clearwater, whose mandate changed last year to the Aggregate Bond Index from mortgage backed only, also matched with 1.8% returns. Idaho Mortgages, which are priced off of the Treasury yield curve, had a very good year and were up 4.8%, while the DBF mortgage backed securities portfolio tracked the general mortgage market with 2.2% returns.

In summary, a positive but very mild year overall for PERSI.

ROBERT M. MAYNARD
Chief Investment Officer

INVESTMENT SUMMARY FOR THE YEAR ENDED 6/30/15

Types of Investment	Fair Value		Percent of Total Fair Value	
Short-term Investments		$ 347,469,408		2.4%
Fixed Income				
Domestic	3,231,115,287		22.4%	
International	37,901,492		0.3%	
Commercial Mortgages	553,504,788		3.8%	
Total Fixed Income		3,822,521,567		26.5%
Equity				
Domestic Equity	5,931,318,944		41.1%	
International Equity	2,854,495,604		19.8%	
Total Equity		8,785,814,548		60.9%
Private Equity		966,001,036		6.7%
Real Estate		506,568,317		3.5%
Total Defined Benefit Plans' Investments		$14,428,374,876		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		401,187,919		
Choice Plan 414(k)		60,258,896		
Choice Plan 401(k)		629,164,113		
Total Investments in All Funds		$15,518,985,804		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2015

Base Plan, Firefighters' Retirement Fund, and Judges' Plan

Adelante Capital Management	$ 424,995,336
Advent International, LP	55,318,041
Apollo Management, LP	39,256,896
American Securities Opportunities Associates II, LLC	23,172,250
Baring Asset Management-Global Equity	410,670,210
Baring Asset Management-Global Fixed Income	182,833,294
Bernstein-Emerging Markets	314,033,307
Bernstein-Global Equity	493,368,904
Blackstone Capital Partners, LP	83,977,759
BNY Mellon Capital Management-International Stock Index	494,238,138
BNY Mellon Capital Management-Mid Cap Completion	240,160,932
BNY Mellon Capital Management-R2000 Small Cap	165,646,783
BNY Mellon Capital Management-S&P 500 Large Cap	1,704,150,045
BNY Mellon Capital Management-REIT Index	210,901,131
BNY Mellon Capital Management-Emerging Market Index	580,321,318
Brandes Investment Partners	454,506,648
Bridgepoint Cap LTD	14,482,319
Capital Guardian	431,386,142
Cascade	94,168,509
Cerberus Investment Partners	15,572,706
Chisholm Management, LP	1,851,016
Clearwater Advisors, LLC-TBAs	137,731,020
CVC European Equity	26,326,115
D.B. Fitzpatrick & Co.-Fixed Income	111,928,421
D.B. Fitzpatrick & Co.-Idaho Mortgages	555,424,947
Donald Smith & Co.	438,296,090
Endeavour Capital	20,566,580
Enhanced Equity, LP	47,535,206
Epic Venture Fund	15,826,113
First Reserve Fund XI	32,458,338
Frazier Technology Ventures II, LP	22,325,269
Galen Associates, LP	35,190,903
Genesis Asset Managers	295,646,767
Goense Bounds & Partners, LP	1,052,135
Gores Capital Partners, LLP	27,682,905
Green Equity Investors IV, LP	36,026,962
Hamilton Lane Co - Investment Fund, LP	59,850,293
Hamilton Lane Secondary Fund, LP	19,361,518
Highway 12 Ventures, LP	52,459,695
Ida-West	3,151,617
JH Whitney & Co, LLC	26,281,913
KKR 2006 Fund, LP	47,307,387
Kohlberg & Co.	29,412,323
Koll Partners, LLP	253,960,624
Lindsay Goldberg & Bessemer	29,041,558
Littlejohn, LP	179,889
Longview Partners	515,562,885
Transition Management	1,705,666
Mondrian Investment Partners	400,805,853
Mountain Pacific Investment Advisors	492,448,423

(Continued)

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2015

Newbridge Asia, LP	4,266,418
Olympic IDA Fund II, LLC	199,602,220
Peregrine Capital Management	476,766,832
PERSI Cash in Short-Term Investment Pool	14,429,615
Private Debt	6,255,117
Providence Equity Partners, LLP	54,563,992
Prudential Investments	47,346,735
State Street Global Advisors-Fixed Income	1,152,736,422
State Street Global Advisors-TIPS	1,033,721,572
T3 Partners, LP	108,017,902
Tukman Grossman Capital Management	457,001,891
Veritas Capital Partners, LP	31,400,537
W. Capital Partners, LP	2,081,167
Western Asset Management	185,790,600
Western Asset-TIPS	384,429,005
Zesiger Capital Group	1,246,865
Zesiger Capital Group-Private Equity	23,340,467
Total Base Plan, Firefighters' Retirement Fund, and Judges' Retirement Fund	$ 14,353,556,456
Choice Plan	
Mellon Capital Management U.S. Bond Market Index Fund - Choice Plan	9,681,989
Mellon Capital Management U.S. Small/Mid Cap Equity Index Fund - Choice Plan	10,867,690
Mellon Capital Management U.S. Broad Market Equity Equity Index Fund - Choice Pl	5,316,140
Mellon Capital Management International Equity Index Fund - Choice Plan	5,112,903
Mellon Capital Management U.S. Large Cap Equity Index Fund - Choice Plan	15,694,148
Mellon Capital Management Emerging Market Equity Index Fund - Choice Plan	94,264
Mellon Capital Management U.S. Treasury Inflation-Protected Securities (TIPS) Inde:	106,952
Mellon Capital Management U.S. REIT Index Fund - Choice Plan	190,560
Brandes International Equity Fund - Choice Plan	7,314,394
Calvert SI Balance Fund - Choice Plan	2,069,706
Dodge and Cox Income Fund - Choice Plan	11,577,018
PERSI Choice Plan Contribution Holding Account	824,942
PERSI Choice Plan Loan Fund	8,706,885
Rowe Price Small Cap Fund - Choice Plan	20,196,900
Total Return Fund	561,931,323
Vanguard Growth & Income Fund - Choice Plan	19,729,187
PERSI Short Term Investment Portfolio	11,415,668
Total Choice Plan	690,830,669
Sick Leave Insurance Reserve Fund	
State Street Global Advisors-Domestic Equity	235,934,703
State Street Global Advisors-International Equity	55,428,302
State Street Global Advisors-Fixed Income	109,824,914
Total Sick Leave Insurance Reserve Fund	401,187,919
Total Fair Value, Including Investment Receivables and Payables	15,445,575,044
Add: Investments Purchased Payable	232,707,110
Less: Investments Sold Receivable	(111,457,406)
Less: Interest and Dividends Receivable	(47,838,944)
Total Fair Value, Net of Investment Receivables and Payables	$ 15,518,985,804

(Concluded)

Investment Results for the Year Ended June 30, 2015

MANAGERS	TOTAL FAIR 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	249.6	1.6%	5.7	5.7	20.2	18.7	9.9
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	172.1	1.2%	6.5	6.5	17.9	17.2	8.3
MELLON CAPITAL MANAGEMENT S&P 500 LC	1,770.9	11.9%	7.4	7.4	17.3	17.3	7.9
MOUNTAIN PACIFIC	511.7	3.4%	10.4	10.4	19.4	18.3	10.6
TUKMAN GROSSMAN CAPITAL MGMT	474.9	3.2%	6.3	6.3	16.1	15.8	8.2
DONALD SMITH & CO.	455.5	3.1%	(10.4)	(10.4)	15.2	13.1	9.4
PEREGRINE	495.4	3.3%	16.3	16.3	17.7	17.8	8.2
TOTAL U.S. PUBLICLY TRADED EQUITY	4,130.1	27.7%	6.2	6.2	17.4	16.9	8.7
BENCHMARK - Russell 3000			7.3	7.3	17.7	17.5	8.2
PRIVATE EQUITY							
IDA-WEST	3.3	0.0%	0.0	0.0	6.0	16.4	19.7
GALEN III	36.6	0.2%	7.1	7.1	4.4	2.1	4.2
PROVIDENCE EQ PARTNERS	56.7	0.4%	[illegible]	6.8	5.4	10.7	11.2
CHISOLM PARTNERS	1.9	0.0%	29.8	9.8	26.3	38.3	26.0
LITTLEJOHN II L.P.	0.2	0.0%	24.9	24.9	36.4	17.3	24.9
GOENSE BOUNDS	1.1	0.0%	(30.9)	(30.9)	(15.9)	(17.5)	(9.6)
HWY 12 FD VENTURE LP	54.5	0.4%	(3.3)	(3.3)	6.2	11.1	1.7
T3 PARTNERS II L.P.	112.2	0.8%	22.2	22.2	22.1	18.5	16.2
APOLLO MGMT LP	40.8	0.3%	2.8	2.8	21.6	18.2	23.4
GREEN EQUITY IV L.P.	37.4	0.3%	10.6	10.6	19.3	21.2	11.7
GORES CAPITAL AD LLC	28.8	0.2%	(17.7)	(17.7)	(5.5)	(0.2)	10.6
W CAPITAL PARTNERS	2.2	0.0%	(18.4)	(18.4)	(17.0)	(11.9)	(7.2)
FRAZIER TECH VENTURES II	23.2	0.2%	2.5	2.5	32.7	18.7	8.8
KOHLBERG & CO.	30.5	0.2%	24.0	24.0	12.1	15.0	7.4
HAMILTON SECONDARY	20.1	0.1%	13.8	13.8	10.5	13.4	12.7
CVC EUROPEAN EQUITY	27.4	0.2%	5.8	5.8	15.4	21.2	
HAMILTON LANE CO-INVESTMENT FUND	62.2	0.4%	16.6	16.6	21.7	14.4	
BRIDGEPOINT EUROPE III	15.0	0.1%	(9.7)	(9.7)	4.9	9.0	
NEWBRIDGE ASIA LP	4.4	0.0%	10.0	10.0	6.0	13.8	
JH WHITNEY EQUITY PARTNERS IV	27.3	0.2%	(12.4)	(12.4)	3.6	3.1	
BLACKSTONE CAPITAL PARTNERS	87.3	0.6%	15.7	15.7	22.3	15.4	
ENHANCED EQUITY FUND LP	49.4	0.3%	22.4	22.4	8.9	9.1	
LINDSEY, GOLDBERG, BESSEMER	30.2	0.2%	3.3	3.3	7.7	13.5	
KKR 2006 FUND	49.2	0.3%	17.3	17.3	17.4	15.7	
FIRST RESERVE FUND XI	33.7	0.2%	(32.5)	(32.5)	(12.7)	(4.4)	
CERBERUS INST PARTNERS	16.2	0.1%	10.2	10.2	11.3	11.7	
EPIC VENTURE FUND	16.4	0.1%	34.8	34.8	22.3	19.5	
ADVENT INTERNATIONAL	57.5	0.4%	8.1	8.1	21.0	16.7	
AMERICAN SECURITIES OPPORTUNITIES FUND II	24.1	0.2%	7.3	7.3	11.4	11.2	
VERITAS CAPITAL PARTNERS	32.6	0.2%	15.0	15.0	22.5		
ENDEAVOUR CAPITAL PARTNERS	21.4	0.1%	17.5	17.5	7.1		
ZESIGER CAPITAL GROUP	24.3	0.2%	6.6	6.6	0.1	0.8	2.0
TOTAL PRIVATE EQUITY	1,028.1	6.9%	7.2	7.2	12.1	12.9	10.7
REAL ESTATE							
KOLL PARTNERS	263.9	1.7%	19.1	19.1	(6.4)	(4.2)	(4.8)
OLYMPIC IDA FUND II	207.4	1.4%	11.0	11.0	20.3	24.4	
CASCADE	97.9	0.7%	26.0	26.0	2.8	1.2	
ADELANTE - PUBLIC R/E	441.6	3.0%	9.2	9.2	11.2	16.9	7.1
MELLON CAPITAL MANAGEMENT REIT INDEX	219.1	1.5%	5.4	5.4			
PRUDENTIAL	49.2	0.3%	14.2	14.2	12.6	15.8	6.8
TOTAL R/E MANAGERS	1,279.1	8.6%	12.1	12.1	6.1	9.0	4.5
BENCHMARK - NCREIF			12.7	12.7	11.5	12.8	8.4
TOTAL U.S. EQUITY	6,437.3	43.2%	7.5	7.5	13.8	14.4	7.9
BENCHMARK - Russell 3000			7.3	7.3	17.7	17.5	8.2

(Continued)

Investment Results for the Year Ended June 30, 2015

MANAGERS	TOTAL FAIR VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR.	3 YRS. *	5 YRS. *	10YRS. *
GLOBAL EQUITY							
BARING ASSET MANAGEMENT	426.7	2.9%	7.5	7.5	13.0	12.5	8.4
BRANDES INVST PARTNERS	472.3	3.2%	(1.8)	(1.8)	15.2	12.8	5.1
CAPITAL GUARDIAN	448.3	3.0%	4.4	4.4	16.0	13.3	6.7
ZESIGER CAPITAL GROUP	1.3	0.0%	(30.0)	(30.0)	(6.3)	(3.3)	2.1
BERNSTEIN GLOBAL	512.7	3.4%	4.1	4.1	19.3	12.7	4.7
LONGVIEW PARTNERS	535.7	3.6%	12.2	12.2	22.4		
TOTAL GLOBAL EQUITY	2,397.0	16.1%	4.1	4.1	15.1	12.2	6.8
TOTAL U.S./GLOBAL EQUITY	8,834.3	59.3%	6.3	6.3	14.2	13.7	7.4
BENCHMARK - Russell 3000			7.3	7.3	17.7	17.5	8.2
INTERNATIONAL EQUITY							
GENESIS INVESTMENTS	307.2	2.1%	(11.9)	(11.9)	2.8	4.7	9.6
MELLON CAPITAL MANAGEMENT INTL STK INDX	513.6	3.4%	(3.9)	(3.9)	12.3	9.9	5.4
MONDRIAN	416.5	2.8%	(5.2)	(5.2)	12.2	10.4	6.2
BERNSTEIN EMERGING	326.3	2.2%	(2.4)	(2.4)	4.4	3.0	6.7
MELLON CAPITAL MANAGEMENT EMERGING STK INDX	603.0	4.0%	(5.1)	(5.1)			
TOTAL INTERNATIONAL EQUITY	2,166.6	14.5%	(5.5)	(5.5)	7.6	6.8	6.9
EAFE INDEX NET			(4.2)	(4.2)	12.0	9.5	5.1
TOTAL EQUITY	11,001.0	73.8%	4.0	4.0	12.8	12.2	7.4
BENCHMARK - Russell 3000			7.3	7.3	17.7	17.5	8.2
FIXED INCOME							
DBF & CO FIXED	116.3	0.8%	2.2	2.2	1.8	2.8	4.4
DBF & CO-IDAHO MTGS	577.2	3.9%	4.9	4.9	2.4	4.5	6.3
STATE ST ADV-FX	1,197.8	7.9%	1.8	1.8	1.9	3.6	4.6
SSGA-TIPS	1,074.2	7.2%	(1.7)	(1.7)	(0.9)	5.1	5.1
CLEARWATER-TBA	143.1	1.0%	1.8	1.8	1.7	2.7	4.3
REAL ESTATE PVT DEBT	6.5	0.0%	(38.2)	(38.2)	(34.3)	(21.2)	
BARING ASSET MANAGEMENT	190.0	1.3%	0.9	0.9	1.8	3.6	4.6
WESTERN ASSET	193.1	1.3%	1.8	1.8	3.8	5.8	5.9
WESTERN TIPS	399.5	2.7%	(2.0)	(2.0)	(1.0)	3.0	
TOTAL FIXED INCOME	**3,897.7**	**26.1%**	0.6	0.6	0.7	4.0	4.9
BENCHMARK - BC Aggregate Bonds			1.9	1.9	1.8	3.4	4.4
OTHER							
UNALLOCATED CASH	15.0	0.1%	1.9	1.9	2.1	2.3	5.7
TRANSITION MANAGEMENT[1]	1.8	0.0%	31.0	31.0			
TOTAL OTHER	16.8	0.1%					
COMBINED TOTAL[2]	14,915.5	100.0%	3.0	3.0	9.6	10.1	7.0
BENCHMARK - 55% Russell 3000 30% BC Aggregate Bonds 15% MSCI EAFE Index			4.0	4.0	12.0	12.2	6.9

Add: Other PERSI DC Choice Plan Investments	128.9
Sick Leave Fixed Income Investments	109.8
Sick Leave Equity Securities	291.4
Investments Purchased	232.7
Less: Interest and Dividends Receivable	(47.8)
Investments Sold	(111.5)
Total Pension Fund Investments Net of Receivables	15,519.0

*Rates of Return are annualized
[1]Large inflows/outflows in this account results in widely variable returns
[2]Total Return Fund/FRF/Judges' Plan included in investment results
**accounts opened less than one year
Performance is gross of fees

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

(Concluded)

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Total
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
2015	114,333,491	198,258,329	153,584,037	466,175,857

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

Largest Stock Holdings (by Fair Value) June 30, 2015

	Shares	Stock	Fair Value
1	877,649	APPLE INC	$ 110,079,126
2	1,707,894	WELLS FARGO & CO	96,051,959
3	1,459,292	AMERICAN INTERNATIONAL GROUP INC	90,213,431
4	443,119	SIMON PROPERTY GROUP INC	76,668,449
5	566,843	WALT DISNEY CO.	64,699,460
6	1,787,687	PFIZER INC	59,941,145
7	50,877	SAMSUNG ELECTRONICS CO LTD	57,834,976
8	1,289,426	MICROSOFT CORP	56,928,158
9	130,928	AMAZON.COM INC	56,834,536
10	551,529	JOHNSON & JOHNSON	53,752,016

A complete list of portfolio holdings is available upon request.

Largest Bond Holdings (by Fair Value) June 30, 2015

	Par	Bonds	Description	Fair Value
1	50,515,919	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2018 DD 04/15/13	$ 51,309,170
2	49,834,778	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2019 DD 04/15/14	50,481,085
3	45,670,852	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2017 DD 04/15/12	46,291,701
4	42,598,279	US TREASURY INFLATION INDEX SECURITY	0.125% 01/15/2022 DD 01/15/12	42,215,576
5	41,038,191	US TREASURY INFLATION INDEX SECURITY	0.625% 01/15/2024 DD 01/15/14	41,737,112
6	39,158,218	US TREASURY INFLATION INDEX SECURITY	1.125% 01/15/2021 DD 01/15/11	41,418,978
7	41,639,230	US TREASURY INFLATION INDEX SECURITY	0.125% 07/15/2022 DD 07/15/12	41,323,688
8	41,146,257	US TREASURY INFLATION INDEX SECURITY	0.375% 07/15/2023 DD 07/15/13	41,294,136
9	34,693,460	US TREASURY INFLATION INDEX SECURITY	2.375% 01/15/2025 DD 07/15/04	40,813,594
10	41,484,215	US TREASURY INFLATION INDEX SECURITY	0.125% 01/15/2023 DD 01/15/13	40,751,769

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2015

Broker Name	Base Commission	Total Shares	Commission per Share
UBS SECURITIES LLC, STAMFORD	$ 571,300	9,323,143	$ 0.06128
MORGAN STANLEY & CO INC, NY	273,870	25,605,201	0.01070
STATE STREET GLOBAL MARKETS LLC, BOSTON	214,350	9,505,656	0.02255
MERRILL LYNCH INTL LONDON EQUITIES	163,329	39,831,986	0.00410
DEUTSCHE BK SECS INC, NY	139,486	37,757,655	0.00369
MERRILL LYNCH PIERCE FENNER SMITH INC NY	129,637	4,759,571	0.02724
JEFFERIES & CO INC, NEW YORK	128,351	3,340,850	0.03842
GOLDMAN SACHS & CO, NY	122,720	21,473,682	0.00571
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	116,308	15,375,535	0.00756
BERNSTEIN SANFORD C & CO, NEW YORK	108,938	4,695,649	0.02320
DEUTSCHE BK INTL EQ, LONDN	103,278	12,140,436	0.00851
J P MORGAN SECURITIES INC, BROOKLYN	101,299	3,736,977	0.02711
CREDIT LYONNAIS SECS (ASIA), HONG KONG	100,232	76,487,901	0.00131
CITIGROUP GBL MKTS INC, NEW YORK	94,984	3,325,309	0.02856
INSTINET CORP, NY	94,853	4,946,621	0.01918
UBS WARBURG, LONDON	94,227	24,655,774	0.00382
J P MORGAN SECS, NEW YORK	91,337	6,500,000	0.01405
WEEDEN & CO, NEW YORK	81,697	4,066,965	0.02009
J P MORGAN SECS LTD, LONDON	77,725	6,838,781	0.01137
CITIGROUP GLOBAL MARKETS LTD, LONDON	67,729	7,965,716	0.00850
RBC DOMINION SECS INC, TORONTO	59,826	1,356,677	0.04410
CREDIT SUISSE, NEW YORK	59,517	6,314,991	0.00942
ISI GROUP INC, NY	58,266	1,351,179	0.04312
CJS SECURITIES INC, JERSEY CITY	53,560	1,370,742	0.03907
J.P. MORGAN CLEARING CORP, NEW YORK	51,406	4,263,122	0.01206
BNY CONVERGEX, NEW YORK	50,677	1,274,983	0.03975
CSI US INSTITUTIONAL DESK,NEW YORK	48,631	1,108,873	0.04386
MORGAN STANLEY & CO, LONDON	48,513	6,372,270	0.00761
DEUTSCHE SEC ASIA LTD, HONG KONG	48,028	40,156,715	0.00120
CREDIT SUISSE (EUROPE), LONDON	44,594	13,126,970	0.00340
INSTINET PACIFIC LTD, HONG KONG	43,227	21,850,781	0.00198
RBC CAPITAL MARKETS LLC, NEW YORK	40,300	1,173,405	0.03434
BARCLAYS CAPITAL LE, JERSEY CITY	38,125	1,590,383	0.02397
MERRILL LYNCH PIERCE FENNER, WILMINGTON	37,997	5,247,646	0.00724
GUGGENHEIM CAPITAL MKT LLC, JERSEY CITY	37,840	945,995	0.04000
HSBC BANK PLC (MIDLAND BK)(JAC), LONDON	37,134	2,707,707	0.01371
GREEN STREET ADVISORS, JERSEY CITY	35,933	898,336	0.04000
UBS EQUITIES, LONDON	35,460	21,256,813	0.00167
Other Brokers under $35,000	1,425,810	413,959,458	0.00344
TOTAL BROKER COMMISSIONS	**$ 5,130,494**	**868,660,454**	$ 0.00591

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, 2015

PRIVATE EQUITY COSTS BY ACCOUNT

Advent International GPE, L.P.	$ 577,504
American Securities Opportunities Fund II, L.P.	289,839
Apollo Investment Fund, L.P.	87,638
Blackstone Capital Partners, L.P.	483,312
CVC European Equity Partners, L.P.	106,585
Endeavour Capital Fund VI, L.P.	288,056
Enhanced Equity Funds, L.P.	421,871
EPIC Venture Fund IV, LLC	50,000
First Reserve, L.P.	231,773
Hamilton Lane Co-Investment Fund, L.P.	725,812
Hamilton Lane Secondary Funds, L.P.	200,000
Highway 12 Venture Funds, L.P.	565,553
J.H. Whitney, L.P.	150,563
KKR 2006 Fund, L.P.	168,546
Kohlberg Investors, L.P.	617,221
Lindsay Goldberg, L.P.	290,874
Providence Equity Partners III, L.P.	574,851
T3 Partners II, L.P.	(601,568)
Veritas Capital Partners, LLC	72,838
TOTAL	$ 5,301,268

Schedule of Fees and Commissions for the Year Ended June 30, 2015

Investment Fees	**Average Assets Under Management**	**Fees**	**Basis Points**
Investment Manager Fees			
Equity Managers	$ 9,206,570,799	$ 31,134,370	34
Fixed Income Managers	3,936,990,390	6,412,307	16
Real Estate Managers	623,141,150	4,703,053	75
Total Average Assets	$ 13,766,702,338		
Total Investment Manager Fees		42,249,730	31
Other Investment Service Fees			
Custodian/Record Keeping Fees		4,173,208	
Investment Consultant Fees		935,251	
Legal Fees		350,497	
Actuary/Audit Service Fees		504,977	
Total Investment Service Fees		5,963,933	4
Less: Fees allocated to Total Return and PERSI Short Term Investment Portfolio Funds		(254,618)	
Total Defined Benefit Plans' Fees		$ 47,959,046	35
Total Defined Contribution Plans' Fees		499,221	
Total Other Trust Funds' Fees		165,319	
Total Fees		$ 48,623,586	

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.