INVESTMENT SECTION

PERSI

Helping Idaho public employees
build a secure retirement.

REPORT ON INVESTMENT ACTIVITY
OVERVIEW OF FISCAL YEAR 2016

Note: 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.

It was a "Groundhog Year": another tepid and below average year for the second year in a row. It also behaved and felt like the previous fiscal year (2015): a hole dug through a tough Fall and Winter, almost saved by a robust Spring rally that hinted at better times, only to be disappointed at the end by yet another European crisis.

With returns to the main Defined Benefit/Total Return fund of +1.8% gross, (+1.5% net) and assets of $14.846 billion, the double digit market advances of the post 2008-2009 crash are becoming a distant memory. The Sick Leave Fund, which is purely passively indexed to 55% R3000, 15% EAFE, and 30% Barclays Aggregate (PERSI's basic reference benchmark), ended the year with a gross return of +1.8% and assets of $410 million.

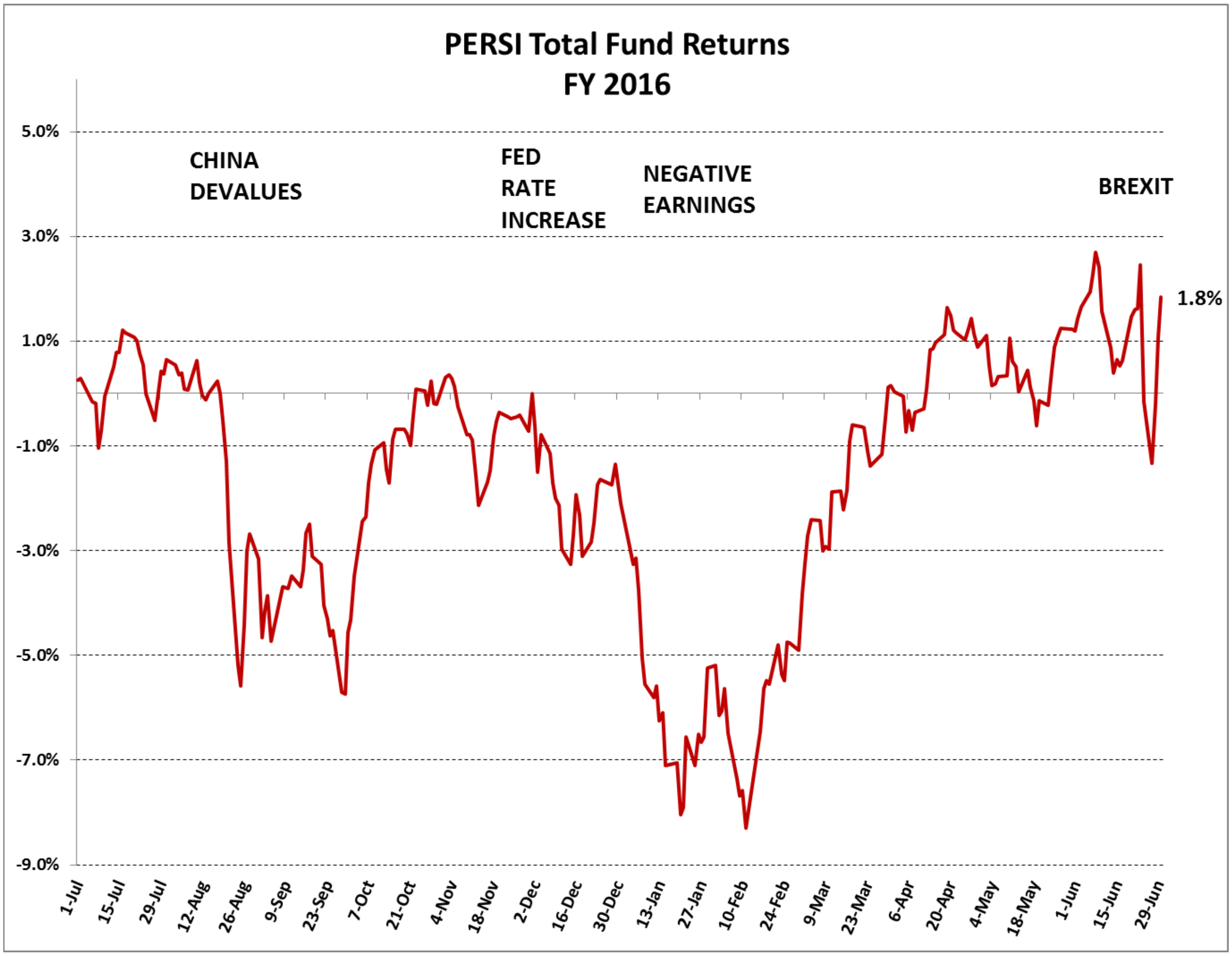
World capital markets have essentially moved sideways since the end of quantitative easing in the Fall of 2014, and no clear direction yet appears in sight. This past fiscal year saw the first (and still tentative) US interest rate increase, a continued oil market crash and partial recovery, overseas economic woes lead by a marked slowdown in the Chinese economy and attended by yet another European crisis [this time the vote in the UK to separate from the European Union ("Brexit")], another cold winter (at least economically) and an advancing dollar. All of these events combined keep the capital markets stalled.

It was another year where diversification hurt rather than helped overall fund returns. U.S. equities, both public and private, gave up their leading position to both bonds and real estate, with the Russell 3000 ending up only +2.1%, and private equity flat at +0.2%. The stellar performing capital market was real estate, both public and private, with REITs returning +21.6% and private real estate close behind at +18.0%. The worst was again emerging market equities, with returns of -11.2%, only slightly worse than general developed markets (EAFE) at -9.7%. Against all expectations, interest rates dropped over the year, and investment grade bonds had a very good year with returns of +6.0%.

All in all, the markets mostly sputtered during the year, with steep drops and recoveries characterizing much of the year, with a final drop at the end as the UK voted to pull out of the European Union ("Brexit"). The major capital market events were the marked slowdown in the Chinese economy with an accompanying devaluation of the yuan in the Fall, the implementation of the Federal Reserve's first interest rate increase in a decade in December, the collapse of corporate earnings in the Winter, and the continuation of European quantitative easing throughout the year: As a result, the PERSI fund, with a couple of steep setbacks, crawled back to essentially even over the year – hitting bottom in early February and peaking in early June.

The fiscal year began with the US equity markets hitting a "correction" level (defined as a 10% drop), as China stumbled, devaluated its currency, and its stock market continued its collapse. Commodities also collapsed, and emerging markets fell in conjunction. The market rebounded in October as the expected Fed interest rate increase was delayed and a US debt default was avoided. Overseas the markets continued to be concerned with a decelerating China, a moribund Europe, and even weaker emerging markets.

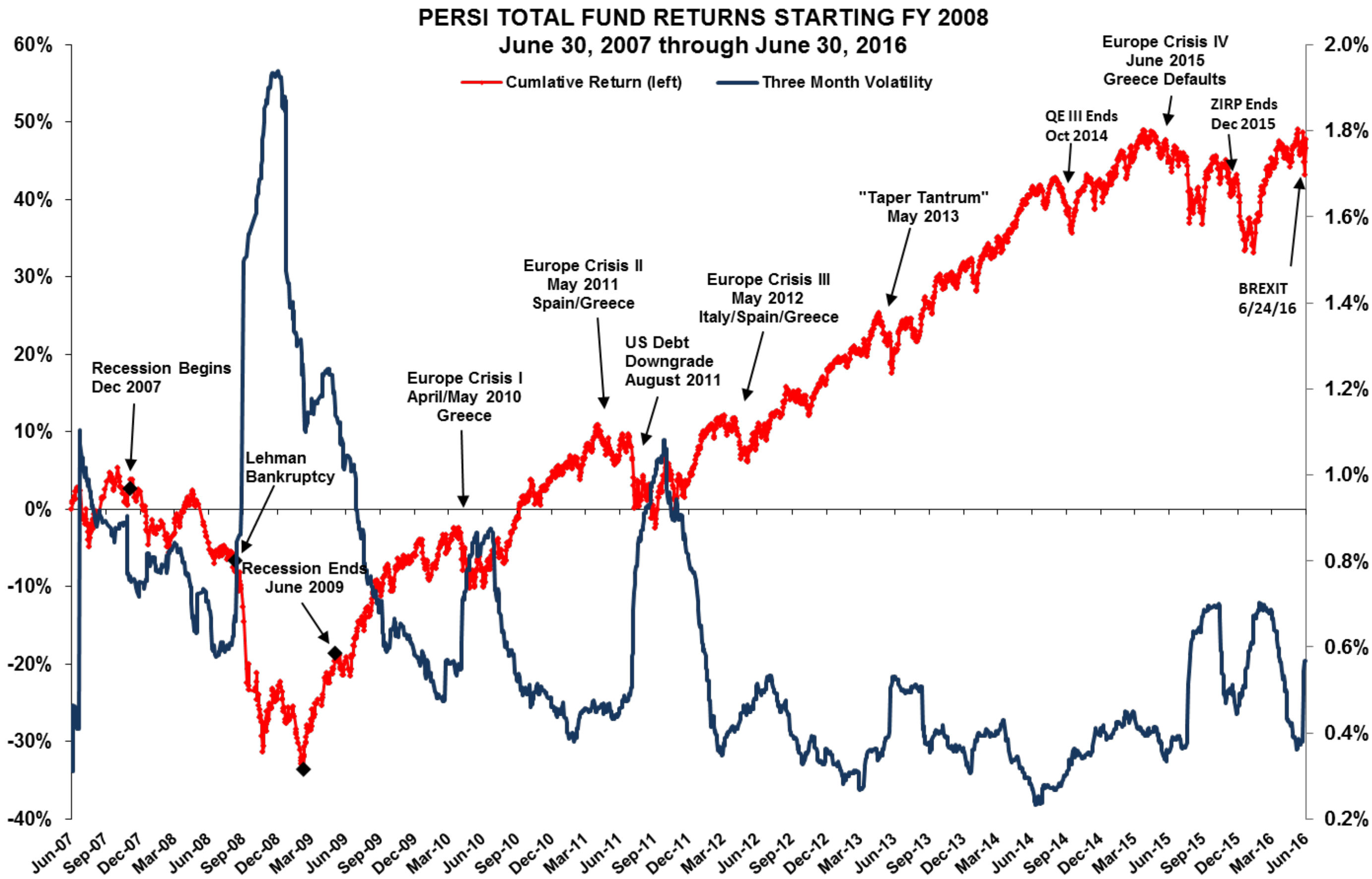
Winter was characterized by the first Fed rate increase in a decade, disappointing corporate revenues, and weak commodity prices (oil dropping into the $20s) – with the worst start in history to a new calendar year for the U.S. stock market. Fears of a looming worldwide recession began to make the economic rounds.



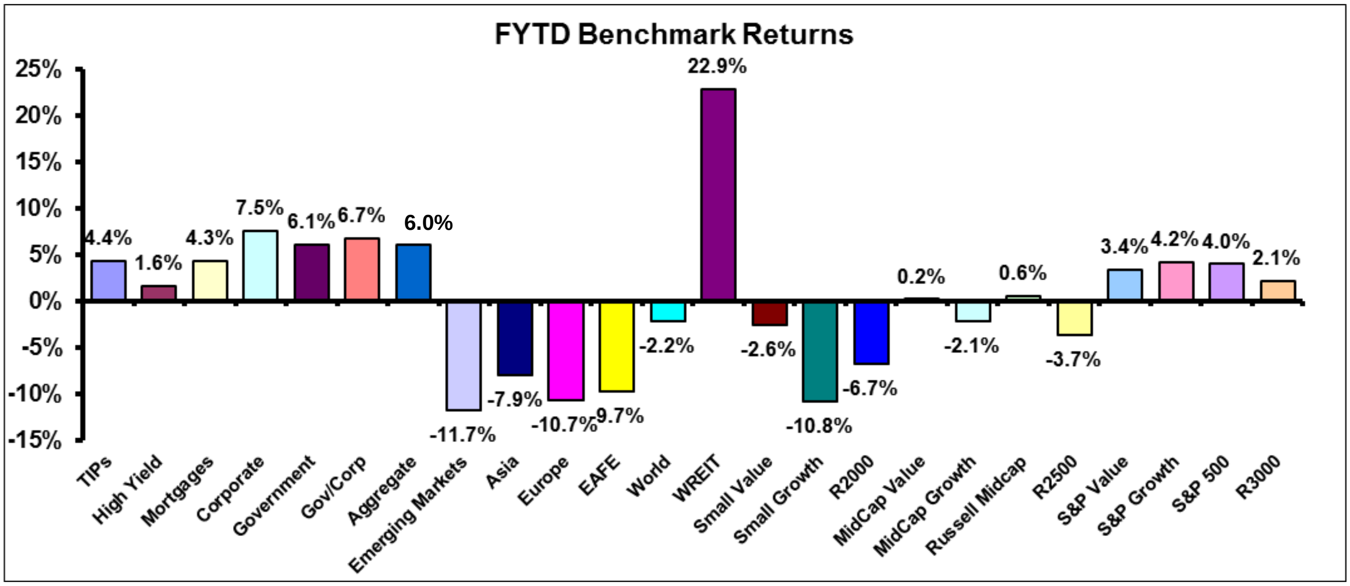
Spring, however, erased these concerns, as a strong labor market, continued US growth (although slow), recovering oil markets, and easing financial conditions triggered a strong "relief rally". The fund enjoyed one of the top ten months in its history with a March return of +5.3%. The advance generally continued until the fund hit an all-time return high on June 8th, before hitting the wall of "Brexit" and the accompanying collapse in mid to late June.

The surprise of the year, however, was the continued remarkable drop in worldwide interest rates, with shorter term and even 10 year yields turning negative for a large part of the developed world. US government yields once again dropped below 2% to end the year at 1.5%. Almost all of Europe, including Spain, and Japan spent the year with even lower interest rates than the U.S (with ten year yields in Switzerland, Germany, and Japan entering negative territory). These events resulted in a continued strong dollar.

This fiscal year saw the definite stalling of the remarkable capital market advancement since the fiscal crisis of 2008-2009. It also saw the reintroduction of capital market volatility after a period of relative calm following the U.S. debt downgrade of 2011.



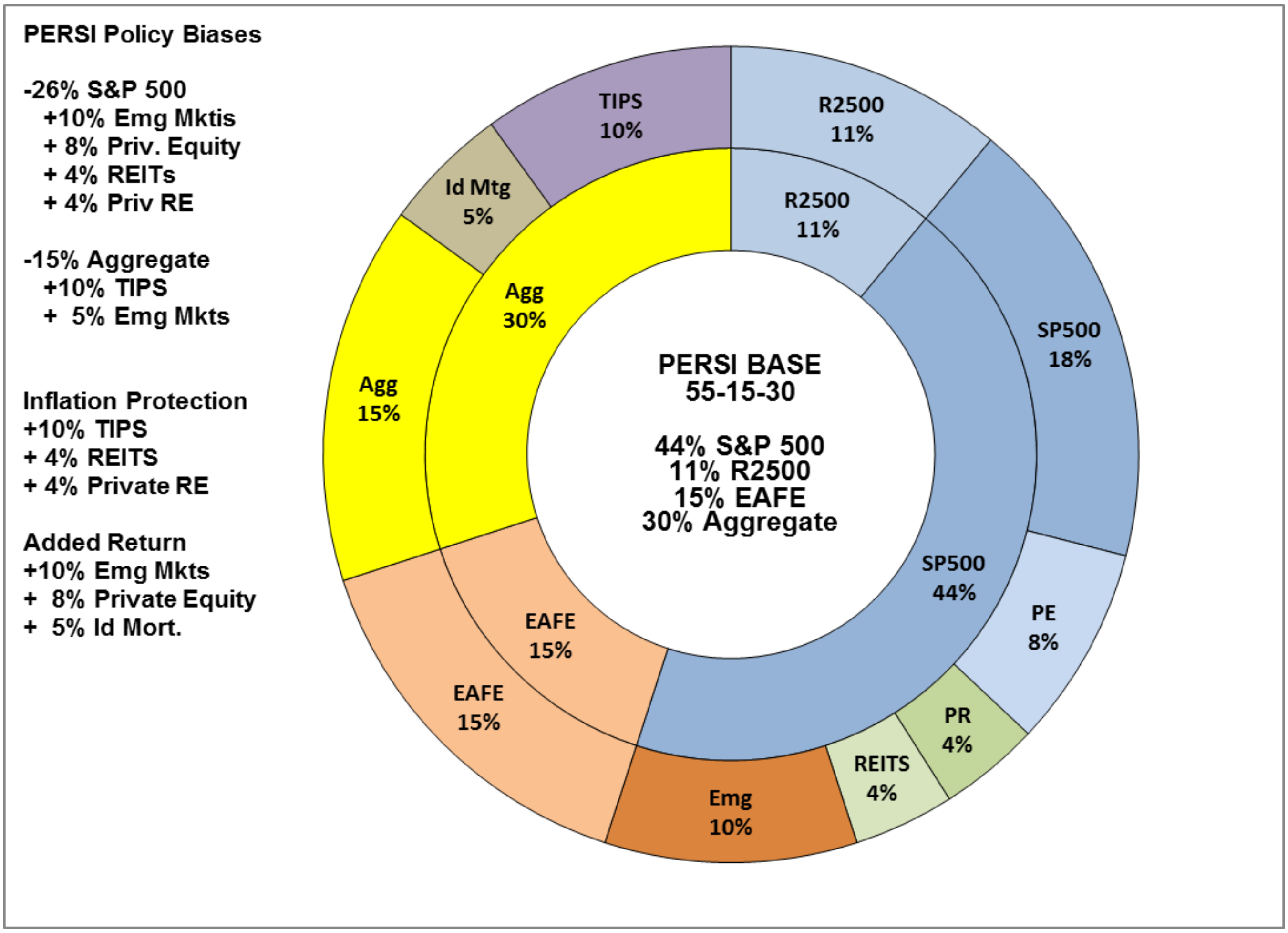
The equity markets had a mixed and mostly poor year. The S&P 500 returned +4.0% and the Russell 2500 mid/small cap lost -3.7%, resulting in an overall R3000 return of +2.1%. Large cap “growth” stocks outpaced large cap “value” stocks for the year, but the situation was reversed for mid and small cap U.S. stock, with small cap growth stocks losing -10.8%. MSCI EAFE (developed markets) had a very poor year with -9.7% 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 -11.7%. Private equity (+0.2%) also underperformed the public markets. The brightest spot was real estate, both public and private, which returned 21.6% in the public market and 18.0% privately. Investment grade bonds (6.0%) had a great year and TIPS [Treasury Inflation Protected Securities] fared only slightly worse with gains of +4.4%.



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 -0.13%.

As with fiscal year 2014 and 2015, 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].

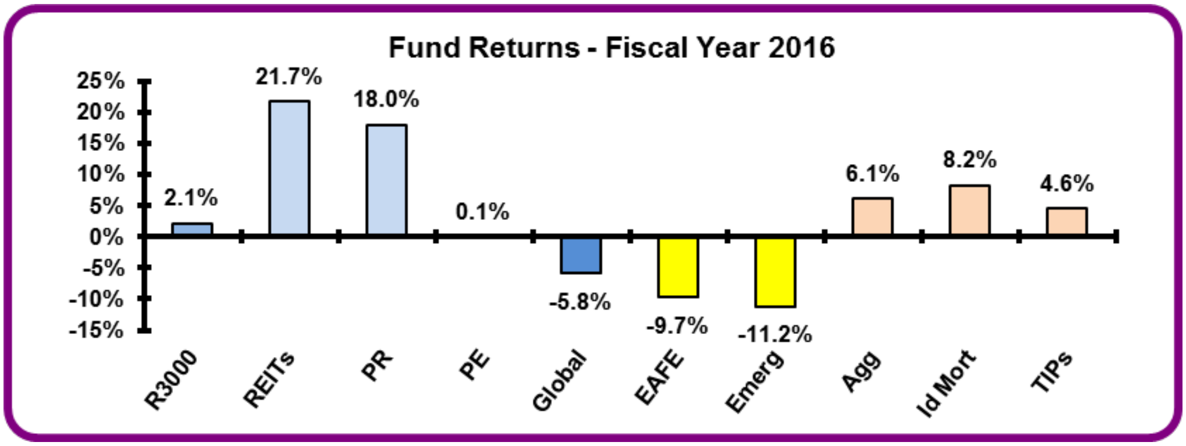


These shifts have been a basic feature of PERSI's strategic structure for at least the past two decades, and have been responsible for practically all of PERSI's relative performance both to peers and to the base reference 55-15-30 benchmark – both when PERSI is a top performing fund and also when it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

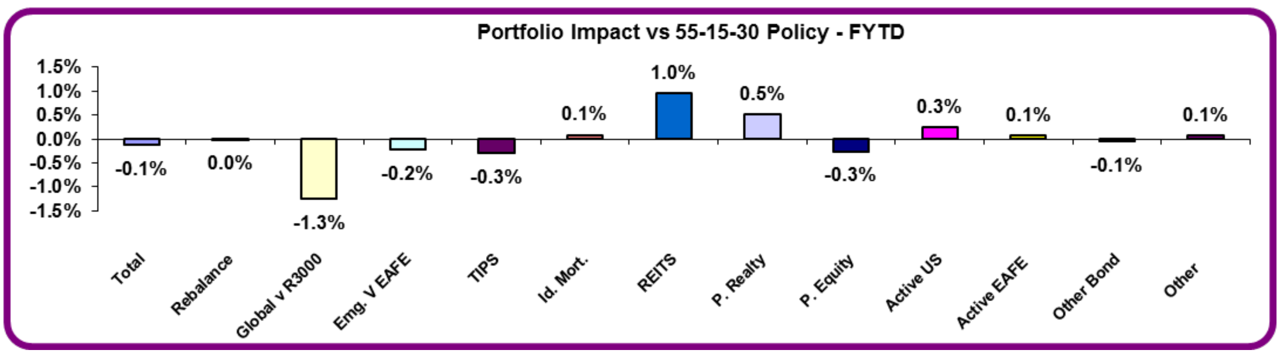
The central idea is that when the S&P 500 is one of the best performing capital markets in the world, PERSI will normally have no problem meeting its funding goals (as occurred in the mid-1990s and recently). The problem PERSI faces is when the S&P 500 is a mediocre or terrible market both absolutely 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 neutral, with global equities the major negative detractor and real estate the greatest positive influence:



Weighting these returns by the amount of money invested in those areas generates the relative contribution of each area (and active management) to portfolio returns relative to the 55-15-30 reference portfolio.



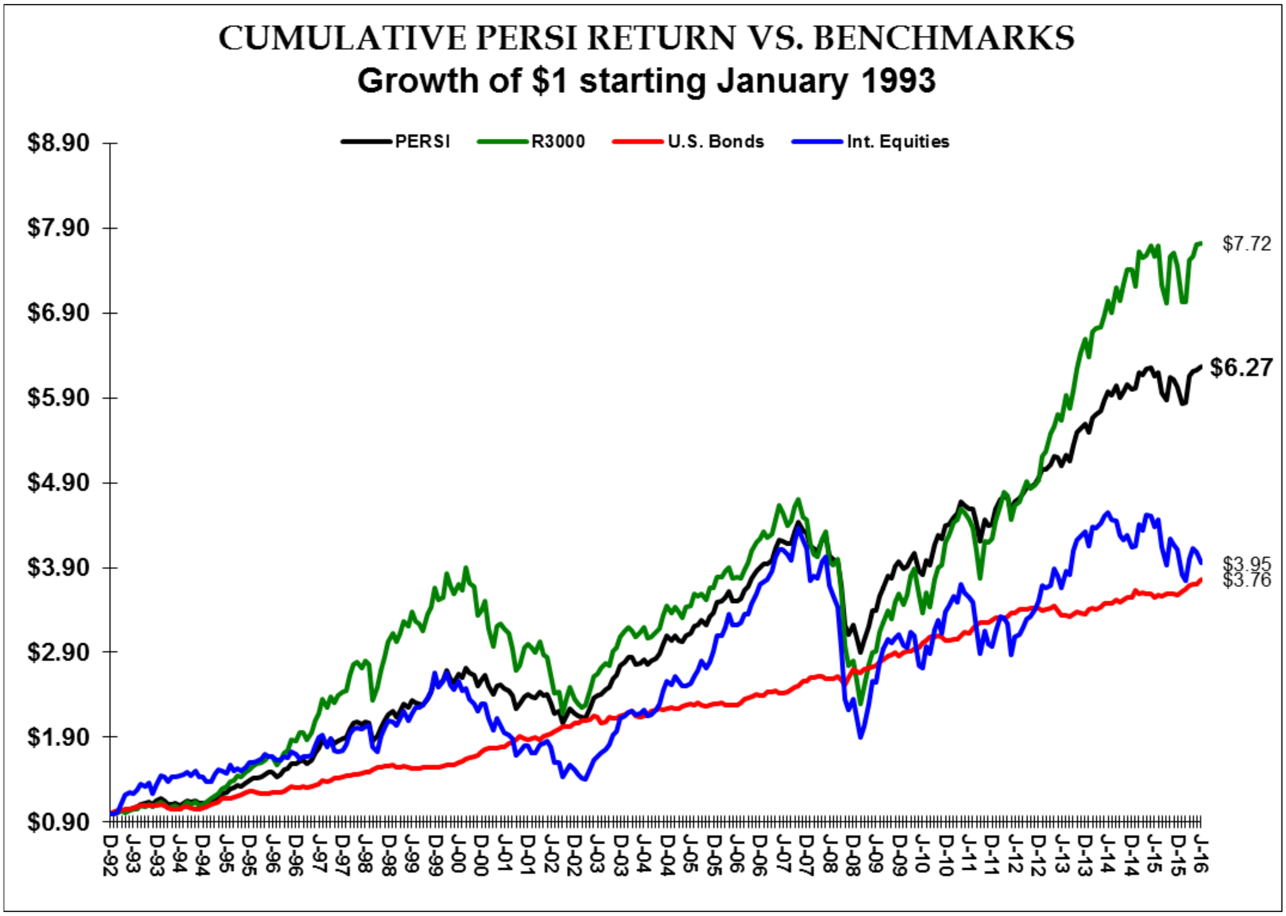
PERSI's institutional peer returns for the fiscal year have been good: handily above the median institutional and public fund. Long term returns (ten years plus) also continue to be significantly above average: Medium term returns (3-7 years), however, are more "in the pack" and reflect the significant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

RANKINGS IN MELLON MASTER TRUST
MELLON PUBLIC FUNDS and CALLAN PUBLIC FUND UNIVERSES
June 30, 2016 Percentile Rankings over Period
(1 is highest, 100 is lowest)

	1Yr	*2Yrs*	*3Yrs*	*5Yrs*	*10Yrs*	*20Yrs*
Return (%)	**1.8**	**2.4**	**7.2**	**6.4**	**6.0**	**7.5**
Mellon Median Master	0.6	1.9	6.3	6.4	5.7	
Mellon Median Public	0.9	2.2	6.7	6.5	5.7	
Callan Median Public	0.5	N/A	6.4	6.4	5.7	7.1
PERSI Rank (Percentile)						
Mellon All Funds	**33**	**38**	**34**	**52**	**39**	
Mellon Public Funds	**23**	**34**	**31**	**58**	**32**	
Callan Public Funds	**19**	**N/A**	**21**	**52**	**29**	**26**

PERSI's annualized return over the last 20 years has been 7.5% while the 55-15-30 reference benchmark return has returned 7.1%.

Since 1993, each dollar then invested in PERSI has returned over six fold, to $6.27:



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 +5.5%, markedly outperforming the general US equity market (R3000) which returned +2.1%. Real estate was the outstanding performer after completing a multi-year restructuring, with 19.7% returns (18.0% from private real estate and 21.7% from public real estate). Adelante had returns of 21.1%, trailing the REIT index by -1.8%, while the REIT index fund slightly underperformed with returns of +21.9%.

Mountain Pacific was the star of the rest of the public equity markets, with the best total return of 8.0% as well as the best relative return – beating their midcap index by +11.4%. Peregrine, with a return of +6.6% was next, outperforming their index by +2.4%. Tukman underperformed their large cap mandate with returns of +0.6%, underperforming by -3.4%. Donald Smith returned to form with returns of +0.9%, outpacing their small cap index by +7.6%. Private equity had a mediocre year with a miniscule +0.2% gain.

Global equity had a poor year, collectively underperforming the MSCI World market index with a loss of -5.8% compared to the index loss of -2.2%. Longview with a loss of -1.0% was the only global manager to outpace the index. Barings (-4.8%), Brandes (-9.1%), Bernstein (-9.7%), and Capital Group (-4.7%) all substantially lagged.

Developed market international equity (MSCI EAFE) lost -9.7% for the year, although outperforming emerging market equity (MSCI Emerging Markets) at –11.7% for the fifth year in a row. Mondrian, our developed markets manager beat the EAFE index with a -6.9% return. Bernstein Emerging (-14.4%) underperformed their index, while Genesis (-6.3%) outperformed.

PERSI fixed income made an unexpectedly strong +6.1%, matching the Barclay's Aggregate index at 6.0%. This return included the SSGA TIPs return of +4.6% and the Western active TIPs account return of +2.5%. Western with its nominal bond portfolio had an index beating return of 8.0%, and Barings only slightly underperformed at 6.0%. Clearwater also slightly underperformed with returns of 5.9%. Idaho Mortgages, which are priced off of the Treasury yield curve, had a very good year and were up 9.4%, while the DBF mortgage backed securities portfolio tracked the general mortgage market with 3.9% returns.

In summary, a slightly positive and tepid overall year for PERSI.

ROBERT M. MAYNARD
Chief Investment Officer

INVESTMENT SUMMARY FOR THE YEAR ENDED JUNE 30, 2016

Types of Investment	Market Value		Percent of Total Market Value	
Short-term Investments		$403,999,837		2.8%
Fixed Income				
Domestic	$3,201,024,467		22.3%	
International	26,474,473		0.2%	
Commercial Mortgages	675,293,078		4.7%	
Total Fixed Income		3,902,792,018		27.2%
Equity				
Domestic Equity	6,087,997,957		42.4%	
International Equity	2,547,177,986		17.8%	
Total Equity		8,635,175,943		60.2%
Private Equity		926,779,483		6.5%
Real Estate		476,657,856		3.3%
Total Base Plan Investments		$14,345,405,137		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		410,625,545		
Choice Plan 414(k)		55,184,817		
Choice Plan 401(k)		661,810,290		
Total Investments in All Funds		$15,473,025,789		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2016

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

Adelante Capital Management	$ 513,794,187
Advent International, LP	49,857,106
Apollo Management, LP	41,177,241
American Securities Opportunities Associates II, LLC	28,810,250
Baring Asset Management-Global Equity	390,339,871
Baring Asset Management-Global Fixed Income	193,504,982
Bernstein-Emerging Markets	268,327,401
Bernstein-Global Equity	444,836,792
Blackstone Capital Partners, LP	81,809,550
BNY Mellon Capital Management-International Stock Index	418,536,908
BNY Mellon Capital Management-Mid Cap Completion	208,520,183
BNY Mellon Capital Management-R2000 Small Cap	148,416,465
BNY Mellon Capital Management-S&P 500 Large Cap	1,677,762,762
BNY Mellon Capital Management-REIT Index	342,767,538
BNY Mellon Capital Management-Emerging Market Index	509,898,179
Brandes Investment Partners	412,566,998
Bridgepoint Cap LTD	21,959,655
Capital Guardian	410,337,863
Cascade	98,439,109
Cerberus Investment Partners	13,984,087
Chisholm Management, LP	1,188,383
Clearwater Advisors, LLC-TBAs	145,710,103
CVC European Equity	24,543,943
D.B. Fitzpatrick & Co.-Fixed Income	70,813,440
D.B. Fitzpatrick & Co.-Idaho Mortgages	677,399,623
Donald Smith & Co.	441,562,062
Endeavour Capital	31,538,650
Enhanced Equity, LP	36,053,305
Epic Venture Fund	13,995,333
First Reserve Fund XI	16,037,310
Frazier Technology Ventures II, LP	25,313,432
Galen Associates, LP	28,591,725
Genesis Asset Managers	276,761,713
Goense Bounds & Partners, LP	1,493,815
Gores Capital Partners, LLP	17,050,587
Green Equity Investors IV, LP	26,699,429
Hamilton Lane Co - Investment Fund, LP	53,251,566
Hamilton Lane Secondary Fund, LP	17,488,320
Highway 12 Ventures, LP	54,415,444
Ida-West	3,147,493
JH Whitney & Co, LLC	24,321,407
KKR 2006 Fund, LP	43,933,978
Kohlberg & Co.	34,483,061
Koll Partners, LLP	256,444,606
Lindsay Goldberg & Bessemer	27,753,794
Littlejohn, LP	74,408
Longview Partners	509,994,103
Mellon Transition Management Services	2,060,266
Mondrian Investment Partners	372,523,008
Mountain Pacific Investment Advisors	531,021,350

(Continued)

Newbridge Asia, LP	2,745,050	
Olympic IDA Fund, LLC	166,153,840	
Peregrine Capital Management	507,594,642	
PERSI Cash in Short-Term Investment Pool	61,800,349	
Providence Equity Partners, LLP	57,224,905	
Prudential Investments	54,007,626	
State Street Global Advisors-Fixed Income	1,077,665,362	
State Street Global Advisors-TIPS	1,079,988,109	
T3 Partners, LP	110,452,015	
Tukman Grossman Capital Management	459,044,996	
Veritas Capital Partners, LP	36,113,187	
W. Capital Partners, LP	1,271,054	
Western Asset Management	200,369,022	
Western Asset-TIPS	393,451,830	
Zesiger Capital Group	339	
Zesiger Capital Group-Private Equity	19,619,899	
Total Base Plan, Firefighters' Retirement Fund, and Judges' Retirement Fund		$ 14,268,815,009
Choice Plan		
Mellon Capital Management U.S. Bond Market Index Fund - Choice Plan	11,356,667	
Mellon Capital Management U.S. Small/Mid Cap Equity Index Fund - Choice Plan	10,930,622	
Mellon Capital Management U.S. Broad Market Equity Equity Index Fund - Choice Pl	7,104,845	
Mellon Capital Management International Equity Index Fund - Choice Plan	5,195,762	
Mellon Capital Management U.S. Large Cap Equity Index Fund - Choice Plan	18,681,693	
Mellon Capital Management Emerging Market Equity Index Fund - Choice Plan	400,527	
Mellon Capital Management U.S. Treasury Inflation-Protected Securities (TIPS) Inde:	468,076	
Mellon Capital Management U.S. REIT Index Fund - Choice Plan	2,291,869	
Brandes International Equity Fund - Choice Plan	6,339,460	
Calvert SI Balance Fund - Choice Plan	2,127,477	
Dodge and Cox Income Fund - Choice Plan	11,935,119	
PERSI Choice Plan Contribution Holding Account	811,546	
PERSI Choice Plan Loan Fund	8,786,761	
T. Rowe Price Small Cap Fund - Choice Plan	19,068,645	
Total Return Fund	578,038,714	
Vanguard Growth & Income Fund - Choice Plan	21,098,302	
PERSI Short Term Investment Portfolio	14,931,091	
Total Choice Plan		719,567,176
Sick Leave Insurance Reserve Fund		
State Street Global Advisors-Domestic Equity	241,352,689	
State Street Global Advisors-International Equity	49,957,268	
State Street Global Advisors-Fixed Income	119,315,588	
Total Sick Leave Insurance Reserve Fund		410,625,545
Total Market Value, Including Investment Receivables and Payables		15,399,007,730
Add: Investments Purchased Payable		286,890,388
Less: Investments Sold Receivable		(167,859,370)
Less: Interest and Dividends Receivable		(45,012,959)
Total Market Value, Net of Investment Receivables and Payables		$ 15,473,025,789

Investment Results for the Year Ended June 30, 2016

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	FISCAL	1 YR.	3 YRS. *	5 YRS. *	10YRS. *
			Investment Performance for Periods Ending				
U.S. EQUITY							
MELLON CAPITAL MANAGEMENT MID CAP	$ 217.0	1.4%	(4.3)	(4.3)	9.6	9.9	8.1
MELLON CAPITAL MANAGEMENT R2000 SMALL CAP	154.4	1.0%	(6.5)	(6.5)	7.2	8.5	6.2
MELLON CAPITAL MANAGEMENT S&P 500 LC	1,745.7	11.9%	4.0	4.0	11.6	12.1	7.5
MOUNTAIN PACIFIC	552.5	3.7%	8.0	8.0	14.5	13.5	10.2
TUKMAN GROSSMAN CAPITAL MGMT	477.6	3.2%	0.6	0.6	8.9	11.4	7.8
DONALD SMITH & CO.	459.5	3.1%	0.9	0.9	6.6	8.9	7.1
PEREGRINE	528.2	3.6%	6.6	6.6	15.3	13.4	8.5
TOTAL U.S. PUBLICLY TRADED EQUITY	4,134.9	27.9%	3.1	3.1	11.2	11.6	8.0
BENCHMARK - Russell 3000			2.1	2.1	11.1	11.6	7.4
PRIVATE EQUITY							
IDA-WEST	3.3	0.0%	0.0	0.0	2.6	11.6	15.4
GALEN III	29.7	0.2%	(8.5)	(8.5)	(1.3)	1.5	4.2
PROVIDENCE EQ PARTNERS	59.5	0.4%	14.7	14.7	11.0	8.3	9.5
CHISOLM PARTNERS	1.2	0.0%	1.6	1.6	12.8	23.7	22.3
LITTLEJOHN II L.P.	0.1	0.0%	(2.5)	(2.5)	12.6	20.1	24.5
GOENSE BOUNDS	1.6	0.0%	42.2	42.2	(7.3)	(2.0)	(7.8)
HWY 12 FD VENTURE LP	56.6	0.4%	3.7	3.7	5.4	7.1	0.7
T3 PARTNERS II L.P.	114.9	0.8%	10.3	10.3	19.5	16.4	11.2
APOLLO MGMT LP	42.8	0.3%	(4.4)	(4.4)	9.9	12.1	17.5
GREEN EQUITY IV L.P.	27.8	0.2%	5.9	5.9	14.1	14.9	13.3
GORES CAPITAL AD LLC	17.7	0.1%	4.1	4.1	(1.9)	(2.3)	8.7
W CAPITAL PARTNERS	1.3	0.0%	(28.6)	(28.6)	(21.7)	(17.8)	(11.3)
FRAZIER TECH VENTURES II	26.4	0.2%	13.5	13.5	29.2	20.6	10.0
KOHLBERG & CO.	35.9	0.2%	16.6	16.6	13.5	14.2	11.7
HAMILTON SECONDARY	18.2	0.1%	1.2	1.2	9.2	10.4	9.4
CVC EUROPEAN EQUITY	25.5	0.2%	5.4	5.4	9.0	14.3	
HAMILTON LANE CO-INVESTMENT FUND	55.4	0.3%	(7.0)	(7.0)	10.2	11.0	
BRIDGEPOINT EUROPE III	22.8	0.2%	3.9	3.9	3.1	2.1	
NEWBRIDGE ASIA LP	2.9	0.0%	(30.0)	(30.0)	(11.4)	(3.6)	
JH WHITNEY EQUITY PARTNERS IV	25.3	0.2%	(2.8)	(2.8)	(2.2)	1.1	
BLACKSTONE CAPITAL PARTNERS	85.1	0.6%	1.7	1.7	13.8	14.0	
ENHANCED EQUITY FUND LP	37.5	0.3%	(28.9)	(28.9)	(3.3)	(2.0)	
LINDSEY, GOLDBERG, BESSEMER	28.9	0.2%	2.2	2.2	5.8	13.1	
KKR 2006 FUND	45.7	0.3%	6.9	6.9	12.3	13.0	
FIRST RESERVE FUND XI	16.7	0.1%	(50.4)	(50.4)	(31.6)	(17.8)	
CERBERUS INST PARTNERS	14.6	0.1%	8.5	8.5	9.0	9.3	
EPIC VENTURE FUND	14.6	0.1%	(13.4)	(13.4)	6.6	18.8	
ADVENT INTERNATIONAL	51.9	0.3%	16.8	16.8	19.6	19.5	
AMERICAN SECURITIES OPPORTUNITIES FUND II	30.0	0.2%	(9.1)	(9.1)	3.0	5.6	
VERITAS CAPITAL PARTNERS	37.6	0.3%	7.8	7.8	15.2		
ENDEAVOUR CAPITAL PARTNERS	32.8	0.2%	7.8	7.8	11.7		
ZESIGER CAPITAL GROUP	20.4	0.1%	(15.8)	(15.8)	(3.1)	(4.9)	(2.1)
TOTAL PRIVATE EQUITY	984.7	6.6%	0.2	0.2	7.5	8.9	8.6
REAL ESTATE							
KOLL PARTNERS	266.8	1.7%	20.3	20.3	10.5	(0.7)	(3.1)
OLYMPIC IDA FUND II	172.9	1.2%	13.4	13.4	15.9	20.3	
CASCADE	102.4	0.7%	18.1	18.1	20.6	5.5	
ADELANTE - PUBLIC R/E	534.6	3.6%	21.1	21.1	15.9	14.0	6.7
MELLON CAPITAL MANAGEMENT REIT INDEX	356.7	2.4%	21.9	21.9			
PRUDENTIAL	56.2	0.4%	14.2	14.2	14.1	13.7	6.0
TOTAL R/E MANAGERS	1,489.6	10.0%	20.3	20.3	14.8	9.4	4.3
BENCHMARK - NCREIF			11.8	11.8	11.9	11.9	7.6
TOTAL U.S. EQUITY	$ 6,609.2	44.5%	6.0	6.0	11.3	10.6	7.3
BENCHMARK - Russell 3000			2.1	2.1	11.1	11.6	7.4

Investment Results for the Year Ended June 30, 2016

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	FISCAL	1 YR.	3 YRS. *	5 YRS. *	10YRS. *
GLOBAL EQUITY							
BARING ASSET MANAGEMENT	$ 406.1	2.7%	(4.8)	(4.8)	6.8	5.5	6.2
BRANDES INVST PARTNERS	429.3	2.9%	(9.1)	(9.1)	4.4	5.3	2.4
CAPITAL GUARDIAN	427.0	2.9%	(4.7)	(4.7)	6.6	6.7	4.4
ZESIGER CAPITAL GROUP	-	0.0%	(0.7)	(0.7)	(8.4)	(7.1)	(0.7)
BERNSTEIN GLOBAL	462.9	3.1%	(9.7)	(9.7)	7.2	5.1	1.2
LONGVIEW PARTNERS	530.7	3.6%	(1.0)	(1.0)	12.5		
TOTAL GLOBAL EQUITY	2,256.0	15.2%	(5.8)	(5.8)	6.5	5.6	4.1
TOTAL U.S./GLOBAL EQUITY	8,865.2	59.7%	2.8	2.8	10.0	9.1	6.2
BENCHMARK - Russell 3000			2.1	2.1	11.1	11.6	7.4
INTERNATIONAL EQUITY							
GENESIS INVESTMENTS	288.0	1.9%	(6.3)	(6.3)	(1.2)	(1.9)	5.9
MELLON CAPITAL MANAGEMENT INTL STK INDX	435.5	2.9%	(9.8)	(9.8)	2.4	2.0	1.9
MONDRIAN	387.6	2.6%	(6.9)	(6.9)	4.2	3.3	3.1
BERNSTEIN EMERGING	279.2	1.9%	(14.4)	(14.4)	0.1	(4.9)	2.0
MELLON CAPITAL MANAGEMENT EMERGING STK INDX	530.5	3.6%	(12.0)	(12.0)			
TOTAL INTERNATIONAL EQUITY	1,920.8	12.9%	(10.0)	(10.0)	1.0	(0.7)	3.2
EAFE INDEX NET			(10.2)	(10.2)	2.1	1.7	1.6
TOTAL EQUITY	10,786.0	72.6%	0.3	0.3	8.2	7.1	5.7
BENCHMARK - Russell 3000			2.1	2.1	11.1	11.6	7.4
FIXED INCOME							
DBF & CO FIXED	73.7	0.5%	3.9	3.9	3.5	2.9	4.7
DBF & CO-IDAHO MTGS	704.8	4.7%	9.4	9.4	5.9	5.2	7.4
STATE ST ADV-FX	1,121.4	7.6%	6.8	6.8	4.3	4.2	5.4
SSGA-TIPS	1,123.7	7.6%	4.6	4.6	2.5	4.3	5.8
CLEARWATER-TBA	151.6	1.0%	5.9	5.9	4.3	3.1	4.9
BARING ASSET MANAGEMENT	201.3	1.4%	6.0	6.0	4.0	3.8	5.3
WESTERN ASSET	208.5	1.4%	8.0	8.0	5.7	5.5	6.7
WESTERN TIPS	409.4	2.8%	2.5	2.5	1.5	2.1	
TOTAL FIXED INCOME	**3,994.4**	**27.0%**	6.1	6.1	3.7	4.0	5.6
BENCHMARK - BC Aggregate Bonds			6.0	6.0	4.1	3.8	5.1
OTHER							
UNALLOCATED CASH	64.3	0.4%	9.0	9.0	4.4	3.5	5.6
MELLON TRANSITION MANAGEMENT SERVICE [1]	2.1	0.0%	21.0	21.0			
TOTAL OTHER	66.4	0.4%					
COMBINED TOTAL [2]	14,846.8	100.0%	1.8	1.8	7.2	6.4	6.0
BENCHMARK - 55% Russell 3000 30% BC Aggregate Bonds 15% MSCI EAFE Index			1.6	1.6	7.8	7.9	6.2

Add: Other PERSI DC Choice Plan Investments	141.6
Sick Leave Fixed Income Investments	119.3
Sick Leave Equity Securities	291.3
Investments Purchased	286.9
Less: Interest and Dividends Receivable	(45.0)
Investments Sold	(167.9)
Total Pension Fund Investments Net of Receivables	$ 15,473.0

*Rates of Return are annualized

[1]Large inflows/outflows in this account results in widely variable returns

[2]Total Return Fund/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
Global Risk Solutions, a division of BNY Mellon Asset Servicing

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Total
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
2016	106,500,811	224,510,654	(57,751,134)	273,260,331

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

Largest Stock Holdings (by Market Value) June 30, 2016

	Shares	Stock	Market Value
1	493,293	SIMON PROPERTY GROUP INC	$ 106,995,252
2	1,677,281	AMERICAN INTERNATIONAL GROUP INC	88,711,392
3	1,678,077	WELLS FARGO & CO	79,423,384
4	107,310	AMAZON.COM INC	76,793,182
5	698,253	APPLE INC	66,752,987
6	545,802	JOHNSON & JOHNSON	66,205,783
7	1,291,497	MICROSOFT CORP	66,085,901
8	51,011	SAMSUNG ELECTRONICS CO LTD	63,107,791
9	244,100	PUBLIC STORAGE	62,389,519
10	1,682,151	PFIZER INC	59,228,537

A complete list of portfolio holdings is available upon request.

Largest Bond Holdings (by Market Value) June 30, 2016

	Par	Bonds	Description	Market Value
1	92,817,543	US TREASURY INFLATION INDEX SECURITY	0.625% 01/15/2026 DD 01/15/16	$ 95,349,855
2	70,625,754	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2020 DD 04/15/15	72,124,624
3	70,616,989	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2019 DD 04/15/14	71,547,099
4	71,567,602	US TREASURY INFLATION INDEX SECURITY	0.125% 04/15/2018 DD 04/15/13	71,111,829
5	64,925,390	US TREASURY INFLATION INDEX SECURITY	0.625% 01/15/2024 DD 01/15/14	67,127,841
6	66,475,105	US TREASURY INFLATION INDEX SECURITY	1.125% 01/15/2021 DD 01/15/11	64,723,506
7	58,545,584	US TREASURY INFLATION INDEX SECURITY	0.375% 07/15/2023 DD 07/15/13	60,907,289
8	60,652,159	US TREASURY INFLATION INDEX SECURITY	0.125% 01/15/2022 DD 01/15/12	59,754,312
9	50,971,719	US TREASURY INFLATION INDEX SECURITY	0.125% 07/15/2024 DD 07/15/14	52,620,959
10	52,843,257	US TREASURY INFLATION INDEX SECURITY	0.625% 07/15/2021 DD 07/15/11	51,862,575

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2016

Broker Name	Base Commission	Total Shares	Commission per Share
UBS SECURITIES LLC, STAMFORD	$ 692,318	6,995,599	$ 0.06128
MORGAN STANLEY & CO INC, NY	155,373	47,275,584	0.01070
STATE STREET GLOBAL MARKETS LLC, BOSTON	141,212	55,236,841	0.02255
MERRILL LYNCH INTL LONDON EQUITIES	116,017	10,569,547	0.00410
DEUTSCHE BK SECS INC, NY (NWSCUS33)	109,642	5,927,268	0.00369
MERRILL LYNCH PIERCE FENNER SMITH INC NY	99,378	5,840,031	0.02724
JEFFERIES & CO INC, NEW YORK	97,135	19,261,831	0.03842
GOLDMAN SACHS & CO, NY	94,435	3,582,076	0.00571
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	87,591	4,710,601	0.00756
BERNSTEIN SANFORD C & CO, NEW YORK	87,319	2,763,649	0.02320
DEUTSCHE BK INTL EQ, LONDN (DEUTGB22EEQ)	80,418	7,578,453	0.00851
J P MORGAN SECURITIES INC, BROOKLYN	77,985	2,565,247	0.02711
CREDIT LYONNAIS SECS (ASIA), HONG KONG	76,484	10,735,458	0.00131
CITIGROUP GBL MKTS INC, NEW YORK	72,970	2,846,327	0.02856
INSTINET CORP, NY	72,282	9,496,542	0.01918
UBS WARBURG, LONDON	67,898	5,672,146	0.00382
J P MORGAN SECS, NEW YORK	60,073	7,889,399	0.01405
WEEDEN & CO, NEW YORK	56,042	1,688,485	0.02009
J P MORGAN SECS LTD, LONDON	55,219	13,262,860	0.01137
CITIGROUP GLOBAL MARKETS LTD, LONDON	55,152	28,903,322	0.00850
RBC DOMINION SECS INC, TORONTO	53,040	25,560,087	0.04410
CREDIT SUISSE, NEW YORK (CSUS)	49,183	1,556,740	0.00942
ISI GROUP INC, NY	46,967	849,933	0.04312
CJS SECURITIES INC, JERSEY CITY	45,760	24,628,611	0.03907
J.P. MORGAN CLEARING CORP, NEW YORK	45,077	21,062,936	0.01206
BNY CONVERGEX, NEW YORK	43,559	2,198,661	0.03975
CSI US INSTITUTIONAL DESK,NEW YORK	39,374	1,305,886	0.04386
MORGAN STANLEY & CO, LONDON (MSLNGB2X)	39,089	22,825,340	0.00761
DEUTSCHE SEC ASIA LTD, HONG KONG	37,629	1,549,519	0.00120
CREDIT SUISSE (EUROPE), LONDON	35,765	16,353,561	0.00340
Other Brokers under $35,000	1,195,627	145,301,642	0.00823
TOTAL BROKER COMMISSIONS	**$ 3,986,013**	**515,994,182**	$ 0.00772

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, 2016

PRIVATE EQUITY COSTS BY ACCOUNT

Advent International GPE, L.P.	$ 396,832
*Ascribe Capital LLC	826,949
Apollo Investment Fund, L.P.	266,142
Blackstone Capital Partners, L.P.	652,180
Bridgepoint Capital LTD	524,462
CVC European Equity Partners, L.P.	369,902
Endeavour Capital Fund, L.P.	553,515
Enhanced Equity Funds, L.P.	642,144
First Reserve, L.P.	231,148
Gores Capital Partners, L.P.	(34,615)
Hamilton Lane Co-Investment Fund, L.P.	269,632
Hamilton Lane Secondary Funds, L.P.	161,155
Highway 12 Venture Funds, L.P.	122,500
J.H. Whitney, L.P.	277,456
KKR, L.P.	261,311
Kohlberg Investors, L.P.	337,727
Lindsay Goldberg, L.P.	260,161
Providence Equity Partners III, L.P.	546,932
TPG, L.P.	337,989
Veritas Capital Partners, LLC	160,602
TOTAL	$ 7,164,126

*formerly American Securities Opportunities

Schedule of Fees and Commissions for the Year Ended June 30, 2016

	Average Assets Under Management	Fees	Basis Points
Investment Fees			
Investment Manager Fees			
Equity Managers	$ 8,986,188,961	$ 29,546,999	33
Fixed Income Managers	3,978,079,702	6,518,619	16
Real Estate Managers	502,367,262	4,354,771	87
Total Average Assets	$ 13,466,635,924		
Total Investment Manager Fees		40,420,389	30
Other Investment Service Fees			
Custodian/Record Keeping Fees		3,047,611	
Investment Consultant Fees		961,312	
Legal Fees		242,705	
Actuary/Audit Service Fees		444,010	
Total Investment Service Fees		4,695,638	3
Total Defined Benefit Plans/Defined Contribution Plans' Fees		$45,116,027	34
Total Other Trust Funds' Fees		163,483	
Total Fees		$45,279,510	

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 (“PERSI”, “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 Trust assets 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 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 purpose of the plan,
- the projected return of the portfolio as it relates to the funding objectives of the plan,
- the effect of particular investments on the total portfolio,
- the diversification of the portfolio, and
- the liquidity needs and the current return relative to the anticipated cash flow requirements.

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 7.0% net 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 7.0% net 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 7.00% net, although not on a 1:1 ratio.

(c) Relation to Funding Policy

As set out in the Board's funding guidelines, 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 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 asset allocation adopted from time to time by the Board.

(b) Review of Asset Classes and Asset Allocation

In setting allocations, the Board will focus on assuring that the expected long-term returns of the System will meet expected long-term obligations with the appropriate level of risk sufficient to meet those objectives. Unless circumstances materially change, the Board will at least once every five 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 Asset Allocations

The asset allocation will set out:

- the asset classes to be used,
- the long-term "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 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 authorize or adopt strategic policies. "Strategic policies" are actions by the Board to allow investment 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 specific 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 asset allocation,
- Determining or authorizing strategic policies;
- Hiring agents to implement the asset allocation;
- Hiring agents to implement strategic policies; and
- Monitoring the compliance of those agents with the investment policies and 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 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 and Rebalancing

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 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 of 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 two 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 with an appropriate benchmark and peer group. The Board may hire other independent investment consultants as needed to assist the Board in the management of its investment responsibilities, 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, a valuation of those securities, 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 replace 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 the System. 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 is concerned 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 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.

Passive managers will be favored for the core, liquid, efficient markets (such as S&P 500 stocks and U.S. Government/Credit bonds). Active managers will be favored for relatively inefficient 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.

Assets under the management of global equity managers will be considered US equity assets for purposes of asset allocation. Consequently, actual allocations to international equities in the overall portfolio from time to time may be above that in the stated asset allocation due to the activities of the global equity managers.

(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 (3 to 5 year) periods. 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 or Broad Domestic 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 or MSCI All Country 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 the U.S. equity asset class may include index funds, style managers (such as value, growth, and capitalization), "core" managers, and global managers.

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 MSCI Europe, Australasia, 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 the International Equity 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), will be the benchmark for the developed markets passive index fund. Active international developed markets managers may use as their benchmark either the MSCI EAFE index or the MSCI ACWI ex US index (unhedged). The MSCI Emerging Markets Free (MSCI EMF) index will be the benchmark for the emerging markets managers, both active and passive.

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 the Fixed Income asset class may include index funds, domestic bond managers, specialized managers, and global managers.

4. Benchmarks

The Barclays Capital Government/Credit Index or Barclays Capital Aggregate Index will be the benchmark for all non-mortgage fixed income managers except real return fixed income managers. The Barclays Capital TIPS index will be the benchmark for real return 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 5% 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 5% 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 5% 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 value, audited financial statements and annual business plans.

6. Benchmarks

The MSCI US REIT, Dow Jones Select REIT,NAREIT all Equity, or Wilshire REIT index will be the benchmark for the passive REIT index fund. The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index or the Open End Core Equity (NFI-ODCE) Value with net will be the benchmarks for the open-end and closed-end funds and private real estate. The asset class in total will be benchmarked against the Russell 3000 index.

7. Asset Allocation

For purposes of asset allocation, real estate investments will be treated as part of the U.S. equity asset class.

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 3000 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 may 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.

VI. Strategic Asset Allocation

The following tables summarize the strategic asset allocation of the Trust, including the expected net return and risk of each asset class, the strategic normal asset allocation and allowable ranges, and the expected risk and net return of the Trust as compared to the actuarial assumptions.

STRATEGIC ASSET ALLOCATION

(Expected Returns are before fees and expenses)

Asset Class	Expected Return*	Expected Risk	Strategic Normal	Strategic Ranges
Equities			**70%**	**66% - 77%**
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	**3.05%**	**3.75%**	**30%**	**23% - 33%**
Cash	**2.25%**	**0.9%**	**0%**	**0% - 5%**

Total Fund	Expected Return*	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.00%	3.25%	3.75%	n/a
Portfolio	6.58%	2.25%	4.33%	12.67%

** Expected arithmetic return net of fees and expenses*

Data provided by Callan Associates 2015

VII. 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.