

**MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND**

and

INDIANA STATE TEACHERS' RETIREMENT FUND

**Meeting held at:
One North Capitol
1st Floor Conference Room
Indianapolis, Indiana 46204**

April 29, 2011

JOINT SESSION

Board Members Present

Ken Cochran, Chairman/President
Greg Hahn, Vice Chairman/Vice President
Allen Clark
Chris Ruhl
Bret Swanson
Cari Whicker

Others Present

Jerry McDermott, BNY Mellon
James Slater, BNY Mellon
David Nichols, BNY Mellon
Bob Carroll, BNY Mellon
Bo Abesamis, Callan Associates (PERF/TRF Consultant)
Clayton Jue, LeadingEdge Investment Advisors (PERF/TRF Consultant)
Pete Keliuotis, Strategic Investment Solutions (SIS) (PERF/TRF Investment Consultant)
Harshal Shah, Strategic Investment Solutions (SIS) (PERF/TRF Investment Consultant)
Curt Rossman, Credit Suisse (PERF/TRF Investment Manager)
Jeff McDonald, Credit Suisse (PERF/TRF Investment Manager)
Ed Schwartz, ORG Portfolio Investment Management (PERF Real Estate Consultant)
Rick Wright, KPMG (PERF/TRF Consultant)
Srirama Damaraju, KPMG (PERF/TRF Consultant)

Staff Present

Steve Russo, Executive Director
Erin Hankins, Executive Assistant
Andrea Unzicker, Chief Legal and Compliance Officer
Jaclyn Brinks, Staff Attorney
Allison Murphy, Legislative Director
Teresa Snedigar, Director of Internal Audit

Julia Pogue, Chief Financial Officer
David Cooper, Chief Investment Officer
Bob Clone, Investments – Director of Private Equity
Jeff Hutson, Chief Communication Officer
Stan Lanman, Procurement Officer
Matt Ackerman, IT Sustaining Programs Director
Steven Lucas, Director, IT Applications and Infrastructure

Meeting called to order at 10:02 a.m. by Chairman/President Cochran.

I. **Approval of Minutes from February 18, 2011 Joint Board of Trustees Meeting**

MOTION duly made and carried to approve the minutes from the February 18, 2011 joint Board meeting.

*Proposed by: Greg Hahn
Seconded by: Bret Swanson
Votes: 4 in favor, 0 opposed, 0 abstentions (Chris Ruhl, Cari Whicker absent)*

II. **New Business**

In accordance with normal practice, written materials for the following matters were provided to the Board members by mail in advance of the meeting.

Financial Update

Julia Pogue presented the financial update and reviewed PERF and TRF financial highlights for February 2011, actual and forecasted expenses compared to budget, and a statement of fiduciary net assets. PERF and TRF forecast budget savings were driven primarily by lower personnel and benefit costs, lower IT services due to strategic changes, and efficiency resulting from integration and price negotiation, including investment management fees. Ms. Pogue also presented the preliminary Fiscal Year 2012 Budget. The Board will consider the final budget for approval in the June 2011 Board meeting. The Board requested and received additional information on organizational efforts to retain qualified staff.

Investments Update

David Cooper presented the investments update and discussed current and historic PERF and TRF market values, total returns, asset allocations, and new investments and terminations. Mr. Cooper reviewed the TRF Watch List and presented a preliminary PERF Watch List. Pete Keliuotis and Harshal Shah of Strategic Investment Solutions (SIS), PERF and TRF's investment consultant, were present to answer questions from the Board. The Board requested and received additional information on TRF's procedure for rebalancing and organizational efforts to implement risk management.

Indiana Investments Review

David Cooper and Clayton Jue of LeadingEdge Investment Advisors, LLC presented the Emerging Manager Program Review. Mr. Jue offered an overview of the PERF program, including emerging manager sourcing and discovery, manager evaluation, fund construction, asset allocation, a performance summary, risk profile, and fund managers' profile. The Board requested and received additional information on performance differentials between emerging

and established managers, the appropriateness of PERF and TRF's mandate as applied to the size of the portfolio, the proportion of PERF and TRF's investments to the total fund, how closely the fund's performance matches expectations and the performance of other clients, and the availability of Indiana firms for future investment.

Mr. Cooper and Curt Rossman of Credit Suisse presented an overview of the Credit Suisse Indiana program in response to the Board request in the February 18 Board meeting. Mr. Rossman presented a performance review of the Customized Fund Investment Group program, which includes PERF/TRF investment in the Indiana Future Fund, Indiana Investment Fund, and the INext Fund. The Board expressed interest in the Investments division taking an active role on local Indiana Investment Fund underlying company boards.

Custodial Services RFP Review

David Cooper presented the Custodial Services RFP Review and discussed the search and evaluation processes. Bo Abesamis of Callan Associates, PERF and TRF's RFP consultant, and Jerry McDowell, James Slater, David Nichols, and Bob Carroll of BNY Mellon were present to answer questions from the Board. Staff recommended BNY Mellon as the global custodian provider of choice for PERF and TRF, highlighting as key decision criteria BNY Mellon's GASB reporting capabilities, daily valuation discipline and general ledger discussion, ACS interface, investment manager feedback, alternative investment support, value added services, and competitive fees. The Board requested and received additional information on Callan Associates' role in the RFP process, current litigation between BNY Mellon and other public pension funds, the status of securities lending litigation between BNY Mellon and other entities, efforts to protect PERF and TRF from foreign exchange litigation, full custodial integration with risk management systems, and pre- and post-implementation support. The Board requested that BNY Mellon receive a copy of PERF and TRF's Investment Policy Statements ("IPS") and provide a written representation that the IPS was received and read.

Real Estate Consultant Consolidation

David Cooper reported on the real estate consultant consolidation. In an effort to eliminate duplicate roles and save costs, staff recommended consolidating the PERF and TRF real estate consulting service providers to a single provider, ORG Portfolio Management LLC ("ORG"). The Board commended RVKuhns for past real estate consulting service provided to TRF. Key decision criteria for the selection were years of experience, breadth of sourcing capability, and a proven track record. Ed Schwarz of ORG was present to answer questions from the Board. The Board requested and received additional information on ORG's range of possible investments and evaluation of the TRF real estate portfolio.

Guaranteed Fund

David Cooper reported on the Fiscal Year 2012 Guaranteed Fund Crediting Rate and reviewed the statutory basis and history of the PERF and TRF Guaranteed Funds. For PERF and TRF separately, staff proposed setting the Guaranteed Fund interest credit rate to the two-year Guaranteed Investment Contract (“GIC”) Index Rate compiled by T. Rowe Price (as printed in the Wall Street Journal), plus or minus 0.50% (50 basis points), taking into account the investment performance of the underlying assets, rounded to the nearest 0.25% (25 basis points). Under the staff proposal, the rate will be established annually by the Board, normally at the Board’s April/May meeting but in no event later than June 30. Mr. Cooper then discussed staff’s proposal to maintain the current FY12 Guaranteed Fund rate of 1.75%. The Board requested and received additional information on the reserve balance, Consolidated Retirement Investment Fund (“CRIF”) duration, process for separating the Guaranteed Fund from the CRIF, GIC selection and trends, PERF overall asset allocation, and commingling of funds.

Fiduciary Benchmarking Study

Andrea Unzicker presented an executive summary of the PERF and TRF fiduciary benchmarking study conducted by Cortex Applied Research, which recommended fiduciary areas for evaluation, including governing authority and constraints, Board size, documentation of roles, and policy framework. Ms. Unzicker encouraged the Board to read the entire report, a copy of which was included in each member’s Board binder. The Board Governance Manual will be updated with policies recommended by the study and will be presented to the Board for review at a future meeting.

Administrative Code Revisions

Allison Murphy reviewed proposed revisions to the Indiana Administrative Code (“IAC”), which were driven by the alignment of PERF and TRF Indiana IAC provisions and administrative issues.

IT Strategy Update

Steve Russo and Rick Wright and Srirama Damaraju of KPMG presented the IT Strategy Update and reviewed IT transformation drivers, current challenges and target state objectives, the IT operating and organization model, security and risk program maturity, and transition and recurring costs. Staff fully supports proceeding along the path recommended by KPMG. In furtherance of this strategy, staff will develop fiscal year 2012 and 2013 budgets accordingly; commit to Phase I of the roadmap; and utilize progress checkpoints, in which subsequent phases will only be initiated upon successful completion of the prior phase. A refresh of the business case project plan and review and discussion

with the Board will occur at each checkpoint. The Board requested and received additional information on whether future IT costs have been built into the proposed budget.

Executive Director's Report

Steve Russo presented the Executive Director's report, a metrics update, a reputation management update, a summary of legislation affecting PERF and TRF, including legislation establishing the Indiana Public Retirement System ("INPRS"), and an INPRS draft logo and branding. Mr. Russo discussed the action item tracking list and recommended closure of Item 14 due to the Indiana Investment Review presented earlier in the Board meeting. The Board requested copies of PERF- and TRF-specific legislation for further review.

III. Adjournment

MOTION duly made and carried to adjourn the April 29, 2011 joint Board meeting at 1:53 p.m.

Proposed by: Greg Hahn
Seconded by: Bret Swanson
Votes: 6 in favor, 0 opposed, 0 abstentions