MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204

February 19, 2010

REGULAR SESSION

Board Members Present
Ken Cochran, Chair
Kevin Boehnlein, Vice Chair
Cynthia Walsh
Ryan Kitchell
Matt Murphy

Others Present
Douglas Kryscio, Mercer Investment Consulting
Doug Todd, McCready and Keene, Inc.
Richard Lenar, McCready and Keene, Inc.
Jim Vos, Aksia
Jaeson Dubrovay, Aksia
Jess Bolkcom, Aksia

PERF Staff Present
Terren Magid, Executive Director
Kathryn Cimera, General Counsel
Shawn Wischmeier, Chief Investment Officer
Jeff Hutson, Director of Outreach & Communications
Steven Barley, Deputy Director and Director Of Operations
Josh Rabuck, Director of Absolute Return and Risk Management
Sandra Wilson, Executive Assistant to the Executive Director
Bennett Jackson, Human Resource Specialist
Carl Bright, Retirement Services Consultant
Kimberly Jefferies, Research Analyst
Lisa Anderson, Manager, Outreach and Education
Tommy Wilson, Retirement Services Consultant

Meeting called to order at 10:26 a.m. by Chairman Cochran.

I. Approval of Minutes from November 20, 2009

MOTION duly made and carried to approve the minutes from November 20, 2009 Board of Trustees meeting.

Proposed by:	***Cynthia Walsh***
Seconded by:	***Matt Murphy***
Votes:	***5 in favor, 0 opposed, 0 abstentions***

II. Old Business

- **Investment Policy Statement (IPS)**

Terren Magid introduced Shawn Wischmeier, Chief Investment Officer, and Doug Kryscio of Mercer to present the IPS Approval discussion. Mr. Wischmeier summarized and reviewed the changes.

Mr. Wischmeier discussed the removal of language stating the performance of the Fund will be evaluated based on other public funds with similar asset allocations. Mr. Wischmeier noted that the IPS should reflect that PERF's performance be measured against PERF's benchmarks rather than trying to compete with other plans.

Mr. Wischmeier discussed revisions to the Prohibited Securities and Transactions section to remove the blanket statement for the asset classes in Section 7. Rather, such constraints were added to each individual asset class language in the IPS. Additionally, in Section 7, language was revised to more clearly define the two types of managers—passive and active.

Mr. Wischmeier discussed the modification to the Asset Allocation of the Pension Relief Fund. Mr. Wischmeier explained that due to declining account balances in the Fund, liquidity needs, and recent changes in the timing when the State will provide PERF with Pension Relief funding, a change in the asset allocation was necessary. Mr. Magid stated that, in certain limited circumstances, the IPS allows the Executive Director to make asset allocation changes if not doing so would be detrimental to the Fund. At the end of January, Market volatility combined with historically low asset balances threatened the liquidity of the Fund. Accordingly, Mr. Magid approved a change with respect to the Pension Relief Fund. Staff recommended that those changes be approved permanently.

Mr. Magid noted that a member of the Board questioned whether the Statement of Guiding Principles (Section 2) and General Objectives (Section 4) of the IPS continued to represent the current investment philosophy of the Board. Mr. Magid and Mr. Wischmeier agreed the Guiding Principles and General Objectives should be updated. Mr. Magid asked for more time to

rewrite Sections 2 and 4 of the IPS, but to have a vote on the changes presented. Messrs. Magid and Wischmeier stated they would bring the changes to Sections 2 and 4 for consideration during April's Board Meeting.

MOTION duly made and carried to approve changes as presented in the IPS.

Proposed by: ***Matt Murphy***
Seconded by: ***Cynthia Walsh***
Votes: ***5 in favor, 0 opposed, 0 abstentions***

III. New Business

- **Legislative Update**

Kathryn Cimera presented an update on the bills currently pending in the Indiana General Assembly that directly affect PERF. House Bill 1008 allows a 1977 Fund member to purchase out of state service for service in a similar position. A discussion was held regarding whether the actuary can include COLA adjustments when calculating the cost of a service purchase. The bill originally allowed Prosecuting Attorneys to do the same, but the Senate removed this portion of the bill, and the amended bill has not yet been heard on the Senate floor. Ms. Cimera also discussed House Bills 1050, 1127, 1194, 1336.

The Board then discussed House Bill 1205. House Bill 1205 initially contained a cost of living adjustment and a 13th check for PERF and TRF members. The bill was amended to include the PERF/TRF merger language. The Board discussed the merger provision including the differences between the merger language from last year.

The Board then discussed Senate Bills. Senate Bill 30 contains a number of items that were vetted in the Pension Management Oversight Committee. The Board also discussed Senate Bill 72.

Mr. Magid introduced Doug Todd, McCready and Keene, to the Board. Mr. Todd discussed the fiscal impact to the Fund of members purchasing years of service. Mr. Kitchell and Ms. Walsh expressed concern regarding whether service purchases have a negative impact on funding status.

- **Administrative Code**

Ms. Cimera presented the discussion on the Indiana Administrative Code. She noted that changes to the Indiana Administrative Code are generally made in November, this year it was moved to February due to a full agenda for the November Board meeting.

Ms. Cimera noted that most of the changes or additions being made were to define terms or to accommodate recent legislation. In addition, several changes were made to enable the implementation of daily valuation for member's ASAs, as well as changes required for the implementation of the new Employer Reporting Maintenance (Wage and Contribution) System. Updates were made to the impairment standards for determining the degree of impairment for 1977 Fund Members, the components of examinations required for entry into the 1977 Fund, and the preexisting excludable medical conditions for 1977 Fund Members. Finally, updates were made regarding annual compensation limits and a procedure was established for handling required minimum distributions.

A discussion followed regarding data clean up and locating members with invalid addresses. Ms. Walsh suggested using the Attorney General's Unclaimed Property website. Ms. Cimera and Mr. Magid offered to look into the matter.

MOTION duly made and carried to approve changes to the Indiana Administrative Code, Resolution No. 2010-2-01.

Proposed by:	***Matt Murphy***
Seconded by:	***Ryan Kitchell***
Votes:	***5 in favor, 0 opposed, 0 abstentions***

- **Revisions to Procurement Policy**

Ms. Cimera presented proposed revisions to the Procurement Policy. While PERF is not subject to the State's competitive bidding process, due to PERF's fiduciary responsibility, PERF should have a competitive bidding process to meet its due diligence requirements. PERF's Procurement Policy was last updated in July 2004.

Ms. Cimera recommended updates regarding language for clarification purposes. Ms. Cimera also discussed the addition of an exception to the RFP process for contracts based on the State's Quantity Purchase Agreements (QPA).

A discussion followed regarding the procurement approval process, including what process is followed for small purchases as compared to large purchases. Staff recommended that the small purchase amount be raised from $100,000 to $200,000. Ms. Walsh and Mr. Kitchell both expressed concerns about making this change without also outlining the internal process followed for approval. Ms. Cimera suggested adding language and making changes to the Procurement Policy to include internal processes. The Board decided that the Policy should be further amended to reflect internal

processes and the Board would vote on the revisions at the April Board meeting.

- **Board Governance Update**

Ms. Cimera reviewed the Statement of Board Governance and the recommended revisions. In Section 2 of the Introduction, the reference to contribution rate percentages was removed and a reference to the statutes which set contribution rates was added. Information regarding Pension Relief was updated to reflect statutory changes. Ms. Cimera discussed revisions to the Board Education policy which added a requirement to attend a Board orientation when first appointed to the Board. Revisions to the Board Member Duties and Responsibilities were recommended to reflect that Board approval of Investment Manager contracts is not required where approval has been delegated pursuant to a resolution.

MOTION duly made and carried to approve changes to the Statement of Board Governance.

Proposed by:	***Matt Murphy***
Seconded by:	***Cynthia Walsh***
Votes:	***5 in favor, 0 opposed, 0 abstentions***

- **Investment Update**

Prior to the investment update, Mr. Magid informed the Board that PERF was nominated by Money Management Letter for the Large Public Plan of the Year award and David Cooper was named as one of the ten rising stars.

Mr. Magid introduced Mr. Wischmeier and Mr. Kryscio to the Board. Mr. Kryscio discussed PERF's investment status data. On a calendar year 2009 basis, PERF realized a return of 22.6%, net of fees, placing the Fund squarely in the top quartile of Public Funds for the year. PERF out-performed its benchmark for the one year period ending January 31, 2010, even though the market remained volatile.

Mr. Wischmeier discussed the private equity updates. The only change since the November meeting was the addition of a secondary investment in Crestview Partners II, a fund in which PERF already has a primary commitment.

Mr. Wischmeier then discussed PERF's Real Assets. The only fund commitment since the last Board Meeting was Lone Star Fund VI, which was a secondary purchase. Lone Star VI is a private real estate fund that is focused on residential mortgages.

Mr. Wischmeier briefly discussed the absolute return portfolio. Specifically, PERF has outperformed its benchmark, both year-to-date and over the past year. Mr. Wischmeier noted PERF has made three direct commitments and one allocation to a PAAMCO portfolio, since October of last year. PERF now has nine direct commitments with the goal of reaching 20-25 over time.

- **Global Equity Portfolio**

Mr. Kryscio noted that the Board approved the allocation to the current equity portfolio in October with a best of breed approach requiring separate allocations to domestic equity, international equity, and global equity, each to be managed separately. Staff and Mercer recommended collapsing PERF's equity portfolios into one single Global Equity portfolio. Mr. Kryscio explained that the benefits of a single Global Equity portfolio include the ability to more precisely manage and control portfolio exposures and misfit risk, allow for seamless transitions when changes in the active manager lineup occur, and allow for the ease of rebalancing.

The recommended change will not change how managers manage their portfolios, but how PERF allocates funding. The allocation amount to each sub-classification will be designed to track the benchmark, which is currently a custom benchmark based on the MSCI ACWI. There will be a 500 basis point tolerance vis-à-vis the benchmark allocations.

MOTION duly made and carried to approve the recommendation of Mercer and Staff to the Board that PERF eliminate separate Equity Allocations and combine the Domestic, International, and Global Equity Allocations into a single 40% Global Equity Allocation. The allocations between Domestic and International Equities must be consistent with the portfolio benchmark split, defined to be not in excess of plus or minus five percentage points.

Proposed by: ***Kevin Boehnlein***
Seconded by: ***Cynthia Walsh***
Votes: ***5 in favor, 0 opposed, 0 abstentions***

A break was held beginning at 12:11 p.m. and the Prima Investment Approval commenced at 12:20 p.m.

- **Prima Investment Approval**

Mr. Wischmeier discussed the Prima Mortgage Investment Trust (PMIT). PMIT's focus is the origination and management of high quality commercial mortgages, whole loans and commercial mortgage backed securities in major markets across the United States. Mr. Wischmeier reminded the Board that in

2008 staff was delegated authority to invest with private investment managers, without prior Board approval, up to and including 100 million dollars. PERF has already invested $100 million in PMIT. Staff is now asking the Board for approval to invest up to and including $150 million (an additional $50 million) in PMIT.

Mr. Wischmeier noted that a competitive YTM (Yield to Maturity) and a low-risk profile make PMIT a compelling investment option.

MOTION duly made and carried to approve that PERF be allowed to commit up to and including $150 million to Prima Mortgage Investment Trust (PMIT).

Proposed by: ***Matt Murphy***
Seconded by: ***Cynthia Walsh***
Votes: ***5 in favor, 0 opposed, 0 abstentions***

- **Aksia Update**

Mr. Magid introduced the representatives from Aksia: Jim Vos, CEO & Head of Research; Jaeson Dubrovay, Principal, Advisory Service (Client Services Representative); and Jess Bolkcom, Advisory Services (Client Services). Mr. Dubrovay described his work history and experience and then introduced Mr. Vos, who proceeded to review the history of the organization and gave a brief overview of Aksia's structure.

Mr. Vos discussed recent changes at Aksia. Jake Walthour left Aksia in December and became head of US Marketing at Citadel. Several weeks after Mr. Walthour left, two of the six people who worked for him also left, Sarah Cole and Corissa Mastropieri. Mr. Vos noted that after these departures he and Mr. Bolkcom travelled to meet with every client. They also started a recruiting effort to bring in people to fill the open positions. Aksia brought in a colleague of Mr. Bolkcom from Morgan Stanley, Mr. Dubrovay, and another partner, Bruce Rule. Mr. Dubrovay and Mr. Rule are co-heading Aksia's US Advisory Services. Mr. Dubrovay and Mr. Rule both have CIO backgrounds. Mr. Dubrovay's background is primarily with public funds and Mr. Rule's background is in corporate hedge funds.

Mr. Vos proceeded to discuss the current status of the firm. He mentioned there had been no other staff departures outside of the three previous employees discussed. Mr. Vos also mentioned there was no client loss. Aksia added three clients in January, including Indiana Teachers' Retirement Fund (TRF). Mr. Vos noted that Aksia's model is very high touch, high resource— 43 people and 26 clients— perhaps one of the best ratios for any consultant.

The possible reasons for Aksia's recent staff departures were then discussed. Mr. Vos also informed the Board that after Ms. Cole's and Ms. Mastropieri's

departures, Aksia learned that they had downloaded roughly 90,000 pages of manager research and took it with them.

Aksia filed a law suit against Ms. Cole and Mr. Mastropieri and two weeks ago the Civil Court Judge granted an injunction where Ms. Cole and Ms. Mastropieri had to turn over copies of all of the materials taken.

Ms. Walsh asked if any of the information taken was confidential and if it would affect any future arrangements Aksia had with the funds. Mr. Vos responded that Aksia signs confidentiality agreements with roughly 25% of the funds on which they do research. Also, every single client contract has a client confidentiality policy.

Ms. Walsh also asked if Aksia had informed affected funds of the disclosure. Mr. Vos noted that Aksia informed everyone to assume their information left the building. Mr. Kitchell then asked if Aksia would be subject to any penalties or liabilities as a result of potential breaches of the confidentiality agreements. Mr. Vos responded that a couple hedge funds had inquired about the situation.

Mr. Kitchell then inquired if there was anything in the confidentiality agreements that address what happens if Aksia violates the agreement, and if so, are there consequences to Aksia. Mr. Vos again noted that clients had asked if information had left Aksia, and Aksia told them to assume it had.

Mr. Boehnlein asked how long it would take new Aksia employees to get up to speed and how this impacts the due diligence Aksia has been doing with PERF. Mr. Vos explained that Aksia's structure should alleviate any gaps due to several team members handling PERF. In addition, Mr. Josh Rabuck knows all four department research heads and is able to directly contact any of them.

- **Financial Update**

Mr. Magid introduced Todd Williams, Chief Financial Officer, to the Board. Mr. Williams noted that he was going to discuss the financial statements effective January 31, 2010. Mr. Williams pointed out this was the third month PERF closed its books with the new Oracle e-business solutions system and the first month PERF has done so without the safety net of the legacy system. Mr. Williams also highlighted the presentation of the financial reports and how the reports are much more timely.

Mr. Williams first focused on the balances as of January 31, 2010 compared to the balances of January 31, 2009. The cash balances are higher this year;

mostly due to timing, related to some employer contributions received which have not yet been put into the investment accounts.

Mr. Williams noted that PERF has just over $14 billion dollars in total assets, which is a $2.7 billion dollar increase as compared to where PERF was this time last year.

Mr. Williams then discussed the Statement of Changes in Net Assets. Employer contributions are down roughly 5%, or $16 million dollars, due to a timing issue with receipt of the 1977 Fund contributions, as well as the Judges' appropriations.

Mr. Williams then discussed the Deductions section of the Statement of Changes in Net Assets, stating that the Pension and Disability Benefits are higher this year by about $40 million dollars. Mr. Williams noted several drivers of this increase, including a 4% increase in retirees and the timing of the 13th Check.

Mr. Williams then moved to the Statement of Administrative Expenditures. Administrative expenses totaled at $14.4 million dollars and investment fees totaled in another $44 million dollars. This is $8.3 million dollars, or 37%, below budget established for this year. PERF is also under its spend year-on-year by about 1%.

Mr. Williams also noted that Mr. Magid and the management team were proactive and looked at cost control measures within PERF's budget and found reductions for the fiscal year. The result was a $5.6 million dollar budget reduction, which took approximately 15% out of the administrative budget. Going forward, PERF has a new target of about $31 million dollars, down from the $36.7 million dollar starting point of the budget. Mr. Williams highlighted that staff reviewed the budget line by line and made some difficult decisions in order to reach a reduction.

Mr. Williams discussed that pursuant to the Board's instruction PERF went to its staffing vendors and 10 of 11 provided a reduction between 5% and 10%. PERF ended up with an average reduction across all of its staffing vendors just shy of 6%. The impact on annual spending will be a reduction of roughly $250,000 in the last six months of this year.

- **Revised Employer Contributions and Funded Status**

Mr. Williams introduced Doug Todd to the Board. Mr. Williams updated the Board on two errors that occurred with the Employer Contribution Rates adopted by the Board in November. First, Mr. Williams noted that subsequent to the Board's review and approval of the employer contribution rates, Mr. Todd determined that there were data errors. Those errors resulted in

changes to some of the employer contribution rates. Secondly, due to an administrative oversight, a new employer, Xavier School of Excellence, had requested to be added to the plan, but was not included for Board approval in November.

Mr. Williams noted that the Statement of Board Governance provides that PERF's Executive Director can correct and revise errors provided they are reported to the Board at the next meeting.

Ms. Cimera noted that because the Executive Director has been delegated the authority to perform all operational duties, the Executive Director approved Xavier School as a new unit and approved the contribution rate based on the actuary's recommendation.

Mr. Todd then discussed the two errors which contributed to the incorrect employer contribution rates. Mr. Todd noted that McCready & Keene has made corrections in their process to ensure similar errors do not occur in the future. McCready & Keene apologized for these errors and will reduce PERF's invoice by 5%.

Mr. Todd noted the first error was discovered within a week of the presentation at the last Board Meeting. This error resulted in the most rate changes. It occurred because McCready & Keene received data in a new format and made a programming error translating the data into their system. The error was recognized prior to letters going out to employers notifying them of their new contribution rates.

Mr. Todd discussed the second error found after the rate letters were distributed to employers. The Board had previously adopted a smoothing methodology, at the actuary's recommendation, that provided the published 2011 PERF contribution rates would not decrease in order to mitigate the anticipated future impact of the recent market declines. However, when Mr. Todd computed the 2011 rates, he used data which had not taken the smoothing decision into account, resulting in some contribution rates being incorrectly calculated.

Mr. Kitchell asked Mr. Todd to identify his level of confidence that the rates are now correct. Mr. Todd stated, "100%."

Mr. Todd compared the funded status as presented at the Board Meeting on November 20, 2009, to the new revised funded status as a result of the two revisions in employer contribution rates. Mr. Todd concluded that the PERF fund remains 93.1% funded and the Police and Firefighters fund remains 98% funded. All of the funds combined remain at 93.5% funded.

- **Line of Duty**

Mr. Magid informed the Board of four line of duty death benefits. The first was Gary Henry, who was an Indianapolis firefighter killed in Iraq while serving in active military duty. The second was Corporal Michael Swagger, who died of a heart attack while on duty. The third was Jeffery B. Shaw, who was killed in a vehicle accident while on duty. The final member was Justin C. Mullis, who was killed in a motorcycle accident while on duty.

IV. Executive Director Report

Mr. Magid reviewed with the Board communication and informational items PERF offers to its members, including pamphlets, newsletters, and workshop notices. Additionally, Mr. Magid shared with the Board several recent press releases and positive feedback letters regarding PERF's exceptional customer service. At this time Mr. Magid gave special recognition to members of PERF's communication division, Tommie Wilson, Carl Bright, Kim Jefferies, and Lisa Anderson.

Mr. Magid reviewed with the Board PERF's most recent scorecard results. Mr. Magid noted PERF's customer service continues to meet 100% of pension inceptions paid to retirees in 30 days. Mr. Magid noted that the distributions' and call centers' scorecards were in yellow and not green. This was largely due to a low volume of distributions during this time and a high volume of calls regarding 1099s which went out in January, in addition to being understaffed.

Mr. Magid discussed fiscal year 2010's second quarter accomplishments. The Oracle Financials project was started on time and within budget, and the State Board of Accounts audit resulted in zero findings, which was a first for PERF. The IT security audit was completed which identified several objectives for the coming quarters. Mr. Magid also noted PERF's introduction of a flexible schedule system for its employees.

Finally, Mr. Magid discussed PERF's goals for the next quarter, which included engaging KPMG for a sourcing study, hitting ASA milestones, and continuing to work on the ERM system project.

The Board had a brief discussion on honoring Bob Welch for his service to the PERF Board. The Board decided they would like to pass a resolution thanking Mr. Welch for his service. Staff agreed to prepare such a resolution for the April meeting.

V. Date of Next Meeting

- April 16th 2010, 10:00 a.m.

VI. Adjournment

MOTION duly made and carried to adjourn the February 19, 2010 Board meeting.

Proposed by:	***Ryan Kitchell***
Seconded by:	***Matt Murphy***
Votes:	***5 in favor, 0 opposed, 0 abstentions***