

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

February 20, 2009

REGULAR SESSION

Board Members Present

Ken Cochran, Chair
Kevin Boehnlein, Vice Chair
Bob Welch
Matt Murphy
Cynthia Walsh
Ryan Kitchell

Board Members Absent

None

Others Present

Douglas Kryscio, Mercer Investment Consulting
Kristen Finney, Cooke, Mercer Investment Consulting
Alice Irvan, Airvan Consulting
Peter Schnitzler, Indiana Business Journal
Robin Jerstad, Indiana Business Journal

PERF Staff Present

Terren Magid, Executive Director
Kathryn Cimera, General Counsel
Shawn Wischmeier, Chief Investment Officer
Steven Barley, Chief Operations Officer & Deputy Director
Patricia Bush, Chief Financial Officer
Jeff Hutson, Director of Outreach & Communications
Dave Huffman, Chief Technology Officer & Deputy Director
Sandra Wilson, Executive Assistant

Meeting called to order at 12:10 p.m. by Chairman Cochran.

I. Approval of Minutes from December 19, 2008

MOTION duly made and carried to approve the minutes from December 19, 2008 Board of Trustees meeting.

Proposed by: Matt Murphy
Seconded by: Cynthia Walsh
Votes: 6 in favor, 0 opposed, 0 abstentions

The minutes were approved.

II. Old Business

• IT Systems Security

Mr. Magid stated that in response to recent Board discussions regarding PERF's IT security he asked Dave Huffman, Chief Technology Officer, to present PERF's IT security history, current status and any recommendations for the future. Mr. Huffman began by explaining how set to up security to secure a computer system. Mr. Huffman then explained that the last formal outside audit on PERF's IT security was completed in 2003 by CSC.

Since the 2003 Audit PERF has made some improvements in IT Security. These improvements included but are not limited to the following:

- Added better physical access controls
- Added a group to manage access to data and applications
- Added or upgraded all security policies and procedures
- Added firewall between the Indiana Office of Technology (IOT) and the PERF/TRF network
- Enhanced network security via IOT

Despite the improvements described, Mr. Huffman acknowledged that there were still deficiencies to address. To address these items, Mr. Huffman informed the Board that PERF intends to include in its Fiscal year 2010 budget an IT Security audit estimated at \$250,000 to \$300,000 to complete. Mr. Huffman explained the audit firm would be selected pursuant to a competitive RFP process. Audits will be conducted in subsequent years on a schedule to be determined as one of the outcomes of this next audit.

Pursuant to a question from Ms. Walsh, a discussion ensued regarding the scope of the audit and the extent to which it would cover IOT and the services it provides to PERF. Mr. Huffman explained that the intent of the audit would be to review IT services and data wherever it resided, including IOT.

A further discussion was held regarding potential methods for benchmarking PERF's IT Security to other public pension plans.

III. New Business

- **Legislative Update**

Mr. Magid introduced Kathryn Cimera, General Counsel, to discuss bills being considered by the General Assembly and the potential impact on PERF. There were approximately 20 bills that have an impact on PERF. The majority of the board discussion was spent discussing Senate Bill 535 which would consolidate the PERF and Teachers Retirement Fund Board.

- **Customer Satisfaction Survey**

Mr. Magid reminded the board that each year PERF conducts a variety of customer surveys, three of which the board will be updated on today. Mr. Magid introduced Jeff Hutson, Chief Communication Officer, who introduced Alice Irvan, President of AIRvan Consulting. Mr. Hutson and Ms. Irvan provided an overview of the General Member, Recent Retirees and Call Center surveys, with a focus on customer satisfaction & retirement readiness information.

Ms. Irvan reviewed for the board the results of each of the three surveys. Ms. Irvan stated that despite the economic crisis, statistically speaking, PERF members remain satisfied with no change between 2007 and 2008. PERF continues to have an overall satisfaction score of approximately 80%.

- **Investments Update**

Investments Update

Mr. Magid introduced Shawn Wischmeier, Chief Investment Officer, and Doug Kryscio of Mercer who provided the board with an investments update.

Mr. Wischmeier discussed a planned redesign of the PERF/TRF Annuity Savings Accounts Plans (ASA Plans) and the Legislators' Defined Contribution Plans (LE DC Plan). In conjunction with TRF, there will be an RFP issued to hire a consultant to help study best practices for defined contribution plans; study the investment options currently available for each of the three existing plans; and make recommendations for improving the investment options offered to members of each plan.

Mr. Kryscio provided information on two RFP's that are currently in process: one for International/Global equity managers issued February 9, 2009, and one for Global Treasury Inflation Protective Security (TIPS) managers to be issued in April. Following this discussion, Mr. Kryscio provided the board with an update on recent manager changes in the portfolio. Three small, large-cap domestic equity portfolios were combined into a single index exposure tracking the Russell 1000 Index. This move resulted from the termination of investment mandates with Sands Capital Management, Turner Investment Partners, and a Russell 1000 Value Index.

Additionally, Capital Guardian was terminated as the manager for a Global Equity mandate and the assets were transitioned to an index exposure tracking the MSCI ACWI Free Net index.

Mr. Wischmeier explained that an additional \$10 million commitment was made to the Crestview Partners II fund, bringing PERF's total commitment for the fund to \$45 million. PERF also paid approximately \$8.8 million to purchase a secondary interest in the Clarity China I fund. Additionally, PERF made a \$40 million commitment to Bridgewater Associates as part of the Absolute Return portfolio. Staff continued dollar cost averaging into the Gresham and Goldman Sachs commodities portfolios since the initial funding of both managers with \$100 million each in December. Finally, PERF made an initial \$100 million investment into a Loomis Sayles Bank Loan separate account. Plans are to continue funding the Loomis Bank Loan portfolio over the coming months up to a \$200 million level. No new commitments were made to any real asset funds since the last Board meeting.

Finally, Mr. Kryscio informed the Board that Mercer had announced plans to acquire Callan Associates (another investment consulting firm), pending final approval from regulatory authorities. He indicated that the change would not have an impact on the day to day coverage for PERF.

- **Finance and Budget**

Financial Update

Mr. Magid introduced Patricia Bush, Chief Financial Officer, who reviewed the January financial statements with the Board. As of January 31, 2009, PERF net assets were approximately \$11.4B representing a decrease of \$4.4 billion (-27.7%) from June 30, 2008. The decrease was due primarily to investment performance.

Budget Process

Mr. Magid provided a brief introduction of the PERF budget process and asked Ms. Bush to present more detail to the board. Ms. Bush presented overviews of the following processes:

- **Budget Development Process**
The Budget process is a sophisticated and robust process that has been refined over the last three budget cycles. While it can be a time consuming process, it has resulted in a significant number of opportunities to identify savings and efficiencies.
- **Monthly Financial Reporting Process**

The goal is to close the monthly reporting process within five working days in order to provide management reports in a timely manner. A variety of detailed financial reports are processed monthly to be used by the Executive Director and other members of PERF management to run the business as effectively as possible.

- Quarterly goals and review
PERF's Executive Team meets for an all day meeting once each quarter. The purpose of this is to review and discuss the previous and current quarters' goals by function. Included in each discussion is overview of each department's most recent progress against budget where everyone has input and can assist in any necessary problem solving.
- Cost savings initiatives and interventions
In recognition of PERF's added responsibility to be cost conscious in light of the condition of the economy, PERF took the initiative to review the budgets for FY09 to identify opportunities for additional savings. Because of the sophisticated, but flexible budget system and the fact that PERF reviews budgets on a monthly and quarterly basis, PERF was able to identify a potential for an anticipated 18% savings versus the March FY2009 Budget.

IV. Executive Director Report

Mr. Magid discussed the January scorecard and highlights. Mr. Magid also discussed the FY09-Q2 Accomplishments and the goals for FY09-Q3. Mr. Magid concluded with information on 2009 Educational programs for board members and offered assistance in registering any board member who has an interest in attending one of the educational programs.

V. Date of Next Meeting

April 17, 2009 at 12 p.m.

VI. Adjourn

The meeting adjourned at 3:18 p.m.