

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

**May 15, 2009  
8:30 am – 4:00 pm**

**ANNUAL MEETING**

**Board Members Present**

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

**Board Members Absent**

Ryan Kitchell

**Others Present**

Douglas Kryscio, Mercer Investment Consulting  
Kristen Finney-Cooke, Mercer Investment Consulting

**PERF Staff Present**

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

Meeting called to order at 9:15 a.m. by Chairman Cochran.

**I. Strategic Plan Update**

Mr. Magid provided an overview of PERF's Strategic Plan that was adopted by the Board on June 20, 2008. Mr. Magid stated that staff was not recommending any changes to the Strategic Plan. However, staff is recommending some adjustments to the timing of certain underlying objectives as well as minor changes to certain underlying objectives. Mr. Magid then presented a revised implementation plan to the Board.

**II. Investments**

• **Investments Update**

Mr. Magid stated that an Investment Update is typically not presented at the board retreat. However, given the current state of the financial markets he thought it was important to update the Board. Mr. Magid introduced Shawn Wischmeier, Chief Investment Officer, and Doug Kryscio of Mercer who provided the board with brief investment update. Messrs. Wischmeier and Kryscio reported that little had changed since the update provided in the April board meeting.

**III. Administrative Items**

• **Guaranteed Fund Rate Approval**

Mr. Magid reminded the Board that per statute the rate for the Guaranteed Fund is set each year by the Board. The Board reviewed Indiana Code IC 5-10.2-2-3 and IC 5-10.2-2-4 which address the Guaranteed Fund. Mr. Wischmeier then provided and discussed possible methodologies for setting the rate for FY2010.

The Board discussed several possible methodologies and other potential options for setting the guaranteed rate. Included in this discussion was the purpose of the Guaranteed Fund and the need to set a methodology that can remain in place for a period of time. The Board also discussed whether it would be prudent to employ a band to constrain larger year-to-year movements in the guaranteed rate resulting from volatility in the markets.

**MOTION** duly made and carried to approve adopting the 2 Year GIC rate as the reference rate for the Guaranteed Fund with no band, setting the Guarantee Fund rate at 3.50% for FY2010.

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

#### IV. Investments

- **ASA Consultant Approval**

Mr. Wischmeier updated the Board on the redesign of PERF's Annuity Savings Account investment options. As the Board was previously informed, PERF and TRF jointly published an RFP to select a third-party consultant to assist with redesigning the investment options and administering the RFP selection process for new managers.

There were 11 respondents to the RFP which were evaluated by a PERF/TRF joint evaluation team. Four finalists were selected and each finalist made a presentation. Staff recommended Capital Cities, LLC as the preferred consultant for the following reasons:

- Accessibility (local presence)
- Callan relationship
- Experience with diverse plan structures
- Approach and plan for completing the services required

**MOTION** duly made and carried to approve the selection of Capital Cities, LLC to act as the project consultant regarding the redesign of the ASA, to evaluate and implement the member investment options, conduct a new manager RFP process and to assist with the asset transition.

*Proposed by: Bob Welch*  
*Seconded by: Kevin Boehnlein*  
*Votes: 5 in favor, 0 opposed*

#### V. Investments

- **Covered Calls**

Mr. Wischmeier explained that Mercer and Staff had been studying how PERF could most effectively implement its Board approved target asset allocations. Covered calls are a tool through which PERF can prudently sell equity exposure in excess of the target equity allocation.

Mr. Wischmeier discussed the potential benefits and the potential risks of writing covered calls. Mr. Wischmeier stated that this tool was designed to be a short term strategy to allow PERF to address currently being overweight in equities.

Mr. Wischmeier concluded his presentation with a proposed implementation plan which includes:

- Working with Board approved overlay manager Russell to implement
- Working with implementation manager to structure program:

- Set strike prices to balance income with opportunity cost
- Match maturity of calls with cash use forecast
- No more than \$500 million in notional value without further Board approval
- Options to be based on domestic indexes only (Russell indices)
- Assets will be held in index funds or equity overlays (asset-liability matching)

**MOTION** duly made to approve that PERF be authorized to write call options up to \$500M on domestic equity indices. Calls written will never be speculative in nature and only sold for the sole purpose of managing the CRIF's equity exposures. Furthermore, Staff requests exceptions to the IPS for the use of derivatives in writing the call options and holding long-term equity overlays. The authorization would expire two years from the date of approval by the Board.

Mr. Murphy asked that the motion be amended to include that the Board receive an update on the status of Writing Covered Calls at each board meeting. Mr. Welch agreed to the amendment. The motion was then voted on as amended and carried.

*Proposed by:*                 *Bob Welch*  
*Seconded by:*             *Matt Murphy*  
*Votes:*                         *5 in favor, 0 opposed*

## **VI. Legislative Update**

Ms. Cimera, General Counsel, provided the Board a brief update as to how the legislative session ended as it pertains to PERF. Ms. Cimera stated that the legislature will be called into a special session. The special session will be focused on the budget, but the legislature is not prohibited from going beyond the budget. It is unlikely that legislation will be passed during the special session to affect PERF, but we will continue to monitor. Ms. Cimera concluded her presentation with an update on the bills that will have an impact on PERF and stated that staff is starting to work on implementation of the changes that are effective July 1, 2009.

## **VII. Economic Impact**

Chairman Cochran introduced Jeff Hutson, Director of Communications, who provided a summary of a study on the Economic Impact of PERF Payments conducted by Professor Bruce Jaffee of the Kelley School of Business at Indiana University. The purpose of the study was to measure the effect of PERF on the Hoosier economy during fiscal year 2008. Although PERF had made payments in all 50 states, 90% of benefit payments were made in Indiana, in FY2008, PERF payments in Indiana totaled more than \$465M. Payments in Indiana generated a total increase in state domestic product of more than \$902M. The corresponding employment effect of these payments is estimated to be 11,290. Mr. Hutson concluded by providing a brief summary of PERF payments by state, by county, and

by business regions as well as how PERF payments created additional money and jobs.

**VIII. Board Education**

- **Fiduciary Duty**

Mr. Doug Kryscio of Mercer and Ms. Kristen Finney-Cooke of Mercer provided the Board with a review of proper board governance and fiduciary duties. Issues discussed included Guidance for Fiduciaries, Basic Fiduciary Duties, Delegation of Fiduciary Responsibilities, Practical Advice and Liability. Mr. Kryscio closed the presentation by discussing Indiana PERF's board member's responsibilities and the need for board members to continue their education on fiduciary responsibilities.

**IX. Date of Next Meeting**

June 19, 2009 at 12:00 p.m.

**X. Adjourn**

The meeting adjourned at 1:11 p.m.