

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

August 21, 2009

REGULAR SESSION

Board Members Present

Ken Cochran, Chair

Kevin Boehnlein, Vice Chair (present for a portion of the meeting as indicated)

Bob Welch

Cynthia Walsh

Ryan Kitchell (present for a portion of the meeting as indicated)

Board Members Absent

Matt Murphy

Others Present

Douglas Kryscio, Mercer Investment Consulting

Kristin Finney-Cooke, Mercer Investment Consulting

Janet Sweet, Capital Cities, LLC

Joe Bill Wiley, Capital Cities, LLC

Curt Smith, SIS

Lisa Keliuotis, SIS

PERF Staff Present

Terren Magid, Executive Director

Kathryn Cimera, General Counsel

Shawn Wischmeier, Chief Investment Officer

Steven Barley, Chief Operations Officer & Deputy Director

Todd Williams, Chief Financial Officer

Jeff Hutson, Director of Outreach & Communications

Sam Wingo, Director of Project Management

David Cooper, Director of Fixed Income & Real Assets / Deputy CIO

Sandra Wilson, Executive Assistant

Jeri Mains, Legal Assistant

Matt Ackerman, Manager-Vendor Management Office

Meeting called to order at 12:09 p.m. by Chairman Cochran.

I. **Approval of Minutes from June 20, 2009**

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

Proposed by: Kevin Boehnlein
Seconded by: Cynthia Walsh
Votes: 4 in favor, 0 opposed, 0 abstentions

II. **New Business**

• **Administrative Issues**

Repeal of Resolution 08-12

Mr. Magid introduced Kathryn Cimera to present Repeal of Resolution 08-12. Ms. Cimera explained that in August 2008 the Board approved Resolution 08-12, Terror State Investment Policy, to evaluate the risks associated with its direct investments with foreign companies and determine available strategies for addressing such risk. In 2009 the Indiana General Assembly passed House Enrolled Act 1547 which created Indiana Code 5-10.2-10, Divestment from States that Sponsor Terror. Ms. Cimera explained that the new law conflicts in some respects to Resolution 08-12. Specifically IC 5-10.2.10-16 requires PERF to cease engaging in commerce and to refrain from any new business operations in scrutinized companies. Resolution 08-12 requires staff to analyze available strategies and make a recommendation to the Board as to how to proceed. Therefore, in light of this conflict, staff recommends that the Board Repeal Resolution 08-12.

MOTION duly made and carried to approve Resolution 09-01, Repeal of Resolution 08-12.

Proposed by: Kevin Boehnlein
Seconded by: Bob Welch
Votes: 4 in favor, 0 opposed, 0 abstentions

Actuarial Procedural Change

Mr. Magid introduced Todd Williams, the new Chief Financial Officer. Mr. Williams informed the Board of a decision that PERF recently made to change the valuation for the 1977 Police Officers' and Firefighters' Pension and Disability Fund, also referred to as the '77 Fund, from January 1 to July 1, effective July 1, 2009. The change is considered to be within the scope of operational matters that the Board delegates to the Executive Director and the PERF Staff so a Board vote is not required. Mr. Williams then discussed that PERF anticipates little if any impact/concern to the members, employers and the SBoA, and outlined the transition plan.

- **ASA Transition**

ASA Plan Design

Mr. Magid explained to the Board that PERF has been working diligently to upgrade PERF's offerings within the Annuity Savings Account ("ASA") portion of the plan. PERF and TRF jointly issued an RFP last quarter and received several responses. PERF hired Capital Cities as a consultant to evaluate the current investment options and to help identify the other investment options to enhance the benefit to members. Mr. Magid introduced representatives from Capital Cities, Joe Bill Wiley and Janet Sweet, to present their process, findings and recommendations.

Mr. Wiley discussed the unique characteristics impacting PERF's and TRF's selection of a plan design. Such challenges include: finding similar structures and managers to meet both Funds' needs, continuing to offer participants an uncomplicated investment structure, accounting for the fact that the PERF and TRF Plans utilize different custodians, and accounting for the fact that both Plans are undergoing a transition to a daily valuation recordkeeping system.

A discussion was held regarding the asset allocation within the later term target date funds. While no final decisions have been made it is anticipated that later term target date funds would have a heavier equities allocation. While there would not be a significant difference in the allocations of a 2040 Fund versus a 2055 Fund, Mr. Wiley and Ms. Sweet opined that in the retirement fund target date there would probably be no more than 10% equities. Capital Cities will be creating the target date funds as this will be more cost effective than buying an off the shelf product. It will also give PERF more control over the underlying managers and the underlying styles inside each option.

A discussion was held regarding the stable value fund to be offered in the Legislator's defined contribution plan as a result of legislation passed by the 2009 General Assembly.

The Board then discussed how the current ASA options would be mapped into the new options. As the risk/return profile of the new options closely mirror the current options mapping should be relatively straight forward. A joint effort with TRF will be made in selecting the managers.

Ms. Cimera read Resolution 09-02.

MOTION duly made and carried to approve Resolution 09-02 which includes approval of an investment line-up including five core options (guaranteed/stable value, fixed income, large cap equity index, international

equity and small/mid cap core); introduction of lifestyle options and an investment line up including specialty investment options.

Proposed by: Cynthia Walsh
Seconded by: Kevin Boehnlein
Votes: 4 in favor, 0 opposed, 0 abstentions

Daily Valuation & Administration Proposals

Mr. Magid explained that due to recent legislative changes PERF is able to begin moving toward a daily valuation environment within the ASA. Mr. Magid introduced Sam Wingo, PERF's Director of Project Management, who is primarily responsible for overseeing the Project Management aspects of PERF and TRF's migration to ASA daily valuation.

Mr. Wingo explained that PERF and TRF are currently scheduled to move to a daily valuation environment in Q1 2010. In order to go live certain implementation decisions must be made which ultimately should be set forth in the Indiana Administrative Code. Today, staff recommends methodologies to implement daily valuation more efficiently. The first methodology is to establish the minimum increment in which members may allocate their ASA dollars. Staff recommends members make investments in increments of no less than 1%.

The second recommendation is with regard to the methodology for annuitizing ASA balances at retirement. For members who elect to annuitize their ASA, staff recommends a fixed value account be established from which annuities will be calculated. The ASA balance will be moved to the fixed value account no more than 30 days prior to retirement. Members will be unable to change investment allocations during this time period. The interest rate of the fixed value account will be set the same as on the guaranteed fund.

Upon completion of further work with the ASA vendor, specific language for inclusion in the Administrative Code will be recommended for approval at a later date to reflect these methodologies.

MOTION duly made and carried to approve a plan to implement a daily valuation system for members' ASA, an investment allocation unit of no less than 1% and a "fixed value account" to annuitize PERF ASA accounts at the time of retirement.

Proposed by: Bob Welch
Seconded by: Kevin Boehnlein
Votes: 4 in favor, 0 opposed, 0 abstentions

- **Investments**

Investments Update

Mr. Kitchell arrived at 1:15 during the Investments update.

Mr. Magid introduced Shawn Wischmeier, Chief Investment Officer, and Doug Kryscio of Mercer, to the Board to present the Investments Update. Mr. Kryscio provided the Board with a performance update as of July 31, 2009.

Mr. Wischmeier presented an update on the performance of bank loans in the absolute return allocation and gave highlights of changes in the private equity program. Mr. Wischmeier also discussed the status of the use of covered calls which was approved during the May board meeting and on which the Board requested to be updated. Staff has not yet utilized covered calls as volatility has decreased substantially negatively impacting the premium on the options.

Mr. Wischmeier continued with the Sudan Divestment Update. One of the managers that manages an emerging market portfolio for PERF, Schroder, purchased an asset on the Sudan restricted list. PERF was able to identify it, work with Schroder to correct the issue and sold the asset for a small gain of approximately \$16,000. Staff is confident that Schroders has reviewed their system, identified the system error, and has rectified the issue. Staff continues to work to meet compliance deadlines.

Mr. Kryscio then presented an update on the International Equities Allocation. Items discussed included past and current international equity allocation, intermediate global allocation, and long term global allocation.

A discussion was then held in response to the question why there is a need for a global allocation. Mr. Wischmeier explained that staff recommends to keep the existing 10% allocation to global equities; such an allocation will give staff the flexibility to find best-of-breed managers that will add value to the plan.

Mr. Magid proposed moving ahead in the Agenda to the TIPS Presentation which requires a vote from the Board.

TIPS Manager Approvals

Mr. Kryscio presented the TIPS Recommendation. Mr. Kryscio discussed the background, including the RFP process for the selection of a TIPS Manager. Mr. Kryscio further discussed the proposed initial allocation and potential manager concentration risk.

It was recommended that the board approve an exception to the IPS to allow for active strategies and the use of global ILBs, derivatives, repurchase agreements and nominal bonds within the TIPS target allocation. Additionally, staff recommended that the Board approve hiring Bridgewater and BlackRock to manage these mandates including the "Pure Alpha" portion

of the Bridgewater mandate to be governed by the absolute return addendum to the IPS.

MOTION duly made and carried to approve exceptions to the IPS to allow for active strategies and the use of global ILBs, derivatives, repurchase agreements and nominal bonds within the TIPS target allocation. Additionally, staff recommends that the Board approve hiring Bridgewater and BlackRock to manage these mandates including the “Pure Alpha” portion of the Bridgewater mandate to be governed by the absolute return addendum to the IPS.

Proposed by: Kevin Boehnlein
Seconded by: Cynthia Walsh
Votes: 4 in favor, 0 opposed, 0 abstentions

Mr. Boehnlein left at 2:38 pm.

A discussion was then held regarding staff’s goal with respect to balancing risk and return. Mr. Wischmeier explained their goal would be to maximize return based on a tracking error at approximately 1.5% with absolute risk not above 10%.

Pursuant to the Board’s request Mr. Wischmeier also spoke about relative risk. During this discussion, Mr. Wischmeier led the board in a review of benchmarking. In October, absolute risk will be discussed and in November, tail risk will be discussed.

Mr. Wischmeier presented a discussion on benchmarking. Mr. Wischmeier explained that different funds use different benchmarks. Mr. Wischmeier defined and discussed dynamic, static and industry benchmarking. Mr. Wischmeier explained that utilizing a dynamic benchmark and separately reporting on many alternative asset classes is the best approach to measure performance based on available tools. PERF will continue to look for best-in-class practices that will allow for appropriate inclusion of all asset classes correctly into a single plan benchmark.

Private Equity Overview

Curt Smith with SIS presented a review of the Private Equity Portfolio. Mr. Smith discussed the impact of the recession on private equity, where PERF’s portfolio stands currently with regard to its future targets general partner diversification, industry diversification, selected fund Investments and PERF private equity performance. Mr. Smith also discussed how PERF compares with other public pension plans. Finally, Mr. Smith discussed PERF’s current commitment plan and how to avoid over-allocation to private equity.

- **Finance & Budget**

Financial Update

Mr. Williams reviewed the June financial statements with the Board. As of June 30, 2009, Mr. Williams reported that the net assets were down approximately \$3.5B over the last 12 months due to investment performance. Cash and cash equivalents increased by \$450 million over the prior year. In addition, securities lending collateral increased about \$330 million.

Mr. Williams also explained that PERF's expenditures during FY2009 on its modernization projects is reflected in part by approximately \$3.5 million computer software and equipment which were capitalized during the year.

Mr. Williams also discussed the Statement of Expenditures as of June 30, 2009. He pointed out the year-to-date total administrative expenses were \$13.3 million under budget due to timing of certain projects delayed to FY2010, the capitalization of certain system costs, and reduced headcount versus plan, along with the year-to-date variance.

- **Line of Duty Death Benefit**

Mr. Magid presented the board with a line-of-duty death benefit claim for Sarah I. Jones, an employee with the Monroe County Sheriff's Department. The benefit amount paid was \$150,000.

III. Executive Director Report

Mr. Magid discussed Channel 13's report about PERF's travel along with PERF's travel policy. Mr. Magid explained that PERF manages its operations openly and transparently. Channel 13 reviewed PERF documents for over 6 months and looked at all of PERF's expenses. Jeff Hutson, PERF Director of Communications gave an interview to explain the reasons for travel by certain PERF employees. However, only about 20 seconds of Mr. Hutson's one hour's worth of comments were used. Mr. Magid discussed PERF's travel policy which was adopted in 2004. He stated that he has asked the internal audit department to conduct an audit of staff compliance with the policy and report its findings and any recommendations for amendments or improvements to the policy during the annual audit update to the Board in November.

Mr. Magid also reviewed July 09 Scorecard Results and Q4 FY09 highlights. Mr. Magid explained that PERF has transitioned IOT Pensions, the division of the State Office of Technology which has supported PERF and TRF for the past three years, to a new organization within PERF called Pension Applications and Technical Support, or "PATs".

PERF and TRF also issued an RFP in the 4th Quarter to hire an audit firm to conduct an IT security audit. The bid was awarded to KPMG.

PERF created an employee Retention Committee in the fourth quarter made of up members of PERF Staff. PERF created the committee to develop ideas to award and recognize PERF employees to develop little or no cost strategies to reward employees in light of the budget constrained environment.

Lastly, Mr. Magid asked each board member to email him ideas for the agenda for the November annual meeting for discussion at the October meeting.

IV. Date of Next Meetings

October 16, 2009 at 12 pm

November 20, 2009 Annual Meeting

V. Adjourn

The meeting adjourned at 4:01 p.m.