

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

November 20, 2009

REGULAR SESSION

Board Members Present

Ken Cochran, Chair

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

Bob Welch (present for a portion of the meeting as indicated)

Cynthia Walsh (via phone) (present for a portion of the meeting as indicated)

Ryan Kitchell

Matt Murphy

Board Members Absent

Others Present

Douglas Kryscio, Mercer Investment Consulting

Doug Todd, McCready and Keene, Inc.

Richard Lenar, McCready and Keene, Inc.

Kyle Kappel, KPMG LLP

Tony Buffomante, KPMG LLP

Edward Schwartz, ORG

Vineer Bhansali, PIMCO

Jesse Pricer, PIMCO

PERF Staff Present

Terren Magid, Executive Director

Kathryn Cimera, General Counsel

Shawn Wischmeier, Chief Investment Officer

Jeff Hutson, Director of Outreach & Communications

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

Brenda Jacobs, Executive Assistant to the Chief Operations Officer and Deputy Director

Jeri Mains, Legal Assistant

Matt Ackerman, Manager-Vendor Management Office

Wisty Malone, Director of Internal Audit

Meeting called to order at 9:22 a.m. by Chairman Cochran.

I. **Approval of Minutes from October 16, 2009**

MOTION duly made and carried to approve the minutes from October 16, 2009 Board of Trustees meeting.

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

II. **New Business**

• **Elections**

Chair Approval

The Board nominated Ken Cochran as Chairman of the Board of Trustees of the Public Employees' Retirement Fund.

MOTION duly made and carried to approve Ken Cochran as Chairman of the Board of Trustees of the Public Employees' Retirement Fund.

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

Vice Chair Approval

The Board nominated Kevin Boehnlein as Vice Chairman of the Board of Trustees of the Public Employees' Retirement Fund.

MOTION duly made and carried to approve Kevin Boehnlein as Vice Chairman of the Board of Trustees of the Public Employees' Retirement Fund.

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

• **Tail Risk Discussion**

Mr. Boehnlein arrived during the Tail Risk Discussion.

Terren Magid introduced Shawn Wischmeier, Chief Investment Officer, and Doug Kryscio of Mercer to the Board to present the Tail Risk Discussion. Mr. Wischmeier and Mr. Kryscio explained tail risk, different factors that can cause performance in the tails, the severity and frequency of such performance and how PERF is handling tail risk currently.

This discussion included potential changes to PERF's management of tail risk that could be implemented in the future. Mr. Wischmeier presented the Board with different approaches. Mr. Wischmeier discussed dollar-based asset allocation which is PERF's current approach, risk-based asset allocation and dollar-based asset allocation with tail risk hedging. Mr. Wischmeier discussed the pros and cons of each approach. A discussion also was held regarding the severity and frequency of tail events. Mr. Wischmeier lastly discussed tail risk hedging considerations and requirements. Mr. Wischmeier noted that this is an early discussion of tail risk and if the Board desired more information PERF staff would study the issue further. A discussion was held and it was determined that PERF staff would conduct further research and report to the Board in a subsequent meeting.

Mr. Wischmeier introduced Vineer Bhansali and Jesse Pricer of PIMCO. Mr. Bansali and Mr. Pricer presented an additional tail risk discussion. This discussion focused on the history and future of tail risk along with how other public plans manage tail risk. The discussion ended with risk management and potential benefits/risks to the plan should PERF choose tail risk hedging.

- **Internal Audit Update**

Mr. Magid introduced Wisty Malone, Director of Internal Audit, to the Board. Ms. Malone presented the Internal Audit Update which included the 2009 Internal Audit Plan Status, the 2010 Risk Assessment Process, and the 2010 Internal Audit Plan. Ms. Malone also discussed an updated Internal Audit Charter.

Ms. Malone discussed the status of the 2009 Audit Plan. The majority of projects were completed on time. She explained that some projects were pushed to 2010 due to limited resources and schedule changes in various PERF modernization initiatives.

In addition to the scheduled audits in the 2009 plan, PERF Internal Audit conducted an audit of PERF's travel policy and expenditures. Approximately 30 travel requests and supporting documentation were reviewed to determine if PERF's travel policy was correctly followed. Ms. Malone explained that the findings were minor. Overall PERF employee travel appears to be necessary, appropriate and is in accordance with the PERF Policy.

Ms. Malone discussed the 2010 Risk Assessment Process. Internal Audit gathered information to identify PERF's potential areas of risk from multiple sources. Internal Audit administered a questionnaire to the executive team members, met with SBoA Audit Team and with Ernst & Young to assist with identification of PERF's auditable units, and to assess inherent risk in these units. Ms. Malone reviewed with the Board a chart showing four quadrants of

inherent risk and the corresponding quality of internal control. The chart was used to determine the areas on which the 2010 plan should focus.

Ms. Malone presented the 2010 Audit Plan including the timeline for projects which the Board discussed.

Lastly, Ms. Malone presented the Updated Internal Audit Charter. Ms. Malone explained that the update primarily simplified, tightened wording and removed redundancies. Two new sections were added as well: a purpose section and an independence section.

MOTION duly made and carried to approve the 2010 Internal Audit Plan.

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

(Ms. Walsh who was participating by phone did not vote or abstain)

A discussion was held regarding a proposed amendment to the 2010 Internal Audit Plan.

MOTION duly made and carried to amend the 2010 Internal Audit Plan as approved to add a Project covering Security Risk Assessment with the description stated as Risk Assessment and Data Security Control Evaluation for PERF IT.

Proposed by: Cindi Walsh
Seconded by: Ryan Kitchell
Votes: 6 in favor, 0 opposed, 0 abstentions

MOTION duly made and carried to approve the changes to the Internal Audit Charter, Resolution No. 09-03.

Proposed by: Kevin Boehnlein
Seconded by: Ryan Kitchell
Votes: 6 in favor, 0 opposed, 0 abstentions

- **Annual Valuation and Contribution Rates**

Mr. Magid introduced PERF's actuary, Doug Todd from McCready and Keene. Mr. Todd presented the results of the actuarial valuation for fiscal year 2009, which included the contribution rates for all employers under PERF, and each of the five other pension plans administered by PERF. The two largest funds that PERF administers; the PERF Fund and the 1977 Fund have a 94.3% and 98.0% funded status respectively. The Judges' Retirement System was the only fund to see a funding increase during fiscal 2009. Mr. Todd believes this may be as a result of having better data than in the past years.

Mr. Todd then presented the recommended contribution rates for the state and local units of government under the PERF Plan. Due to declining financial markets, most contribution rates increased. Mr. Todd recommended that the moratorium decreasing contribution rates, first applied last year, remain in place this year.

Mr. Todd then discussed the detailed valuations for each of the other plans and their corresponding actuarially recommended contributions.

Mr. Todd discussed the change in the valuation date for the 1977 Fund Plan. Previously the 1977 Fund was valued on a calendar year. On a going forward basis, the 1977 Fund will be valued on a June/July fiscal year basis, the same as the other five pension funds administered by PERF, and six months closer to the date the valuation is performed.

MOTION duly made and carried to approve the Annual Valuation and Contribution Rates for each of the Plans administered by PERF as recommended by McCready and Keene.

Proposed by: Matt Murphy
Seconded by: Kevin Boehnlein
Votes: 6 in favor, 0 opposed, 0 abstentions

Mr. Magid informed the Board of PERF's ongoing efforts to reduce administrative costs in light of the current economic environment. PERF staff has reviewed a variety of expense areas for potential further reduction. Given that personnel costs are a significant portion of PERF's administrative budget PERF staff recommended that a Board Resolution directing current external staffing contracts be renegotiated in an effort to achieve overall expense savings.

MOTION duly made and carried to approve the Renegotiation of Staffing Contracts with a target of 10% savings versus contracted amount, Resolution No. 09-05.

Proposed by: Kevin Boehnlein
Seconded by: Ryan Kitchell
Votes: 6 in favor, 0 opposed, 0 abstentions

- **Indiana Administrative Code**

Mr. Magid introduced Kathryn Cimera to the Board. Ms. Cimera presented proposed Indiana Administrative Code (IAC) rule changes to the Board. Ms. Cimera reviewed the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act), a federal law which allows a member who dies or becomes disabled while serving in active military duty while still employed in a covered position to receive a line of duty death or disability benefit.

The second proposed change to the IAC involved 1977 Fund Member Transfers. Ms. Cimera explained reasons for the change and recommended the transfer time period be expanded to match the reinstatement rights time period for laid-off members which is 3 years. Therefore, a member who was subject to a lay off would be able to transfer to a new unit within 3 years of the layoff regardless of age.

MOTION duly made and carried to approve the changes to the Indiana Administrative Code, Resolution No. 09-04.

<i>Proposed by:</i>	<i>Ryan Kitchell</i>
<i>Seconded by:</i>	<i>Kevin Boehnlein</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

A break was held for lunch at 12:30 p.m. The Executive Session commenced shortly after 1:00 pm.

EXECUTIVE SESSION

An Executive session was held pursuant to Indiana Code 5-14-1.5-6.1 (b)(2)(C). As set forth in IC 5-14-1.5-6.1 (d) matters discussed during the executive session were limited to those set forth in IC 5-14-1.5-6.1 (b)(2)(C). No executive session action took place as a result of the executive session.

Ms. Walsh ended her participation after the Executive Session.

RESUMPTION OF REGULAR SESSION

- **Review of Board Responsibilities and Duties**

Mr. Magid introduced Ms. Cimera, General Counsel, to present an overview of Board Responsibilities and Duties. Ms. Cimera explained that the Statement of Board Governance was last approved by the Board in 2007. Ms. Cimera reviewed the responsibilities and duties of the Board as set forth in both Indiana, and Federal law as well as in the Statement of Board Governance. Ms. Cimera reviewed the structure and make-up of the Board as set forth in Indiana law as well as the laws governing the conduct of Board meetings.

Finally, Ms. Cimera gave an overview of Board members' fiduciary responsibilities.

- **Benchmark Discussion**

Mr. Magid introduced Mr. Wischmeier, Chief Investment Officer, and Mr. Kryscio of Mercer, to present a discussion on benchmarking. Mr. Wischmeier and Mr. Kryscio discussed the dynamic and static benchmarks and how PERF uses each benchmark. Mr. Wischmeier and Mr. Kryscio also

discussed benchmarking limits and the best approach to measure PERF's performance.

- **Target Date Funds**

Mr. Kryscio presented the Board with a discussion on target date funds, also known as lifestyle funds. Mr. Kryscio discussed what lifestyle funds are and how the funds are used in an individual's investment portfolio. Mr. Kryscio also discussed how other public pension plans use lifestyle funds.

Lastly, Mr. Kryscio discussed the benefits of target date funds because they allow participants to build custom target date strategies.

- **Real Estate Review**

Ed Schwartz, Principal, ORG, addressed the Board to discuss the current environment for real estate as well as Indiana PERF's real estate strategy and portfolio. Mr. Schwartz shared Indiana PERF's current commitments and current invested amounts (\$832.9 million and \$213.5 million respectively) in the class. Mr. Schwartz also discussed PERF's property type diversification. Mr. Schwartz explained that PERF's prudence in committing capital has been advantageous and PERF does not have material problems in the real estate portfolio unlike most pensions and foundations.

Mr. Schwartz provided the Board with ORG's views on the real estate markets in the U.S., Europe, and Asia stating in all regions that fundamentals will most likely continue to decline and access to capital will be an issue for those needing to refinance.

Finally, Mr. Schwartz shared ORG's suggested current investment themes which include: selective fund recapitalizations, selective secondary fund opportunities, core separate accounts and debt origination.

Upon the conclusion of the Real Estate review, Mr. Welch informed Chairman Cochran and other members of the Board that he is resigning from his position on the Board. Mr. Welch then left the meeting.

- **IPS Update**

Mr. Wischmeier discussed the proposed Investment Policy Statement to the Board. Several changes were recommended and reviewed. The Investment Policy Statement will be discussed in more detail at the next Board Meeting in February 2010 when the changes in the IPS will be recommended to the Board for approval.

MOTION duly made and carried to cancel the Board Meeting on December 11, 2009.

Proposed by: Kevin Boehnlein
Seconded by: Ryan Kitchell
Votes: 4 in favor, 0 opposed, 0 abstentions

III. Date of Next Meeting

February 19, 2010 at 10 a.m.

IV. Proposed 2009 Board Meeting Dates

Mr. Magid provided the Board with the proposed 2010 Board Meeting Dates for approval. A discussion was held regarding the time the 2010 meetings should start. The Board agreed the meetings would begin at 10:00 a.m., pending input from Ms. Walsh.

MOTION duly made and carried to approve the 2010 Board Meeting Dates.

Proposed by: Kevin Boehnlein
Seconded by: Ryan Kitchell
Votes: 4 in favor, 0 opposed, 0 abstentions

V. Adjourn

The meeting adjourned at 3:45 p.m.