

**MINUTES**  
**BOARD OF TRUSTEES OF THE**  
**PUBLIC EMPLOYEES' RETIREMENT FUND**  
**143 West Market Street, Suite 500**  
**Indianapolis, Indiana 46204**  
**December 21, 2007**

**EXECUTIVE SESSION**

An Executive session was held pursuant to Indiana Code 5-14-1.5-6.1(b)(9). As required by IC 5-14-1.5-6.1(d), only subject matter related to IC 5-14-1.5-6.1(b)(9) was discussed.

**REGULAR SESSION**

**Board Members Present**

Ken Cochran, Chair  
Kevin Boehnlein, Vice Chair  
Matt Murphy  
Bob Welch  
Ryan Kitchell  
Kathy Ettensohn

**Board Members Absent**

None

**Others Present**

Doug Kryscio, Mercer Investment Consulting  
Kristen Finney-Cooke, Mercer Investment Consulting  
Pete Keliuotis, Strategic Investment Solutions (SIS)  
Curt Smith, Strategic Investment Solutions (SIS)  
Faraz Shooshani, Strategic Investment Solutions (SIS)  
Doug Todd, McCready and Keene  
Richard Lenar, McCready and Keene

**PERF Staff Present**

Terren Magid, Executive Director  
Andrea Unzicker, General Counsel  
Shawn Wischmeier, Chief Investment Officer  
Patricia Bush, Chief Financial Officer  
Sandra Wilson, Executive Assistant  
Jeri Mains, Legal Assistant  
David Cooper, Director of Fixed Income

Meeting called to order at 1:04 by Chairman Cochran.

## I. Approval of Minutes

**MOTION** duly made and carried to approve the minutes from November 9, 2007 Board of Trustees meeting.

*Proposed by:*                    *Bob Welch*  
*Seconded by:*                *Matt Murphy*  
*Votes:*                            *6 in favor, 0 opposed, 0 abstentions*

## II. Old Business

### • **Statement of Board Governance**

Mr. Magid introduced Andrea Unzicker to discuss Board Governance. As discussed at the November 9<sup>th</sup> meeting, PERF is recommending adoption of a revised Board Governance Policy. Ms. Unzicker made note of one change and one comment.

On the Executive Director Performance Evaluation Policy, PERF changed the Director's review to November, rather than December. The Director's review will be based on the prior fiscal year, but may include information received from the SBOA, which is not available before October. Feedback can be based on any observations noted after June 30 of the review year.

As a point of clarification, with regard to the Strategic Planning Policy, staff would do the initial work of preparing a draft Strategic Plan that would be brought to the Board for their input and consideration.

At this time, Staff recommends adoption of the revised Statement of Board Governance.

**MOTION** duly made and carried to adopt the revised Statement of Board Governance.

*Proposed by:*                    *Kathy Ettensohn*  
*Seconded by:*                *Matt Murphy*  
*Votes:*                            *6 in favor, 0 opposed, 0 abstentions*

### • **Restatement of Investment Policy**

Mr. Magid introduced Shawn Wischmeier to review one change to the draft Restatement of Investment Policy subsequent to the changes reviewed in the November Annual Meeting. The original MSCI EAFE benchmark was split into two new benchmarks (MSCI EAFE IMI and MSCI EAFE). The IPS was updated to show that either index could be used as the reference benchmark for international portfolios.

**MOTION** duly made and carried to adopt the revised Restatement of Investment Policy.

*Proposed by:* Kevin Boehnlein  
*Seconded by:* Bob Welch  
*Votes:* 6 in favor, 0 opposed, 0 abstentions

- **Administrative Code Change**

Ms. Unzicker reviewed one additional item that is included in the new rules that was not discussed at the November 9, 2007 board meeting.

Trailing contributions are employer contributions to a member's ASA account that come in after the member's retirement has already been processed and put in final status. These trailing contributions are usually no more than \$250, and current statutes and rules do not give any clear guidance on how they are to be handled. Presently, if a member has chosen to annuitize their ASA account, PERF has defaulted to annuitizing the trailing contributions and recalculating the member's entire benefit, usually only increasing the benefit by a dollar or two. This causes delays for members in receiving their correct monthly benefit, and additional administrative burden and costs.

Therefore, staff is recommending that a rule be adopted that provides that these trailing contributions may be paid out in a lump-sum, rather than annuitizing the small amount and re-calculating the member's retirement.

Given the reasons outlined above, staff recommends adoption of Rule 35 IAC 1.2-6-8.

**MOTION** duly made and carried to adopt Rule 35 IAC 1.2-6-8.

*Proposed by:* Matt Murphy  
*Seconded by:* Kathy Ettensohn  
*Votes:* 6 in favor, 0 opposed, 0 abstentions

### III. **New Business**

- **Internal Audit**

Internal Audit Charter

As noted on the slide at Tab 5, PERF's current Internal Audit Charter calls for an annual staff review of the Charter and the recommendation of updates to the Board as practices change. Because the Internal Audit Department has been in transition over the last year, we delayed proposing changes to the Board until we had an opportunity to meet with Ernst and Young, our recently hired outsourced internal auditors, and gain their feedback. Ms. Unzicker reported that E&Y began serving as our internal auditor in October, and was able to review our Internal Audit Charter.

Ms. Unzicker reviewed the current charter. The document outlines the responsibilities of the Internal Audit Department. Generally these responsibilities include the review of PERF's controls, systems and operations; the authority to access the premises and systems in order to conduct a broad review; and to provide a risk analysis and annual audit plan for submission to the Board.

Ms. Unzicker then summarized proposed changes to the Charter. First, references to the Audit Committee, which no longer exists were removed. Second, references to the Chief Internal Auditor were removed. Third, the proposed charter provides for a semi-annual internal audit report to the Board, which is intended to replace quarterly reporting to the Audit Committee although there will be ad hoc reporting to the board should issues appropriate for such reporting arise. Finally, the proposed charter provides that the risk assessment and audit plan will be reviewed by both General Counsel and the Executive Director, rather than just the General Counsel.

**MOTION** duly made and carried to approve the adoption of the revised Internal Audit Charter.

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

### Internal Audit Plan

Kent Francis and Doug Harper with Ernst & Young presented the 2008 Internal Audit Plan. During the presentation Kent and Doug discussed the Methodology and Risk Assessment for the Internal Audit Plan.

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

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

### • **Investments**

#### Investments Update

Shawn Wischmeier and Doug Kryscio of Mercer provided the board with an investments update.

#### Real-Estate Recommendations

Mr. Wischmeier and Mr. Kryscio presented the Real-Estate recommendations to the board. They first reviewed with the board the diversification rationale for including real-estate in a pension plan investment portfolio. They also

discussed PERF's approach to making real-estate investments. Msrs. Kryscio and Wischmeier then discussed the merits for the proposed real-estate investment managers in the private core and public real-estate sectors.

It is recommended that the board approve a commitment to each of the selected real estate managers through initial allocations of up to \$100 million to Prudential Real Estate Investors, up to \$100 million to Morgan Stanley Real Estate (MSRE), up to \$60 million to INVESCO, and up to \$40 million to European Investors (EII), pending final due diligence and document review by legal counsel.

**MOTION** duly made and carried to approve a commitment to each of the selected real estate managers through initial allocations of up to \$100 million to Prudential Real Estate Investors, up to \$100 million to Morgan Stanley Real Estate (MSRE), up to \$60 million to INVESCO, and up to \$40 million to European Investors (EII), pending final due diligence and document review by legal counsel.

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

#### Private Equity Recommendations

Mr. Wischmeier and Mr. Smith presented three private equity investments for the board's consideration.

The first investment proposal is to Natural Gas Partners IX. Natural Gas Partners is raising a \$3 billion fund that invests in companies engaged in the energy and resource related industries, with an emphasis on privately negotiated equity investments in North American oil and gas companies. Natural Gas Partners will invest in start-up and early stage companies that grow using buy and build techniques.

The previous funds have generated upper quartile returns to date. Fund IX will continue with the same investment strategy as the prior funds.

It is recommended that the board approve up to a \$40 million commitment to Natural Gas Partners IX pending final due diligence and document review by legal counsel.

**MOTION** duly made and carried to approve a commitment of up to a \$40 million commitment to Natural Gas Partners IX pending final due diligence and document review by legal counsel.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

The second investment proposal is to York Opportunity Fund, L.P.. York is currently raising a \$750 million fund to make control and or active investments in stressed or distressed companies and out-of-favor industries in the middle market. Investments will typically be made when companies are undergoing restructurings, financial reorganizations, privatizations, major acquisitions/divestitures or consolidations. Post acquisition, York will seek to influence the companies to implement its value creation strategies and leverage York's significant capital market expertise gained through years of investment analysis and diligence performed for its hedge fund investments.

Previous investments made by York that have a similar strategy have Investment performance of control/active transactions as of 6/30/07 provided by York shows a 106.5% gross IRR and a 1.7x return on capital.

It is recommended that the board approve up to a \$30 million commitment to York Opportunity Fund, L.P. pending final due diligence and document review by legal counsel.

**MOTION** duly made and carried to approve a commitment of up to a \$30 million commitment to York Opportunity Fund, L.P pending final due diligence and document review by legal counsel.

<i>Proposed by:</i>	<i>Bob Welch</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>6 in favor, 0 opposed, 0 abstentions</i>

The third investment proposal is to Horsley Bridge IX, LP (HB IX). HB IX is a premier fund-of-funds organization that has access to-difficult-to-access top tier private equity firms. HB IX will invest approximately \$1.75 billion in private equity partnerships focused on venture capital and growth buyout investments. The initial term of HB IX is twelve years with the possibility of three additional one-year extensions.

This investment will deepen PERF's relationship with a global leader in private equity fund investments and will provide diversification benefits to the portfolio. Horsley Bridge is an existing relationship with an outstanding firm that will support PERF's program through expanded due diligence capabilities and access to top-tier venture funds.

It is recommended that the board approve up to a \$75 million commitment to Horsley Bridge IX, LP (HB IX) pending final due diligence and document review by legal counsel.

**MOTION** duly made and carried to approve a commitment of up to a \$75 million commitment to Horsley Bridge IX, LP (HB IX) pending final due diligence and document review by legal counsel.

*Proposed by:* Matt Murphy  
*Seconded by:* Ryan Kitchell  
*Votes:* 6 in favor, 0 opposed, 0 abstentions

- **Finance & Budget**

New Units and Enlargements

Mr. Magid introduced Patricia Bush to the Board. Mr. Bush reviewed the list of new units and enlargements for the board and requested approval.

**MOTION** duly made and carried to approve the list of new units and enlargements.

*Proposed by:* Ryan Kitchell  
*Seconded by:* Matt Murphy  
*Votes:* 6 in favor, 0 opposed, 0 abstentions

Contribution Rates

Ms. Bush introduced Doug Todd of McCready and Keene, the fund's actuary, to discuss the application of smoothing rules to the fund valuations and impact on the contribution rates. Mr. Todd explained that the purpose of the smoothing rules is to avoid a whipsaw affect; rates moving precipitously up one year and precipitously down the next. In the past Mr. Todd has applied smoothing rules only to the political subdivisions in the PERF Plan. However, Mr. Todd explained that there is no reason not to apply smoothing rules to the state and the other plans. Mr. Todd recommended that the rules do not apply for Judges' and Legislators' Plan.

**MOTION** duly made and carried to approve Resolution 07-12.

*Proposed by:* Kathy Ettensohn  
*Seconded by:* Ryan Kitchell  
*Votes:* 6 in favor, 0 opposed, 0 abstentions

Doug Todd from McCready and Keene presented executive summaries of the 2007 actuarial valuations for the six defined benefit plans administered by PERF. The executive summaries contained the employer contribution rates which are generally effective July 1, 2008. However, the employer contribution rates for the political subdivisions of PERF (other than State employees) and for the 1977 Police and Fire Fund are effective January 1, 2009.

**MOTION** duly made and carried to accept the Employer Contribution Rates.

*Proposed by:* Bob Welch  
*Seconded by:* Ryan Kitchell  
*Votes:* 6 in favor, 0 opposed, 0 abstentions

## Financial Update

Ms. Bush reviewed the November financial statements with the board. As of November 30, 2007, PERF net assets were \$16.9B representing an increase of \$945.0 million (5.9%) from November 30, 2006.

- **Benefits**

### Line of Duty Death Benefit

Mr. Magid presented the board with two line-of-duty death benefits. The first one discussed was Officer Benjamin Wilcher Jr., an employee of the Gary Police Department. His death benefit was \$150,000.

The second Officer was Gary Henderson, an employee of the Shelbyville Police Department. His death benefit was also \$150,000.

- **Proposed 2008 Board Meeting Dates**

Mr. Magid provided the Board with the proposed 2008 Board Meeting Dates for approval.

**MOTION** duly made and carried to approve the 2008 Board Meeting Dates.

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

- **Executive Session Action**

The board evaluated the job performance of the Executive Director in executive session. Based on this job performance, the board recommends approving a 7% increase for the Executive Director.

**MOTION** duly made and carried to approve a 7% salary increase for the Executive Director.

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

## **IV. Executive Director Report**

Mr. Magid distributed a copy of the Fiscal 2007 Annual Report to each member of the board. Mr. Magid also reviewed PERF's scorecard measures with the board and the employer handbook that is available online.

**V. Date of Next Meeting**

February 22, 2008 at Noon

**VI. Adjournment**

Adjourned at 3:58 p.m.