



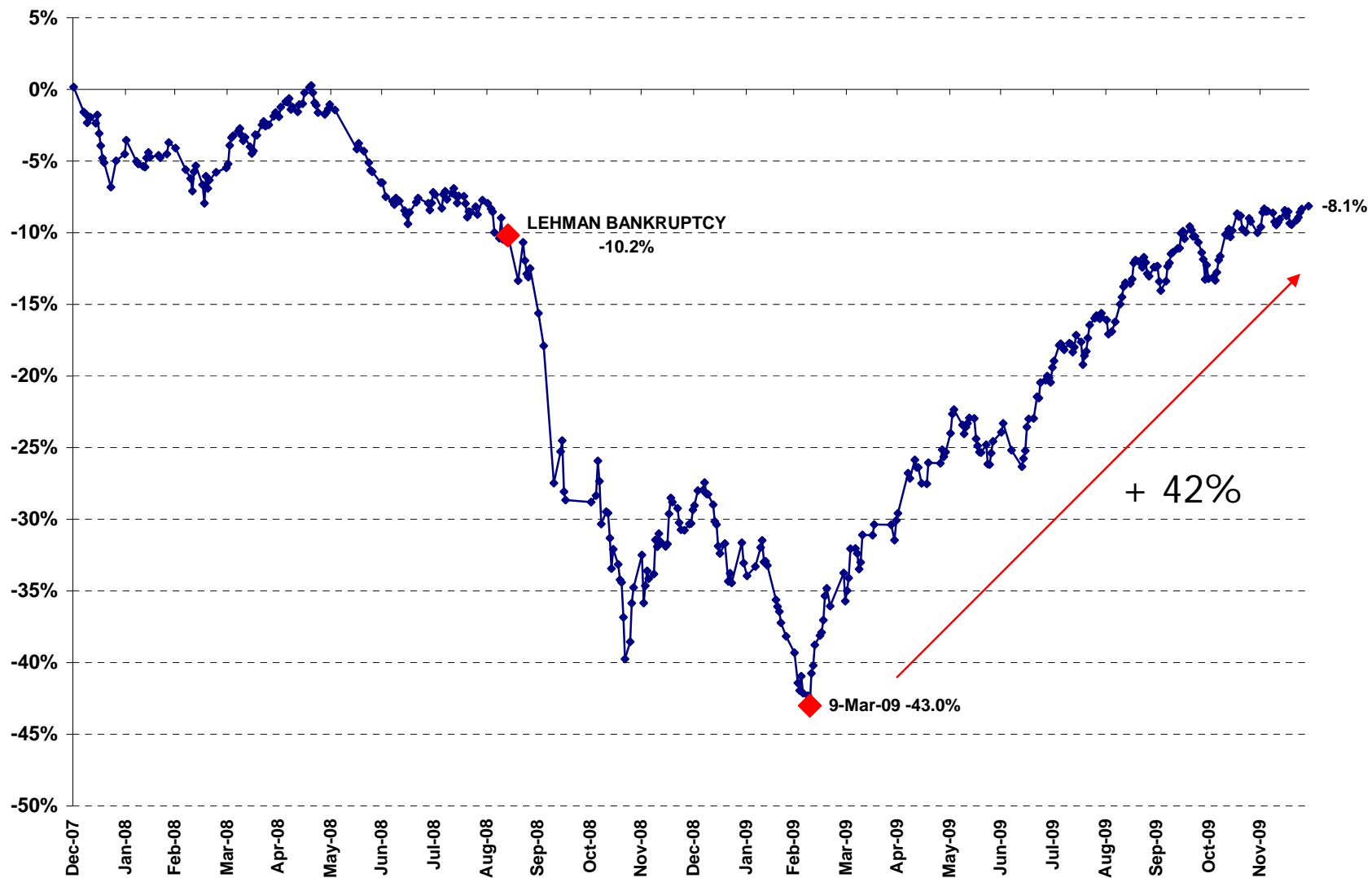
Presentation to Economic Outlook and Revenue Assessment Committee

**Robert Maynard
Chief Investment Officer**

January 7, 2010



PERSI TOTAL FUND RETURNS Calendar Years 2008 and 2009



March 9, 2009 \$7.5 Billion

December 31, 2009 \$10.56 Billion



OVERVIEW

- Where are we now?
 - Recovering from recession that was interrupted by an economic heart attack
 - Starting from deepest hole in living memory
- What is major issue over near term
 - Government Extrication from extensive intervention
 - Who Will Lend? Who Will Spend?
- What are major dangers?
 - Fragile economy with rising interest rates
 - China
- What is Current State of Capital Markets
 - Ending a great year at a level that is fairly valued for late recession and beginning of recovery
- What will next year be like?
 - Probably better than average public equity market returns, moderate to poor for rest of capital markets (bonds, real estate, alternatives)



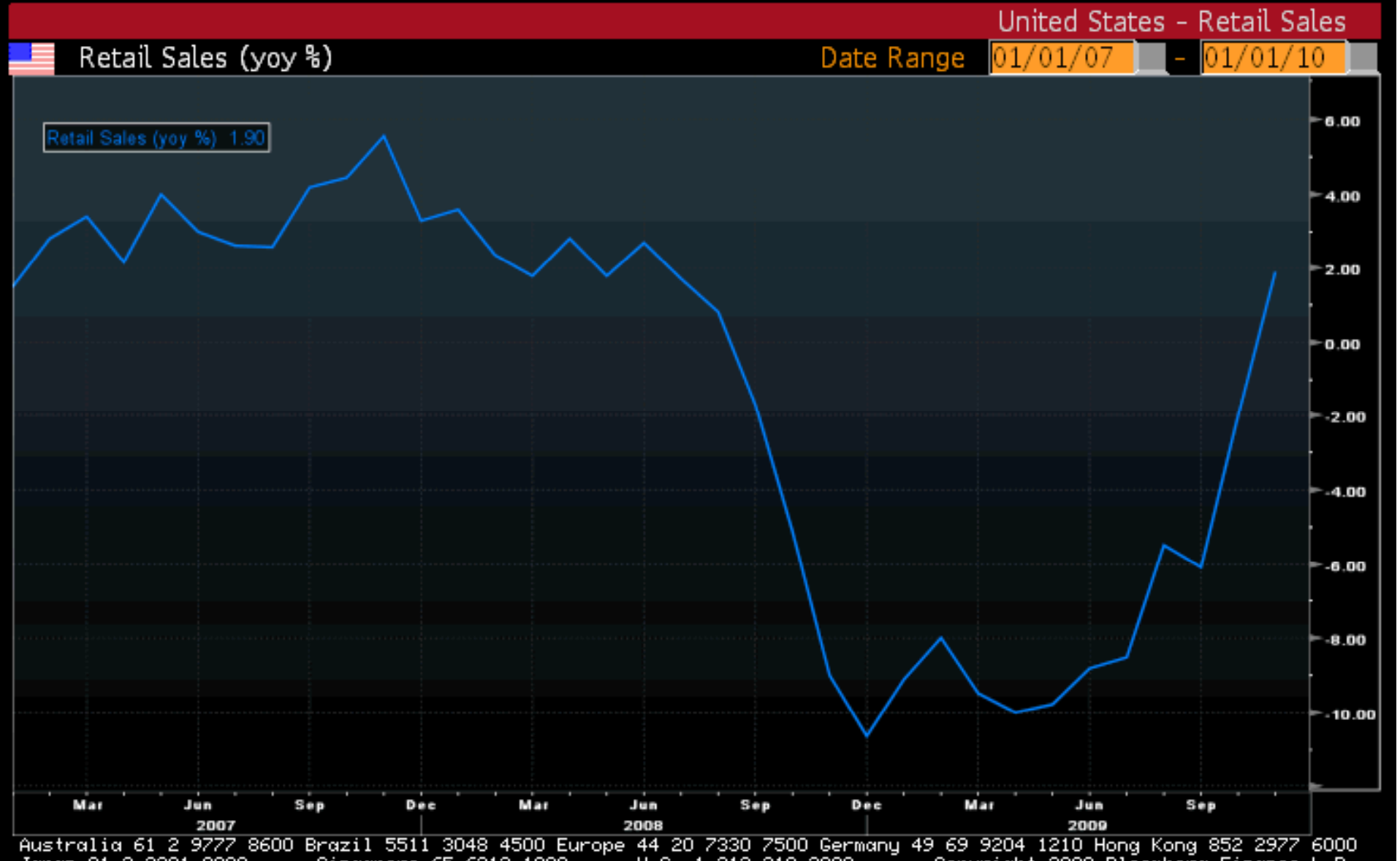
WHERE ARE WE NOW?

RECOVERING FROM HEART
ATTACK
FRAGILE AND IN A DEEP HOLE

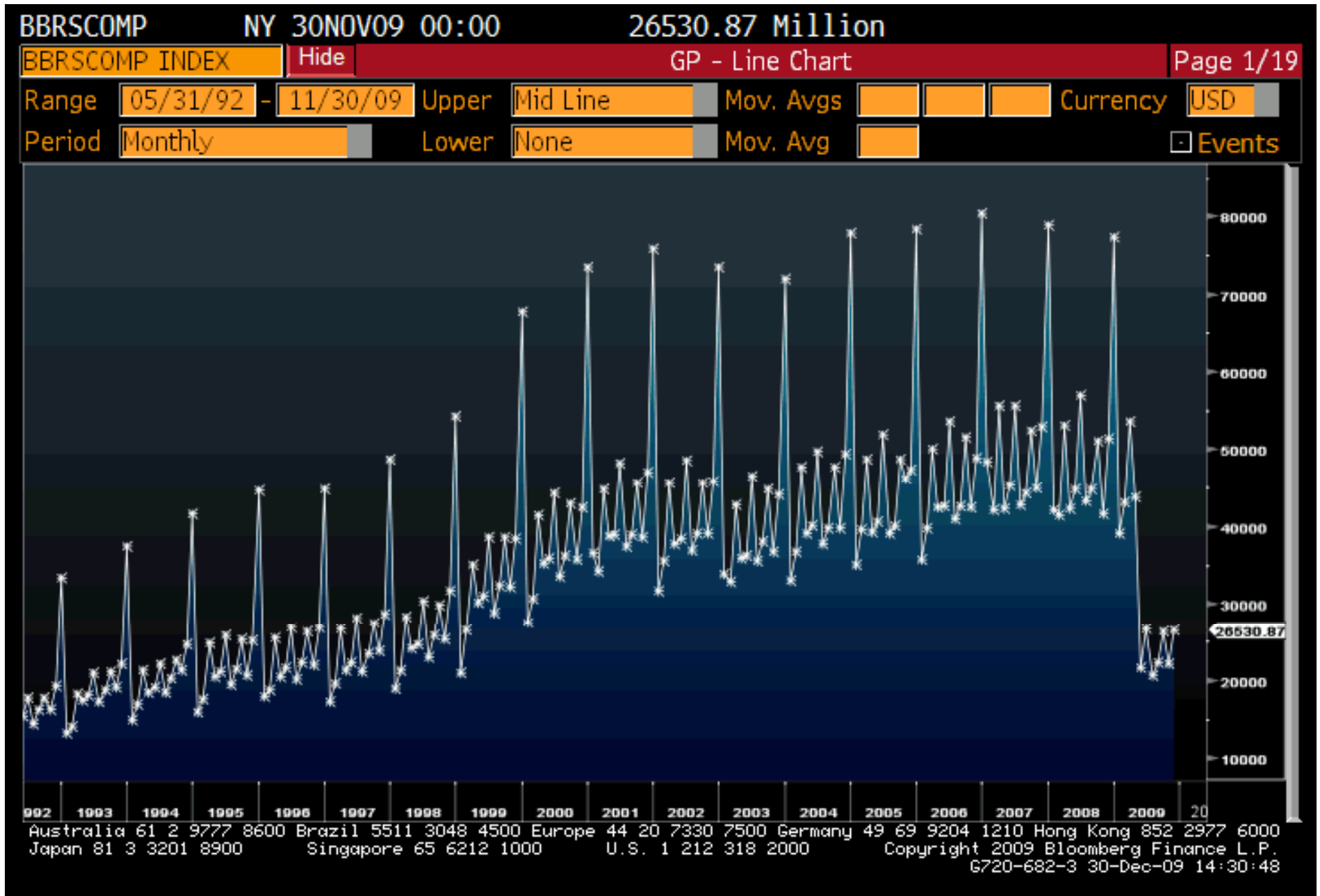
CONSUMER SPENDING RECOVERING

<HELP> for explanation.
<MENU> to return

Index **ECOW**



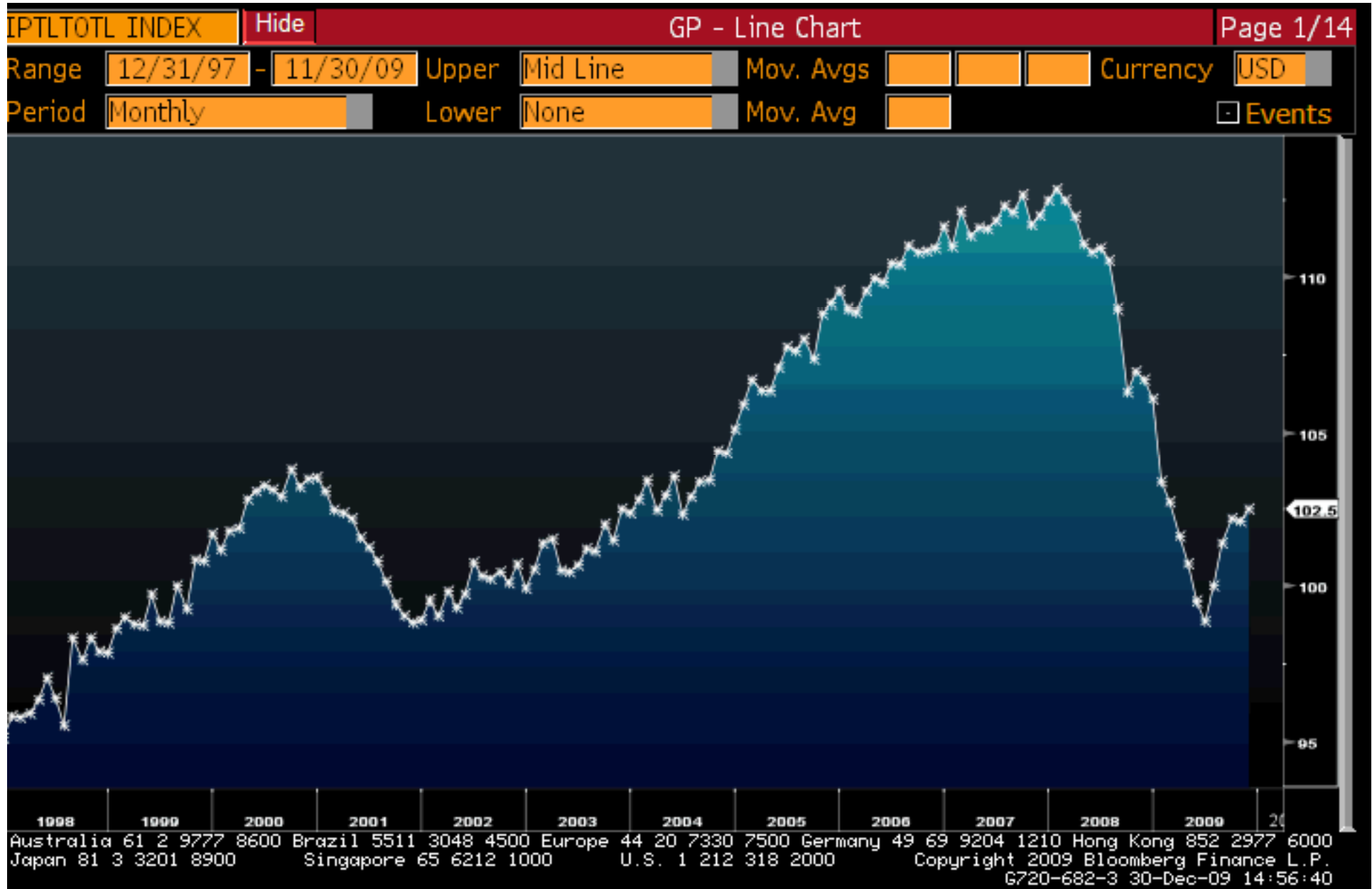
BUT STILL AT VERY LOW HISTORIC LEVELS



MANUFACTURING RECOVERING AND EXPANDING



AFTER AN EPIC COLLAPSE



ECONOMY OPERATING AT VERY LOW LEVEL

CPTICHNG Last 71.3% NOV Next 01/15/10 09:15 Surv 71.8% Index GP
 US Capacity Utilization % of Total Capacity SA

CPTICHNG INDEX Hide GP - Line Chart Page 1/5

Range 12/31/79 - 11/30/09 Upper Latest/Last Revi Mov. Avgs

Period Quarterly Events



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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CORPORATE PROFITS REBOUNDING FROM HISTORIC COLLAPSE BUT AT LOW ABSOLUTE LEVELS



MARKET UP 70% SINCE MARCH STILL -25% FROM PEAK

Russell 3000 since October 2007





CURRENT CONDITIONS

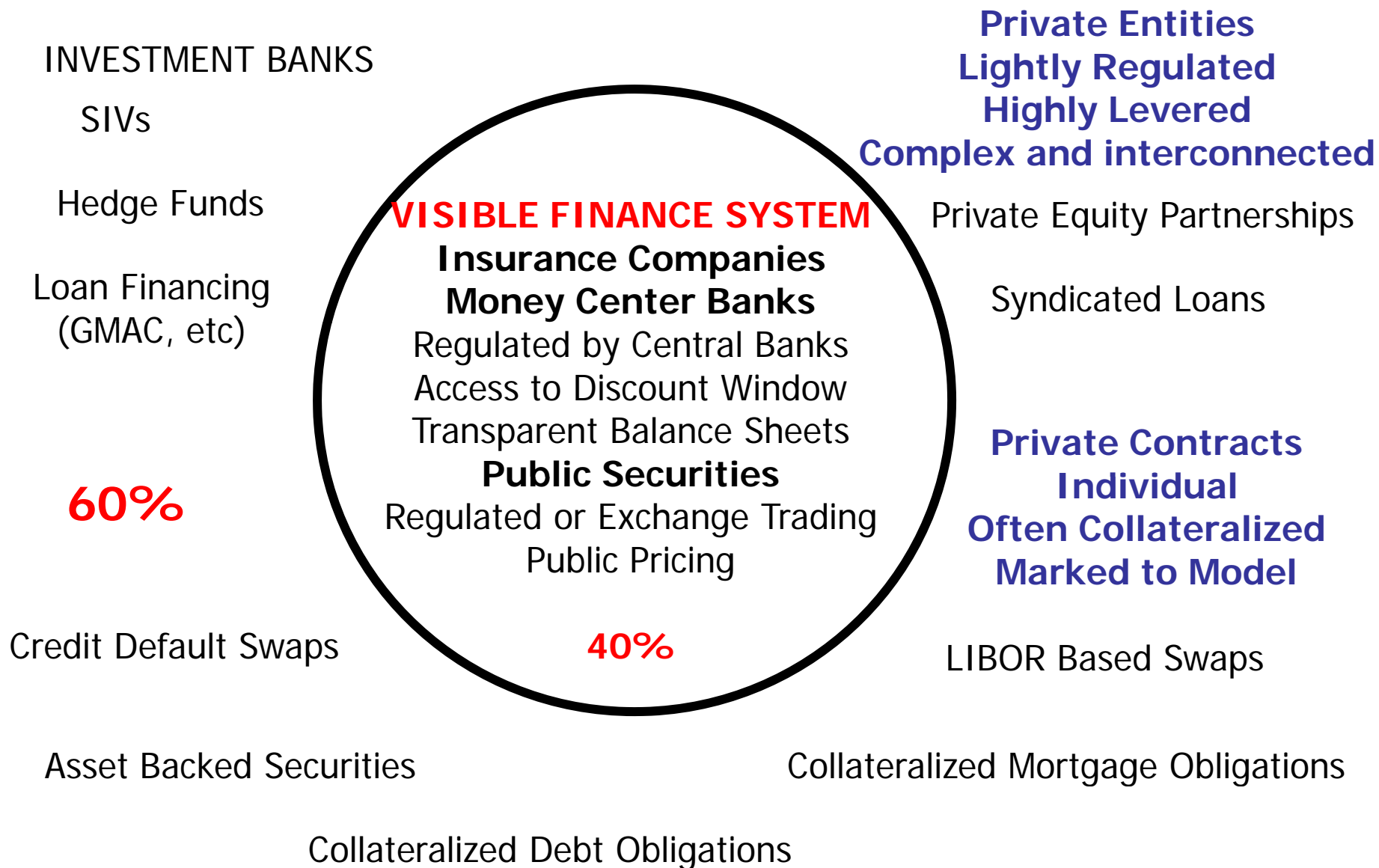
- Have lots of room to grow to use up capacity currently in economy (jobs and production facilities)
 - Inflation unlikely in meantime
- Also, still close to cliff
 - Global capacity still enormous and underutilized
- Businesses and consumers still feeling impact of near catastrophe



ECONOMIC LONG TERM ISSUES

- **Who will Lend?**
 - Replacement of "Shadow Finance System"
 - Currently only Government Supported institutions
- **Who will Spend? *The Paradox of Thrift***
 - US consumer 70% of US GDP, 25% of world GDP
 - Who can replace US consumer if returns to average saving of 5%-6% per year? (Currently 0.6%)
 - Equals 3.5% of GDP, \$600 billion per year
 - Asia saving culture, Europe & UK worse off than us
 - Currently only Government Fiscal Stimulus to replace
- **Are we entering the era of deleveraging?**
 - Less borrowing, less spending, less growth
 - Higher equity percentage for purchases, lower price paid
- **Deflation vs Inflation**
 - Money isn't printed until it is lent and spent

COLLAPSE OF THE SHADOW FINANCE SYSTEM UNREGULATED PRIVATE RELATIONSHIPS



Shadow System Disappeared, what remained wouldn't lend

CONSUMER SPENDING DROPPED OFF A CLIFF



FIRST MAJOR STALL IN RECENT MEMORY



SAVINGS RATE SETTLING IN AROUND 5%?





Government actions

- Addressed Lending
 - Collapse of Lending System

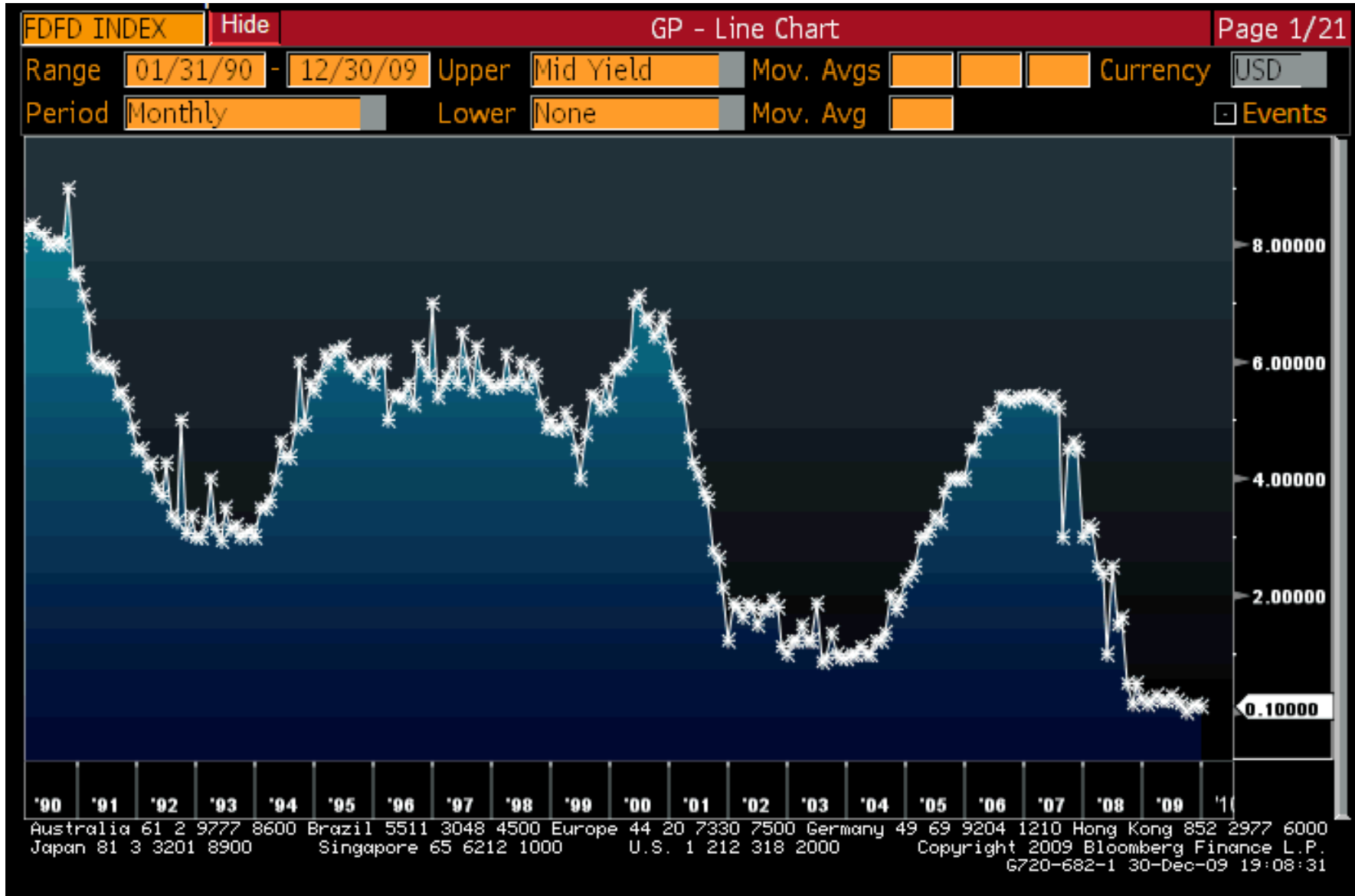
- Addressed Spending
 - Collapse of Consumer and Business Spending



GOVERNMENT ACTIONS TO BE UNWOUND

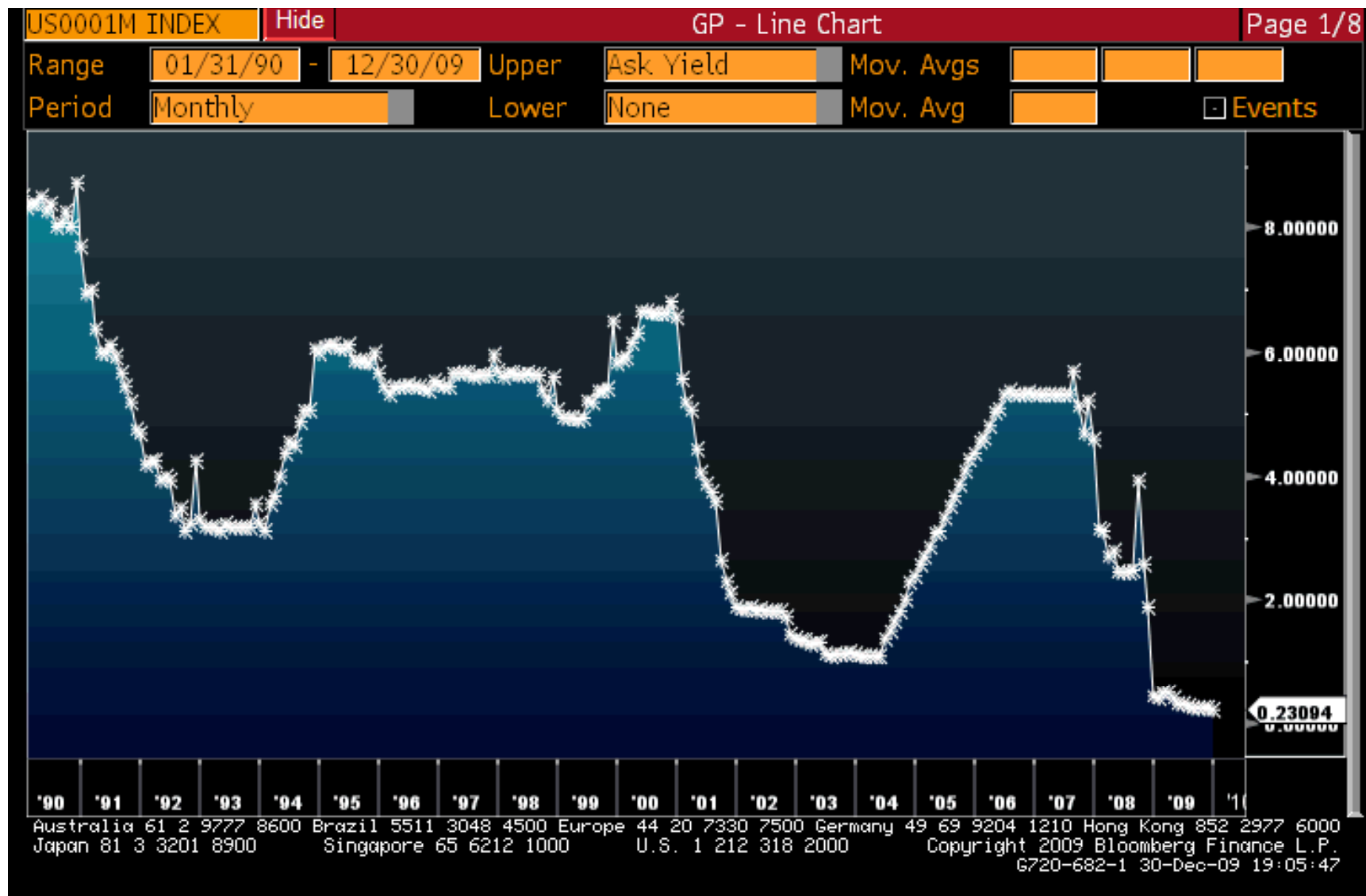
- Federal Reserve
 - Dropped Interest Rates
 - Guaranteed Short Term Lending
 - Directly Injected Reserves
 - Quantitative Easing
- U.S. Government
 - Inject Capital into Banks – TARP
 - Already ending
 - Increased Direct Purchasing and Stimulus

Fed dropped interest rates to floor



GREATEST DANGER FOR UNWINDING

Fed Guaranteed Bank Lending and Money Markets



EASIEST TO RELAX – ISSUE IS TRANSPARENCY

DIRECT INJECTION OF RESERVES THROUGH BOND PURCHASES



SIMPLEST TO EXECUTE BUT GREATEST POTENTIAL OF UNINTENDED CONSEQUENCES

GOVERNMENT PURCHASING TO CONTINUE

Started increasing in early 2007



ACTUAL IMPACT ACTIVELY DEBATED



WILD CARDS

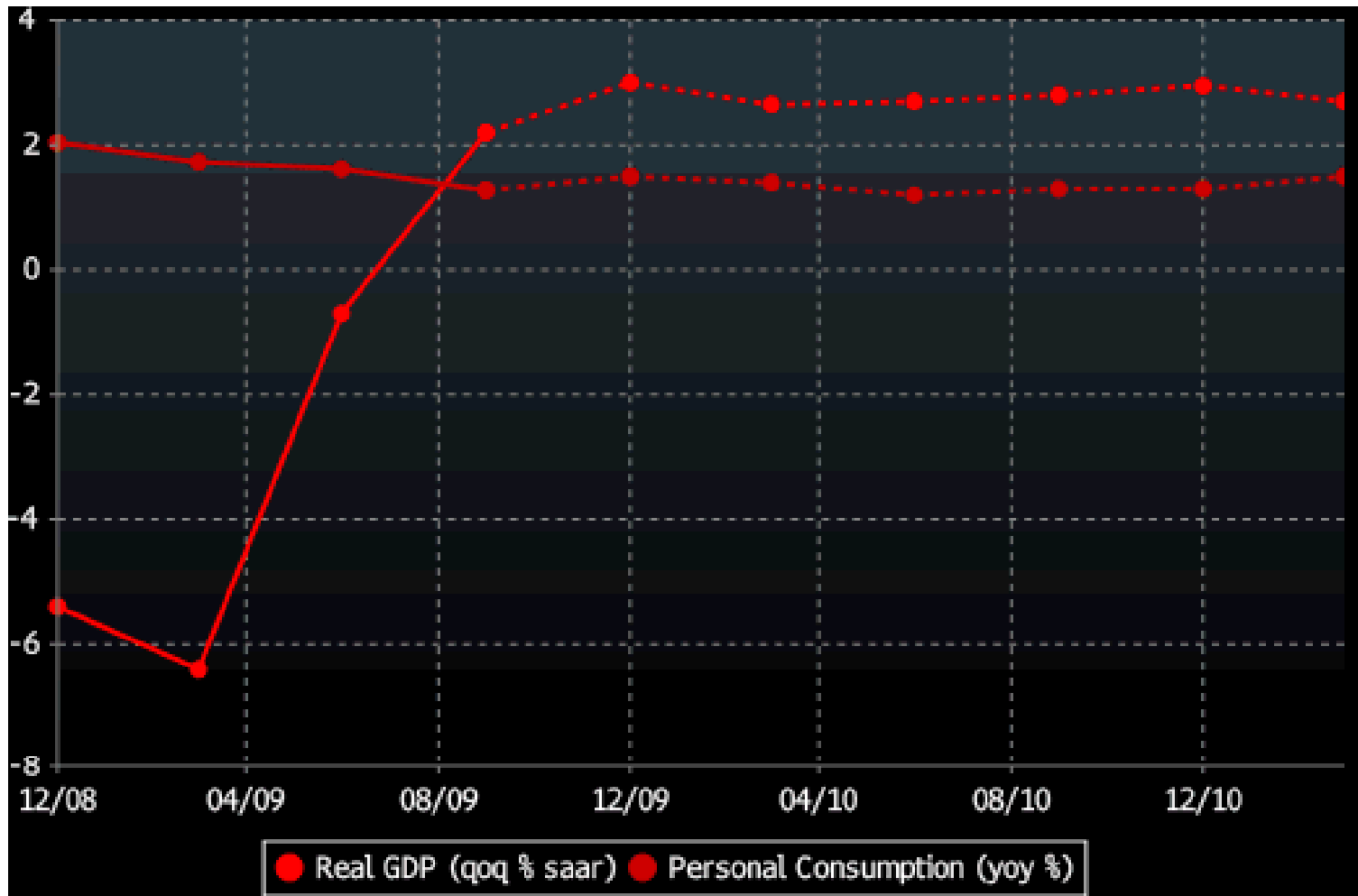
- CHINA
- MAJOR INFLATION OR DEFLATION
- DOLLAR COLLAPSE OR SPIKING LONG TERM INTEREST RATES



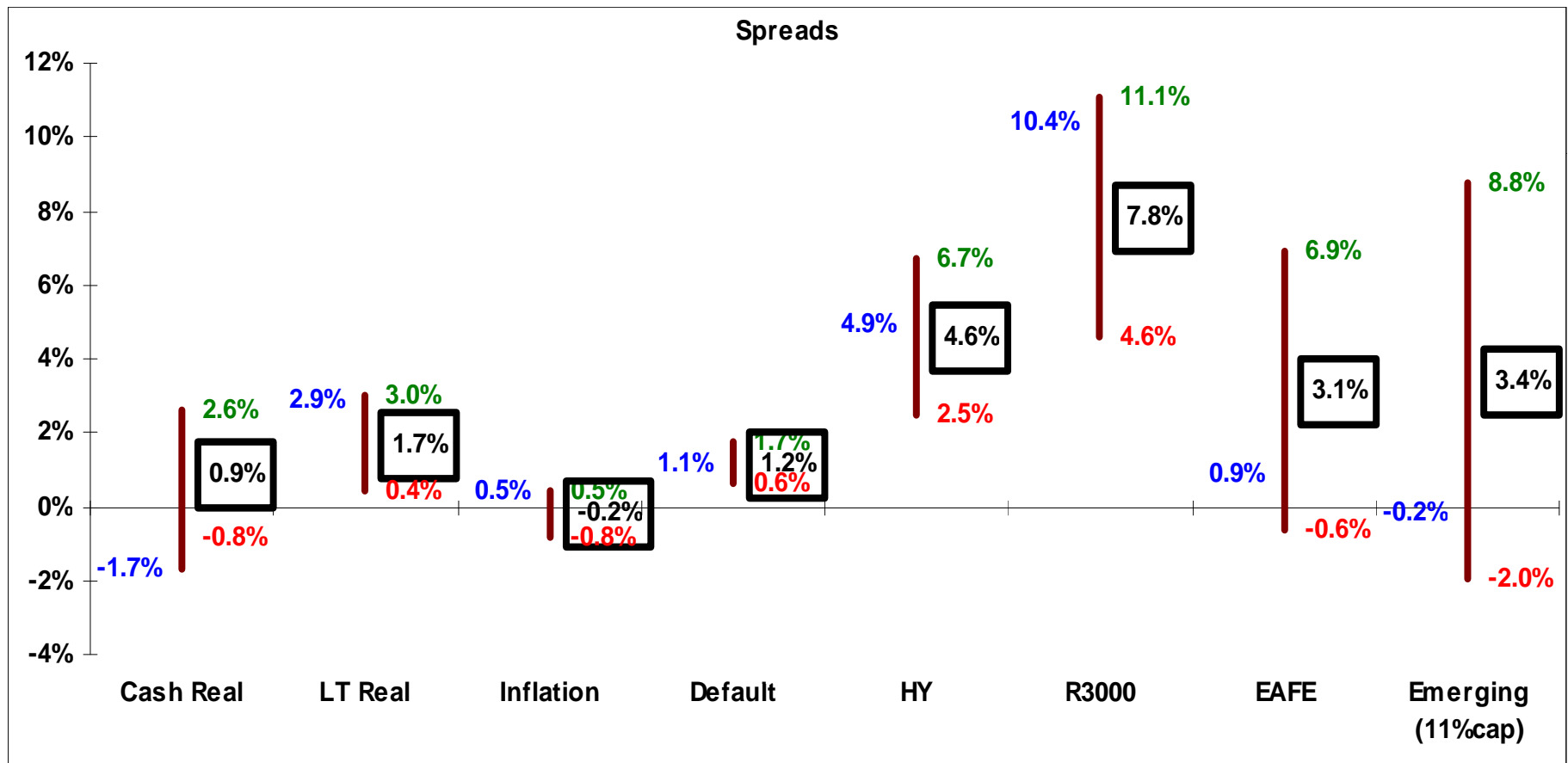
BASIC CAPITAL MARKET CONCEPTS TO REMEMBER

- EXPECTATIONS
 - Not Current Conditions
- RELATIVE VALUE
 - Not absolute value in itself
- PROFITS
 - Not general economy
 - Example: Jobs and the Dollar

MODERATE GROWTH EXPECTATIONS



Normal Relative Values





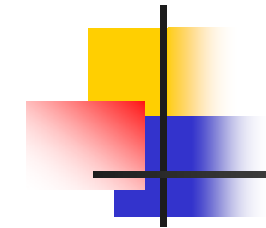
Spotting Market Opportunity

Common Valuation Indicators

	Year A	Year B	Year C	Year D	Year E
<i>Current P/E</i>	18.2	15.8	14.2	17.8	16
<i>Trailing P/E</i>	26.9	18.5	18.4	24.5	29.9
<i>Price/Book</i>	3.0	2.8	2.8	2.3	2.6
<i>Price/EBITDA</i>	9.0	8.3	5.1	6.5	7.3
<i>Dividend Yield</i>	1.5%	2.0%	1.9%	2.9%	1.9%
<i>10 Year Gov</i>	4.4%	4.5%	4.0%	3.8%	4.0%
<i>10 Year A</i>	5.2%	5.3%	5.6%	5.6%	5.4%
<i>10 Year BBB</i>	6.2%	5.9%	6.1%	6.1%	6.8%
<i>ROE on Book</i>	18.7%	20.7%	23.5%	17.9%	18.4%
<i>1 Year Growth Est</i>	10.3%	12.7%	10.7%	19.2%	14.7%
<i>5 Year Growth Est</i>	12.1%	11.6%	11.2%	9.6%	12.8%

CAVEAT EMPTOR

It's Never Obvious



	Nov-03	Nov-05	Nov-07	Nov-09	Feb-03
<i>Current P/E</i>	18.2	15.8	14.2	17.8	16
<i>Trailing P/E</i>	26.9	18.5	18.4	24.5	29.9
<i>Price/Book</i>	3.0	2.8	2.8	2.3	2.6
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<i>1 Year Growth Est</i>	10.3%	12.7%	10.7%	19.2%	14.7%
<i>5 Year Growth Est</i>	12.1%	11.6%	11.2%	9.6%	12.8%
<i>One Year Return</i>	12.8%	10.5%	-31.1%	?	41.7%
<i>Two year Return</i>	11.2%	10.7%	-11.8%	?	23.2%

LAST YEAR Good Values

	Feb-03	Nov-07	Last Year	Now
<i>Current P/E</i>	16	14	11	18
<i>Trailing P/E</i>	30	18	21	25
<i>Price/Book</i>	2.6	2.8	1.8	2.3
<i>Price/EBITDA</i>	7.3	5.1	4.2	6.5
<i>Dividend Yield</i>	1.9%	1.9%	3.4%	2.9%
<i>10 Year Gov</i>	4.0%	4.0%	2.1%	3.8%
<i>10 Year A</i>	5.4%	5.6%	5.6%	5.6%
<i>10 Year BBB</i>	6.8%	6.1%	6.1%	6.1%
<i>ROE on Book</i>	18.4%	23.5%	22.3%	17.9%
<i>1 Year Growth Est</i>	14.7%	10.7%	-2.3%	19.2%
<i>5 Year Growth Est</i>	12.8%	11.2%	10.8%	9.6%
<i>One Year Return</i>	41.7%	-31.1%	29.7%	?
<i>Two year Return</i>	23.2%	-11.8%	?	?



What Did Last Year Look Like Then? (Last Year's Presentation)

- **Probably a good year**
 - Double digit equity and corporate bond returns
 - Poor private market, government, and real estate returns
- **Assumptions**
 - Fed follows statements with low rates, expanding balance sheet
 - US passes \$750 billion + stimulus
 - Europe lowers rates, passes some stimulus
 - Asia provides fiscal stimulus, lowers rates
- **Economy bottoms in late second or third quarter**
- **Capital markets usually react in advance**
 - Bounce back about half to two-thirds of drop
 - Depends on extent of permanent damage
 - Too much damage to get back to even



LAST YEAR'S PREDICTIONS

Market Sectors - 2009

- **Large Cap US +28%**
 - Probably good performer – good cash flows, best positioned to gain from stimulus and current cost reductions (commodities and labor)
- **Small Cap US +27%**
 - OK – benefits from lower financing costs
- **Corporate Credit +16%**
 - Best positioned for early rebound
- **Governments -2%**
 - Mediocre, currently at all time low
- **Europe +34%**
 - Poor economy, restrictive ECB, low coordination
- **Asia +22% Emerging +73%**
 - Best positioned for bounce back, great fiscal condition
- **Private Equity -10% and Real Estate -21%**
 - Still needs to reflect current market climate with write-downs
- **Commodities +16%**
 - Likely will bottom, slow recovery from current overproduction
 - Financial Metals (Gold, Silver, etc.) might spike if there is a dollar run
- **Hedge fund and other alternatives +11%**
 - Too much cash, no leverage, more redemptions



CAPITAL MARKETS 2010 PREDICTIONS

- **Probably another good year**
 - Double digit equity and single digit corporate bond returns
 - Poor government bond and real estate returns
 - Moderate (high single, low double digit) private equity, hedge fund, commodity returns

- **Assumptions**
 - Fed continues low rates, keeps balance sheet high but stops growing
 - Dollar trades in wide range, no collapse
 - Jobless rate steadies, doesn't drop by much
 - No major additional stimulus
 - Europe restrained by periphery, keeps rates low
 - Asia slows stimulus, keeps currency pegged around current rates

- **Economy continues to expand**
 - **Corporate profits levered by cost cutting**

- **Capital markets react to expanding profits**
 - Still too much damage to get back to even



Market Sectors – 2010

Generally Same Prospects

- **Large Cap US**
 - Probably good performer – good cash flows, best positioned to gain from stimulus and cost reductions (commodities and labor)
- **Small Cap US**
 - OK – benefits from lower financing costs
- **Corporate Credit**
 - OK – SPREADS BACK TO NORMAL
- **Governments**
 - Mediocre
- **Europe**
 - Poor economy, restrictive ECB, low coordination PERIPHERY IN TROUBLE
- **Asia**
 - Best positioned for bounce back, great fiscal condition
- **Private Equity and Real Estate**
 - PRIVATE EQUITY NOW BEING WRITTEN UP, REAL ESTATE STILL LAGGING
- **Commodities**
 - UP MODERATELY OVER YEAR AS RECOVERY CONTINUES
 - Financial Metals (Gold, Silver, etc.) might spike if there is a dollar run
- **Hedge fund and other alternatives**
 - UP MODERATELY Too much cash, no leverage, more redemptions

PERSI Idaho Commercial Mortgage Program

