



Public Employee Retirement System of Idaho

**Presentation to Economic Outlook and
Revenue Assessment Committee**

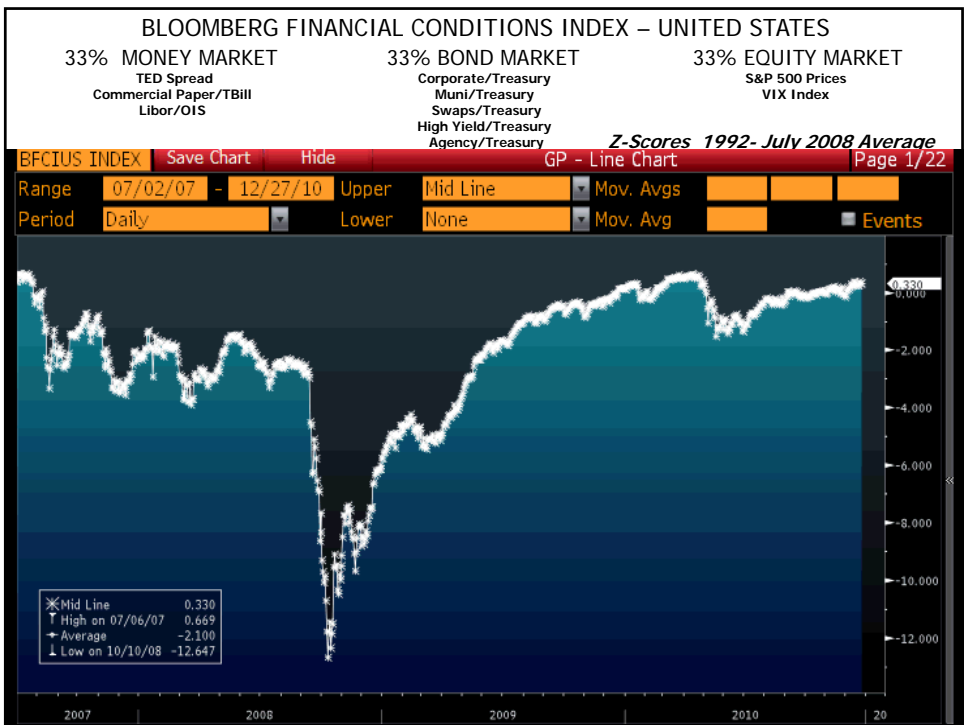
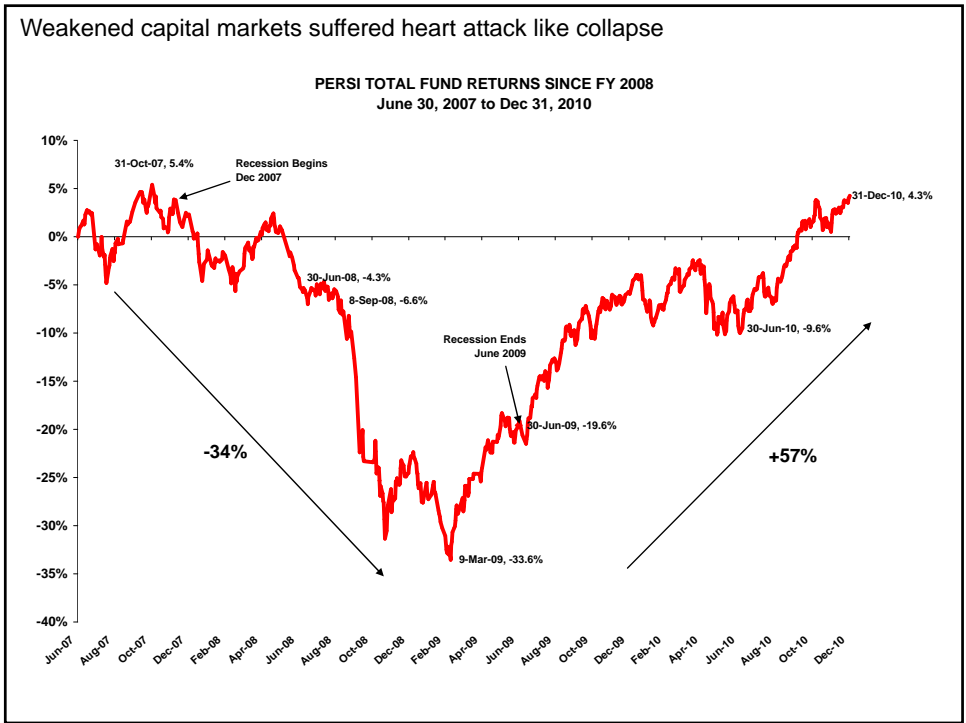
**Robert Maynard
Chief Investment Officer**

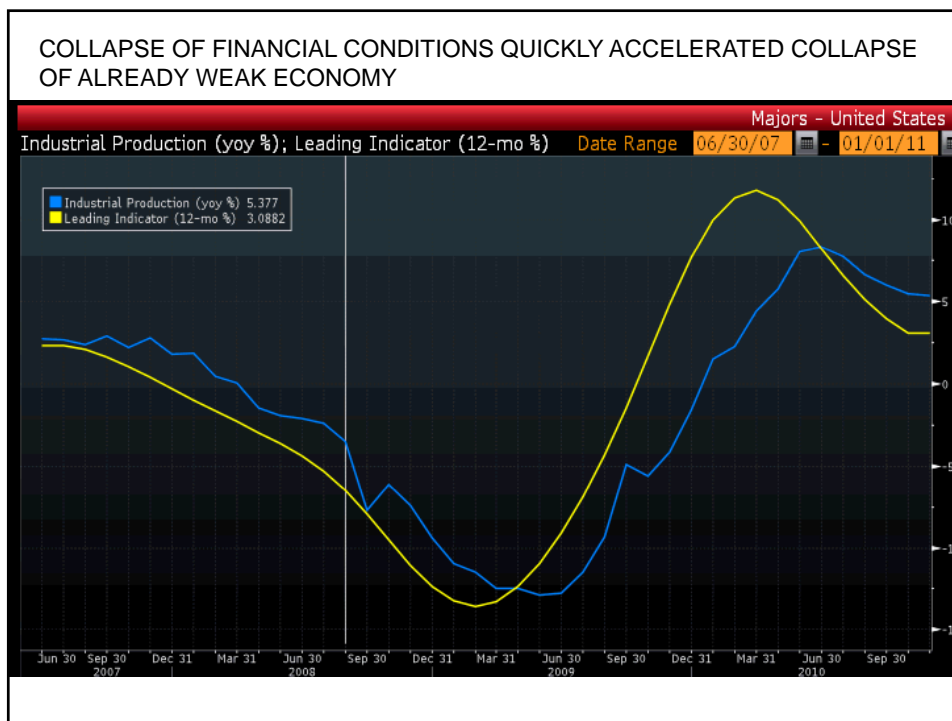
January 7, 2011

PROSPECTS

REASONABLE BUT FRAGILE

- Capital markets and economy suffered heart attack
 - Companies reluctant to add employees, expend capital
 - Markets nervous about systemic issues
 - Europe financial distress
 - China and Asian inflation
 - Prospects otherwise reasonable
 - Should have good 3-4 year period if history is any guide
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REASONABLE PROSPECTS – ECONOMY

- US “Cold Goldilocks” 2011-2012: CONSENSUS EXPECTATIONS
 - 3.0%- 3.5% real GDP 5.0% nominal GDP
 - 2.9% Real Consumption
 - 9.0% Real Business Spending
 - 4.5% Real Industrial Production
 - Unemployment remains high 9.0%-9.5%
 - Housing remains weak (700,000 starts)
 - Inflation under 2.0%
- Euro zone tepid
 - 1.5% real
 - Germany strong, periphery basket case
- Asia/Latin America Strong
 - 4.5%-5.0% real
 - China 9%-10% real

BASIC CAPITAL MARKET CONCEPTS

■ EXPECTATIONS

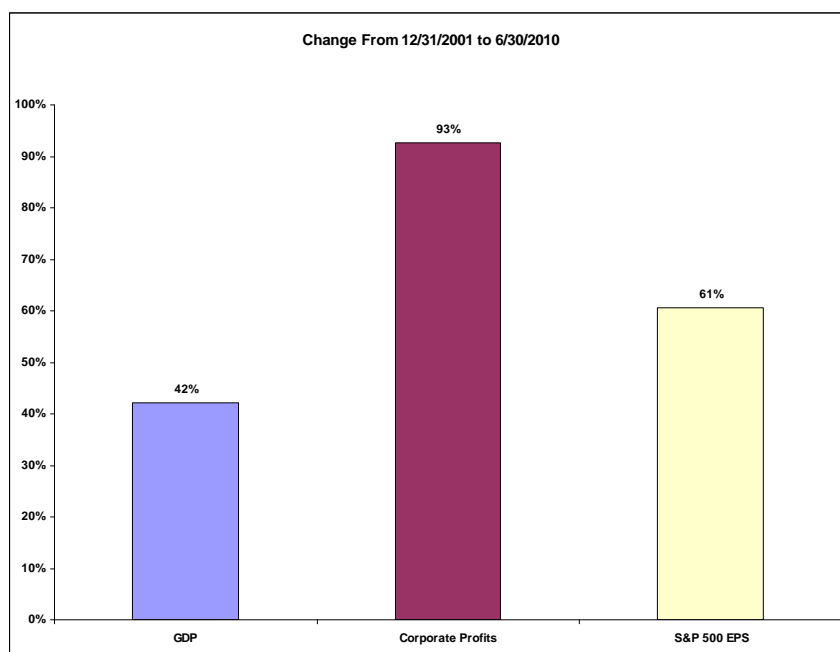
- Not Current Conditions
- Current Expectations Moderate

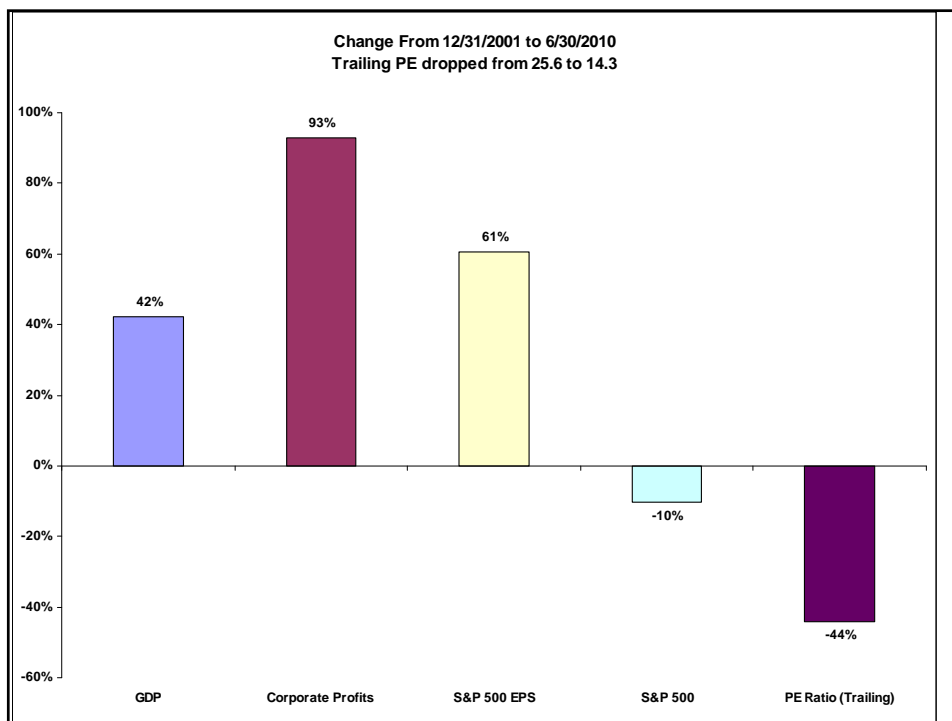
■ PROFITS

- Not general economy
- Good balance sheets, lean operating conditions, growth overseas, little pressure on labor costs

■ RELATIVE VALUE

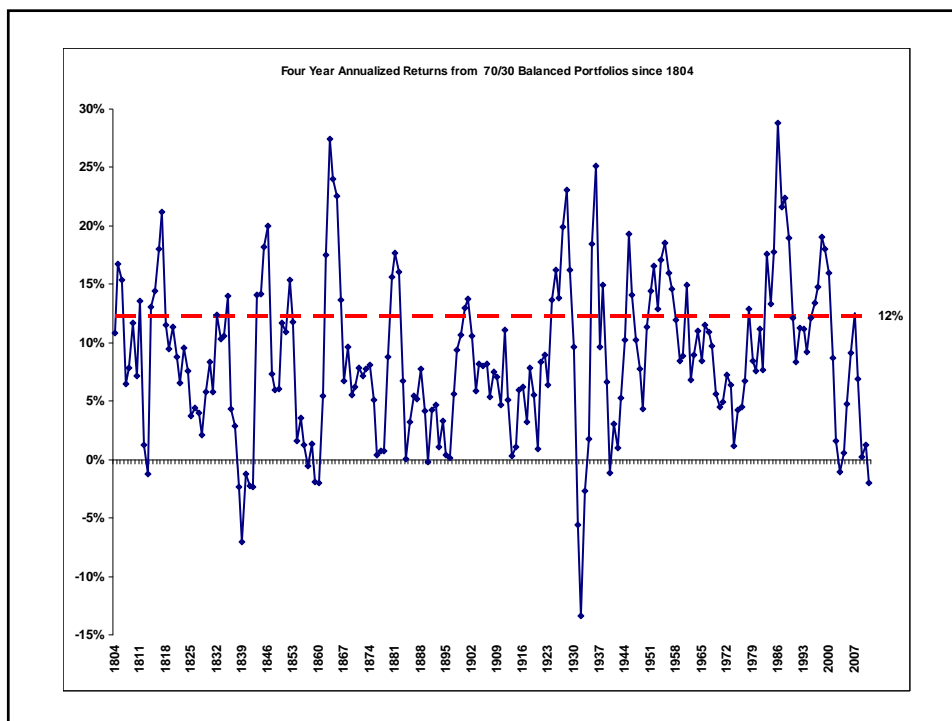
- Not absolute value in itself
- What are people willing to pay for expected earnings





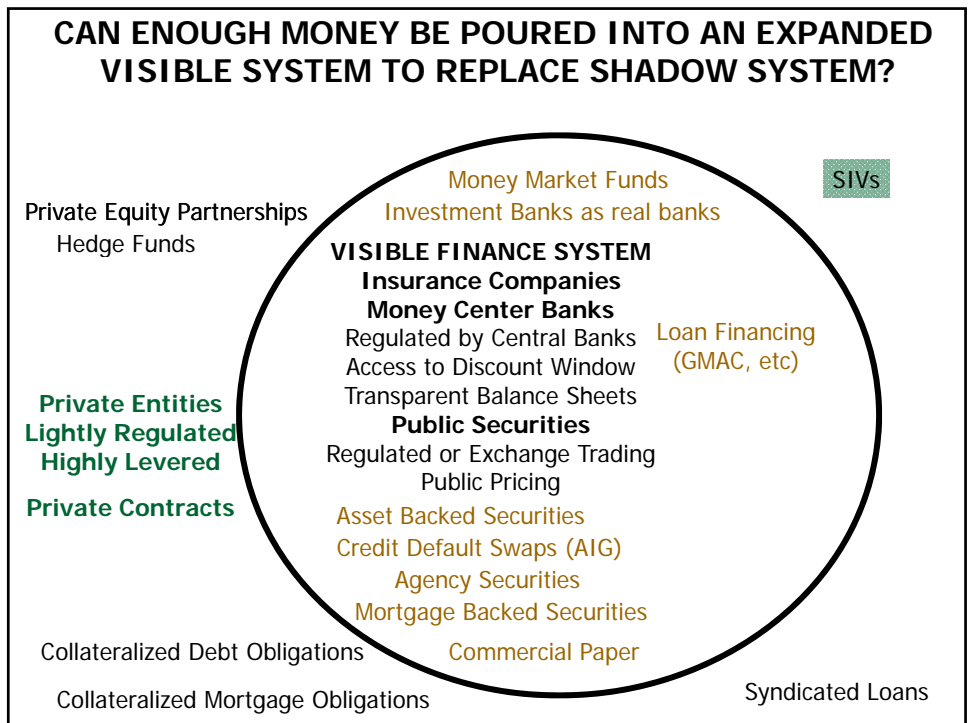
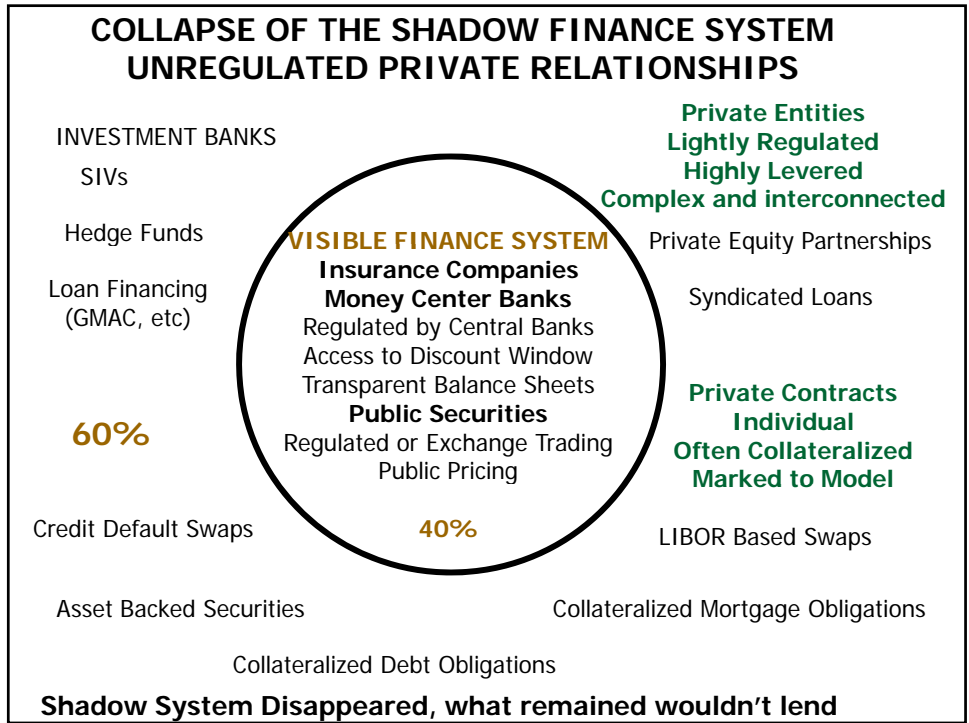
REASONABLE PROSPECTS CAPITAL MARKETS

- Expected Bond Return – 3.8%
 - 10 Year Treasury at 3.3%
 - Government/Credit portfolio yield at 3.8%
- Expected Equity Return 13%-15%
 - Earnings Growth + Dividend + Change in PE
 - Current PE 15.3 appropriate for 4% 10 Yr bond
 - Next year : 13.7% + 1.8% + 0% = 15.5%
 - 3-5 Year: 11.2% + 1.8% + 0% = 13.0%
- 70/30 Portfolio = 10%-12% over next few years
- Historically “normal” recovery returns



FRAGILITY

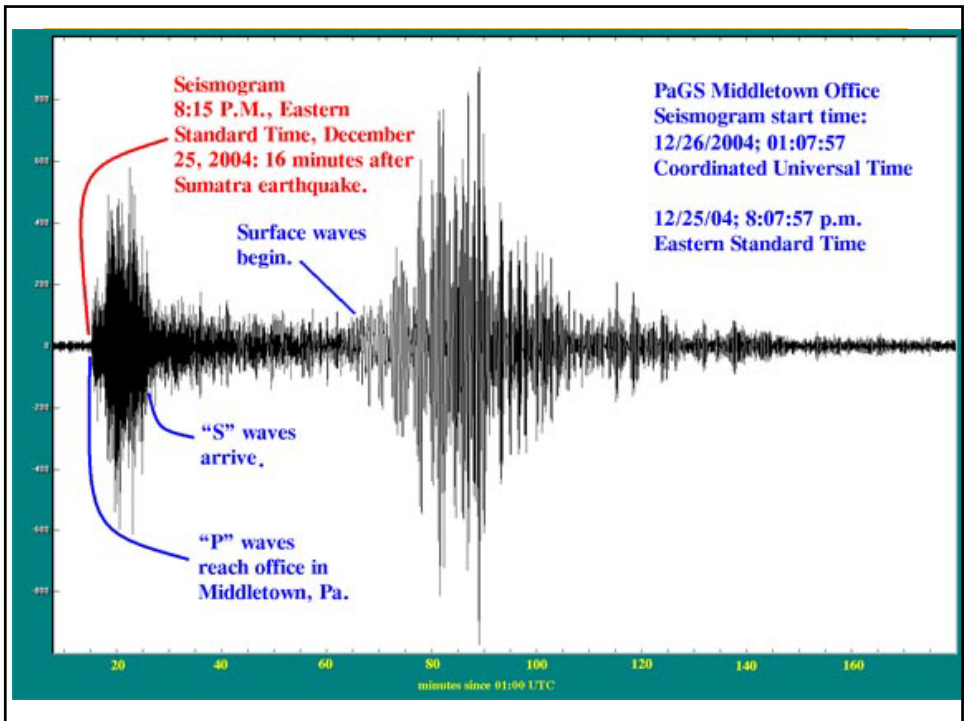
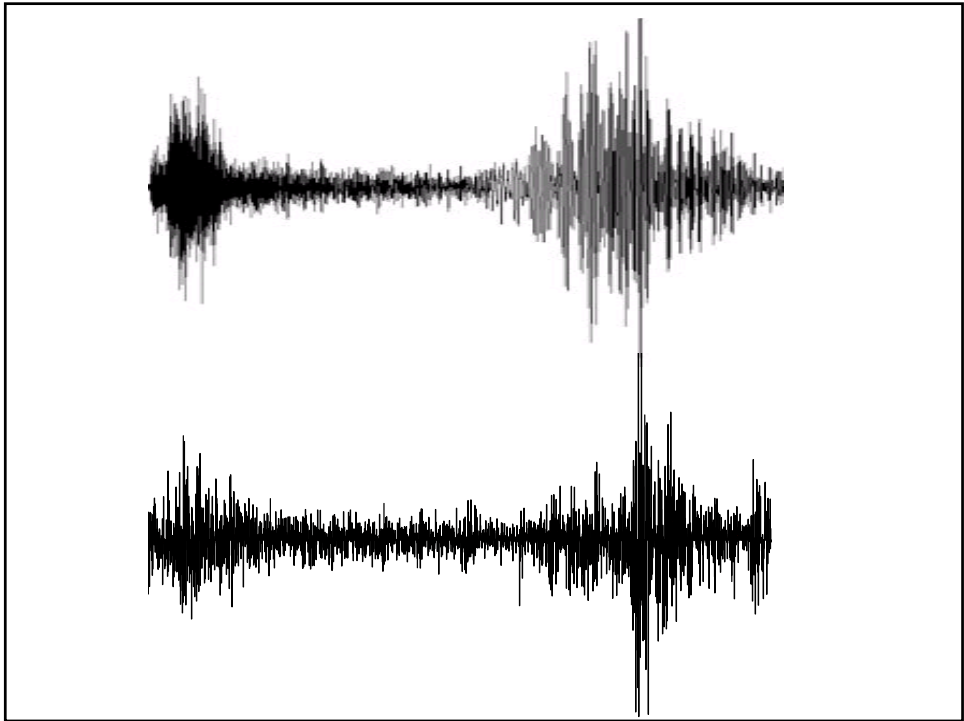
- Developed Markets still on life support
 - Danger on exit
 - Europe next challenge
 - “Spain isn’t the tip of the iceberg, it is the iceberg”
- Developing Markets may hit speed bump
 - China and inflation
- Capital Markets transmit shocks quickly

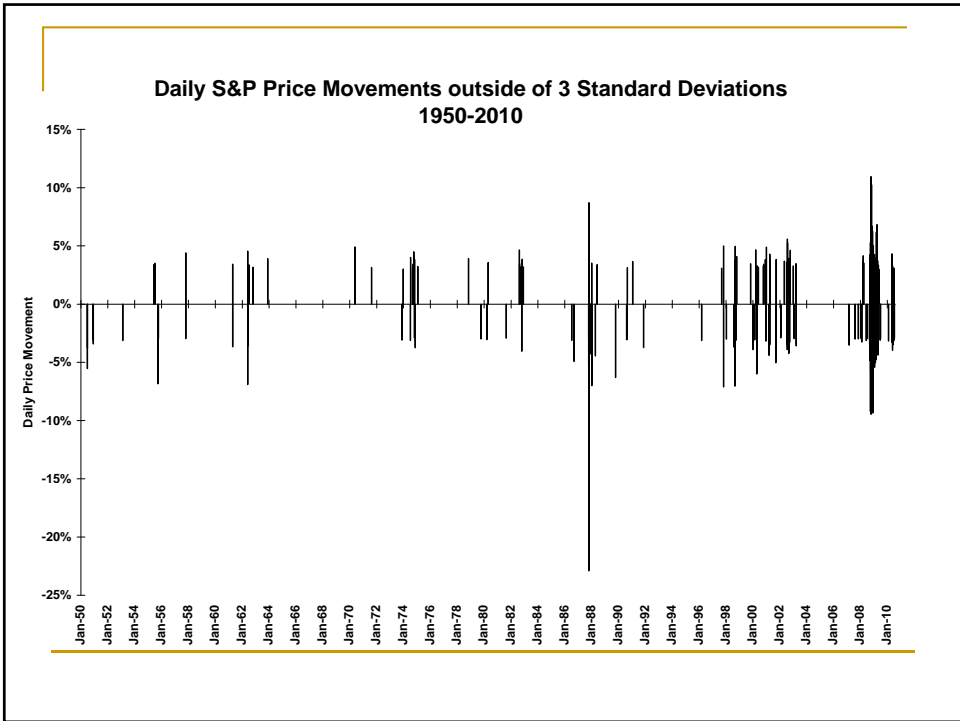
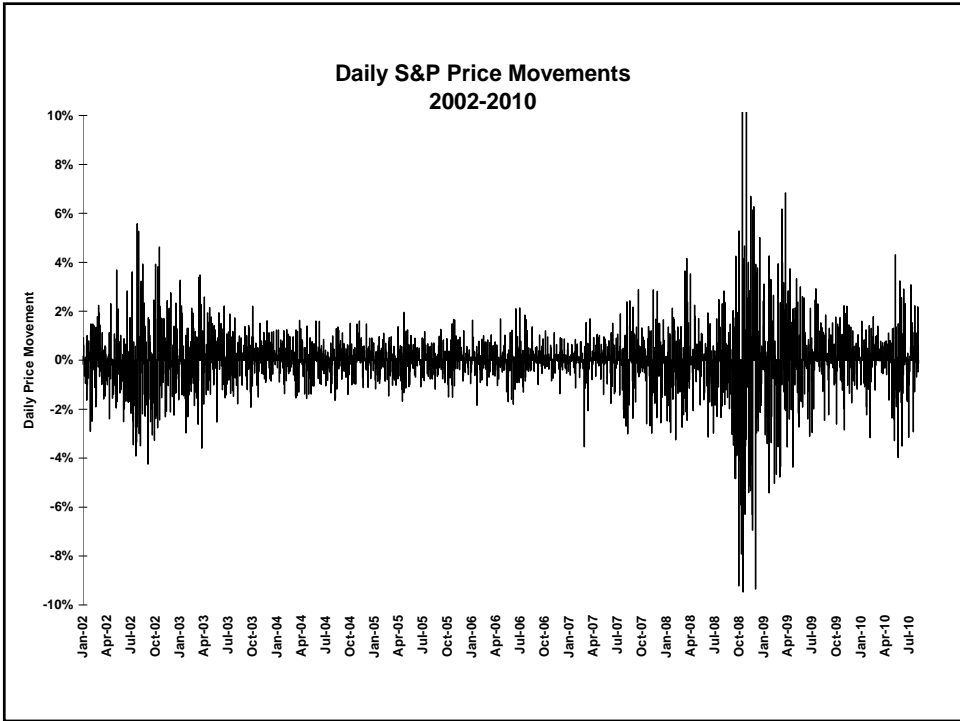




FRAGILITY - CHINA

- Developing World stalls or stumbles
- China
 - Food inflation
 - Property bubble
 - Developing financial infrastructure
- India
- Latin America (Brazil)
 - Commodity Dependent
- World Markets discounting linear strong growth

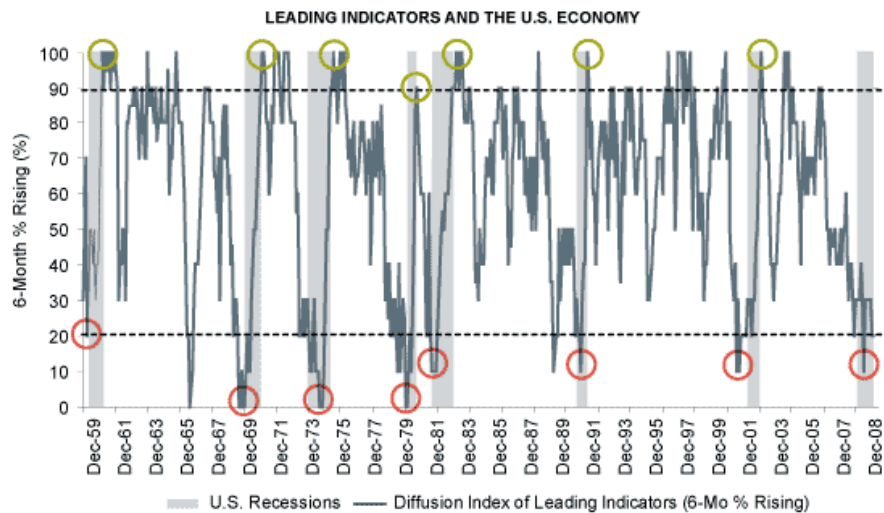




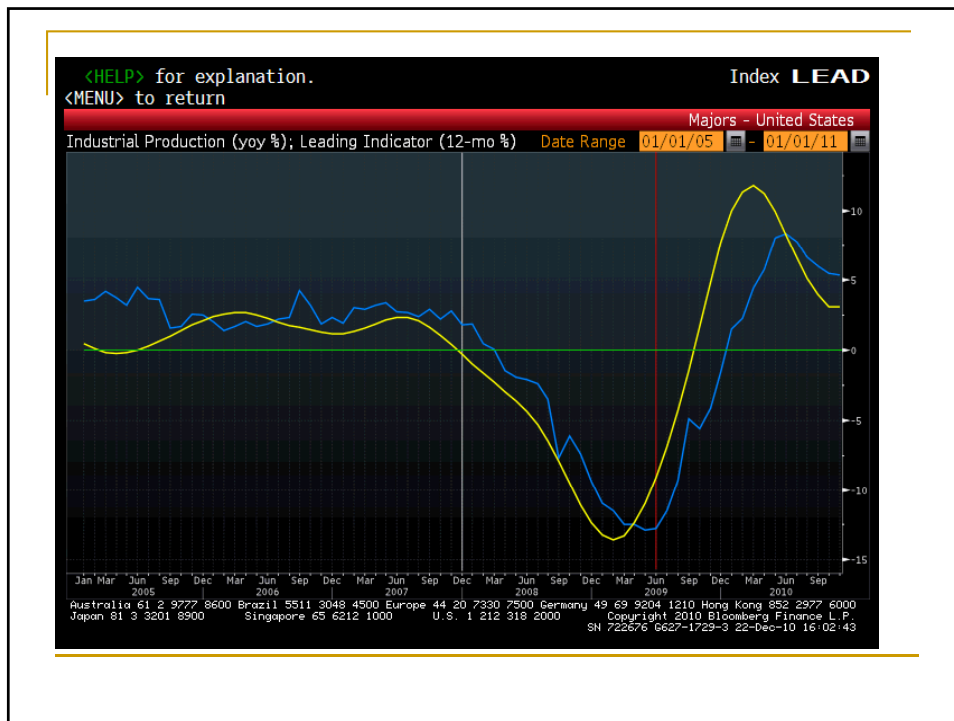
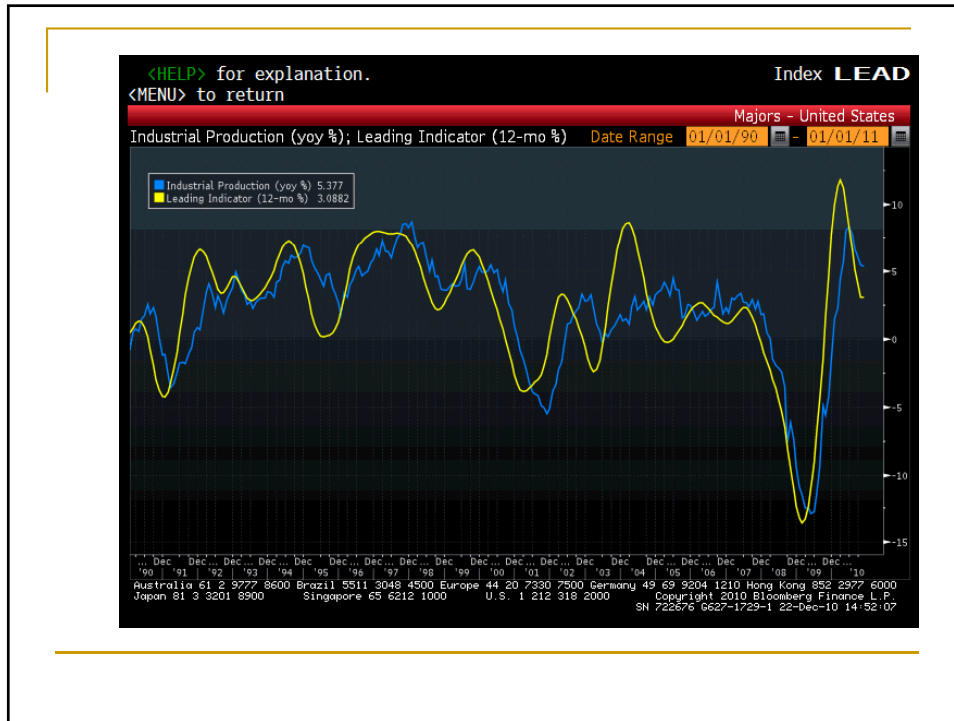
LEADING ECONOMIC INDICATORS

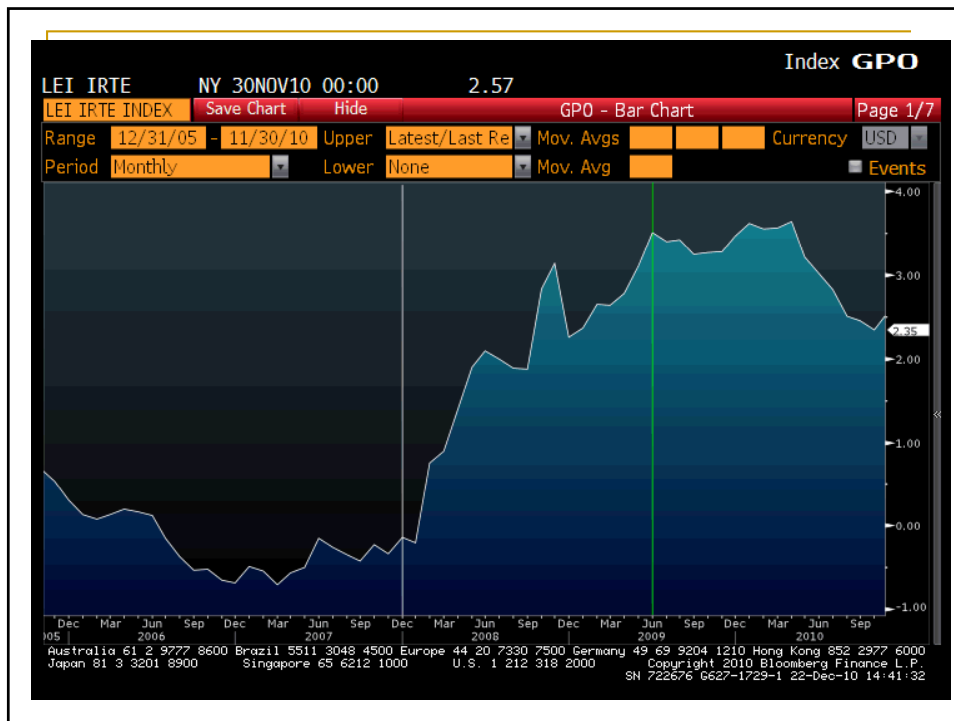
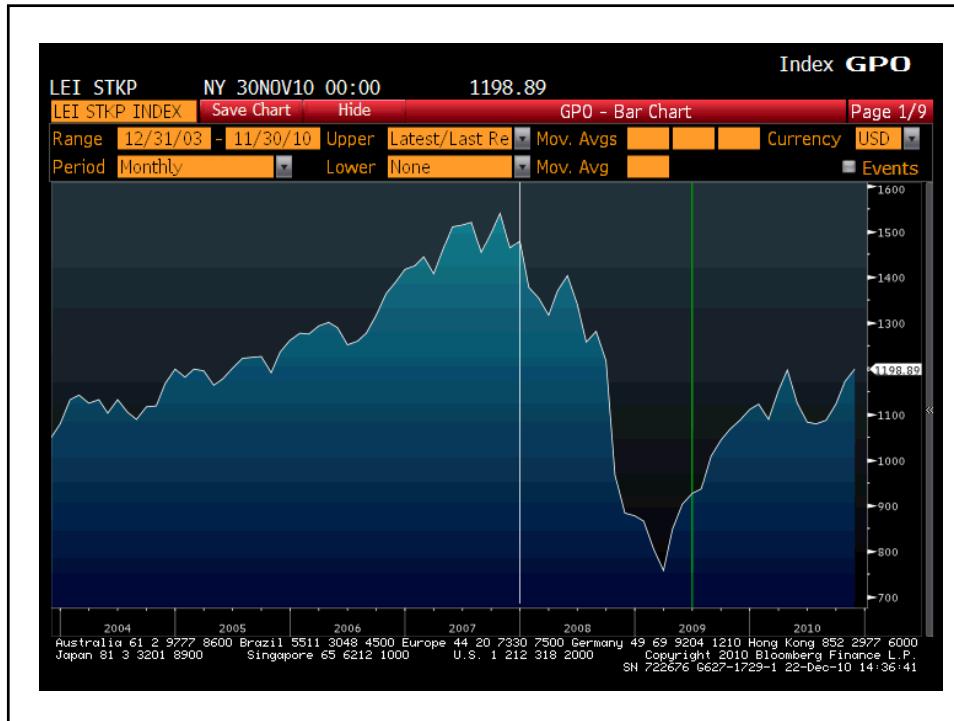
- Three to Six Month Lead time
- Indicators
 - Average Work Week
 - Weekly Initial Jobless Claims
 - Manufacturers New Orders Consumer Goods
 - Vendors Delivery Performance
 - Manufacturers New Order Non-Defense Capital Goods
 - Building Permits
 - Stock Prices
 - M2 Money Supply
 - Interest Rates (Yield Curve: 10 Year minus Fed Funds)
 - Consumer Expectations

EXHIBIT 1: Historically, when 90% or more of all 10 leading economic indicators were rising during the previous six months, the U.S. economy has typically emerged from recession (green circles). When 20% or less of the indicators were rising, the economy generally was approaching or in recession (red circles).



U.S. recessions defined by National Bureau of Economic Research.
 Source: The Conference Board, Haver Analytics, FMRCo (MARE) as of 12/31/08.





QUESTIONS?