PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., October 18, 2016. The following members were present:

Jody Olson
Kirk Sullivan
Jeff Cilek
Joy Fisher
Celia Gould

Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, Investment Officer Richelle Sugiyama, Financial Executive Officer Alex Simpson, Deputy Attorney General Joanna Guilfoy, and Management Assistant Jess Simonds were also in attendance. Other persons attending all or portions of the meeting were:

Robin Nettinga	IEA	Roger Gabel	OAG
Mary Lou Taylor	Retired Educators	Andy Snook	OAG
Jim Coleman	Retired Educators	Cheryl George	OAG
Bruce Reeder	MPIA	Anne Cappel	Empower
Bill Palumbo	MPIA	Rose Marie Sawicki	PERSI
Robert Schmidt	Milliman	Shasta Wardle	PERSI
Jeff Bradley	Milliman	Brenda Cronin	PERSI
Brent Nye	Boise Schools	Kelly Cross	PERSI
Jay Doherty	State Street	Larry Sweat	PERSI
Brandon Fitzpatrick	DB Fitzpatrick	Pat Gittings	PERSI
Dennis Fitzpatrick	DB Fitzpatrick	Cecile McMonigle	PERSI
Dave Boren	Clearwater	Theresa Lugo	PERSI
Chris Brechbuhler	Clearwater	Mike Mitchell	PERSI
Benn Brocksome	Governor's Office	Lisa Conn	PERSI
Jackie McCleve	SCO	Diane Kaiser	PERSI
Michelle Watts	EFIB		

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the September 20-21 meeting. Trustee Gould seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: October has so far continued the trend from the end of September, with markets struggling with concerns about central banks easing the momentum of monetary support (with expectations of a December rate hike by the Fed), banking crises in Europe with

lingering Brexit uncertainty, slow growth in the US coupled with electoral uncertainty, and continuing concerns about Asia. Lowering expectations for corporate earnings growth are also weighing on the capital markets.

As a result the fund as a whole is down -1.4% for the month to date, reducing the fiscal year to date return to +1.9% (and the calendar year to date return to +6.1%) with assets at $15.070 billion. U.S. equities are down -1.8% for the month and are +2.6% for the new fiscal year, developed markets are -2.2% for the month so far and are +4.2% for the fiscal year, emerging markets are the best performing asset with month returns of -0.7% and +8.4% for the fiscal year, bonds are down -0.7% for the month and are -0.2% for the fiscal year, and TIPS are down -0.7% and are up +0.2% for the fiscal year to date . REITs are now the worst performing market for the fiscal year to date, having dropped -4.3% for the month and are down -5.5% for the fiscal year, behind private real estate which is up +2.7% for the new fiscal year. Private equity is up +0.8% for the fiscal year to date.

Capital market and economic prospects remain tepid, at best. Commodity prices are fluctuating at moderate or low levels (oil wanders in the upper $40s), US economic news continues to come in with stumbling slow growth (with weak manufacturing) and a strong labor market. The Fed appears to be preparing for an interest rate hike in December while making more consistent noises of lower "neutral" rates as a longer term objective. Corporate earnings remain soft, Asia (both China and Japan) still seem to be seeking a bottom, and the remainder of the world still battles reduced trade and debt worries.

The fund is slightly behind the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.1%, due primarily to the collapse in the REIT markets. Bernstein Emerging has the best return at +10.8% while Peregrine has the best relative performance with returns of +8.0% which is +4.9% above their large cap growth benchmark. With returns of +1.2% Donald Smith has the worst relative performance at -4.4% behind their small cap benchmark.

Investment Manager Comments: The Investment Managers who were present shared their opinions and predictions relative to the general market conditions.

EXECUTIVE DIRECTOR

PERSI, FRF, JRF Actuarial Valuation Adoption: Jeff Bradley and Robert Schmidt of Milliman presented the final actuarial valuation for the PERSI fund, the Firefighters' Retirement Fund (FRF), and the Judges Retirement Fund (JRF) as of July 1, 2016. The PERSI fund valuation shows that PERSI has 68,517 contributing active members (increase of 2.3% from 2015), 44,181 members receiving benefits (increase of 3.6% from 2015), 12,251 vested terminated members, and 19,611 non-vested terminated members, for a total of 144,560 total members. The actuarial accrued liability (UAAL) is $16.1 billion and the actuarial value of assets is $13.9 billion, yielding an unfunded actuarial accrued liability of $2.2 billion, resulting in a funding ratio of 86.3% with an amortization period of 36.6 years. The FRF valuation shows a funded ratio of 123.3%. The JRF valuation shows a funded ratio of 75.33% with an amortization period of 19 years. Trustee Sullivan made a motion to accept the FY 16 valuation reports. Trustee Cilek seconded the motion, which passed unanimously.

Executive Director Status Update: Executive Director Don Drum updated the Board on a letter he received from the Department of Administration and Division of Human Resources relative to PERSI's role with the Sick Leave Fund. Mr. Drum stated that the tone of the letter was concerning in that PERSI may be asked to take on additional responsibility, beyond the specific role defined in § 67-5333(2)(c). Mr. Drum explained that currently the PERSI Board's role is to manage the investments of the Sick Leave funds and process payment of eligible retiree health insurance

premiums. Mr. Drum opined that if there is to be an expansion of PERSI's role in the process, it should come via legislative direction, with recognition of and ability to cover the costs associated with such expansion. Chairman Olson commented that PERSI could look to provide assistance with the exploration of options but insurance experts in other agencies seem most appropriate to lead a study on insurance alternatives.

Executive Director Drum then went through the status of the PERSI Fund and discussed what options the Board could consider relative to contribution rates and a COLA. Director Drum stated that according to Idaho Code 59-1322(5) the Board needed to act on contribution rates for the PERSI Fund because the amortization period for the Fund's unfunded actuarial liability (UAL) exceeds 25 years. He stated that a total contribution rate increase of 1.0% would bring the fund in-line with the statutory requirements. With regard to a Cost-of-Living Adjustment (COLA), the CPI-U was 1.1% and therefore by statute a mandatory 1.0% COLA would need to be granted. The Board could also consider a 0.1% discretionary COLA and additionally could consider up to a 2.95% retroactive COLA.

COLA / Contribution Rates: The Board discussed the decision points relative to contribution rates and COLA. Trustee Cilek commented that he didn't sense that the Board had an appetite for any retroactive COLA, and also stated that a total 1.0% contribution rate increase for the PERSI Fund was necessary at this point. Trustee Cilek made a motion for the Board to grant a 1.1% COLA for eligible retirees. Additionally, Trustee Cilek made a motion to increase the total contribution rate for the PERSI Fund by 1.0%. Trustee Sullivan seconded the motion, which passed unanimously.

Idaho Retired Fire Fighters Association, Sharon Koelling and John Anderson – Contested Case 09-15 – Recommended Order: Executive Director Don Drum stated that the Board received the case documentation for Contested Case 09-15 in their packets for their review. This matter involves the Request for Declaratory Ruling filed by Petitioners related to the calculation of the Cost-of-Living Adjustment (COLA) for those persons retired under the Firefighters Retirement Fund (FRF). The Petitioners sought a declaratory ruling that the PERSI was calculating the FRF COLA incorrectly by not excluding from the calculation the wages/salary of part time/reservist firefighters. A hearing was held before a Hearing Officer on May 3, 2016 and the Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order on August 18, 2016. The Recommended Order recommends that Petitioners' request for declaratory ruling that wages/salary of part time firefighters be excluded from the FRF COLA calculation be denied.

This matter went before the Board for a decision. Trustee Gould stated the Board reviewed relevant case material. Trustee Gould made a motion that the Board issue a final order to accept/adopt the Hearing Officer's Recommended Order. Trustee Cilek seconded the motion, which passed unanimously.

Signature Authorizations: Executive Director Drum asked the Board for permission to execute an acknowledgement of specimen signatures by the Board members and PERSI executive staff. This was necessitated by retirement of Financial Officer James Monroe. Trustee Gould made a motion for the Board to sign and thus execute the document, which was seconded by Trustee Fisher, and passed unanimously.

2017 Board Meeting Dates: The Board discussed meeting dates for 2017 and tentatively decided on a schedule. Chairman Olson directed Jess Simonds to circulate the dates via email for further discussion.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on the IRIS implementation and reported PERSI successfully ran its first payroll through the IRIS system. Mr. Hampton stated that management, staff, and membership is still learning and adapting to the

system and management is assessing changes in workload. Mr. Hampton also updated the Board on PERSI's new management structure which includes five department managers in the following areas: Member Services, Quality Assurance, Information Technology, Fiscal, and Programs/Outreach.

FISCAL UPDATE

FY 16 Audited Financial Statements – Eide Bailly: Lee Miller of Eide Bailly reported that the FY 16 audit had been completed with a result of a clean and unmodified opinion from Eide Bailly. He stated that Eide Bailly encountered no significant difficulties in dealing with management in performing and completing the audit. Mr. Miller added that based on the Board's recommendation and PERSI management's insistence, the audit was completed three weeks ahead of last year. Trustee Fisher made a motion to accept the FY 16 Audit Report. Trustee Gould seconded the motion, which passed unanimously. Chairman Olson commended the staff for all their efforts on the Audit Reports.

Fiscal Update / Expense Reports: Financial Executive Officer Alex Simpson updated the Board on PERSI's year-to-date expense reports for the Administrative and Portfolio funds.

SPECIAL COMMENT

Chairman Olson announced that Joanna Guilfoy, the Deputy Attorney General assigned to PERSI, was retiring. Chairman Olson thanked Ms. Guilfoy for her tremendous service to PERSI. He stated that he was very proud of her work and that the PERSI Board would greatly miss Ms. Guilfoy – the single best administrative lawyer in the state.

EXECUTIVE SESSION

At 9:50 a.m. Chairman Olson stated the Board intended to move to Executive Session in accordance with Idaho Code 74-206(1)(f), to communicate with the Board's legal counsel on the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. Trustee Cilek made a motion to move into executive session. The motion was seconded by Trustee Fisher, and approved unanimously via roll call vote.

Upon conclusion of the Executive Session, Trustee Gould made a motion to return to regular session. Trustee Fisher seconded the motion, which passed unanimously.

REGULAR SESSION

The Board returned to regular session at 11:00 a.m. and members of the public were invited into the boardroom. Chairman Olson stated that during the executive session the Board discussed the legal matter before the Board -- Case 01-15 Robert J. Elgee vs. PERSI.

No other decisions were made, and thus according to the agenda, the meeting went to Break.

EXECUTIVE SESSION

At 11:25 a.m. Chairman Olson stated the Board intended to move to Executive Session in accordance with Idaho Code 74-206(1) (a), to consider hiring an individual agent(s), wherein the respective qualities of individuals are to be evaluated in order to fill a need. Trustee Sullivan made a motion to move into executive session. The motion was seconded by Trustee Fisher, and approved unanimously via roll call vote.

Upon conclusion of the Executive Session, Trustee Cilek made a motion to return to regular session. Trustee Sullivan seconded the motion, which passed unanimously.

REGULAR SESSION

The Board returned to regular session at 12:45 p.m. and members of the public were invited into the boardroom. Chairman Olson stated that during the executive session the Board was updated on the investment manager hiring process.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 12:47 p.m.

Donald D. Drum	Jody Olson
Executive Director	Chairman