



Public Employee Retirement System of Idaho

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., December 3, 2013. The following members were present:

- J. Kirk Sullivan
- Bill Deal
- Jeff Cilek
- Joy Fisher

Chairman Jody Olson was absent and excused. Trustee Kirk Sullivan is the acting Chair until Chairman Olson's return. Executive Director Don Drum, Deputy Director Lisa Steele, Chief Investment Officer Bob Maynard, Investment Officer Richelle Sugiyama, Financial Officer James Monroe, Deputy Attorney General Joanna Guilfooy and Management Assistant Miho Reed were also in attendance. Other persons attending portions of the meeting were:

Brandon Fitzpatrick	DBF	Bill Watko	Xerox
Drew Black	DBF	Kaci Guthrie	Xerox
Prabhab Banskota	DBF	Lynn Anderson	Retiree
Brittany Pfister	Clearwater	Sherry Slocum	PERSI
Chynna Tipton	Concordia Univ.	Debbie Buck	PERSI
Chris Matika	Eide Bailly	Dusty Schild	PERSI
Robin Nettinga	IEA	Mike Young	PERSI
Karl Malott	Idaho Fire Chiefs	Cecile McMonigle	PERSI
Mark Olleman	Milliman	Kelly Cross	PERSI
Jeff Bradley	Milliman	Rose Marie Sawicki	PERSI
Bill Palumbo	MPIA	Melody Hodges	PERSI
Bruce Reeder	MPIA	Diane Kaiser	PERSI
Rod MacKinnon	MPIA	Mike Mitchell	PERSI
Connie Bunch	REAI	Carmen Brooks	PERSI
James Coleman	REAI	Wayne Ellis	PERSI
Rita Foltman	SCO	Kimberlee Hall	PERSI

MINUTES

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the October 15, 2013 meeting as written. Trustee Deal seconded the motion, which passed unanimously.

## PORTFOLIO

Callan Quarterly Update: Michael O'Leary with Callan presented the 3<sup>rd</sup> quarter 2013 performance evaluation. PERSI underperformed its target policy index for the September quarter and trailed the target over the last twelve months. The quarter and trailing full-year results ranked in the 47<sup>th</sup> and 79<sup>th</sup> percentile, respectively, in Callan's Public Fund database. Over the last five years, total fund performance ranked below peers and target. Over the last ten-year period the total fund has outperformed both its target and peer group median.

Real Estate Update: Sally Haskins with Callan presented a review of the interim progress of AEW Capital Management in its capacity as Real Estate Operational Consultant for the Olympic and Cascade ventures and as Asset Manager for the Koll portfolio. The conclusion was AEW has exceeded expectations of the past year and has made significant progress relative to the Objectives established at the initiation of the relationship. Callan recommends that PERSI continue its relationship with AEW. Ms. Haskins also presented the expectations for AEW in 2014 and enhancements identified by Callan to AEW's quarterly reporting package and the changes AEW has agreed to make.

Monthly Investment Report: Chief Investment Officer Bob Maynard presented the investment report. Although momentum feels like it is slowing, the world capital markets have continued their almost constant advance. Reasonable US economic news supporting subdued growth, continuity in Fed policymaking for the foreseeable future, a relatively benign international scene, and no looming crisis in sight for the next couple of months, all combined for a reasonable advance in US equity markets. The other world capital markets, however, did not keep pace.

For the month US equity markets rose 2.9%. International developed equity markets were up 0.8%, but emerging markets were down -1.5%. Fixed income markets were down -0.4% for the month, with TIPS performing even more poorly at -1.1%.

As a result, the fund as a whole was up 0.75% for the month and is up 8.7% for the new fiscal year to date at \$13.763 billion, an all-time return high and close to the all-time asset highs hit last month (the difference is due to the fact that PERSI pays out more in benefits and expenses than it takes in from contributions).

Last year's pattern of underperformance to the reference 55% Russell 3000, 15% EAFE, 30% Aggregate benchmark, however, returned with a vengeance. PERSI's relative returns to the strategic benchmark are driven by basic policy allocations away from the S&P 500 and Barclay's Aggregate and toward emerging markets, private equity, REITS, private real estate, and TIPS. With the S&P 500 up 3% for the month and all of the other markets either flat or down substantially, PERSI returns trailed the 55-15-30 reference benchmark by an additional -0.85% to bring the fiscal year to date lag to -1.7%.

Zesiger continues to have the second worst absolute and worst relative performance to benchmarks, while Peregrine, Bernstein Global and Brandes have the best absolute and relative returns to benchmark. Increasingly, capital market commentary is coming to the consensus that the US market, at least, is "fully valued", and predictions for at least a pause in the recent advance are now commonplace. But, it has been a very nice run, and fiscal year targets in return [above the 7.5% gross (7.0% net) discount rate] and funding level (above 90%) have been reached. The hope is that any slippage will be temporary.

Investment Advisor Contracts: Investment Officer Richelle Sugiyama asked the Board to renew the investment advisor contracts for staff advisors Bill Raver, Bob Storer and Dwight Churchill. Trustee Fisher made a motion to authorize the executive director to finalize and sign the one year renewal contracts for all three advisors. Trustee Deal seconded the motion which passed unanimously.

Investment Policy: Investment Officer Richelle Sugiyama requested adoption of the revised DB Plan Investment Policy which reflects the inclusion of the REIT and emerging markets index funds, updated Callan capital markets projections, and other formatting changes. Trustee Cilek requested a change be made to page 16 and made a motion to adopt the revised policy with the change. Trustee Deal seconded the motion which passed unanimously.

Investment Manager Comments: The Investment Managers who were present shared their opinions and predictions for the current market situation.

## DIRECTOR UPDATES

Agenda Amendment: Director Drum requested the Board approve an amendment to the agenda to remove the COLA/Contribution discussion. Director Drum explained the reason for the request being made at this time: the delay in contribution rate increases was voted on by the Board at the October meeting and there is an action item on today's agenda (under Legal) for rules to reflect that delay. On the COLA, the Board met in a special meeting held on November 27, 2013 to discuss the COLA. No Board action was taken to award a discretionary COLA. Trustee Cilek made a motion to amend the agenda. Trustee Deal seconded the motion which passed unanimously.

Executive Director's Update: Director Drum presented potential legislative issues to the Board; discussing "Lobbyists" in PERSI, FRF contributions, JRF recruitment and PERSI benefits, and GASB.

Trustee Sullivan thanked Director Drum for taking the time to travel and keep PERSI in touch with the employers.

New Employer: The Paul Cemetery District has requested admittance into the PERSI system. Trustee Cilek made a motion to accept the application effective January 1, 2014. Trustee Deal seconded the motion which passed unanimously.

Deputy Director Update: Deputy Director Lisa Steele provided a status update on the IRIS project and advised the Board the project is currently in Phase 5 and continues to be on-time and on-budget. The Deputy Director presented a disability review based on information from the annual review with URS and discussed trends in disability claims. An update was provided on the new Pocatello office that will address previous concerns about security and functionality. The anticipated move in date is February 1, 2014. The Deputy Director thanked PERSI PIO Kelly Cross for helping PERSI reach a new milestone last month in social media with the creation of a Twitter account, in addition to the existing PERSI Facebook page.

Choice Plan Review: Manager Diane Kaiser presented an update on the status of the record keeping RFP and provided a recommended fund lineup to the Board, asking for a motion to proceed with the RFP for 12 or 15 funds. Trustee Deal made a motion to proceed with the RFP. Trustee Cilek seconded the motion which passed unanimously.

Choice Plan Update: Bill Watko from Xerox presented a plan and participant update as of September 30, 2013. Mr. Watko also provided a summary of the Xerox Trainer educational efforts.

## LEGAL

Rules – Contribution Rules: Deputy Attorney General Joanna Guilfooy asked the Board to adopt the temporary rule delaying the rate increase and when the rule moratorium is over as pending if no comments are received. Trustee Cilek made a motion to accept the staff recommendation. Trustee Fisher seconded the motion which passed unanimously.

## FISCAL

Fiscal Update: Chief Financial Officer Jim Monroe reviewed his Fiscal Update memo dated November 26, 2013 and reviewed and commented on the October expense reports for administration and portfolio. Copies of the Comprehensive Annual Financial Report (CAFR) were provided to the Trustees. Mr. Monroe thanked those PERSI staff members who helped with the report.

Quarterly Financial Statements: Financial Operations Manager Debbie Buck presented the FY14 1<sup>st</sup> quarter financial statements. There were no questions regarding the reports.

Trustee Sullivan recessed the meeting until 12:05 when the Trustees and Staff Advisors reconvene the meeting for a market discussion.

Adjournment: There being no further business to come before the Board, meeting adjourned at 2:05 p.m.

Donald D. Drum  
Executive Director

Jody Olson  
Chairman