



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., June 18, 2013. The following members were present:

Jody Olson
Kirk Sullivan
Joy Fisher
Bill Deal
Jeff Cilek

Executive Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Financial Officer James Monroe, Deputy Attorney General Joanna Guilfooy and Management Assistant Cheri Campbell were also in attendance. Other persons attending portions of the meeting were:

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|---------------------|-------------------|--------------------|-------|
| Jeff Bradley | Milliman | Rose Marie Sawicki | PERSI |
| Connie Bunch | REAL | Diane Kaiser | PERSI |
| James Coleman | REAL | Mike Young | PERSI |
| Humberto Arechiga | DBF | Patrice Perow | PERSI |
| Brandon Fitzpatrick | DBF | Kimberlee Hall | PERSI |
| Drew Black | DBF | Cecile McMonigle | PERSI |
| Mary Lou Taylor | Retired Educators | Erik Brischler | PERSI |
| Rod MacKinnon | MPIA. | | |
| Dennis Fitzpatrick | DBF | | |
| David McManaman | Berkadia | | |
| Karl Malott | Idaho Fire Chiefs | | |
| Chris Halverson | EFIB | | |
| Dave Boren | Clearwater | | |
| Chris Brechbuhler | Clearwater | | |
| Eoin Gill | BNY Mellon | | |
| Bill Palumbo | MPIA | | |
| Bruce Reeder | MPIA | | |
| William Watko | Xerox | | |
| Mario Giannini | Hamilton Lane | | |
| Michael O'Leary | Callan | | |

MINUTES

Approval of the Minutes: Trustee Deal made a motion to approve the minutes of the April 23, 2013 and May 9, 2013 meetings with a correction to the name of Mr. Storer's attorney Pat Miller. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: Chief Investment Officer Bob Maynard presented a short investment report and reviewed PERSI's investment structure and strategic biases.

With "taper" now being the investment word of the moment (referring to the anticipated slowing of the Fed purchase of bonds in "QEIII", the third round of quantitative easing), the markets have seemed to enter a new phase – one that has blunted the upward momentum of the world capital markets. Bond yields have risen, dropping fixed income returns, and global equity markets are flat – with US equities up marginally and international developed markets down about the same amount for the month to date. With China still slowing noticeably, emerging markets have continued the sell-off that began at the start of the calendar year, and are down over -5% for the month to date, and almost -8% for the calendar year to date.

As a result, PERSI is down -0.7% so far this June, and the fiscal year to date gains have retreated to +10.6% -- still comfortably above the 7.5% gross returns assumed by the actuaries (7.0% net) – at \$12.973 billion.

Manager trends from the past month remain in place, with Zesiger and Barings Global having the worst returns relative to their benchmarks, and emerging markets (4.3%), REIT (8.4%), and private equity (13.0%) and private real estate (-14.2%) accounts having the worst equity returns. In contrast, the S&P 500 has returns of +22.1% for the fiscal year to date.

As a result, PERSI's long-term strategic bias over the past two decades to shift money from the S&P 500 to those markets (for diversification, extra long-term return, and inflation protection purposes), explains almost all of the disparity in returns between the reference 55-15-30 benchmark and PERSI's actual returns (-5.3%). As was the case in the mid-1990s, when the S&P 500 is one of the best performing capital markets in the world, PERSI will usually have little problem meeting its actuarial target. The strategic biases are meant to protect portfolio returns when the S&P 500 has mediocre or poor returns, such as occurred during the first decade of the 2000's. When, as now, the S&P 500 carries the day, the strategic biases hurt relative performance.

Commercial Mortgage Program Review: David McManaman with Berkadia Commercial Mortgage presented the findings from the annual review of the Idaho Commercial Mortgage Program. Berkadia's findings indicate the administration, management and performance for calendar year 2012 equaled or exceeded the performance of similarly focused commercial real estate mortgage/whole loan origination and investment programs. The PERSI commercial mortgage program's general business and mortgage investment activities for 2012 and the resulting performance were consistent with previous year-end results.

Idaho Commercial Mortgage Program Update: Brandon Fitzpatrick presented the annual update on the performance of the program, including comparison of Idaho and the US economic indicators and the PERSI commercial mortgage program results compared to industry benchmarks.

Callan Real Estate Contract: Investment Officer Richelle Sugiyama asked the Board to authorize staff to renew the Callan Real Estate Consulting Agreement. Trustee Deal made a motion to accept the staff recommendation to renew the contract. Trustee Cilek seconded the motion which passed unanimously.

Chairman Olson stated that Sally Haskins with Callan has been extremely helpful with the transition of the Private Real Estate program.

Callan Quarterly Update: Michael O'Leary with Callan presented the 2013 1st quarter results. PERSI underperformed its target policy index for the March quarter (3.24% versus 6.82%) and trailed the target over the last twelve months (7.96% versus 10.96%). The quarter and trailing full-year results ranked in the 91st and 89th percentile, respectively, in Callan's Public Fund database. Over the last five years, total fund performance ranked below peers and target. However, over the last ten-year period the total fund has outperformed both its target and peer group median.

Private Equity Update: Mario Giannini with Hamilton Lane presented the 2012 4th quarter private equity update. Since inception return of 7.95% as of December 31, 2012 represents highest value post global financial crisis. After flat returns in 2012 2nd quarter, the private equity portfolio recovered to generate strong point-to-point returns in 2012 3rd and 4th quarters of 3.61% and 4.95% respectively.

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

DIRECTOR UPDATES

Executive Director's Update: Executive Director Don Drum provided an update on the status of the Judges Retirement System's move to PERSI and recent questions from FRF employers regarding the status of that fund and what happens if it is fully funded.

New Employers: Trustee Cilek made a motion to accept Twin Falls County Pest Abatement as a PERSI employer effective July 1, 2013. The motion was seconded by Trustee Fisher and passed unanimously.

Trustee Cilek made a motion to accept Filer Highway District as a PERSI employer effect July 1, 2013. Trustee Deal seconded the motion which passed unanimously.

LEGAL:

Legislative Ideas: Deputy Attorney General Joanna Guilfooy presented a list of potential legislative ideas for next year's session. No action is needed at this time. The Board will approve the language of any changes at a later date.

CHOICE PLAN

Choice Plan Document Changes: Choice Plan Manager Diane Kaiser asked the Board to approve changes to the plan document including technical change to remove unnecessary language in the deferral compensation definition and to raise the minimum account balance for terminated members from \$200 to \$1000 to better align with industry standards.

Trustee Fisher made a motion to accept the staff recommendation. The motion was seconded by Trustee Sullivan and passed unanimously.

Choice Plan Update: William Watko with Xerox presented the 2013 1st quarter update.

FISCAL

Fiscal Update: Chief Financial Officer Jim Monroe reviewed his Fiscal Update memo dated June 12, 2013 and reviewed and commented on the May expense reports for administration and portfolio. He also updated the Board on audit services and fiscal year end activities.

ADJOURNMENT: There being no further business to come before the Board, meeting adjourned at 11:00 a.m.

Donald D. Drum
Executive Director

Jody B. Olson
Chairman