



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., August 19, 2014. The following members were present:

- Jody Olson
- Kirk Sullivan
- Bill Deal
- Joy Fisher
- Jeff Cilek

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 Guilfoy and Management Assistant Jess Simonds were also in attendance. Other persons attending all or portions of the meeting were:

Eoin Gill	BNY Mellon	Bruce Reeder	MPIA
Tony Wilkins	BNY Mellon	Bill Palumbo	MPIA
Robin Nettinga	IEA	Rod MacKinnon	MPIA
Mike Boren	Clearwater	Larry Johnson	EFIB
Chris Brechbuhler	Clearwater	Robyn Lockett	LSO
Dennis Fitzpatrick	DBF & Co.	Brad Berls	Eide Bailly
Brandon Fitzpatrick	DBF & Co.	Humberto Arechiga	DBF
Connie Bunch	REAL	Karl Malott	Idaho Fire Chiefs
Mary Lou Taylor	REA	Kelly Cross	PERSI
Dustin Hurst	Idaho Reporter	Diane Kaiser	PERSI
Jay Doherty	State Street	Kimberlee Hall	PERSI
Tom Kealey	EFIB	Cheri Campbell	PERSI
Jeff Bradley	Milliman	Mike Young	PERSI
Robert Schmidt	Milliman	Debbie Buck	PERSI
Michael Iacoboni	Milliman	Rose Marie Sawicki	PERSI

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the July 15, 2014 meeting as written. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Callan Year End Update: Greg Allen of Callan presented a summary of fiscal year 2014 which included a capital market review and performance evaluation and attribution for the PERSI Total Fund, asset classes, and investment managers. Fiscal year 2014 enjoyed strong capital market

returns lead by public equity markets, with the S&P 500 providing a +24.6% return and Non U.S. equity posting +22.3%. The bond markets also provided positive returns of 4.4%. PERSI's actual asset allocation relative to its long-term policy maintains its underweight to US equity and bonds and its overweight to global equity, private equity, real estate, and global bonds. PERSI's total fund return of +17.24% for the fiscal year, underperformed its target policy index return of +18.52% because of the strategic underweight to U.S. equities and the strong relative performance of the U.S. market. The overweight to global equity and underweight to U.S. bonds provided a positive impact to overall performance. The contribution to the Fund's bottom-line performance from the managers was mixed. Positive contributions came from U.S. equity, real estate, and global equity managers. The international managers in aggregate underperformed EAFE because of the allocation to dedicated emerging markets. The active international managers outperformed their respective benchmarks.

Over the last 10 years, the fund has outperformed the Target. The managers in aggregate provided positive performance impact, while the strategic allocation away from U.S. equity had a negative impact because of the significant returns of the U.S. market during recent years. PERSI's total fund outperformed the Callan Public Fund Peer Group median for the fiscal year by 113 bps and ranked in the 31st percentile. PERSI's results rank in the top quartile of Public Funds over the last 10 years.

At the conclusion of Mr. Allen's presentation, Chairman Olson asked why some people (rephrased to "academics") consider PERSI's liabilities to be higher than our consideration. Mr. Allen responded by saying that some academics believe pension systems should assume a discount rate at a 'risk-free' rate which is generally a much more conservative discount rate assumption compared to PERSI's 7% assumption. Mr. Allen continued by saying that an 8% discount rate assumption is the norm for public pension systems, and based on PERSI's allocation, performance and comparatively conservative discount rate assumption, he believes PERSI is one of the healthiest, if not the healthiest, funds in the country.

Chairman Olson then asked PERSI CIO Bob Maynard to comment on PERSI's average historical return. Mr. Maynard responded by saying since its inception in 1965, PERSI's average rate of return is approximately 8.2%.

Monthly Investment Report: The capital markets so far this fiscal year are simply meandering. A clearly improving labor market in the US, albeit with subpar wage growth, has underpinned a somewhat bumpy continued U.S. economic growth (although with fairly good corporate earnings). Europe (with the exception of the UK) and Japan appear to be taking economic steps backward, and China's economy continues to send out mixed signals. On the other hand, the extremely low interest rates worldwide have led to at least fair to slightly overvalued capital market assets, with an increasing minority fearing that financial bubbles are beginning to appear. The international political scene appears chaotic, led by the Ukraine and the Arab world (Gaza and Iraq in particular), although so far confined to areas of marginal economic impact.

As a result, U.S. equity markets are up moderately this month (+1.5%) but are down for the new fiscal year to date (-0.5%). International developed markets are having a tougher time, and are down for the month (-1.5%) and the fiscal year to date (-3.4%). Fixed income continues to mildly surprise with the 10 year yield still hovering at or below 2.4%, and thereby supporting good gains for the month (1.0%) and fiscal year to date (0.7%).

Consequently, the fund as a whole is up for the month (0.8%) and dead even for the fiscal year to date (0.0%) at \$14.659 billion. Prior to actuarial experience adjustments, the funding ratio should be 92.5%.

In relative terms, the fund continues to handily outpace the 55% Russell 3000, 15% EAFE, and 30% Barclay's Aggregate reference benchmark (55-15-30) by +0.6%. This has been led by the emerging markets (+3.0%), REITs (+1.7%), and private equity (+1.7%), and private real estate (+0.3%) all outperforming the S&P 500 (0.0%), continuing a trend (and outperformance) that started this calendar year.

For individual active accounts, Adelante, Bernstein Emerging, and Peregrine have the best absolute returns, while Donald Smith, private equity, and Mountain Pacific have the best relative returns against benchmark. Mondrian (EAFE) has the worst absolute returns and Genesis Emerging the poorest returns against benchmark.

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

DIRECTOR UPDATES

Executive Director Status Update: PERSI Executive Director Don Drum stated that Milliman will present the draft fiscal year 2014 valuation to the PERSI Board at the September Board meeting and then will follow up with the final valuation at the October meeting. Mr. Drum's goal was to provide the Board with adequate information to assist with this year's COLA and contribution decisions. He stated that the final decisions on the COLA and contribution rates will have to be made no later than the conclusion of the December 2 Board meeting.

Mr. Drum stated that PERSI estimates that the UAAL has dropped to \$872 million and the amortization period (with the two remaining rate increases considered) estimated at 5.2 years. Contribution rates will increase by another approximate 1.5% total (i.e. employer and employee) on July 1, 2015 and then by an additional 2.28% on July 1, 2016 unless the PERSI Board makes a decision to postpone, change or eliminate the rate increases.

The Board has four options regarding contribution rates:

1. Take no action and allow the rates to increase as currently proposed.
2. Postpone the rate increase (i.e. vote to delay the rate increase another year or longer)
3. Adjust the increase; the Board can increase or decrease the proposed increases.
4. The PERSI Board could elect to eliminate the rates. If the PERSI Board were to consider dropping the proposed rate increases the amortization period would raise to 8.6 years.

Mr. Drum then stated that the COLA decision could be a factor as the Board considered contribution rate options as they do have an impact on the funded status and UAAL. Based on current CPI-U predictions, the Board would have the ability to provide a 1.3% discretionary COLA on top of the 1% mandatory COLA. The Board also has the ability to give up to 6.05% of retro COLA's to those retirees who qualify for the various retro COLA's (1.92% of the 2008 excess over the 1% mandatory remaining, we have .15% from 2010, 2.77% from 2011, .69 from 2012 and .52 from 2013). If the Board were to consider giving all estimated discretionary and Retro COLAs totaling approximately 8%, the impact would be an approximate additional \$625 million to the unfunded liability.

At the conclusion of Mr. Drum's update, Chairman Olson commented that he wants to make a contribution rate decision in September. He asked the other trustees if they want PERSI staff to research specific scenarios on potential contribution rate and COLA options. Trustees Cilek and Fisher outlined a multitude of scenarios they were interested in analyzing- to which Mr. Drum commented that PERSI staff would analyze those scenarios and more.

Chairman Olson commented that the Board will spend time looking at the scenarios between meetings and noted that retiree organizations have been supportive of PERSI's financial prudence

in the recent past. He said the Board is anxious to address the contribution rate and COLA issues in September.

Funding Policy: Mr. Drum provided a draft funding policy for the Board's review based on guidance and recommendations from the Board. Chairman Olson put the issue over to a later meeting to allow review.

Firefighters' Retirement Fund Discussion: Jeff Bradley and Robert Schmidt of Milliman presented a summary of the history and current status of the Firefighters' Retirement Fund (FRF) and also explained a Board requested study which shows a scenario whereby the employer contribution portion of the revenue stream is reduced from the current 17.24% of current firefighter payroll to 5%. The two other sources of revenue to the FRF fund are the Fire Insurance Premium Tax (FIPT) and investment returns. Mr. Bradley and Mr. Schmidt explained that the FRF fund is separate from PERSI, has no impact on the PERSI fund, and is a closed system that has been administered by PERSI since 1980. They also summarized the plan as a defined benefit plan where promised benefits will be paid and where the scenario considered by the Board is not a change in benefits.

Mr. Bradley and Mr. Schmidt summarized the Board requested scenario of lowering the employer contribution rate to 5% of firefighter payroll. The scenario was explored having the FIPT remain the same or turned completely off. The scenario uses a prospective 3-year asset smoothing model. Chairman Olson asked PERSI investment staff why a smoothing model might be appropriate as shown in Milliman's analysis. PERSI Investment Officer Richelle Sugiyama commented that with a closed plan such as the FRF, with fixed variables such as retirees and beneficiaries, you are much more likely to smooth.

Chairman Olson asked Executive Director Don Drum how many of the employers he had spoken with on this issue. Mr. Drum replied that over time, he had spoken to nearly all employer representatives and in the past week he had spoken with Nampa, Kuna, and Kootenai County. Mr. Drum commented that the employers have never seen relief in their contribution rate while the FIPT had been reduced over time, and that as a matter of fact, the employer cost by dollar amount has increased due to the growth of firefighter payroll.

Chairman Olson commented that he had intended to take action at this meeting as the sentiment of the Board seemed very favorable to reduce the employer contribution rate to 5%, but that the decision would be put over till September. Mr. Drum added that the Kootenai County Fire District has been vocal about this decision because the decisions of larger departments like Boise bleed over to other, smaller departments like theirs. Trustee Cilek commented that the bottom line is that the FRF is 110% funded. Chairman Olson finished the discussion by noting that the FRF is a great success story and noted that when PERSI took over the fund it was in trouble.

Deputy Director Update: PERSI Deputy Director Lisa Steele provided the Board an update on the IRIS project, the Choice Plan third party administrator, and the Disability RFP. Ms. Steele noted that there were a record number of September retirements (the month that teachers normally hit PERSI payroll).

FISCAL

Fiscal Update: PERSI Chief Financial Officer Jim Monroe presented the FY 2015 PERSI year-to-date expense reports for the Administrative and Portfolio funds, an update on FY 2014 audit services provided by Eide Bailly, LLP, and the FY2014 year-end unaudited financial statements. PERSI Financial Specialist, Principal Debbie Buck commented that in July, PERSI retiree payroll hit a milestone of \$60 million.

FY 2016 Budget Request: Mr. Monroe shared that PERSI anticipates a budget request for FY 2016 at the same basic level as the FY 2015 but is currently considering the effects of workload increase related to administering the Judges' Retirement Fund in terms of FTP's.

EXECUTIVE SESSION

Citing Idaho Code 67-2345(1)(f), Trustee Sullivan made a motion to go into executive session to discuss possible litigation. The motion was seconded by Trustee Cilek and approved unanimously via roll call vote. There were no decisions made during the session.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:15 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman