



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 2, 2014. The following members were present:

Jody Olson  
Kirk Sullivan  
Jeff Cilek

Trustees Bill Deal and Joy Fisher were absent and excused. 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 Jess Simonds were also in attendance. Other persons attending all or portions of the meeting were:

Bruce Reeder	MPIA	Tony Wilkins	BNY Mellon
Rod MacKinnon	MPIA	Bruce Shain	BNY Mellon
Bill Palumbo	MPIA	Kelly Cross	PERSI
Mark Olleman	Milliman	Rose Marie Sawicki	PERSI
Larry Johnson	EFIB	Pat Gittings	PERSI
Lee Miller	Eide Bailly	Cheri Campbell	PERSI
Dennis Fitzpatrick	DBF	Mike Young	PERSI
Casey Macomb	DBF	Diane Kaiser	PERSI
Connie Bunch	REA	Melody Hodges	PERSI
Kaci Guthrie	Xerox	Cecile McMonigle	PERSI
Ali Breshears	Clearwater	Melody Hodges	PERSI
Brittany Pfister	Clearwater	Mike Mitchell	PERSI
Chris Brechbuhler	Clearwater	Carmen Brooks	PERSI
Tim Dunn	Clearwater		

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the October 21, 2014 meeting. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: November has continued the general themes of the past months (and much of this calendar year) – a relatively strong and steadily recovering U.S. economy, coupled with a depressing picture in almost all of the rest of the world economies (Japan, China, emerging markets and, particularly, Europe). As the nonmarket tensions of Ebola, the Ukraine, and ISIS move away from center stage, the US markets, at least, have resumed their slow but relatively steady rise. The Fed has gone on “hold” with the end of quantitative easing but maintaining ZIRP (Zero Interest Rate Policy), while central banks in other regions are either implementing or signaling greater easing moves. With holiday shopping around the corner, and generally full valuations, U.S. market moves have been generally positive but muted.

In November the U.S. equity market rose +1.7% to bring the fiscal year to date return to +5.3%. MSCI EAFE has gained 1.4% for the month but remains down -5.9% for the fiscal year, while bonds are up 0.7% for the month and slightly positive (+1.9%) for the fiscal year. Emerging markets are down -1.1% for the month to date and -4.7% for the fiscal year, while REITs continue their remarkable rise of the last few months, and are up +9.7% for the fiscal year to date. TIPS are having a poor fiscal year, having dropped -1.0%. As a result, the fund as a whole is up +1.5% for the month to date and +1.5% for the fiscal year to date, at \$14.873 billion (having hit a new all-time return high the day before Thanksgiving. The calendar year is +8.5%, around the return that was expected at the end of last calendar year.

With the unstable economic situation in Europe and the emerging markets, the fund is trailing the reference (and US dominated) 55-15-30 benchmark by -1.1%, after leading that reference for much of the fiscal year. Private real estate (+6.6%) is a relative contributor for the fiscal year to date – a welcome change from recent years. The Adelante REIT account has the best returns (+11.5%), while the Mondrian EAFE account (-6.5%) is the worst. Mountain Pacific has the best performance relative to their benchmark (+5.2% over their index), while Zesiger lags the most (-6.0% behind the World Index returns).

Quarterly Portfolio Update – Callan: Greg Allen of Callan presented their performance evaluation report for the 3<sup>rd</sup> quarter of 2014 of the PERSI Fund which included a capital market review, asset class performance review, and investment manager analysis. Mr. Allen stated that overall the stock markets experienced a set back during the 3<sup>rd</sup> quarter as the broad US equity market ended essentially flat and non US equity markets lost 5.9%. Long term government bonds provided the highest public market return for the quarter of +2.6%. The Total Fund returned -1.14% for the 3<sup>rd</sup> quarter which slightly trailed the policy target (-0.97%).

Mr. Allen also provided a historical summary of the PERSI Fund and noted that the Total Fund has returned 9.17% and 7.59% for the five and ten-year periods respectively, trailing the benchmark slightly over both time horizons. The PERSI Total Fund ranks in the 18<sup>th</sup> percentile (outperforming 82% of public funds) over the ten-year time horizon. Over that ten year period, the managers within each asset class have exceeded their benchmarks, with the only exception being the Private Real Estate portfolio.

Chairman Olson asked Mr. Allen about how PERSI's 70% equity, 30% fixed income portfolio compared to other public funds and the corporate world. Mr. Allen commented that PERSI's asset mix is typical in the public sector but is heavy in equities when compared to the corporate world. Mr. Allen noted that many public funds have moved out of fixed income and into alternatives like real estate, private equity, and natural resources. Chairman Olson also asked Mr. Allen how PERSI's funding ratio compares to other public funds and if the employer cost of around 11% was normal. Mr. Allen said that he believed PERSI, in comparison to other public funds, was in the top quartile-nearing top decile- in terms of funding ratio, and that the employer cost is comparatively low.

Private Equity Update – Hamilton Lane: Paul Yett of Hamilton Lane presented an update of the private equity (PE) portfolio. Mr. Yett stated that the PE portfolio continued to be self-funding during the first three quarters of 2014 and has outperformed the public benchmark over the ten-year and since-inception time horizons. Mr. Yett commented that the industry "tailwinds" include strong liquidity, available and attractive debt, and conservative leverage multiples, while the industry "headwinds" include capital overhang, deal volume, and average fund life.

Investment Advisor Contracts: Investment Officer Richelle Sugiyama presented material supporting a staff recommendation regarding contract renewal for staff advisors Bill Raver (Alban Row), Bob Storer, and Dwight Churchill (Chartwell Consulting LLC). Specifically the recommendation would

authorize the renewal of these Staff Advisor Agreements through December 2015 with the same terms. Trustee Cilek made a motion to accept the staff recommendation. Chairman Olson seconded the motion, which passed unanimously.

Transition Management Agreement: Investment Officer Richelle Sugiyama presented material supporting a staff recommendation to approve the hiring of State Street Bank and Trust Company as the transition management provider and to authorize Staff to execute the transition management agreement on behalf of the Board. Trustee Sullivan made a motion to accept the staff recommendation. Trustee Cilek 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

Executive Director Status Update: Executive Director Don Drum updated the Board on the recent GASB meetings which were centered on engaging employer auditors. Mr. Drum commented that employers and their auditors were invited to attend these meetings, and at each of the 5 meetings (statewide) approximately 50 people attended. Milliman and Eide Bailly will complete the initial work required by GASB 68 in January 2015, at which point PERSI would communicate with employers and post the allocated share of the Net Pension Liability (NPL). Mr. Drum said that employers will be posting pension liability on their financials for the first time, and although that liability is not new, the visibility of the number could cause issues for employers- for example, with public perception. Mr. Drum also commented that employer accountants/auditors need to be engaged, which was the reason for these meetings. Trustee Sullivan commented that he would like PERSI management to develop strategies to ensure that smaller employers are engaged in this process.

Mr. Drum also told the Board that PERSI management is evaluating office space/building needs and would provide an update at the January or February meeting.

Deputy Director Update: PERSI Deputy Director Lisa Steele updated the Board on the IRIS project, the Choice Plan third party administrator transition, and staffing changes.

## FISCAL

Fiscal Update: Financial Officer Jim Monroe presented PERSI's FY 2015 expense reports and went through the first quarter FY2015 financial statements.

Annual Report: Financial Officer Jim Monroe provided the Board with the FY2014 Comprehensive Annual Financial Report (CAFR). The section layout and data presented is prescribed by GASB, GFOA and GAAP.

## Executive Session

Citing Idaho Code 67-2345(1)(b), Trustee Cilek made a motion to go into executive session. The motion was seconded by Trustee Sullivan 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 10:50 a.m.

Donald D. Drum  
Executive Director

Jody Olson  
Chairman