



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., July 15, 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
Roger Wassler	IRFA	Bill Palumbo	MPIA
Robin Nettinga	IEA	Rod MacKinna	MPIA
Casey Macomb	DBF	Kaci Guthrie	Xerox
Chris Brechbuhler	Clearwater	Chris Halverson	GFIB
Tim Dunn	Clearwater	Rita Foltman	SCO
Brandon Fitzpatrick	DBF	Cheri Campbell	PERSI
James Coleman	REAL	Debbie Buck	PERSI
Dave Bieter	City of Boise	Kelly Cross	PERSI
Maryanne Jordan	Boise City Council	Melody Hodges	PERSI
Amber Pence	City of Boise	Carmen Brooks	PERSI
Tom Kealey	EFIB	Cecile McMonigle	PERSI
Jeff Bradley	Milliman	Mike Young	PERSI
Robert Schmidt	Milliman	Kris Colt	PERSI
Charles Parks	Ret. Fire Fighters	Rose Marie Sawicki	PERSI
Karl Malott	Idaho Fire Chiefs		

Approval of the Minutes: Trustee Deal made a motion to approve the minutes of the May 20, 2014 meeting as written. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: With U.S. stocks at all-time highs, and equity volatility at all-time lows, the capital markets continue to grind ever higher in an atmosphere of slow but steady economic growth. The fund, as well, continues to reach new highs, both in returns and in assets (even after

net payouts of benefits after contributions). The fund as a whole was up 1.4% for the month and was up 17.2% for the fiscal year, at \$14.686 billion, one of the best fiscal years on record.

The surprise of the new calendar year, however, has been a marked shift in the inner dynamics of the capital markets, with bond yields dropping below 2.5% at one point in recent weeks (having started the calendar year at 3%), a drop which has confounded most experts, small cap tech and momentum stocks having a "mini-crash", and emerging markets breaking out of their doldrums of the past few years. This is with the backdrop of continued moderate US economic growth, a slowing China, and a stumbling Europe. Equity valuations appear a bit high in the US, moderate in Europe, and relatively undervalued in the emerging markets. All in all, the "boredom" of the recent capital and economic markets continues, with the excitement located in recent political events in the Ukraine and in Northwest Iraq - areas with little direct economic or capital market impact.

The U.S. equity market was up 2.5% for the month and 25.2% for the fiscal year. Developed market equities (EAFE) were up another 1.0% for a 24.1% return for the fiscal year, and bonds were up 0.2% for the month for a +4.4% fiscal year return. Emerging markets continue their recent good performance with a 2.7% monthly return, but lagged for the fiscal year with 14.7% index returns. TIPS continue to keep pace with general markets. Private equity and private real estate are having good years, but lag the general public markets, with private equity at 15.6% for the fiscal year.

Donald Smith has had a recent period of great performance, adding to an already good year, with returns of 33.9% for the fiscal year which is 10.2% above benchmark – leading all accounts. Bernstein Global is a close second, with fiscal year returns of 31.2%, 6.5% above benchmark. Recently emerging markets (+17.0%, above benchmark), REITs (+17%, also above benchmark), and private equity (+15.7%) have had relatively good performance (since approximately the beginning of the calendar year), but still lag the general developed market returns for the fiscal year. Consequently PERSI as a whole lagged the general 55% Russell 3000, 15% EAFE, 30% returns for the fiscal year. Consequently PERSI as a whole lagged the general 55% Russell Aggregate reference benchmark for the fiscal year, although at a reduced deficit of -1.4%.

Private Equity Update- Hamilton Lane: Paul Yett of Hamilton Lane presented the second quarter 2013 private equity (PE) portfolio update which included a PE market update. The PE portfolio continues to post robust performance, buoyed by positive public market gains in the second half of 2013. The PE portfolio created \$104.6 million in value during the second half of 2013. The PE portfolio continued to be self-funding in Q4 2013 through Q2 2014.

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

DIRECTOR UPDATES

Firefighters' Retirement Fund Discussion: PERSI Executive Director Don Drum explained that the Firefighter's Retirement Fund (FRF) employers had met with PERSI representatives and Milliman actuaries to analyze scenarios to potentially reduce the employer contribution rate from the current rate of 17.24% of firefighter payroll. Mr. Drum shared that the primary concern of employers is that they want a very low likelihood of the 17.24% contribution rate coming back after an initial reduction in the contribution rate. Mr. Drum said that the FRF valuation draft would be available in September and the final would be available in October. Milliman actuary Jeff Bradley suggested the funding ratio of the FRF was, at the time of the meeting, around 110%.

Trustee Deal commented that he would like the Firefighter's Insurance Premium Tax (FIPT) to remain part of the formula for FRF funding. Chairman Olson commented that he would like Milliman to provide a more aggressive scenario that reduces the contribution rate down to ~5.24%

as soon as feasible. Trustee Sullivan commented that he wants to see the real dollar numbers of contribution to the fund on a chart as opposed to the current presentation of percentage of employer payroll.

CEM Benchmarking Report: Jan Hartford of CEM Benchmarking provided a summary of their FY2013 study on PERSI as it relates to pension administration benchmarking using peer comparative analysis methods. Some positive statistical highlights of the PERSI system included:

- PERSI's total pension administration cost of \$51 per active member and annuitant was \$72 below the peer average of \$123. That cost for PERSI decreased by 4.9% per year between 2010 and 2013.
- The overall costs of administration per full time PERSI position, taking into account- among other factors- salaries and benefits, building and utilities, HR, and IT was ~65% of our peer average.
- PERSI's total service score (which includes turnaround times, availability, choice, and quality outcome) was 83 out of 100, compared to the peer median of 77.

Milliman Contract Amendment: The Board considered a contract amendment between PERSI and Milliman stemming from 2 main changes which was work on the Judges' Retirement Fund and the Firefighter's Retirement Fund. Trustee Deal made a motion to approve the amendment as written. Trustee Fisher seconded the motion, which passed unanimously.

Mecham Recommended Order: The Board considered a recommendation from Hearing Officer Jean Uranga in the case of Mecham v. PERSI. Upon consideration, Trustee Deal made a motion to issue a final order to accept the Hearing Officer's Recommended Order. Trustee Sullivan seconded the motion, which passed unanimously.

Executive Director Status Update: PERSI Executive Director Don Drum began by highlighting his "GASB Education Tour" and noted that he believes close to 70% of employers had representatives attend his statewide meetings. Mr. Drum then provided an update on the FY2014 PERSI Fund return- which was 17.23%. With the two remaining rate increases considered, and not factoring any retro or discretionary COLA's, the PERSI Fund's UAAL was \$872 million with an amortization rate of 4.7% (using the early warning and UAAL models provided by Milliman).

Mr. Drum then began a discussion regarding pension system funding policies. He noted that groups, Boards, and organizations like GASB and the National Conference of State Legislatures have advocated for adherence to a funding policy for all pension systems. Mr. Drum shared staff research which found that the PERSI Board adopted a funding policy in 1998. Mr. Drum asked for guidance from the Board on if PERSI wanted to consider adjusting the 1998 policy or drafting a new policy.

Chairman Olson asked Chief Investment Officer Bob Maynard to comment on funding policies in general, and Mr. Maynard responded by saying he likes goals but doesn't want handcuffs. Chairman Olson commented that he would be for no funding policy or for general goals only. Trustee Fisher commented that she likes memorializing priorities and the Board's general philosophy. Trustee Cilek agreed with Trustee Fisher and added that the Board may need to consider rejecting the current policy. Trustee Sullivan commented that he would rather have no policy than a loosely worded policy. Trustee Deal wanted to have more time to review the draft provided by Mr. Drum. Chairman Olson wanted the funding policy conversation to carry-over to the next Board meeting.

Deputy Director Update: PERSI Deputy Director Lisa Steele provided the Board an update on the IRIS project, the new imaging system, the Choice Plan RFP, the Judges' Retirement Fund administration take-over, and the Disability RFP.

FISCAL

Fiscal Update: PERSI Chief Financial Officer Jim Monroe presented the FY 2014 PERSI expense reports, an update on FY 2014 audit services provided by Eide Bailly, LLP, and a report on out-of-state travel and training.

FY 2016 Preliminary Budget Proposal: 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.

Adjournment: There being no further business to come before the Board, meeting adjourned at 10:55 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman