



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., May 20, 2014. The following members were present:

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

Trustee Jeff Cilek was absent and excused. 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 Jess Simonds were also in attendance. Other persons attending portions of the meeting were:

Eoin Gill	BNY Mellon	Bruce Reeder	MPIA
Julie Gschwind	Berkadia	Kaci Guthrie	Xerox
Larry Johnson	EFIB	Robyn Lockett	Legislative Serv.
Casey Macomb	DBF	Andrea Patterson	Courts
Brandon Fitzpatrick	DBF	Mike Mcmillen	M&Co.
Prabhab Banskota	DBF	Debbie Buck	PERSI
Dennis Fltzpatrick	DBF	Kelly Cross	PERSI
Humberto Arechiga	DBF	Diane Kaiser	PERSI
Natalie Peikrishvili	Milliman	Wayne Ellis	PERSI
Mark Olleman	Milliman	Cecile McMonigle	PERSI
Jeff Bradley	Milliman	Mike Young	PERSI
Robert Schmidt	Milliman	Kimberlee Hall	PERSI
Charles Parks	Ret. Fire Fighters	Rose Marie Sawicki	PERSI
Karl Malott	Idaho Fire Chiefs	Cheri Campbell	PERSI

Approval of the Minutes: Chairman Olson remarked that there was an inaccuracy in the March 18, 2014 minutes section titled "GRS Actuarial Review." Chairman Olson stated the minutes ought to be corrected to include that that the GRS audit provided further recommendations including using a smoothing practice and increasing the assumption for further COLAs. Also, Chairman Olson said the minutes ought to be corrected to include that the Board decided to consider, but did not necessarily accept the recommendations. Trustee Sullivan made a motion to approve the minutes of the March 18, 2014 meeting with the changes as advised by Chairman Olson. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Callan Quarterly Update: Greg Allen presented Callan Associate's executive summary of the March 31, 2014 (Q1) performance evaluation of the PERSI fund. Regarding general economic conditions, the executive summary noted that while equity markets failed to match the fourth quarter's performance, the dominating story continued to be major indices in the U.S. which hit record highs. With regard to the total DB program performance, PERSI outperformed its target policy index for the March quarter but trailed the target over the last twelve months.

ID Commercial Mortgage Program Annual Review: On an annual basis, Berkadia Commercial Mortgage performs an in-depth review of the Idaho Commercial Mortgage Program (CMP). Julie Gschwind of Berkadia presented the review which indicated that, as was the case from previous years, the CMP received a clean bill of health and no major revisions or additions to the program were recommended.

In conjunction with Berkadia's annual review of the CMP, Brandon Fitzpatrick from D.B. Fitzpatrick & Co. presented an overview of the CMP and their outlook for the Idaho economy. D.B. Fitzpatrick & Co.'s investment strategy for 2014 was to continue to emphasize high-quality commercial properties, tenants and leases, and personal recourse to borrowers- preferring industrial, medical office, and multiple tenant office space to hotel, retail, and apartments.

Monthly Investment Report: Like the Energizer Bunny, the capital markets just seem to keep going at a moderate, relatively steady pace. The fund as a whole continues to reach new highs, with a current record of \$14,310 billion and also all-time return highs represented by a Net Asset Value price high of \$226.67 per unit (the price used for purchases or sales of our offering in the Choice Plan).

This is with the backdrop of continued moderate US economic growth, but 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.

The U.S. Equity market is up 0.8% for the month to date and over 20% for the fiscal year so far. Developed market equities (EAFE) are up 0.4% for a 21.2% return for the fiscal year, and bonds are up 0.2% for a 3.3% fiscal year to date return. Emerging markets continue their recent outperformance with a 2.1% month to date returns, but lag for the fiscal year to date with 10.2% index returns. TIPS continue to lag the general markets (0.2% for the month and 2.2% for the fiscal year), as does private equity and private real estate.

The fund as a whole is up 0.8% for the month and 13.8% for the fiscal year to date. Donald Smith has had a tremendous recent period of performance, adding to an already good year, with returns of 27.5% for the fiscal year, and 10.3% above benchmark – leading all accounts. A close second is the former leader Bernstein Global, with fiscal year to date returns of 27.1%, which is 6.4% above benchmark.

Recently emerging markets (+13%), REITs (+15%), and private equity (+13%) 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 to date. Consequently PERSI as a whole still lags the general 55% Russell 3000, 15% EAFE, 30% Aggregate reference benchmark for the fiscal year to date, although now at a reduced deficit of -1.5%.

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

DIRECTOR UPDATES

Milliman Experience Study: Milliman Consulting Actuary Jeffrey Bradley submitted a report regarding their investigation of the experience of the PERSI fund over the four-year period from July 1, 2009 to June 30, 2013. The results of this investigation are the basis for recommended changes in actuarial assumptions for the actuarial valuation to be performed as of July 1, 2014. Milliman recommended that the Board consider updating the setbacks used in adjusting the standard mortality tables to better reflect historical and expected mortality experience. Specifically, Milliman recommended changing the mortality assumption for “general males” by increasing the setback from zero years to one year and for “disabled females” by reducing the set forward from two years to one year. Milliman did not recommend a change of economic assumptions. In terms of the impact the new assumptions would have had on the July 1, 2013 valuation results- the recommended mortality assumption changes would increase the amortization period by 0.7 years. Upon consideration by the Board, Trustee Deal made a motion to accept the recommended changes to the mortality assumptions. Trustee Fisher seconded that motion, which passed unanimously.

Executive Director’s Update: Director Don Drum gave an update on his employer education efforts in regards to GASB 67 and 68 and noted that by the end of June, PERSI will have contacted all PERSI employers in that regard. Director Drum also commented on meetings that have occurred regarding the Firefighters’ Retirement Fund (FRF) involving PERSI representatives, employer members, and other interested parties. He noted that in the summer and fall of 2013, some FRF employers were inquiring about the funded status of the FRF fund and the possibility of when the FRF fund may no longer require the 17.24% excess contribution rate. Director Drum summarized recent discussions that have now resulted in Milliman actively working on actuarial analysis of four (4) separate funding scenarios to be considered by interested parties and the PERSI Board.

Deputy Director Update: Deputy Director Lisa Steele reviewed the status of the IRIS project. The project remains on-time and on-budget. She then discussed the RFP process for the new imaging system and for the record keeper for the PERSI Choice Plan.

Deputy Director Steele also noted that PERSI is set to take over the administration of the Judges Retirement Fund (JRF) effective July 1, 2014. Regarding the JRF, Chairman Olson noted that the HR Director of the Idaho Judicial Branch, Andrea Patterson, was in attendance. Chairman Olson asked Ms. Patterson what the funding mechanism was for the JRF. Ms. Patterson commented that fees were appropriated from the State’s general fund. Trustee Sullivan followed up by asking if Ms. Patterson considered that appropriation method desirable. Ms. Patterson believed it was desirable. Robyn Lockett, Principal Budget Analyst for the Legislative Services Office, was also in attendance, and commented that appropriation from the general fund resulted in cleaner accounting practices.

LEGAL

Retirement Rules: Deputy Attorney General Joanna Guilfooy presented a Proposed Administrative Rules Form (PARF) and a draft Notice of Rules Promulgation (temporary and proposed) with regard to PERSI Retirement Rules 131 and 132. Ms. Guilfooy stated that staff recommended that the PARF be submitted to the Division of Financial Management, that rule amendments be adopted and published as temporary (effective May 20, 2014) and proposed as set forth in the attached noticed, and that the rules also be adopted as pending rules, conditioned on no comments being received by the comment deadline. Upon consideration by the Board, Trustee Sullivan made a motion to accept the recommendations. Trustee Deal seconded the motion, which passed unanimously.

Judge's Retirement Fund Rules: Deputy Attorney General Joanna Guilfooy also presented a draft copy of the notice to promulgate the Rules Governing the Judges' Retirement Fund as both temporary (effective July 1, 2014) and proposed (which contains the proposed rules). Ms. Guilfooy stated that staff recommended that as of/effective July 1, 2014, the rules be adopted and published as temporary and proposed as set forth in the notice, and also that the rules be adopted as pending rules, conditioned on no comments being received by the comment deadline. Upon consideration by the Board, Trustee Fisher made a motion to accept the recommendations. Trustee Deal seconded the motion, which passed unanimously.

FISCAL

Fiscal Update, Expense Reports, and Quarterly Financial Statements: Jim Monroe, PERSI Financial Officer, presented PERSI's year-to-date expense reports for both the Administrative and Portfolio funds. The reports cover July through April- ten months of FY 2014. Mr. Monroe also presented the PERSI quarterly financial statements which are accrual based statements covering the fiscal year to date through March 31, 2014, and reflect the financial position of PERSI's trust funds including the Base, Choice and Sick Leave Funds.

Before going into Executive Session Chairman Olson asked for any questions or comments from the audience. Karl Malott, Idaho Fire Chiefs Association, commented that he believed Firefighters' Retirement Fund employers were moving in a positive direction on reaching consensus on contribution rate change ideas.

EXECUTIVE SESSION

Citing Idaho Code 67-2345(1)(b) Trustee Fisher made a motion to go into executive session. The motion was seconded by Trustee Sullivan and was 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 11:37 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman