



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., October 21, 2014. The following members were present:

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

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

Bruce Reeder	MPIA	Robert Schmidt	Milliman
Rod MacKinnon	MPIA	Jeff Bradley	Milliman
Bill Palumbo	MPIA	Mary Lou Taylor	REAI
Matthew Keenan	IFF	James Coleman	REAI
Larry Johnson	EFIB	Pat Gittings	PERSI
Lee Miller	Eide Bailly	Cheri Campbell	PERSI
Brad Berls	Eide Bailly	Kelly Cross	PERSI
Casey Macomb	DBF	Diane Kaiser	PERSI
Karl Malott	Idaho Fire Chiefs	Melody Hodges	PERSI
Bobbi Jo Anderson	REA	Cecile McMonigle	PERSI
Pammella Heisler	REA	Mike Young	PERSI
Connie Bunch	REA	Erin Duran	PERSI
Chris Brechbuhler	Clearwater	Rose Marie Sawicki	PERSI
Doug Bates	Clearwater		

Amended Agenda: Trustee Fisher made a motion to amend the agenda to include a request for a final decision on the appeal of the Director's decision by Robert Elgee, which was inadvertently omitted from the agenda. Trustee Deal seconded the motion, which passed unanimously.

Approval of the Minutes: Chairman Olson requested a change in the minutes of the September 16, 2014 meeting in the 'Preliminary Actuarial Valuation- Milliman' section to correctly represent that the PERSI Board had not granted more than a 1% COLA since 2007. Trustee Deal made a motion to approve the minutes of the September 16, 2014 meeting based on Chairman Olson's change. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: The correction from last month continues, driving equity and fund returns lower for the month to date. After hitting new highs shortly after Labor Day (the S&P 500 breaking 2000 was the most notable event), the rest of the month has shown steady deterioration, with the S&P 500 around 7.5% (A 10% drop is generally considered a correction). Somewhat counter-intuitively, the basic cause appears to be the relative strength of the U.S. economy, with a steadily improving labor market, good corporate earnings, and a slowly improving manufacturing and service sector. This contrasted sharply with an increasingly deteriorating Europe, a moribund Japan, and continuing signs of decline in China. As a result, the U.S. dollar rose sharply, led by continued expectations of earlier than previously expected Fed tightening, and faster and greater easing in Europe and Japan. U.S. yields rose in September then declined in October, and particularly real yields in the TIPS market. With expected increasing US yields and feared European declines, the emerging markets and REIT markets reversed their earlier course, and collapsed as September progressed (the emerging market economies are more dependent on Europe and China than the US). October has seen overseas economic fears impacting US market and economic expectations. Turmoil and beheadings in the Middle East, a spreading Ebola pandemic, continued Ukrainian tensions, and major demonstrations in Hong Kong certainly didn't add to the background mood. But, with no recession in sight, a prolonged bear market is still unlikely, although a possibly steep correction is in progress. With the exception of a sharp German (and European) decline, most of the worries of the moment are of secondary economic and fundamental market impact

Thus after a September U.S. equity market drop of -2.1%, October has seen an additional -4.1% slide. International developed markets (EAFE) dropped another -5.9%, and emerging markets, after collapsing by -7.4% in September, have dropped another -2.8%. Fixed income rebounded +1.5%, as did TIPS (+1.8%) and REITS (+4.1%). The fund as a whole lost -2.4% in September and has dropped another -1.9% in October, bringing fiscal year to date returns to a negative -3.1% (although the calendar year is still +3.6%). The fund is now at \$14.266 billion.

In relative terms, due primarily to positive private equity, private real estate, and REITs returns, the fund is ahead of the 55% Russell 3000, 15% EAFE, and 30% Barclay's Aggregate reference benchmark (55-15-30) by +0.4%. Private equity, with +4.6% returns and private real estate, with +2.2% returns, are the best performing accounts for the fiscal year to date. Mondrian, at -11.9%, is the worst. Private equity and Mountain Pacific are leading in relative returns to their benchmarks, while Genesis Emerging lags the most.

Choice Plan Investment Options – Callan: Ann Posey of Callan presented recommendations regarding the Choice Plan. The PERSI Staff recommended Board approval of Callan's recommendation to utilize Mellon Capital Management (MCM) collective trusts (instead of mutual funds) to implement the addition of the three index funds (REITs, Emerging Markets, and TIPS) approved at the February 18th Board meeting. Trustee Fisher made a motion to approve 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

PERSI Actuarial Valuation Adoption– Milliman: Jeff Bradley and Robert Schmidt of Milliman presented the final actuarial valuation for the PERSI fund, the Firefighters' Retirement Fund (FRF), and the Judges Retirement Fund (JRF) as of July 1, 2014. The results presented at the previous Board meeting were very accurate with the only change mentioned related to the funding ratio of the FRF and JRF which actually increased due to the Board's COLA decision. Taking into account

the decision of the Board regarding mandatory, discretionary, and retroactive COLAs and the decision on the cancellation of future rate increases, Milliman reports the FY 14 year end funded ratio of the PERSI fund to be 92.9% with an amortization period of 11.6 years. Trustee Deal made a motion to accept the valuation for FY 14. Trustee Cilek seconded the motion, which passed unanimously.

Executive Director Status Update: Executive Director Don Drum updated the Board on the national meetings he attended- the NASRA Executive Committee, and as a panel member on GASB communication at the NCTR annual conference. Mr. Drum reported that PERSI's approach to communicating with employers on issues related to the new GASB standards is being considered a model for other pension systems. On a separate topic, Mr. Drum commented that he continues to meet with Legislators who seem pleased with PERSI but continue to inquire about lobbyists in PERSI.

New Employer – Hauser Lake Fire District: Mr. Drum presented the staff recommended that the Board approve the admittance of Hauser Lake Fire Protection District with an entry date of November 1, 2014. Trustee Fisher made a motion to accept the staff recommendation. Trustee Cilek seconded the motion, which passed unanimously.

Appeal of Director Decision – Robert Elgee: Deputy Attorney General Joanna Guilfooy outlined and answered questions related to the history of this issue of Judge Elgee's eligibility to receive PERSI retirement. Trustee Deal made a motion to accept the staff recommendation that the Board affirm the decision of staff and the Director regarding Judge Elgee's eligibility to receive PERSI retirement. Trustee Fisher seconded the motion, which passed unanimously.

2015 Board Meeting Dates: The Board discussed meeting dates for 2015, and tentatively decided on a schedule. Chairman Olson directed Jess Simonds to circulate those dates via email for further discussion.

Deputy Director Update: PERSI Deputy Director Lisa Steele provided the Board an update on the IRIS Project, the Disability RFP and transition, and the Choice Plan transition.

FISCAL

FY 14 Audited Financial Statements – Eide Bailly: Lee Miller of Eide Bailly reported to the Board that the FY 14 Audit had been completed with a result of a clean and unmodified opinion from Eide Bailly. Mr. Miller noted that this is the first year where GASB 67 came into play. He stated that Eide Bailly encountered no significant difficulties in dealing with management in performing and completing the audit. Mr. Miller presented a recommendation that PERSI evaluate its controls around the disability payment to ensure estimated amounts are trued up within a reasonable period of time. Trustee Fisher made a motion to accept the FY 14 Audit Report. Trustee Deal seconded the motion, which passed unanimously. Trustee Fisher commended the staff for all their efforts on the Audit Report.

Fiscal Update: Financial Officer Jim Monroe presented PERSI's FY 2015 expense reports, commented on the audit services for FY 14 which were completed, and discussed interest rates for CY 2015. Regular interest is the rate credited to PERSI members' accounts- which is 15.04% for CY 2015.

LEGAL

Contribution Rules – FRF – Excess Contribution Rate: Deputy Attorney General Joanna Guilfooy presented the staff recommendation, which was:

1. The Board approve the submission of the PARF (attached in their Board materials).

2. The Board adopt the temporary rule change reducing the Excess Merger Cost rate from 17.24% to 5% and that the rule be adopted and published as temporary as set forth in the notice (after receipt of the approved PARF).
3. The Board adopt the change as a proposed rule and that it be published as proposed (after moratorium); and
4. That the rule change also be adopted as pending, conditioned on no comments being received by the comment deadline. (If comments are received, they can be considered at a subsequent Board meeting).

Trustee Deal made a motion to accept the staff recommendation. Trustee Fisher seconded the motion, which passed unanimously.

Contribution Rules – PERSI – Eliminate Contribution Rate Increases: Deputy Attorney General Joanna Guilfooy presented the staff recommendation which was:

1. With regard to the existing temporary and pending rule, the Board approve the notice of rescission of the temporary rule and authorize the Director to request the Legislature to reject the pending rule.
2. With regard to the elimination of the rate increases, the Board
 - a. Approve the submission of the PARF
 - b. The temporary rule eliminating the rate increases be adopted and published as set forth in the notice (upon receipt of the approved PARF)
 - c. The Board adopt the change as a proposed rule and that it be published as proposed (after moratorium); and
 - d. That the rule change also be adopted as pending, conditioned on no comments being received by the comment deadline. (If comments are received, they can be considered at the subsequent Board meeting).

Trustee Fisher made a motion to accept the staff recommendation. Trustee Deal seconded the motion, which passed unanimously.

Executive Session

Citing Idaho Code 67-2345(1)(b), Trustee Deal made a motion to go into executive session. The motion was seconded by Trustee Cilek and approved unanimously via roll call vote. During the executive session the annual performance evaluation for Bob Maynard was discussed. Trustee Deal made a motion to give Mr. Maynard a \$50,000 annual bonus and a 4% salary increase going forward. The motion was seconded by Trustee Cilek and approved unanimously.

Adjournment: There being no further business to come before the Board, meeting adjourned at 10:36 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman