



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., September 16, 2014. The following members were present:

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

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:

Robin Nettinga	IEA	Bruce Reeder	MPIA
Laurel Fritz	EFIB	Rod MacKinnon	MPIA
Larry Johnson	EFIB	Bill Palumbo	MPIA
Karen Zatkulak	KTVB	Matt Keenan	Idaho Reporter
Scott Logan	KBOI	Dustin Hurst	Idaho Reporter
Robyn Lockett	Legislative Serv.	Tom Lovell	PFFI
Tony Wilkins	BNY Mellon	Brad Berls	Eide Bailly
Casey Macomb	DBF	Bobbi Jo Anderson	REA
Brandon Fitzpatrick	DBF	Mary Lou Taylor	REA
Prabhab Banskota	DBF	James Coleman	REAL
Amber Pence	Boise City	Pat Gittings	PERSI
Dennis Doan	Boise Fire	Mike Mitchell	PERSI
Karl Malott	Idaho Fire Chiefs	Debbie Buck	PERSI
Chris Brechbuhler	Clearwater	Kelly Cross	PERSI
Dave Boren	Clearwater	Diane Kaiser	PERSI
Bret Linton	Milliman	Melody Hodges	PERSI
Mark Olleman	Milliman	Cecile McMonigle	PERSI
Jeff Bradley	Milliman	Mike Young	PERSI
Robert Schmidt	Milliman	Kimberlee Hall	PERSI
J. Doherty	State Street	Rose Marie Sawicki	PERSI
Nick Bonn	State Street		

Approval of the Minutes: Trustee Deal made a motion to approve the minutes of the August 19, 2014 meeting as written. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: The capital markets so far this fiscal year continue to wander, with the month to date down slightly after hitting new highs right after Labor Day (S&P 500 breaking 2000 was a particularly noteworthy benchmark). Good corporate earnings combined with a steadily improving U.S. economy supports the US capital markets, while fears of Fed tightening occurring sooner than expected and healthy valuations appear to limit any market rise. Europe (with the exception of the UK) and Japan still appear to be taking economic steps backward (with the ECB now taking some extraordinary measures to stimulate the economy), and China's economic outlook is still mixed. The international political scene still appears chaotic, led by the Ukraine and the Arab world (ISIL in particular), although so far the disturbances have been confined to areas of marginal economic impact. With no recession in sight, a bear market looks unlikely, but the rapid advances of last year also appear to be over. Median to moderate returns are expected over the next few years.

As a result, U.S. equity markets are off slightly this month (-0.7%) but remain positive for the new fiscal year to date (+1.4%). International developed markets, on the other hand, are having a tough time, and are down for the month (-0.9%) and the fiscal year to date (-3.0%). With the recent rise in yields, fixed income is now negative for the month (-0.6%) and is only slightly positive for the fiscal year to date (+0.2%).

Consequently, the fund as a whole is down moderately for the month (-0.6%) but continues to be positive for the fiscal year to date (+0.7%) at \$14.832 billion (hovering near all time highs set on September 3rd and August 27th).

In relative terms, the fund continues to outpace the 55% Russell 3000, 15% EAFE, and 30% Barclay's Aggregate reference benchmark (55-15-30) by +0.3%. This has been led by the emerging markets (+4.4%) and REITs (+2.9%) outperforming the S&P 500 (+1.8%). Private equity, unusually, is also contributing early to overall outperformance, with a return of 2.4% for the fiscal year to date.

For individual active accounts, Adelante, Bernstein Emerging, and Peregrine have the best absolute returns, while Donald Smith, Mountain Pacific, and, for the first time in quite some time, Zesiger 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

PERSI Preliminary Actuarial Valuation – Milliman: Jeff Bradley and Robert Schmidt of Milliman presented the preliminary actuarial valuation for the PERSI fund, the Firefighters' Retirement Fund (FRF), and the Judges Retirement Fund (JRF) as of July 1, 2014. The PERSI fund preliminary valuation shows that PERSI has 66,223 contributing active members (increase of 688 from 2013), 40,776 receiving benefits (increase of 1829 from 2013), 11,504 vested terminated members, and 16,769 non-vested terminated members, for a total of 135,272 total members. The actuarial accrued liability (UAAL) is \$14,736.5 million and actuarial value of assets is \$13,833.1 million, making an unfunded actuarial accrued liability of \$903.4 million, and resulting in a funding ratio of 93.9% and amortization period of 5.5 years. Milliman pointed out that the cost of a 1% Cost of Living Adjustment (COLA) for the current year has gone up to just under \$80 million, but has gone

down as a percentage of assets from the previous two years to under .6%. It was also noted that the PERSI Board has not granted more than a 1% COLA since 2007.

Regarding the FRF preliminary valuation, Milliman reported, as of July 1, 2014, a funded ratio of 110.9% stemming from the actuarial value of assets being \$34.5 million higher than the actuarial accrued liability.

On the JRF preliminary valuation, Milliman reported, as of July 1, 2014, a funded ratio of 81.28%.

Executive Director Status Update: Executive Director Don Drum began by highlighting the Firefighters' Retirement Fund (FRF) preliminary actuarial valuation by noting that the funded status (110.9%) was above the threshold that the Board discussed last month as being a potentially appropriate level for a reduction in the employer excess contribution rate (currently 17.24%). Director Drum noted that PERSI would continue to ask Milliman to produce annual valuations on the FRF and Milliman would use 3 year smoothing to protect against volatility creating ongoing adjustments to the rates.

Director Drum then shifted to the preliminary actuarial results as of July 1, 2014 for the PERSI Fund. He noted that asset values are around all-time highs and that the UAAL has dropped from over \$2 billion to an estimated \$910 million in the past fiscal year. He noted two major decision points that the Board could tackle, which were implementing, postponing, decreasing, or eliminating the rate increases, and whether or not to grant additional COLA above the mandatory 1%. Director Drum commented that there was normally very little change between the preliminary valuation and the final valuation which would be available next month.

Firefighters' Retirement Fund Discussion: The Board considered options regarding the funding mechanisms of the FRF. Trustee Cilek asked Director Drum if the Fire Insurance Premium Tax (FIPT), which is a funding mechanism, would stay or go away, to which Director Drum commented that the State Legislature could change because the formula is in statute. Director Drum noted that the FIPT % contribution has gone down since PERSI took over the FRF, but the employer contribution % has remained the same. Trustee Deal commented that the FIPT is based on a percentage of the premium tax collected and that the Legislature probably wouldn't deal with it.

Trustee Deal asked Director Drum why the decision was made to base Milliman's actuarial analysis on reducing the Excess Contribution Rate to 5%, as opposed to a different number. Director Drum commented that the PERSI staff had been working through this issue with employers for at least 3 years, and as they looked at Milliman models, it seemed reasonable that 5% was a balance between too much risk for potentially having to increase the rate in the future and continually overfunding the FRF. Trustee Cilek noted that in his mind, the obvious gray areas on this decision are the FIPT tax and, of course, investment returns.

At the conclusion of the discussion, Trustee Cilek made a motion to accept the staff recommendation regarding the FRF fund to lower the Employer Excess Contribution Rate from 17.24% to 5%, using a 3-year asset smoothing model, effective for pay cycles beginning on or after January 1, 2015. Trustee Fisher seconded the motion, which passed unanimously.

COLA/Contribution Rate Discussion: Director Drum began the discussion on potential Board actions by noting that PERSI's 5 year investment return is around 12% which is considerably larger than was expected back in 2008-09 when most of the 'talk' was about the "new normal". He said that when the amortization period necessitated PERSI Board action during the recession, the Board proposed contribution rate increases- one of which has already gone into effect. Unless the Board acted, 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. He said the Board

could make a decision today to keep, eliminate, change, or reduce the rate increases. On COLA's, Director Drum noted that in 2007, retirees were 100% whole but that the Board has not given a discretionary or retroactive COLA in 6 years. Importantly, Director Drum said Milliman was projecting a CPI-U of 2%, which, if accurate, would allow the Board to consider up to a 1% discretionary COLA on top of the mandatory 1% COLA. Also, the Board could consider granting a retroactive COLA in the amount of some or all of 6.05%- the full amount of the increase in CPI-U over time not covered by discretionary COLA's. Director Drum also said that one of the goals of the Board was to keep retirees with 100% purchasing power, and also added that in FY 14, the PERSI fund made \$1.9 billion above the comparative dollar amount of the discount rate.

Chairman Olson asked the Board if they were more prepared for a decision on contribution rates. Trustee Fisher commented that she would like to give employees and employers certainty on their contribution rates. Trustee Deal noted that they could always reinstate the contribution rate increase in future years if needed.

Trustee Fisher made a motion to eliminate the contribution rate increases. Trustee Deal seconded the motion, which passed unanimously.

Regarding COLA's, Trustee Sullivan commented that the Board was building up on carrying retroactive COLA's to the next year. Trustee Fisher stated that she would like to grant a discretionary COLA. Trustee Cilek stated he would prefer a "diet" COLA. Trustee Deal asked Director Drum to explain the cost of a potential 2, 3 and 4 percent COLA. Director Drum explained that the mandatory 1% COLA and potential total 1% discretionary COLA (based on the projected 2% CPI-U) each cost around \$80 million. He also explained that retroactive COLA's, if granted, would be given based on furthest date previous where the full discretionary COLA was not granted (which could be 1.92% for retirees prior to July 1, 2008 and differing amounts up to the current date), but that the total cost would be less than the current cost of a COLA. Importantly, Director Drum noted that by statute, any COLA decision would have to be contingent on the adoption of the final valuation next month, and would also depend on the actual CPI-U number which would not be known till the next week.

Trustee Cilek commented that he could get to the mandatory 1% COLA plus a 2% discretionary COLA contingent on the valuation and CPI-U. Trustee Sullivan stated that he has never been a COLA person, but in the last 10 years he had learned to cope with the idea given the economic and investment environments. He continued by saying he was not uncomfortable going to a 4% total COLA because PERSI had the opportunity and he didn't know how long it would last. Trustee Fisher said she would like to get the 2008 retroactive COLA off the table. Trustee Deal said he was comfortable with a 3% total COLA.

Trustee Sullivan made a motion to adopt a 4% total COLA contingent on the final valuation. Trustee Fisher seconded the motion. The motion was put to roll call vote. Trustee Sullivan, Trustee Fisher, and Chairman Olson voted "yes" to accept the motion, while Trustees Cilek and Deal voted "no". The motion passed by a majority 3-2 vote.

Deputy Director Update: PERSI Deputy Director Lisa Steele provided the Board an update on the IRIS project and specifically introduced PERSI's new Project Manager- Pat Gittings. The Board raised concerns about IRIS project issues and specifically requested to continue to be updated on issues with the State Controller's Office regarding their responsibility to report financial information to PERSI. Deputy Director Steele then introduced PERSI's new Training Manager- Melody Hodges. Next, an update on the Disability RFP was provided. MMRo was the successful respondent to begin as the new third party administrator. This is a change from the current administrator- URS.

Record Keeper Service Contract: Deputy Director Steele outlined the PERSI Choice 401(k) Plan Recordkeeper RFP result, and presented to the Board that the PERSI staff recommendation, based on the RFP process, was to recommend the Board enter into a new contract with Great-West for DC recordkeeping services for the PERSI Choice 401(k) Plan. Also, staff recommended that the Board elect to use a dedicated representative(s) and assess loan transaction fees separately. Also, it was noted that based on the search process and understanding of PERSI's goals and criteria, that Callan supports these recommendations. Deputy Director Steele noted that if the Board were to approve the recommendation to hire Great-West, the next steps in the process include notifying the candidates, establishing a transition timeline, signing and formalizing the contract and fees, and converting the data. Trustee Sullivan asked if the previous recordkeeper, Xerox, bid on the process and if their bid resulted in enough differentiation. Deputy Director Steele noted that there was significant differentiation and Financial Officer Jim Monroe commented that there were two finalists that graded better than Xerox.

Trustee Deal made a motion to accept the staff recommendation for the Board to enter into a new contract with Great-West for DC recordkeeping services for the PERSI Choice 401(k) Plan. Trustee Cilek seconded the motion, which passed unanimously.

FISCAL

Fiscal Update: Financial Officer Jim Monroe presented PERSI's FY 2015 expense reports, commented on the audit services for FY 14 which was going well, and added that the 2016 budget request was submitted on time to DFM and LSO.

At the conclusion of the meeting, Chairman Olson recognized Debbie Buck for her over 20-years service to PERSI and announced her imminent departure for to the Department of Lands where she will serve as their Financial Officer.

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