



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., April 21, 2015. The following members were present:

- Jody Olson
- Kirk Sullivan
- Jeff Cilek
- Joy Fisher
- Celia Gould

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:

Julie Gschwind	Berkadia	Jeff Bradley	Milliman
Prabhab Banskota	DBFitzpatrick	Mark Olleman	Milliman
Greg Kahler	DBFitzpatrick	Brad Berls	Eide Bailly
Humberto Arechiga	DBFitzpatrick	Larry Johnson	EFIB
Brandon Fitzpatrick	DBFitzpatrick	Mike Mitchell	PERSI
Dennis Fitzpatrick	DBFitzpatrick	Melody Hodges	PERSI
Michael Byrne	AEW	Rose Marie Sawicki	PERSI
Robert Plumb	AEW	Cecile McMonigle	PERSI
Bob Norberg	AEW	Kelly Cross	PERSI
Susan Marshall	Barings	Shasta Luper	PERSI
Kerrisha Jenkins	Clarion Partners	Andrea Colglazier	PERSI
Chris Brechbuhler	Clearwater	Deanna Ross	PERSI
Tim Dunn	Clearwater	Dusty Schild	PERSI
Bill Palumbo	MPIA	Pat Gittings	PERSI
Rod MacKinnon	MPIA	Linda Parker	PERSI
Bruce Reeder	MPIA	Diane Kaiser	PERSI

Amended Agenda: Chairman Olson stated that the PERSI staff requested the addition of an agenda item because it was unintentionally left-off the publicly posted agenda. This item, titled "Signature Authorization," required Board signatures for execution and filing in internal records. Trustee Cilek made a motion to allow the additional agenda item and to accept the amended agenda. Trustee Fisher seconded the motion, which passed unanimously.

Approval of the Minutes: Upon review of the draft minutes from the March 24, 2015 meeting, Chairman Olson requested an addition in the section titled "FRF COLA". Chairman Olson directed staff to add what was stated in the meeting which was that the Board was comfortable from a legal standpoint that PERSI was administering the FRF COLA correctly. This was in addition to the statement made by Chairman Olson that that Board was comfortable with the administrative procedure from a fairness standpoint. With the direction to the PERSI staff to make this change in the official record, Trustee Sullivan made a motion to accept the minutes from the March 24, 2015 meeting. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Real Estate Update – AEW: Michael Byrne and Robert Plumb from AEW gave the Board an overview of the real estate market. In summary, U.S. property yield remains attractive globally and yields are 400-500 basis points higher than government bond yields in Germany and Japan. However, property yields were near all-time lows as near-term cap rate expansion will be limited by strong capital in-flows and the generally low yield environment around the globe. The one-year performance of the PERSI real estate portfolio was 15.59% net. The major goals moving forward in 2015 were to increase investment performance through improved property operations, strategic property sales, and focused reinvestment of capital.

Real Estate Review – Callan: Sally Haskins of Callan presented their oversight review of AEW which focused on AEW organization, AEW's PERSI portfolio team, and performance/achievement of program objectives. They found that AEW is a stable and growing organization, that the team assigned to PERSI has significant breadth, experience, and tenure, that the PERSI relationship is meaningful for AEW, and that AEW has met the initial objectives of the program with a few minor exceptions which are largely related to timing. Callan recommended that PERSI maintain its relationship with AEW.

Idaho Commercial Mortgage Program Review: Julie Schwind of Berkadia presented their annual in-depth review of the Idaho Commercial Mortgage Program (CMP) which is run by DBFitzpatrick. All aspects of the program were reviewed, including the servicing component, surveying of loan recipients, an analysis of fees, and comparisons with industry trends. Ms. Schwind stated that PERSI's CMP performance equals or exceeds current industry standards. This has been Berkadia's finding in previous years, and subsequent improvements in portfolio administration have strengthened the CMP's loan quality and management operational capacity.

Brandon Fitzpatrick of DBFitzpatrick (DBF) followed Ms. Schwind's presentation by summarizing DBF's portfolio performance over the last year. DBF had \$47 million of originations in 2014 and was expecting \$80 million in 2015 with a low level of problem assets. Mr. Fitzpatrick stated that the long-term investment objective was to achieve total rate of return for the Idaho Mortgage Program in excess of the Barclays U.S. MBS and Barclays U.S. Aggregate Indices, subject to an acceptable level of investment risk. When asked by Trustee Sullivan how Idaho communities know about DBF, Mr. Fitzpatrick said that the most common ways were through brokers, word of mouth, and reputation. Chief Investment Officer Bob Maynard commented that PERSI is pleased with the stability and evolution of DBF and with the longstanding relationship.

Monthly Investment Report: April continues the meandering upward markets that have characterized the past few months. The same factors appear to be driving the markets of this calendar year: the impacts of an extremely cold winter, a soaring dollar, and the recent collapse of oil. The cold winter produced a run of economic data that disappointed previous expectations and now has lowered corporate earnings expectations. The increasingly disparate policies between the central banks of the world (US expected to tighten, the rest of the world loosening) has kept the U.S. dollar at the heights to which it soared in the past weeks. These events came on the heels of the recent collapse in oil prices (along with declines in many other commodities). The U.S. stock

market continues to be considered fairly to moderately overvalued by most observers. On the other hand, the US economy and labor market still appears to be generally advancing while the rest of the world economies remain bumping along an apparent bottom with future progress murky and their capital market prospects mixed (at least in U.S. dollar terms – local markets, and particularly emerging markets, have advanced significantly in local currency terms).

As a result, in March the U.S. equity market is up 1.6% so far this month to bring the fiscal year to date return to +8.8%. MSCI EAFE is up 2.9% for the month, lowering the fiscal year to date losses to -1.8%. Bonds are flat so far this month and remain up +3.6% for the fiscal year. Emerging markets have jumped 6.2% this month and are now up 0.3% for the fiscal year, while REITs have retreated a bit from their remarkable rise of the last year, and are down -2.2% for the month but remain up +14.3% for the fiscal year to date. TIPS are up +0.3%% for the month and are down -0.3% for the fiscal year to date.

Overall the fund as a whole is up 1.4% for the month is up +4.7% for the fiscal year to date and remains above \$15 billion at \$15.256 billion - new return and asset level highs.

With the earlier collapse of Europe and the emerging markets, along with TIPS underperformance, the fund is trailing the reference (and US dominated) 55% US equity, 15% EAFE, and 30% US Bond benchmark by -1.0%. Private real estate (+16.1%) is a major contributor for the fiscal year to date – a welcome change from recent years. The Adelante REIT account has the best returns (+18.0%), while the Genesis EM account (-8.3%) has the worst. Longview has the best performance relative to their benchmark (+12.1% returns which is +8.3% over their index), while Donald Smith lags the most (-5.4% returns which is -12.5% to their benchmark index).

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 Choice Plan fee communication and potential future legislation impacting PERSI. Regarding the Choice plan fee member outreach, Director Drum stated that overall PERSI presented to over 1000 members and that the membership was very thankful that the time and effort was taken with the statewide meetings and webinars to explain the new fees. The few members that expressed concerns seemed to focus or center on the record keeping fees and specifically the tiered structure of these fees.

Director Drum then discussed three proposals that he stated seemed headed toward future legislative discussion:

1. Joint Survivor Benefit enhancement for fire fighters.
2. Enhanced benefit for Magistrates.
3. A Defined Contribution (DC) option be provided to new PERSI members (i.e. new members be allowed to opt out of the Defined Benefit Plan (DB)).

Trustee Gould asked Director Drum what the position the Executive Director and the Board take or has taken in the past with regard to legislative proposals. Director Drum stated that PERSI's stance was to provide technical expertise but that if there was a recognizable risk to the DB Plan that the Director may need to oppose a proposal. Chairman Olson added that the Board doesn't normally take a position as the Idaho Legislature is the plan sponsor. He stated that legislators are asked to use PERSI staff for technical support. Chairman Olson went on to say that the Board has protected their right to shape investments, and he also added that the Board and past prominent legislators like Phil Batt supported the inclination to have all public employees treated in a similar fashion within the benefit structure.

New Employer: North Snake Ground Water District: Director Drum presented the staff recommendation that the Board approve the admittance of the North Snake Ground Water District with an entry date of May 1, 2015. Trustee Cilek made a motion to accept the staff recommendation. Trustee Gould seconded the motion, which passed unanimously.

Mawson Disability Appeal: Director Drum presented case information with regard to the disability appeal of Susan Mawson which was heard by a hearing officer. The Board was given advanced opportunity to review the case information, and at the meeting was asked to make a decision on the recommendation of the hearing officer. Trustee Sullivan made a motion to issue a final order to accept the Hearing Officer's Recommended Order. Trustee Cilek seconded the motion, which passed unanimously.

Signature Authorization: Director Drum asked the Board for permission to execute an acknowledgement of specimen signatures by the Board members and PERSI executive staff. This was necessitated by the appointment of the newest Board member Celia Gould. Trustee Cilek made a motion for the Board to sign and thus execute the document, which was seconded by Trustee Fisher, passing unanimously.

Deputy Director Update: Deputy Director Lisa Steele provided an update on internal staffing, the IRIS project, and the Choice Plan transition to Empower as the 401(k) recordkeeper which was set to become effective May 1, 2015. With regard to the IRIS project, Deputy Director Steele stated that the development and testing scheduled between the current date and the completion of the project was full.

FISCAL

Fiscal Update/ Expense Reports: Financial Officer Jim Monroe presented the FY 2015 expense reports, the out-of-state travel and training report, information on employee compensation, a GASB 68 update, and a summary of changes within the Choice Plan.

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. During the executive session the annual performance evaluation for Executive Director Don Drum was discussed. Trustee Cilek made a motion to give authority to Chairman Olson to pursue with the Governor's Budget Office a 10% or more merit-based increase to the salary of Executive Director Drum. The motion was seconded by Trustee Fisher and approved unanimously. Chairman Olson brought the Board out of executive session and into regular session at 11:45 a.m.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:45 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman