



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., December 1, 2015. The following members were present:

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

Director Don Drum, 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 all or portions of the meeting were:

Rod MacKinnon	MPIA	Bruce Singkhaophet	Empower
Bruce Reeder	MPIA	Anne Cappel	Empower
Bill Palumbo	MPIA	Lisa Tilley	Empower
James Coleman	REIA	Ali Belden	Empower
Jeff Bradley	Milliman	Connie Bunch	Retired Educators
Robert Schmidt	Milliman	Jay Doherty	State Street
Tim Dunn	Clearwater	Paul Yett	Hamilton Lane
Chris Brechbuhler	Clearwater	Mika Milette	PERSI
Tony Wilkins	BNY Mellon	Mike Mitchell	PERSI
Larry Johnson	EFIB	Deanna Ross	PERSI
Brandon Fitzpatrick	DBFitzpatrick	Pat Gittings	PERSI
Dennis Fitzpatrick	DBFitzpatrick	Kelly Cross	PERSI
Ann Posey	Callan	Cecile McMonigle	PERSI
Greg Allen	Callan	Diane Kaiser	PERSI

Approval of the Minutes: Trustee Cilek made a motion to accept the minutes from the October 20, 2015 meeting and the November 13, 2015 special meeting. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Private Equity Update – Hamilton Lane: Paul Yett of Hamilton Lane presented the “First Half 2015 Private Equity (PE) Portfolio Update. As of June 30, 2015, the PE Portfolio continues to post positive performance with a point-to-point return of 4.90% for the first half of 2015. Mr. Yett stated that the PE portfolio has strong value creation with \$51.7 million in net value gain during the first half of 2015

driven by realized appreciation. The PE Portfolio returns have returned double digits over the 3- and 5-year timeframes and 2015 is on track to be the fifth straight year with annual distributions outweighing contributions. Mr. Yett commented that European and U.S. buyouts are the best place to be investing but that there are no real bargains currently in the market.

Quarterly Portfolio Update – Callan: Greg Allen of Callan presented the 3rd quarter performance summary of the PERSI defined benefit (Total Fund) plan. The Total Fund returned -4.56% for quarter, which outperformed the Policy Target by 23 bps. The value-added came from positive relative returns from active managers, specifically US Equity, Private Real Estate and REIT managers. Underweight to emerging market and global managers had a positive impact, while the overweight to US equity and underweight to fixed income detracted from total fund results. The Total Fund has returned +5.97% for the ten-year period, trailing the Policy Target return of +6.11% and slightly underperforming the Long-Term Target of +6.07%. Over the ten-year period the managers within each asset class have exceeded their benchmarks, with the only exception being the Private Real Estate portfolio. The PERSI Total Fund ranks above the median (29th) of public funds over the ten-year time horizon. Over the last 20 years, the Total Fund has provided an average annual return of +7.69%, outperforming the Long-Term Target return of +7.3% and ranking in the 27th percentile of public funds.

Monthly Investment Report: After a strong October, November has returned to the wandering markets generally characteristic of the past year and a half as they continue to adjust to the expected upcoming new era of Fed tightening (however slowly) with the rest of the world's central banks continuing to ease monetary conditions. The U.S. continues its slow strengthening of the economy (and particularly the labor market), Europe continues struggling out of the starting gate, Japan bumps along a bottom, and China continues to try and find its floor. Commodities and the emerging markets both continue to weaken in the face of excess supply, moribund demand, and a strong dollar. New waves of terrorist attacks, most notably in Paris, have not had much of an impact on economic or market conditions.

As a result US equities are up +0.6% for the month and are now up +0.7% for the fiscal year to date, developed markets (EAFE) are down -0.8% for the month and are now down -3.9% for the fiscal year, and emerging markets are off -0.5% for the month resulting in a disappointing -12.3% for the fiscal year. REITs dropped -0.7% for the month but are up +8.3% for the fiscal year to date. Bonds slid -0.5% but remain up +0.9% for the fiscal year, while TIPS dropped another -0.3% for a -1.2% return for the fiscal year to date. Private equity remains up +3.0% for the fiscal year, while private real estate shines at +8.2% for the year

Overall, the fund is down -0.1% for the month to date, and is down -0.4% for the fiscal year to date at \$14.773 billion.

With the continuing relative underperformance of the emerging markets and TIPS the fund dropped behind the reference (and US dominated) 55% US equity, 15% EAFE, and 30% US Bond benchmark by -0.8%. Bernstein Emerging markets has the worst performance at -14.8%, and Bernstein Global (with returns of -5.2%) lags its benchmark by -4.1% (with all global managers also behind the World benchmark). Adelante REITs has the best absolute performance at +9.6% so far this fiscal year, and Mountain Pacific has the best public market performance relative to benchmark, with a gain of +3.6% being +8.2% above their midcap benchmark.

Introduction of Investment Policy Update: Chief Investment Officer Bob Maynard stated that with the adoption of the recent actuarial valuation and the completion of the Callan asset/liability study this past fall, it is an appropriate time to again review and update the Board's Investment Policy – which was last reviewed and updated in December of 2013. Board Trustees were given a draft of the amended and updated Board Investment Policy prior to the meeting. The draft changes from the

previous policy are mainly non-substantive or the result of the new numbers from the recent asset allocation study. In between Board meetings, staff will discuss the policy individually with Board members to address individual questions or concerns, and to see if there are any issues that should be addressed by the full Board. Mr. Maynard stated that the goal of the policy is, as before, to provide clear direction with flexibility, and given a lay board and a small staff, to not inappropriately tie down the Board with excessive procedures and hurdles. It covers all points identified by Callan at the Callan seminar held recently in Boise as being needed in a complete investment policy. A final review and formal adoption may occur at the January or February Board meeting.

Investment Advisor Agreements: Investment Officer Richelle Sugiyama presented the staff recommendation which was to authorize the renewal of the Staff Advisor Agreements for Bill Raver (Alban Row), Bob Storer, and Dwight Churchill (Chartwell Consulting LLC) through December 2016 with the same terms as the prior agreement (the agreement was summarized in memo form and distributed to the Board prior to the meeting). The staff recommendation is to authorize the Executive Director to sign the renewal on behalf of the Board. Trustee Cilek made a motion to accept the staff recommendation. Trustee Fisher 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

Executive Director Status Update: Director Don Drum updated the Board on PERSI's Deputy Director recruitment, PERSI internal operations, and on staff training and job-related education plans. Regarding the Deputy Director recruitment, Director Drum stated that the recruitment period ended November 22 and a total of 83 applicants applied for the position. The hiring team led by Director Drum will begin interviews the first few weeks of December and ideally the position will be filled by the first part of January. Regarding internal operations, Director Drum stated that work continues on the IRIS project; PERSI continues to meet the IRIS project timelines, and, as planned, IRIS project staff anticipates a "go-live" date in early April.

New Employer – Ellisport Bay Sewer District: Director Drum presented the staff recommendation that the Board approve the admittance of the Ellisport Bay Sewer District with an entry date of January 1, 2016. Trustee Fisher made a motion to accept the staff recommendation. Trustee Sullivan seconded the motion, which passed unanimously.

Request for Contested Case Hearing – Benjamin Simpson: Director Drum stated that PERSI received a Petition from Benjamin Simpson on November 2, 2015 requesting a contested case hearing upon the Board's Final Decision from August 2015. That Final Decision was to affirm the decision that Benjamin Simpson is not eligible to receive a retroactive retirement to January of 2010 as he was still employed by the State of Idaho. Director Drum presented the staff recommendation that the Board authorize the Executive Director to appoint a hearing officer to hold a contested case hearing and issue a recommended decision to the Board. Trustee Gould made a motion to accept the staff recommendation. Trustee Sullivan seconded the motion, which passed unanimously.

820 Washington Building Update: PERSI Public Information Officer Kelly Cross briefed the Board on the status of the PERSI owned (currently vacant) building which stands next to PERSI's current headquarters. Mr. Cross stated that AEW has identified The Land Group as a local entity to assist in evaluating options for demolishing the current structure and potential new construction on that site.

LEGAL

Rules on Contribution Rates for Judge's Retirement Fund (JRF): Deputy Attorney General Joanna Guilfooy presented the Proposed Administrative Rules Form (PARF) and draft Notice of Rules promulgation (temporary) related to the Board's decision at the October meeting to increase the

contribution rates for the JRF. The decision to raise the contribution rate was in response to the amortization period of the UAAL of the JRF being above the statutory requirement of 25 years or less. The effective date of the rule is December 1, 2015 but the rate increase would become effective July 1, 2017 (see October 20, 2015 minutes for more detail). The staff recommendation is 1. The PARF be submitted to the Division of Financial Management; 2. The rule amendments be adopted and published as temporary (effective December 1, 2015); 3. That the rules be adopted as proposed and, after the legislative session, the rules be published as such; and 4. That the rules 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 Cilek made a motion to accept the staff recommendation. Trustee Fisher seconded the motion, which passed unanimously.

FISCAL

Empower Retirement – Q3 Review: This agenda item was held over for a future meeting.

Fiscal Updates/Expense Reports: Financial Officer Jim Monroe presented the year-to-date expense reports for the Administrative and Portfolio funds. The reports cover the first four months of FY 2016, through October. The year-to-date total actual expense ratio is 35.5 basis points of the average net assets compared to the budgeted ratio of 38.6. Both the budget and actual are below the 50 basis point target ratio due primarily to asset growth relative to the fixed components of expense.

Annual Report: PERSI's recently published Comprehensive Annual Financial Report (CAFR) for FY 2015 was given to the Board. The section layout and data presented is prescribed by GASB, GFOA and GAAP and is the same basic format as in the past. There is an additional report for JRF in the actuarial section as well as required disclosures throughout the other sections.

Quarterly Financial Statements: Financial Officer Jim Monroe presented the first quarter FY 2016 unaudited financial statements.

EXECUTIVE SESSION

Upon conclusion of the regular meeting at 10:30 a.m., Chairman Olson stated the Board would move to Executive Session. Citing Idaho Code 74-206(1)(f), Trustee Sullivan made a motion to go into executive session. The motion was seconded by Trustee Gould and approved unanimously via roll call vote. During the executive session, possible litigation was discussed with legal counsel.

Upon conclusion of the Executive Session, the Board returned to regular session at 11:20 a.m. The Board had discussed pursuing securities litigation outside the United States against Toshiba and Tesco because, under current law, there would be no litigation (class action) in the United States related to losses since the stock at issue was bought on a non-U.S. exchange. Trustee Sullivan made the following motions:

TOSHIBA

1. Authorize Atsumi to file on its behalf in the Toshiba litigation; and
2. Authorize the Executive Director to:
 - a. upon final review/acceptance by legal, sign the retention and other required agreements on behalf of the Board;
 - b. request the Office of the Attorney General issue a special DAG appointment to Atsumi and Sakai; and
 - c. take other steps that are reasonably related and required to move forward in the litigation.

TESCO

1. Authorize Stewarts Law to file on its behalf in the Tesco litigation; and
2. Authorize the Executive Director to:
 - a. upon final review/acceptance by legal, sign the retention agreement and other required agreements on behalf of the Board;

- b. request the Office of the Attorney General issue a special DAG appointment to Stewarts Law; and
- c. take other steps that are reasonably related and required to move forward in the litigation.

Trustee Gould seconded the motions, which passed unanimously.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 11:23 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman