



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 15, 2015. The following members were present:

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

Trustee Fisher was absent and excused. 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:

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|-------------------|------------|---------------------|---------------|
| Mary Lou Taylor | REA - IEA | Josh Harmon | NML |
| Mary Holleron | Member | Larry Johnson | EFIB |
| Pawmella Heisler | Member | Laurel Fritz | EFIB |
| Julianne Ball | Member | Tony Wilkins | BNY Mellon |
| Robin Nettinga | IEA | Brad Berls | Eide Bailly |
| Jeff Bradley | Milliman | Dennis Fitzpatrick | DBFitzpatrick |
| Robert Schmidt | Milliman | Brandon Fitzpatrick | DBFitzpatrick |
| Mark Olleman | Milliman | Andrea Patterson | ID Courts |
| Michael Iacoboni | Milliman | Bruce Singkhaophet | Empower |
| Bret Linton | Milliman | Ali Belden | Empower |
| Robyn Lockett | LSO | Kelly Cross | PERSI |
| Tim Dunn | Clearwater | Deanna Ross | PERSI |
| Chris Brechbuhler | Clearwater | Mike Young | PERSI |
| Bruce Reeder | MPIA | Cecile McMonigle | PERSI |
| Bill Palumbo | MPIA | Rose Marie Sawicki | PERSI |
| Rod MacKinnon | MPIA | Mike Mitchell | PERSI |

Approval of the Minutes: Trustee Gould made a motion to accept the minutes from the August 18, 2015 meeting. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: September has, so far, seen the continuation of the market volatility that began in August. Led by increased worries about China's economy and capital markets, the recent round also parallels signs of tightening in world-wide financial conditions. August saw the markets go from mediocre to worse, with equity markets showing their steepest decline in years and officially

entering “correct ion” mode (defined as a drop of 10% or more from previous highs) for the first time since the Great Recession. September initially saw that downturn continue, but showed signs of at least some partial reversal after Labor Day. Emerging markets continued to decline in conjunction with Chinese and commodity worries. Elsewhere, the developed world economies still appeared to be bumping along, with Europe coming off of a bottom, Japan taking a slight step backwards, and the US continuing its slow growth, with a September Fed rate increase increasingly seen as possible.

As a result, in September the U.S. equity market is flat, and is still down -4.5% for the fiscal year to date, the developed world EAFE index is off -2.6% for the month and now down -7.9% for the fiscal year to date, and the US bond market up +0.1% for the month and up 0.6% for the fiscal year. TIPS are down -0.8% for the month and down -1.3% for the fiscal year. REITs are down -1.2% for the month and are -1.4% for the fiscal year to date, while emerging markets are at the extreme with losses of -3.3% for the month and -18.1% for the fiscal year.

Overall the fund is down -0.5% for the month and is now down -3.7% for the new fiscal year to date, at \$14.322 billion.

With the continuing losses in the emerging markets the fund continues to trail the reference (and US dominated) 55% US equity, 15% EAFE, and 30% US Bond benchmark by -0.2%. Bernstein Emerging markets has the worst performance at -21.3%, which also lags its benchmark by -3.3%. The Western Aggregate account has the best public market absolute performance at +0.9%, while Mountain Pacific has the best performance against their benchmark, with a return of -2.0% which is +3.8% above their benchmark. AEW private real estate still leads all accounts with a return of +7.3% for the fiscal year to date.

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

DIRECTOR UPDATES

PERSI Preliminary Actuarial Valuations – Milliman: Jeff Bradley, Robert Schmidt, and Mark Olleman 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, 2015. The PERSI fund preliminary valuation shows that PERSI has 67,008 contributing active members (increase of 785 from 2014), 42,657 members receiving benefits (increase of 1881 from 2014), 11,859 vested terminated members, and 17,968 non-vested terminated members, for a total of 139,492 total members. The actuarial accrued liability (UAAL) is \$15.5 billion and actuarial value of assets is \$14 billion, making an unfunded actuarial accrued liability of \$1.5 billion, and resulting in a funding ratio of 90.0% and amortization period of 18.5 years. Milliman pointed out that the cost of a 1% Cost of Living Adjustment (COLA) for the current year has gone up to \$85 million which is just above .6% as a percentage of assets.

Regarding the FRF preliminary valuation, Milliman reported, as of July 1, 2015, a funded ratio of 119.6% stemming from the actuarial value of assets being \$59.1 million higher than the actuarial accrued liability.

The JRF preliminary valuation, as reported by Milliman as of July 1, 2015, shows a funded ratio of 78.07% (down from 81.28% for FY14) with an amortization period of 28.9 years.

Executive Director Status Update: Executive Director Don Drum updated the Board on multiple issues. Regarding internal operations, Director Drum said the IRIS project continues to meet the timelines and projects to be completed within the appropriated budget. PERSI has a number of staff who are actively participating in the testing and development of the system. With regard to the status of the fund, Director Drum said that the estimation of PERSI’s valuation for FY15 shows a 90%

funded status which is an approximately 3% drop from the FY14 status of 93%. The Unfunded Actuarial Accrued Liability (UAAL) will have risen to approximately \$1.5 billion. The primary reason for the increase is that investment returns tailed off in May and June. He stated the amortization period for the UAAL will be approximately 19 years and said Idaho Code 59-1322(5) would allow contribution rates to remain the same as last year (i.e. the amortization period is below 25 years). Chairman Olson commented that PERSI employees contribute over 1/3 of the total contributions and asked Director Drum if that was normal for U.S. retirement systems. Director Drum said the employee/employer contribution ratio for PERSI was unusual pre-2007 but that many systems nationally are coming more into line with where PERSI has always been. Chairman Olson commented that the Board intends to make a decision on the COLA/contribution rates at the October meeting and that it would surprise him if the Board gave less than a 1% total COLA. Director Drum noted that the Board will have to take action on the JRF contribution rates because the amortization period is above 25 years. Director Drum finished by informing the Board of PERSI's outreach to Gooding County as they are re-joining PERSI next month. He also discussed his legislative communication and GASB related visits with employers.

FISCAL

Fiscal Update/ Expense Reports: Financial Officer Jim Monroe updated the Board on the 2017 budget request submittal, the FY15 audit services, and the year-to-date expense reports which covered the first two months of FY16. Mr. Monroe noted that the three weeks of audit field work was wrapping up this week and the audited financial statements along with additional detail and note disclosures that make up the financial section of the annual report will be presented at the October meeting.

EXECUTIVE SESSION

Upon conclusion of the regular meeting at 10:00am, Chairman Olson stated the Board would move to Executive Session. Citing Idaho Code 74-206(1)(b), Trustee Sullivan 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 PERSI Chief Investment Officer Bob Maynard was discussed.

Upon conclusion of the Executive Session, the Board returned to regular session at 10:45 a.m. Chairman Olson commented that the Board was very satisfied with the performance of the Chief Investment Officer and the Investment Office in general. The Board intended to award Mr. Maynard a \$50,000 bonus for FY15 portfolio performance. Chairman Olson stated that the Board had commissioned a study by the national performance/compensation consulting and benchmarking firm McLagan Consultants which provided options and recommendations for strengthening PERSI's CIO pay structure. The Board intended to move forward with the McLagan recommendation to move the ongoing (2015-forward) CIO base salary in line with the total 2014 base salary (\$225,118) + 2014 performance bonus (\$50,000). This change would be a change in the pay structure but not total compensation by amount. The Board also intended to award a 5% merit increase ongoing. Trustee Cilek made a motion to award Mr. Maynard a \$50,000 performance bonus based on FY15 portfolio performance, to increase Mr. Maynard's salary to \$275,118, and additionally provide a 5% ongoing merit increase on the new salary rate (a merit increase of \$13,756). Mr. Maynard's base salary beginning October 1, 2015 will be \$288,874. The motion was seconded by Trustee Gould, and approved unanimously by the Board.

Adjournment: There being no further business to come before the Board, meeting adjourned at 10:46 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman