



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 19, 2016. The following members were present:

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

Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, Investment Officer Richelle Sugiyama, Financial Executive Officer Alex Simpson, 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	Sally Haskins	Callan
Tim Dunn	Clearwater	Ann Posey	Callan
Phil Bartlett	Clearwater	Pam Herbst	AEW
Jeff Bradley	Milliman	Mike Byrne	AEW
Mark Olleman	Milliman	Andrea Patterson	ID Supreme Court
Robert Schmidt	Milliman	Andy Snook	AGO
Michael Iacoboni	Milliman	Ali Belden	Empower
Dennis Fitzpatrick	DB Fitzpatrick	Mika Milette	PERSI
Brandon Fitzpatrick	DB Fitzpatrick	Mike Mitchell	PERSI
Casey Macomb	DB Fitzpatrick	Kelly Cross	PERSI
Bill Palumbo	MPIA	Larry Sweat	PERSI
Bruce Reeder	MPIA	Brandon Rigby	PERSI
Kieran Stover	Barings	Cecile McMonigle	PERSI
Susan O'Brien	Barings	Diane Kaiser	PERSI
Susan Marshall	Barings	Rose Marie Sawicki	PERSI

Approval of the Minutes: Trustee Gould made a motion to approve the minutes of the March 15, 2016 meeting and the March 30, 2016 special meeting. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Real Estate Update – Callan: Sally Haskins presented Callan’s performance review of AEW Capital Management. Ms. Haskins stated that AEW exceeded objectives for 2015 but to expect moderating returns in 2016. Callan recommends PERSI continue to retain AEW.

Real Estate Update – AEW: Mike Byrne and Pam Herbst of AEW Capital Management summarized their 2015 performance and updated the Board on their real estate market outlook for the future. During 2015, AEW’s PERSI portfolio investment performance was strong with a calendar year net return of 18.65% (6.35% income, 12.43% appreciation), outperforming the NCREIF Property Index by 615 basis points. Financial performance was also strong in 2015. Net operating income was \$109.5 million, which exceeded budgeted expectations by 2.6%. 2015 same-store net operating income exceeded 2014 by 8.75% (\$8 million). Four (4) new investments were made in 2015 and Q1 2016 with a total equity contribution of approximately \$100 million.

Mr. Byrne stated that global growth remains slow and uneven and year-end U.S. softness was worrying investors and lenders but recent data shows firming growth. Real estate lending markets are pulling back but property fundamentals continue to power ahead. Future return expectations are coming down but it mostly depends on interest rate expectations.

Monthly Investment Report: After a spectacular March that brought PERSI back to the starting line for the fiscal year, the capital markets have wandered around that mark for the first week and a half of April. U.S. equities are up +0.1% to remain down -0.4% for the fiscal year, developed markets are down -0.7% for a -9.3% fiscal year to date return, emerging markets are off a similar -0.6% for a -13.0% fiscal year to date return, bonds are up +0.2% for the month and +4.0% for the fiscal year, and TIPS are off -0.5% and are up +2.0% for the fiscal year. REITs are off -0.3% for the month but lead all public markets for the fiscal year at +15.9%, trailed slightly by private real estate at +15.4%. Private equity is up +2.2% for the fiscal year.

The fund as a whole is down -0.1% for the month and is up +0.1% for the fiscal year to date at \$14.690 billion.

Capital market and economic prospects remain moribund. Fears that a disastrous January was signaling a recession have receded notably: commodity prices have firmed (oil jumped towards \$40), US economic news came in a bit better with slow growth and a strong labor market, and the Fed signaled caution about raising interest rates with other central banks stimulating. On the other hand, corporate earnings remained soft, Asia (both China and Japan) still seem to be seeking a bottom, the UK debates Brexit, and the remainder of the world still battles reduced trade and debt worries. The capital markets seem to continue the range bound behavior that has prevailed since the ending of QEIII in late 2014, and no clear end to the current environment appears in sight.

The relative underperformance of the emerging markets and TIPS have been offset by the relative outperformance of real estate and private equity. As a result, the fund remains slightly ahead of the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark for the fiscal year to date by +0.1%. Bernstein Emerging Markets has the worst performance at -15.4%, and Bernstein Global (with returns of -8.9%) lags its benchmark by -5.4%. The Adelante REIT account has the best absolute performance at +16.8% so far this fiscal year, and Mountain Pacific has the best public market performance relative to benchmark, with a gain of +4.5% being +11.9% above their midcap benchmark.

EXECUTIVE DIRECTOR

Executive Director Status Update: Executive Director Don Drum updated the Board on his presentations to four separate chapters of the Idaho Retired Educators. Mr. Drum also discussed a benefit change proposal being explored by the Professional Fire Fighters of Idaho relative to a

joint and survivor benefit for Class 2 members. Board members commented that benefit increases ought to be fully funded.

Milliman – Economic Assumptions: Mark Olleman of Milliman made an initial presentation on the Active Member Experience and Economic Assumption Study which Milliman was finalizing in preparation for the Board's consideration in subsequent meetings. In summarizing the study, Mr. Olleman stated there are three broad groups of assumptions to review:

1. Active demographic assumptions
 - Milliman would be recommending that PERSI consider small changes that cause an increase of less than 0.1% in the Actuarial Accrued Liability (AAL), with a normal cost rate increase of 0.31% of pay, resulting in a 2.4 year increase in the amortization period.
2. Economic assumptions
 - Milliman would be recommending that PERSI consider changes to the current assumptions, specifically, lowering price inflation from 3.25% to 3.00%
3. Retired mortality assumptions – not studied in 2016

With regard to the price inflation assumption, Trustee Sullivan commented that he thought the Board should have lowered it during the last review cycle.

Mr. Olleman stated that PERSI is on a four-year cycle to review and analyze appropriateness of its actuarial assumptions:

- 2012 Active Demographic and Economic Assumptions
- 2014 Retired Mortality and Economic Assumptions
- 2016 Active Demographic and Economic Assumptions
- 2018 Retired Mortality and Economic Assumptions

Chairman Olson stated that the Board would continue to review the study and consider changes to the actuarial assumptions at subsequent meetings.

New Employer – Water District 67: Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of Water District 67 (Midvale) with an entry date of May 1, 2016. Trustee Fisher made a motion to accept the staff recommendation. Trustee Sullivan seconded the motion, which passed unanimously.

New Employer – South Boundary Fire Protection District: Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of South Boundary Fire Protection District (Naples) with an entry date of May 1, 2016. Trustee Fisher made a motion to accept the staff recommendation. Trustee Sullivan seconded the motion, which passed unanimously.

Signature Authorizations: Executive Director Don Drum presented the staff recommendation that the Board reaffirm the agreement with the individuals designated as authorized signers on specific administrative (fiscal) documents; that current signatures are obtained; and the document be executed. Director Drum commented that this document was last updated in February 2016 but new Financial Executive Officer Alex Simpson has been added as an authorized signer. Trustee Fisher made a motion to accept the staff recommendation. Trustee Gould seconded the motion, which passed unanimously.

Hulse Recommended Order: Executive Director Don Drum stated that the Board was given the materials related to Mr. Hulse's appeal of a final decision by the Hearing Officer which denied application for disability retirement benefits. Director Drum stated the staff recommendation which was issuance of the proposed Final Order adopting the Recommended Order in its entirety.

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

820 Building Update: Public Information Officer Kelly Cross presented options for the Board to consider relative to the old PERSI administration building at 820 Washington St. Mr. Cross stated that at this time the structure is unoccupied, functionally obsolete, and a safety hazard/liability risk and regardless of what ends up in its place, staff recommends demolition of the building. Options to be considered for the site post-demolition include paving for parking or replacing with an office building. The Board briefly discussed options and asked staff to do additional work before a potential Board decision.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on personnel changes, changes in employee compensation, and on the progress of office space expansion into the 4th floor of the Boise headquarters.

FISCAL UPDATE

Fiscal Update / Expense Reports: Financial Officer Jim Monroe updated the board on expense reports for the Administrative and Portfolio funds, quarterly travel and training, and on GASB 68. With regard to GASB 68, Mr. Monroe stated that census testing of member data involving 25 employers had been initiated by the auditors.

EXECUTIVE SESSION

At 10:40 a.m. Chairman Olson stated the Board intended to move to Executive Session in accordance with Idaho Code 74-206(1)(f), to communicate with the Board's legal counsel on the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated. Trustee Cilek made a motion to move into executive session. The motion was seconded by Trustee Gould, and approved unanimously via roll call vote.

Upon conclusion of the Executive Session, Trustee Cilek made a motion to return to the regular session. Trustee Gould seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR

The Board returned to regular session at 11:40 a.m. and members of the public were invited into the boardroom. Chairman Olson stated that during the executive session the Board discussed possible litigation with legal counsel. The Board did not make any decisions after returning to regular session.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:42 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman