



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 6, 2016. The following members were present:

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

Executive Director Don Drum, Deputy Director Michael Hampton, Investment Officer Richelle Sugiyama, Financial Executive Officer Alex Simpson, Deputy Attorney General Cheryl George, and Management Assistant Jess Simonds were also in attendance. Other persons attending all or portions of the meeting were:

Robin Nettinga	IEA	Scott Zanzig	OAG
Sue Wigdorski	IEA	Suzanne Guinard	Courts
Brent Nye	Boise Schools	Rose Marie Sawicki	PERSI
Jim Coleman	Retired Educators	Kelly Cross	PERSI
Connie Bunch	Retired Educators	Larry Sweat	PERSI
Robert Schmidt	Milliman	Eric Carpenter	PERSI
Jeff Bradley	Milliman	Adel Stacy	PERSI
Dennis Fitzpatrick	DB Fitzpatrick	Kelly Rowlands	PERSI
Tim Dunn	Clearwater	Cecile McMonigle	PERSI
Chris Brechbuhler	Clearwater	Theresa Lugo	PERSI
Bruce Reeder	MPIA	Mike Mitchell	PERSI
Bill Palumbo	MPIA	Lisa Conn	PERSI
Anne Cappel	Empower	Diane Kaiser	PERSI

REGULAR SESSION

At 8:30 a.m. Chairman Olson indicated that in accordance with the public notice and agenda, the meeting would begin with an Executive Session.

EXECUTIVE SESSION

At 8:32 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 Fisher, and approved unanimously via roll call vote.

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

REGULAR SESSION

The Board returned to regular session at 8:40 a.m. and members of the public were invited into the boardroom. Chairman Olson stated that during the executive session the Board was updated by legal counsel on Elgee v. PERSI. No decisions were made.

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the October 18, 2016 and October 27, 2016 meetings. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Private Equity Update – Hamilton Lane: Paul Yett of Hamilton Lane presented the first half 2016 private equity (PE) and the private equity market updates. Mr. Yett stated that the PE Portfolio experienced flat performance for the first half of 2016, generating a point-to-point IRR of (0.29%). During the second quarter of 2016, the Portfolio posted a point-to-point IRR of 0.87%. Over the one-year period, the PE Portfolio generated a point-to-point IRR of (2.84%). Negative returns were impacted by two funds, including an energy-focused fund. The net value change declined for the PE Portfolio during the first half of 2016. 43 partnerships generated a positive value gain of \$37.1 million but 31 partnerships reported a net value decline of \$40.0 million. The PE Portfolio was self-funding in the second and third quarters of 2016. In general, the PE market is seeing deal volume stay consistent but value has been volatile. Mr. Yett stated that banks are avoiding highly leveraged deals and lenders are raising standards.

Chairman Olson asked Investment Officer Sugiyama to summarize our PE plan. Ms. Sugiyama stated that PERSI would like the PE fund to be self-funding and we were nearing that point. She said we are sticking with our core partnerships. Chairman Olson asked Mr. Yett what the IPO market looked like. Mr. Yett stated that there has been some action late in calendar year 2016 but he foresaw a slight pause as the political scene in 2017 takes shape.

Quarterly Portfolio Update – Callan: Ann O’Bradovich from Callan Associates updated the Board on the PERSI fund performance in the 3Q 2016. PERSI’s Total Fund return for the quarter was +3.36%, slightly underperforming the Policy Target return of +3.37%. Manager positive value-added of 6 basis points stemmed from the outperformance of Global Equity and Private Real Estate relative to their respective benchmarks. The overweight to U.S. Equity and the underweight to Fixed Income managers added to the relative returns, but the overweight to REITs and the underweight to Emerging Markets and Global Equity detracted. The Total Fund ranked slightly below median (52nd percentile) for the quarter relative to Callan’s Total Public Fund database.

The one-year Total Fund return was 10.31%, outperforming the Policy Target return of 9.85%. The Total Fund ranked in the top quartile (24th percentile) for the fiscal year relative to Callan’s Total Public Fund database. Over the five-year period, the Fund topped the Policy Target return by 24 basis points and ranked in the 58th percentile of Callan’s Total Public Fund database. Ms. O’Bradovich observed that while last year’s return was 10% and the 5 year and 7 year long term target annualized returns were a healthy 11% and 9% respectively, the lower ten year annualized return in the “6’s” was more in-line with Callan’s expectations for the next 10 years. Chairman Olson commented that these positive 3rd quarter results should make the Board more comfortable with the decision to raise rates a total 1.0% effective July 1, 2018. Director Drum stated that while fiscal year 2017 is looking more positive, the short to mid-term return outlook is causing nervousness about the need for more contribution rate increase proposals.

Monthly Investment Report: October continued the trend from the end of September, with markets struggling concerned about central banks easing the momentum of monetary support (with expectations of a December rate hike by the Fed), banking crises in Europe with lingering Brexit uncertainty, slow growth in the US coupled with electoral uncertainty (and last minute controversies), and continuing concerns about Asia. Lowering expectations for corporate earnings growth are also weighing on the capital markets.

As a result the fund as a whole is down -1.4% for the month, reducing the fiscal year to date return to +2.0% (and the calendar year to date return to +6.1%) with assets at \$15.033 billion. U.S. equities are down -2.2% for the month and are +2.1% for the fiscal year, developed markets are -2.0% for the month and are +4.3% for the fiscal year, emerging markets are the best performing asset with month returns of +0.2% and +9.4% for the fiscal year, bonds are down -0.7% for the month and are -0.3% for the fiscal year, and TIPS are down -0.4% and are up +0.6% for the fiscal year to date. REITs are now the worst performing market for the fiscal year to date, having dropped -5.6% for the month and are down -6.8% for the fiscal year, behind private real estate which is up +2.9% for the new fiscal year. Private equity is up +0.6% for the fiscal year to date.

Capital market and economic prospects remain tepid, at best. Commodity prices are fluctuating at moderate or low levels (oil wanders in the upper \$40s), US economic news continues to come in with stumbling slow growth (with weak manufacturing) and a strong labor market. The Fed appears to be preparing for an interest rate hike in December while making more consistent noises of lower “neutral” rates as a longer term objective. Corporate earnings remain soft, Asia (both China and Japan) still seem to be seeking a bottom, and the remainder of the world still battles reduced trade and debt worries.

The fund is ahead of the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by +0.2%, due primarily to emerging markets and TIPS outperformance overcoming the collapse in the REIT markets. Bernstein Emerging has the best return at +11.7% while Peregrine has the best relative performance with returns of +6.9% which is +4.3% above their large cap growth benchmark. With returns of +6.2% Genesis has the worst relative performance at -3.2% behind their emerging market benchmark.

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 2017 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 Sullivan made a motion to accept the staff recommendation. Trustee Cilek seconded the motion, which passed unanimously.

Investment Manager Comments: The Investment Managers who were present shared their opinions and predictions relative to the general market conditions.

EXECUTIVE DIRECTOR

Executive Director Status Update: Executive Director Don Drum updated the Board regarding the issue of funding actuarial work that supports benefit change proposals. He stated that the PERSI benefit has always been a tool that employers use to attract and retain employees, and public employers and associated groups are exploring ways to enhance their ability to attract and retain employees. Legislators and employers are asking if they could make certain changes to benefits and still protect the PERSI fund. Historically when ideas have been presented, PERSI has worked with its actuaries (Milliman) to assess impacts to the fund and potential changes in benefit costs. An assessment can cost a couple thousand dollars – or even upwards of \$40,000 - \$60,000. In 2014, PERSI Management began to question if PERSI should \ could absorb the cost of actuarial

assessment for prospective changes, with the understanding that fund dollars must be spent for the exclusive benefit of all the members of the fund.

Director Drum stated that he is establishing parameters for funding this work and requested Board input. Chairman Olson stated that PERSI are the retirement experts and has resources that these groups do not and therefore we should generally be willing to fund actuarial studies. Regarding the Legislature, Chairman Olson stated that any request from the Legislature is by definition for the benefit of the entire plan because they are the plan sponsor. Director Drum added that it is imperative to obtain an accurate financial impact assessment if a benefit change is being proposed as legislation, so in that light, even a benefit proposal for a certain segment of the membership would benefit and protect all of the members of the fund.

New Employer – Idaho Independent Intergovernmental Authority: Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of the Idaho Independent Intergovernmental Authority (located in Pocatello) with an entry date of January 1, 2017. Trustee Fisher asked how this employer fit within the parameters of a PERSI employer. Director Drum stated that they are funded through the cities that make up the entity i.e. they are an extension of the cities. Trustee Sullivan asked what kind of work this employer does. Director Drum stated that this is essentially a group of cities that pool together to negotiate for health insurance. The employer has one employee. Chairman Olson stated that he would appreciate the staff provide additional information to the Board about the make-up of this employer before the Board made a final decision, and therefore the issue was put-over to the next meeting.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on IRIS and internal operations. He stated that an organizational structure to optimize IRIS abilities has been developed and is currently being implemented. All managers are organizing their respective departments to enhance effectiveness and efficiency. Kelly Cross has been promoted from Public Information Officer (PIO) to Program Manager. His department will incorporate all training, Choice Plan, and PIO functions, and the department will coordinate and standardize the outreach and communication effort. Trustee Sullivan, drawing attention to a recent negative headline about another state pension system, noted PERSI's success and stated that he looks forward to seeing the continuation of PERSI's open, transparent communications.

Choice Plan Investment Options: PERSI Choice 401(k) Plan Manager Diane Kaiser presented the staff recommendation that the Board approve changes to the investment fund lineup in the PERSI Choice 401(k) Plan. These changes were recommended by PERSI's Chief Investment Officer and Investment Officer. The changes are 1.) T. Rowe Price Small Cap Stock Fund: transition from current share class (OTCFX) to the institutional share class (TRSSX) which would result in an investment management fee reduction of approximately 23 basis points; and 2). Brandes Institutional Equity Fund: transition from the current institutional share class (BIEX) to the R6 share class (BIERX) which would result in an investment management fee reduction of approximately 18 basis points. The effective date would be March 1, 2017, which would allow the plan's record keeper sufficient time to implement the changes and communicate the change to the participants. Trustee Fisher made a motion to accept the staff recommendation. Trustee Gould seconded the motion, which passed unanimously.

Choice Plan Q3 Review – Empower Retirement: Anne Cappel of Empower Retirement presented the third quarter 2016 plan review for the Choice 401(k) plan. Ms. Cappel provided an update on plan assets, contributions, participation, distributions, loans, participant services, and field activity. Plan assets were at \$738.32 million as of September 30, 2016, which was a 3.9% increase from July 1, 2016. Contributions totaled \$16.29 million from July 1, 2016 to September 30, 2016. As of June 30, 2016, the plan had 39,462 participants.

LEGAL

Rules on PERSI Contribution Rates: Deputy Attorney General Cheryl George stated that at the October Board meetings, the Board voted to increase contribution rates for the PERSI plan by one percent (1%) based on the results of the most recent actuarial valuation for the period ending June 30, 2016. That contribution rate increase is written to go into effect July 1, 2018 and is reflected in the draft documents provided in the Board packet. Staff recommends that:

1. The ARF be submitted to the Division of Financial Management.
2. The rule amendments be adopted and published as temporary (effective February 1, 2017).
3. That the rules are adopted as proposed and after the legislative session the rules be published as such.
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 Sullivan made a motion to approve the staff recommendation. Trustee Fisher seconded the motion, which passed unanimously.

Hearing Officer Registry: Deputy Attorney General Cheryl George stated that the hearing officer registry, which consists of 6 people, is adequate at this time, and no changes were recommended.

FISCAL UPDATE

Fiscal Update / Expense Reports / Financial Statements: Financial Executive Officer Alex Simpson updated the Board on PERSI's year-to-date expense reports for the Administrative/Portfolio funds and on the quarterly financial statements.

Annual Report: PERSI's recently published Comprehensive Annual Financial Report (CAFR) for FY 2016 was given to the Board. The section layout and data presented in the report is prescribed by GASB, GFOA and GAAP and is the same basic format as in the past.

EXECUTIVE SESSION

At 10:45 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 Gould made a motion to move into executive session. The motion was seconded by Trustee Fisher, and approved unanimously via roll call vote.

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

REGULAR SESSION

The Board returned to regular session at 11:20 a.m. and members of the public were invited into the boardroom. Chairman Olson stated that during the executive session the Board and its legal counsel discussed PERSI filing a motion to seek appointment as lead representative plaintiff in a recently filed class action securities litigation suit against Alexion Pharmaceuticals, Inc. Trustee Gould made a motion to authorize the firm Labaton Sucharow to file a motion seeking lead representative plaintiff on PERSI's behalf, subject to approval by the Idaho Attorney General's Office. Trustee Sullivan seconded the motion, which passed unanimously.

At 12:00 p.m., the meeting reconvened at The Brickyard for a general market discussion with investment advisors.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 2:00 p.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman