



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., January 19, 2016. The following members were present:

- Jody Olson
- Jeff Cilek
- Celia Gould

Trustee Sullivan and Trustee Fisher were absent and excused. Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, Investment Officer Richelle Sugiyama, Financial Officer James Monroe, and Deputy Attorney General Joanna Guilfooy were also in attendance. Other persons attending all or portions of the meeting were:

Connie Bunch	Retired Educators	Andrea Patterson	ID Courts
Mary Lou Taylor	REA-IEA	Rita Foltman	SCO
Mike Boren	Clearwater	Shaun Wilson	SCO
Chris Brechbuhler	Clearwater	Kelly Cross	PERSI
Jeff Bradley	Milliman	Mike Mitchell	PERSI
Pammella Heisler	Member	Rose Marie Sawicki	PERSI
Brandon Fitzpatrick	DB Fitzpatrick	Larry Sweat	PERSI
Dennis Fitzpatrick	DB Fitzpatrick	Tanya Martin	PERSI
Bill Palumbo	MPIA	Brandon Rigby	PERSI
Bruce Reeder	MPIA	Cecile McMonigle	PERSI
Anne Cappel	Empower	Pat Gittings	PERSI
Bruce Singkhaophet	Empower	Diane Kaiser	PERSI
Ali Belden	Empower	Mika Milette	PERSI

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the December 1, 2015 meeting and the December 17, 2015 special meeting. Trustee Gould seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: January has begun terribly – the worst start to a calendar year in history. U.S. Equities have dropped -8.5% in the first weeks, with international markets performing even worse: developed markets dropped -8.8% while emerging markets dropped -10.7%. This continued a disappointing end to the last calendar year, leaving the fund below \$14 billion at \$13.7 billion (far off the high of \$15.4 billion set in April) and with a month to date loss of -5.1% and a fiscal year to date loss of -7.1%.

This collapse is centered around (1) continued disappointing news from China (not helped by apparent missteps by the regulatory authorities); (2) continued steep declines in oil and other commodity prices (with oil now below \$30 a barrel); (3) follow on impacts surrounding the rate increase by the Fed and speculation on the future path of interest rates; and (4) mildly disappointing economic data (although the underlying strength of the US labor market and the slow European recovery still appear intact). The severity of the recent equity market retreat has puzzled many, leading some to worry that this may be one of those times where the equity and commodity markets are “seeing” something that the apparent economic data is missing. On the other hand, the current PE has dropped to 15.7, which is around “normal” for an expansion.

In any event, as a result US equities are down -8.5% for the month and are now down -9.8% for the fiscal year to date. Developed markets (EAFE) are down -8.8% for the month and are now down -14.2% for the fiscal year. Emerging markets continued their collapse and are off -10.7% for the month resulting in a remarkable -26.0% for the fiscal year. REITs are losing -5.1% for the month but are up +5.2% for the fiscal year to date. Bonds rose +1.0% and remain up +1.7% for the fiscal year, while TIPS have risen +0.4% but remain down -1.4% for the fiscal year so far. Private equity remains up +1.9% for the fiscal year, while private real estate shines at +8.8% for the fiscal year to date.

With the continuing relative underperformance of the emerging markets and TIPS the fund remains behind the reference (and US dominated) 55% US equity, 15% EAFE, and 30% US Bond benchmark by -0.4% for the fiscal year to date Bernstein Emerging markets has the worst performance at -28.9%, and Bernstein Global (with returns of -18.1%) lags its benchmark by -6.7% (with all global managers also behind the World benchmark). Private Real Estate has the best absolute performance at +8.8% so far this fiscal year, and Mountain Pacific has the best public market performance relative to benchmark, with a loss of -7.6% being +9.4% above their midcap benchmark.

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

Investment Policy Update: Chief Investment Officer Bob Maynard updated the Board on the current draft of a revised Investment Policy. Draft changes to the Investment Policy were introduced at the December Board meeting and the current draft incorporates comments received to date. The Investments staff will work with the Board on further updates and it’s anticipated that the Board will consider a final adoption at the February meeting. Mr. Maynard commented that there are no major changes to the current policies or processes – the changes have all been in presentation or clarification (and, in many instances, deletions). There have been a few minor substantive changes such as initiating a definite time frame, 5 years, between asset/liability studies, instead of vaguer language. No Board action was taken on this item at the meeting.

DIRECTOR UPDATES

Executive Director Status Update: Executive Director Don Drum updated the Board on multiple items. First, Director Drum introduced PERSI’s new Deputy Director - Michael Hampton. Mr. Hampton comes to PERSI from Commercial Tire, where he was the Vice President/CFO. Mr. Hampton’s duties at Commercial Tire in many ways mirrored the Deputy’s duties here at PERSI. Mr. Hampton’s references stated he has the skill to lead a diverse work force and has a thorough and in-depth understanding of customer service requirements and expectations. Mr. Hampton established a strong fiscal structure at Commercial Tire, hired and led a strong staff, and had very little turnover the last 10 years. Much of the growth and accomplishments of Commercial Tire over the last 16 years were credited to Mr. Hampton’s leadership, ability to work well with a wide variety of professionals, and his strategic vision.

Next, Director Drum updated the Board on the Legislative Session. He stated that he had appeared before the Change in Employee Compensation (CEC) Committee on January 7. The presentation went very well and the Committee only asked two questions: 1) What was the Board's decision regarding the retiree COLA? 2) Does PERSI offer both a 401(k) and a 457 option to State employees? Director Drum added that he expects to be presenting administrative rule changes before the Commerce and Human Resources Committees as soon as the week of January 25-29 and that PERSI's budget presentation before JFAC is scheduled for February 12 at 9am.

Lastly, in following up on his December Board presentation, Director Drum updated the Board on the work which had been done, and which was ongoing, regarding capturing and transferring knowledge and formalizing staff training. He stated that newly hired staff had been going through the onboarding/training skill blocks and the feedback received has been very positive. Director Drum thanked staff for their hard work on this project.

New Employer - City of Hazelton: Director Drum presented the staff recommendation that the Board approve the admittance of the City of Hazelton with an entry date of February 1, 2016. Trustee Cilek made a motion to accept the staff recommendation. Trustee Gould seconded the motion, which passed unanimously.

Schopp Recommended Order: Prior to the meeting, the Board received the pertinent documentation in the appeal of a final decision denying Ms. Schopp's application for disability retirement benefits. Director Drum presented the staff recommendation which was issuance of the proposed Final Order adopting the Recommended Order of the hearing officer with the exception specifically noted therein. Upon consideration, Trustee Cilek made a motion to accept the staff recommendation. Trustee Gould seconded the motion, which passed unanimously.

Petition for Declaratory Order – Idaho Retired Firefighters Association, Sharon Koelling and John Anderson: Several months ago, the Idaho Retired Firefighters Association and several retired firefighters filed a petition for a declaratory judgement with the Industrial Commission about the calculation of the FRF COLA. The Industrial Commission dismissed that Petitioner. The Firefighters Association and two retired firefighters subsequently filed the same document with the PERSI Board seeking a declaration that PERSI has been calculating the COLA incorrectly by including "part-time" firefighters in the calculation.

Director Drum presented the staff recommendation which was for the Board to authorize the initiation of a contested case hearing in this matter; authorize the Executive Director to appoint a hearing officer; and authorize discovery, the scope, timing and other details of which are to be agreed to by the parties or set by the appointed hearing officer. Trustee Cilek made a motion to accept the staff recommendation. Trustee Gould seconded the motion, which passed unanimously.

Fiscal Update: Financial Officer Jim Monroe updated the Board on the professional audit service Request for Proposal (RFP), the year-to-date expense reports for the Administrative and Portfolio funds, the quarterly travel and training reports, and the budget request submitted to the Legislature as recommended by the PERSI and the Governor's budget office.

Adjournment: There being no further business to come before the Board, meeting adjourned at 9:40 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman