



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

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

Trustee Gould was absent and excused. Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, Investment Officer Richelle Sugiyama, Financial Executive Officer Alex Simpson, Deputy Attorney General Joanna Guilfoy, and Management Assistant Jess Simonds were also in attendance. Other persons attending all or portions of the meeting were:

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|---------------------|--------------------|--------------------|------------------|
| Larry Johnson | EFIB | Gideon Tolman | DFM |
| Connie Bunch | Retired Educators | Andrea Patterson | ID Supreme Court |
| Jim Coleman | Retired Educators | Andy Snook | AGO |
| Jeff Bradley | Milliman | Anne Cappel | Empower |
| Robert Schmidt | Milliman | Ali Belden | Empower |
| Brandon Fitzpatrick | DB Fitzpatrick | Paul Martiniello | CEM Benchmarking |
| Prabhab Banskota | DB Fitzpatrick | Tanya Martin | PERSI |
| Bill Palumbo | MPIA | Kelly Cross | PERSI |
| Bruce Reeder | MPIA | Larry Sweat | PERSI |
| Peter J. Schmole | Standard Life Inv. | Brandon Rigby | PERS |
| Richard Lin | Clearwater | Cecile McMonigle | PERSI |
| Chris Brechbuhler | Clearwater | Diane Kaiser | PERSI |
| Robin Nettinga | IEA | Rose Marie Sawicki | PERSI |
| Brent Nye | Boise Schools | Mika Milette | PERSI |

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the June 21, 2016 meeting. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Private Equity Update – Hamilton Lane: Mario Giannini of Hamilton Lane presented their second half 2015 private equity (PE) portfolio update and updated the Board on the PE market in general. The PE Portfolio posted flat performance for the second half of 2015, generating a point-to-point internal rate of return (IRR) of 2.54%. Overall markets were impacted negatively by the energy market. Over the one-year period, the PE Portfolio generated a point-to-point IRR of 2.48%. The

net value change declined for the PE Portfolio during the second half of 2015. 32 partnerships generated a positive value gain of \$23.6 million but 42 partnerships reported a net value decline of \$50.0 million. Strong distributions resulted in cash flow positive PE Portfolio in the second half of 2015. The PE Portfolio was self-funding in every quarter of 2015 and this was the fifth straight year with annual distributions outweighing contributions. Mr. Giannini stated that the PERSI PE portfolio has been trending toward using fewer managers with larger allocations.

Chairman Olson asked Mr. Giannini how PERSI protects its interest if it is moving to larger funds, to which Mr. Giannini stated that Hamilton Lane protects that interest and PERSI is joined by other public funds in these investments which helps push transparency and remove potential conflicts of interest. Chairman Olson also asked if local PE opportunities are still being pursued. Chief Investment Officer Bob Maynard commented that PERSI continues to maintain and pursue successful smaller local and regional partnerships. Trustee Cilek asked the ratio of rejected to accepted PE investments/partnerships. Mr. Giannini replied 10-15 rejections to 1 accepted.

Monthly Investment Report: The unexpected occurrence of Brexit (the UK voting to leave the European Union) caused a temporary collapse of the capital markets as last fiscal year came to a close. The markets recovered as the new fiscal year began, however, with the political chaos in the UK seeming to ease, expressions of support by the UK and European central banks, and also helped a bit by the reelection of Abe in Japan with renewed promises of aggressive stimulus. U.S. equities were up +2.8% for the month and new fiscal year, developed markets were up 1.8%, emerging markets were up +2.5%, bonds were up +0.3%, and TIPS were up +0.5%. REITs were up +2.1% for the start of the month, ahead of private real estate which has not been revaluated this early in the new fiscal year. Private equity is also flat. As a result the fund as a whole not only recovered all losses but hit new all-time return highs with a month (and new fiscal year) to date return of +1.7% and once again edged above \$15 billion at \$15.114 billion.

Capital market and economic prospects remain tepid. Recession fears have disappeared: commodity prices have firmed (oil continues in the mid \$40s), US economic news came in a bit better with slow growth and a strong labor market), the Fed retreated a bit from the likelihood of a summer rate increase, and other central banks continue to stimulate. On the other hand, corporate earnings remain soft, Asia (both China and Japan) still seem to be seeking a bottom (with large and increasing corporate debt in China becoming a leading concern), Europe still has to work through Brexit and an Italian banking crisis, 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.

With no revaluations of private assets and the relative underperformance of global and overseas accounts, the fund started out the first couple of weeks of the new fiscal year behind the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.2%. Peregrine has the best absolute performance at +3.3% and Bernstein Global has the best relative performance with their return of +3.1% being +0.8% ahead of benchmark. With returns of +1.1% Mondrian has the worst relative performance, starting out -0.7% behind their EAFE benchmark.

EXECUTIVE DIRECTOR

Executive Director Status Update: Executive Director Don Drum summarized the discussion points from previous meetings with regard to Milliman's recently completed Active Member Experience and Economic Assumption studies. Director Drum stated that the Board could consider adopting changes to the Demographic, Inflation, and/or Other Economic Assumptions as covered in the Milliman reports and presentations. Regarding the Active Demographic Assumptions, Director Drum stated that if the Board were to accept the changes recommended by Milliman, the increase

would be less than 0.1% in Actuarial Accrued Liability, with a normal cost rate increase of 0.31% of pay, resulting in a 2.4 year increase in amortization period. The Active Demographic Assumptions include assumption components such as salary increases, retirement, disability, death from active status, etc. With regard to the Economic Assumptions, Director Drum stated that PERSI's current assumptions are well within the actuarially acceptable range and well within the industry standard as reported by Milliman and Callan. If the Board were to adjust the Inflation Assumption it would impact the General Wage Growth Assumption and the Investment Return Assumption. If the Board were to choose to lower the Inflation Assumption, the Net Return Assumption would be lowered as well. PERSI's current Net Return Assumption of 7% is among the lowest of the major public pension plans.

Upon conclusion of Director Drum's comments, Trustee Sullivan made a motion to accept the recommended changes to the Active Demographic Assumptions. Trustee Cilek seconded the motion, which passed unanimously.

New Employer – Selkirks-Pend Oreille Transit Authority (SPOT): Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of the Selkirks-Pend Oreille Transit Authority (Dover, Idaho) with an entry date of August 1, 2016. Trustee Fisher made a motion to accept the staff recommendation. Trustee Cilek seconded the motion, which passed unanimously.

New Employer – Meadows Valley Rural Fire District: Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of the Meadows Valley Rural Fire District (New Meadows, Idaho) with an entry date of August 1, 2016. Trustee Fisher made a motion to accept the staff recommendation. Trustee Cilek seconded the motion, which passed unanimously.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on the IRIS project, internal staff recruitments, office space planning, and constituent meetings. Mr. Hampton reported that the IRIS project was projected to finish within the original budget appropriation. Chairman Olson asked about the IRIS software vendor, Tegrit. Mr. Hampton stated that he understood there were concerns when Tegrit was sold to an employee consortium but PERSI understands Tegrit's current position to be very stable.

CEM Pension Benchmarking FY 15 Report: Paul Martiniello of CEM Benchmarking provided a summary of their FY2015 study on PERSI relative to pension administration benchmarking using peer system comparative analysis methods. Some statistical highlights mentioned in the report include:

- PERSI's total pension administration cost of \$79 per active member and annuitant was \$48 below the peer average of \$127.
- PERSI's total service score, which measures communication channels, turnaround times, availability, choice, content, and outcome quality, was 79 out of 100, compared to the peer median of 78.
- PERSI is 71% above peer average in terms of transactions per full time employee (total productivity).

FISCAL UPDATE

Preliminary Budget Proposal / Fiscal Update / Expense Reports: Financial Executive Officer Alex Simpson updated the Board on PERSI's preliminary budget request, the out of state travel and training report, and the FY 2016 expense reports for the Administrative and Portfolio funds. The year-to-date total actual expense ratio is 35.7 basis points of the average net assets compared to the budgeted ratio of 38.4. Both the budget and actual are below the 50 basis point target ratio.

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)(b) to consider the evaluation of the Executive Director, and 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 Fisher seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR

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 discussed the evaluation and compensation of Executive Director Don Drum and separately discussed possible litigation with legal counsel.

Trustee Sullivan stated that with regard to Executive Director Don Drum's evaluation, the Board recognizes Mr. Drum's excellent performance for the membership. Trustee Sullivan stated that Mr. Drum met openly with PERSI employees, employers, Legislators, and many other constituent groups, and he is to be commended for his commitment and willingness to travel statewide to meet directly with members. Trustee Sullivan stated the Board reviewed Mr. Drum's compensation. Trustee Sullivan made a motion to increase Executive Director Don Drum's salary by 10%. By protocol, the decision would be discussed with the Governor. Trustee Cilek seconded the motion, which passed unanimously.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 11:25 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman