



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., June 21, 2016. The following members were present:

- Jody Olson
- Kirk Sullivan (by phone)
- Jeff Cilek
- Joy Fisher
- Celia Gould (by phone)

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 Guilfooy, and Management Assistant Jess Simonds were also in attendance. Other persons attending all or portions of the meeting were:

Michelle Watts	EFIB	Tony Wilkins	BNY Mellon
Mike Boren	Clearwater	Andrea Patterson	ID Supreme Court
Chris Brechbuhler	Clearwater	Andy Snook	AGO
Jeff Bradley	Milliman	Anne Cappel	Empower
Mark Olleman	Milliman	Bruce Dale	Empower
Robert Schmidt	Milliman	Bruce Singkhaophet	Empower
Dennis Fitzpatrick	DB Fitzpatrick	Tanya Martin	PERSI
Brandon Fitzpatrick	DB Fitzpatrick	Kelly Cross	PERSI
Humberto Arechiga	DB Fitzpatrick	Larry Sweat	PERSI
Casey Macomb	DB Fitzpatrick	Brandon Rigby	PERSI
Prabhab Banskota	DB Fitzpatrick	Cecile McMonigle	PERSI
Bill Palumbo	MPIA	Diane Kaiser	PERSI
Bruce Reeder	MPIA	Rose Marie Sawicki	PERSI
Ann Posey	Callan	Mika Milette	PERSI

Approval of the Minutes: Trustee Fisher made a motion to approve the minutes of the April 19, 2016, April 27, 2016, and May 26, 2016 meetings. Trustee Cilek seconded the motion, which passed unanimously.

PORTFOLIO

Callan Quarterly Update: Ann Posey of Callan updated the Board on the performance of the PERSI fund relative to public fund peers and also provided a summary of key issues facing plan sponsors nationwide. When comparing the PERSI Defined Benefit fund to Callan's catalog of

large public funds (>\$1B) up to the period ending March 31, 2016, PERSI outperforms long-term and in the most recent periods, but underperforms relative to peers in the 5 and 7 year return comparisons. The 20 year return for the PERSI Total Fund is 7.53%. Ms. Posey stated that fund return expectations continue to be lower than long-term results and reaching for return has increased the volatility of portfolios. The majority of corporate funds continue to focus on de-risking, while public plans and endowment & foundation funds are focused on return enhancement.

Idaho Commercial Mortgage Program Review: Investment Officer Richelle Sugiyama stated that on an annual basis, Berkadia Commercial Mortgage Inc., an independent consultant, performs an in-depth review of the Idaho Commercial Mortgage Program (CMP) which is managed by D.B. Fitzpatrick & Co (DBF). Overall, Berkadia concluded that “PERSI CMP’s performance equals or exceeds current industry standards. This has been Berkadia’s finding in previous years, and subsequent improvements in portfolio administration have strengthened the CMP’s loan quality and management operational capacity.”

Subsequently, Brandon Fitzpatrick of DBF presented an update on the Idaho Commercial Mortgage Program and provided an outlook for the Idaho economy and a forecast for 2016. The Idaho Mortgage Program returned 3.21% in 2015, outperforming both the Barclays U.S. MBS index (which returned 1.51%) and the Barclays U.S. Aggregate Index (which returned 0.55%). The program has comfortably outperformed its benchmarks during three, five, and 10-year periods, and since inception in 1989. DBF saw strong demand for loans in 2015, and originations in the Idaho Mortgage Program amounted to \$127.8 million for the year. This marks the biggest year for loan production in the program’s history. Originations were highest in the retail sector (\$38.8 million), followed by industrial (\$30.5 million), and hotels (\$22.1 million). Mr. Fitzpatrick stated that 2016 is shaping up to be another good year for originations. Forward commitments worth \$50 million are already in the pipeline for 2016, and the early days of the year have shown a continued solid pace of applications and activity. DBF expects originations of \$80—\$100 million in 2016. The local market has been extremely active, with investors attracted to Idaho assets and looking to lock in low interest rates. The fundamentals in Idaho commercial real estate are good and continue to improve.

Monthly Investment Report: After a good spring rally, the capital markets hit at least a minor wall in early June, once again stopped by worries in Europe – this year that Brexit will occur later in the month with follow on consequences to the stability of the EU. U.S. equities are down -0.9% for the month and are now up +1.0% for the fiscal year, developed markets are down -5.4% for a -11.6% fiscal year to date return, emerging markets are down -0.4% for a -15.5% fiscal year to date return, bonds are up 1.0% for the month and are +5.3% for the fiscal year, and TIPS are up 1.1% and are up +3.3% for the fiscal year. REITs are up 0.4% for the month and lead all public markets for the fiscal year at +15.8%, but are still behind private real estate at +17.4%. Private equity is up +0.2% for the fiscal year. After hitting an all-time return high on June 8th, polls showing the likelihood of Brexit (the possibility that the UK will vote to leave the EU later in the month) lead to a decline of over -2.0%, leaving the fund as a whole down -0.8% for the month and up +0.4% for the fiscal year to date (and +2.6% for the calendar year to date) at \$14.679 billion.

Brexit aside, capital market and economic prospects remain tepid. Fears that a disastrous January was signaling a recession have disappeared: commodity prices have firmed (oil jumped to \$50), US economic news came in a bit better with slow growth and a strong labor market (although with recent weakness in job numbers and manufacturing), 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) 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 global managers, emerging markets and TIPS have not been offset by the relative outperformance of real estate. As a result, the fund is behind the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark for the fiscal year to date by -0.4%. Bernstein Emerging Markets has the worst performance at -17.3%, and Brandes Global (with returns of -11.0%) lags its benchmark by -7.4%. The Mellon REIT account has the best absolute public performance at +15.3% so far this fiscal year with private real estate leading all accounts at +17.4%. Mountain Pacific has the best public market

EXECUTIVE DIRECTOR

Executive Director Status Update: Executive Director Don Drum updated the Board on his presentations at Idaho Retired Educators Association annual conferences, summer meetings with employer leadership, and his participation at the National Council on Teacher Retirement Director's Workshop. Mr. Drum had completed the first 5 of 36 scheduled group employer meetings and reported after these first set of meetings that employers are cautiously concerned about the need to increase contribution rates. Base pay issues and ultimately take-home pay are a few of the items of concerns expressed by employers. The employers understand the need to raise rates however they are fully aware that rate increases will further reduce take-home pay.

New Employer – City of Stanley: Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of the City of Stanley with an entry date of July 1, 2016. Trustee Cilek made a motion to accept the staff recommendation. Trustee Fisher seconded the motion, which passed unanimously.

Cindy Gant – Disability Retirement Denial Contested Case, Recommended Order: Executive Director Drum stated that the Board had received the record of Cindy Gant's application for disability retirement benefits, including Ms. Gant's requested reconsideration of the hearing officer decision. The Hearing Officer Findings of Fact, Conclusions of Law and Recommended Order ("Recommended Order") was issued on April 13, 2016. The Recommended Order recommends that the denial of Ms. Gant's disability retirement application be upheld. The Hearing Officer concluded that Ms. Gant did not meet the burden of proof to show that she meets the disability standard. On April 25, 2016, Ms. Gant requested reconsideration. On May 11, 2016, the hearing officer issued a decision that addressed both Ms. Gant's reconsideration request and PERSI's exceptions. In that document (Revised Decision on Petitioner's Request for Reconsideration), the hearing officer made a small change to finding of fact 6 (not substantive to the outcome), but otherwise affirmed the Recommended Order (recommending that the denial be upheld). On May 23, 2016, Ms. Gant filed exceptions to the Recommended Order with the PERSI Board.

Director Drum stated that the matter was before the Board for a final decision. Chairman Olson stated that the Board had reviewed and considered the Recommended Order and other case documents. Trustee Cilek made a motion that the Board issue a final order to accept the Hearing Officer's Recommended Order in its entirety. Trustee Fisher seconded the motion, which passed unanimously.

Milliman – Inflation and Other Economic Assumptions: Mark Olleman, Jeff Bradley, and Robert Schmidt of Milliman presented their completed Active Member Experience and Economic Assumption studies. Mr. Olleman stated that PERSI is on a four-year cycle to review and analyze appropriateness of its actuarial assumptions. In conjunction with the study results, Milliman recommended that PERSI consider small changes to the Demographic Assumptions which 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. Additionally, Milliman recommends that the PERSI Board consider changes to the Economic Assumptions, specifically, lowering the price inflation assumption from 3.25% to 3.00%. If the Board were to make this change and leave other assumptions as-is, the net investment return assumption would decrease from 7.00% to 6.75% and the general wage increase assumption would decrease from 3.75% to 3.50%. Milliman stated that the 90-year historical CPI-U average was 2.9% (2.2% the last 20 years). Milliman forecasts a 1.6% CPI-U over the next 10 years. Mr. Olleman stated that according to Milliman, the range of reasonable price inflation assumption is 2.00% to 3.75%.

Chairman Olson stated that a decision on actuarial assumptions was not a decision item at this meeting but would be considered in subsequent meetings. Chairman Olson added that in total PERSI is already very conservative with the actuarial assumptions.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on the IRIS project, the Choice Plan, and staffing. Mr. Hampton stated that the IRIS project is progressing as expected and the “Go Live” date has been set and all parties are working towards this goal. Tegrity has completed development and is transitioning its staff to testing and fixing known issues. August 27th through September 5th PERSI will be in a “Black Out” state. Staff will have *read access only* to Galena, while all data is converted to IRIS and the new system is brought up for use. PERSI has started the communication campaign with its members, employers, and staff to make them aware of this period of time when it will not be able to make any changes to system data. September 6th is the scheduled “Go Live” date for IRIS.

Choice Plan 1Q Update – Empower Retirement: Anne Cappel of Empower Retirement presented the first 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 \$692.93 million as of March 31, 2016, which was a 2.9% increase from January 1, 2016. Contributions totaled \$15.54 million from January 1, 2016 to March 31, 2016. As of March 31, 2016, the plan had 42,006 participants.

FISCAL UPDATE

Fiscal Update / Expense Reports / Quarterly Financial Statements: Financial Executive Officer Alex Simpson updated the board on expense reports for the Administrative and Portfolio funds and the third quarter FY2016 unaudited financial statements. The year-to-date total actual expense ratio is 35.2 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 11:05 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 Sullivan made a motion to move into executive session. The motion was seconded by Trustee Cilek, and approved unanimously via roll call vote.

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

EXECUTIVE DIRECTOR

The Board returned to regular session at 11:35 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. Chairman Olson stated that the Board was prepared to make four (4) motions relative to the matter of Elgee v. PERSI.

Trustee Cilek made a motion that in the matter of Elgee v. PERSI, with regard to Petitioner's demand for a final order, that the Board deny Petitioner's demand based upon the Board's statutory authority to order additional hearings set forth in Idaho Code Section 67-5244(2)(c). Trustee Sullivan seconded the motion, which passed unanimously.

Trustee Fisher made a motion that in the matter of Elgee v. PERSI, with regard to Petitioner's demand for production of opinions, that because the parties are currently engaged in informal discovery, that the Board refer the demand to the parties to be resolved as informal discovery. In the event that parties are unable to resolve any aspect of Petitioner's demand, either party may petition the Board for a decision on the dispute. Trustee Gould seconded the motion, which passed unanimously.

Trustee Cilek made a motion that in the matter of Elgee v. PERSI, with regard to the additional hearing ordered by the Board, that such hearing be held on September 21, 2016. Trustee Fisher seconded the motion, which passed unanimously.

Trustee Fisher made a motion that in the matter of Elgee v. PERSI, with regard to the additional hearing ordered by the Board, that because this Board does not routinely conduct hearings, the Board engage an additional deputy attorney general from the Idaho Attorney General's Office to facilitate the hearing. Trustee Gould seconded the motion, which passed unanimously.

Adjournment: There being no further business to come before the Board, meeting adjourned at 11:40 a.m.

Donald D. Drum
Executive Director

Jody Olson
Chairman