



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 18, 2017. The following members were present:

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

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

Connie Bunch	Retired Educators	Jess Simonds	PERSI
James Coleman	Retired Educators	Kathy Adams	PERSI
Mary Fletcher	Member	Brenda Cronin	PERSI
Jeff Bradley	Milliman	Adel Stacy	PERSI
Mark Olleman	Milliman	Kelly Rowlands	PERSI
Chelsie Wasden	MPIA	Cecile McMonigle	PERSI
Matt Lindstrom	MPIA	Mike Mitchell	PERSI
Bill Palumbo	MPIA	Carmen Brooks	PERSI
Larry Johnson	EFIB	Diane Kaiser	PERSI
Chris Brechbuhler	Clearwater	Rose Marie Sawicki	PERSI
Brent Nye	Boise Schools	Kelly Cross	PERSI
Brandon Macomb	DB Fitzpatrick	Maria Quitugua	PERSI
Sally Haskins	Callan	Kelsey White	PERSI
Robert Plumb	AEW	Jenny Flint	PERSI
Mike Byrne	AEW	Lena Rupp	PERSI

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the March 20, 2017 and March 21, 2017 meetings. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Real Estate Update - Callan: Sally Haskins of Callan provided a summary of PERSI's real estate portfolio and of AEW's performance. At the end of 2016, PERSI had ~\$1.5 billion in the total real estate portfolio which was 9.7% of the total fund. Ms. Haskins stated that Callan has a

comprehensive monitoring regime to track AEW's performance. Ms. Haskins stated that AEW, exceeded objectives for 2016. The initial goals established at inception of the AEW relationship have largely been accomplished and it is appropriate to refresh the objectives for the account. Callan will monitor Mike Byrne's transition into his role on the Core Property Trust to ensure continued focus on PERSI. In summary, Callan recommends PERSI continue to retain AEW.

Real Estate Review – AEW: Robert Plumb and Mike Byrne of AEW provided an update on PERSI's real estate portfolio and provided a general update on the real estate market. Mr. Plumb stated that U.S. commercial property fundamentals were still strong but peaking, and U.S. and global growth data modestly improved during second half of 2016. He added that supply risk has diminished greatly, rents are now near or above prior peaks, and return expectations were actually lowering. Mr. Byrne presented AEW's investment strategy and client objectives for PERSI. The objectives for the PERSI fund are to simplify the PERSI Real Estate Program, outperform the NCREIF, provide oversight for OLY-IDA and CAH-IDA ventures, and maintain moderate portfolio leverage (50-60%) and capital structure flexibility.

Monthly Investment Report: Although the fund is at all-time highs both in returns and assets, the capital market advance that began in November has seemed to have lost its momentum. With high valuations (at least in the U.S) the markets appear to be more fragile in the face of prospects of higher interest rates and an announced eventual liquidating of the massive Fed balance sheet. This is accompanied with (for the Fed) optimistic rhetoric about the strength of the economy and the state of the labor market.

The US equity market has dropped -0.6% so far this month to bring the fiscal year return to +14.4%. U.S. bond yields have fallen to raise bond returns up +0.9% for the month, and reducing the fiscal year loss to -0.9%. EAFE dropped -0.2% for a +13.4% fiscal year gain. Emerging markets are still advancing and are up 0.5% for the month for a fiscal year gain of +17.3%. REITs halted their slide by +3.2% decreasing the fiscal year loss to -0.9%, while private real estate is up +7.3% for the fiscal year and private equity is up +7.2%. As a result the fund as a whole is up +0.3% for the month, increasing the fiscal year to date return to +9.1% with assets at \$15.959 billion.

Economic prospects appear solid around the world, while capital market prospects currently look tepid and somewhat fragile. The major questions over the next few months are (1) whether corporate earnings can increase enough to justify the noted recent increase in valuation measures (such as the P/E ratio in the US), and (2) whether Trump's growth-friendly agendas can get traction in the political process. Overseas prospects appear moderate, with increasing political tensions in both Asia (North Korea), the Middle East (Syria and Russia), and Europe (French elections and Brexit).

The fund is behind the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.24%, due to the inability of private markets to keep up with the surging US equity market since mid-November and the poor performance of REITs. Bernstein Emerging has the best absolute return at +20.7%, while Peregrine has the best relative return at 19.3%, which is +5.4% above their large cap growth index. The Mellon REIT index fund has the worst absolute performance at -1.5%. With returns of +12.9%, Genesis has the worst relative performance at -4.5% behind their emerging market index. The new accounts of BLS, Fiera, and Walter Scott for global equity, along with IR+M for fixed income, are fully funded and have performance numbers starting April 1.

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

## EXECUTIVE DIRECTOR

Empower Retirement Action Plan: Dan Morrison, Head of Governmental Markets for Empower Retirement, provided the Board with a report on Empower Retirement's progress on improving service levels for PERSI members. Empower Retirement is the record-keeper for PERSI's Choice (401k) Plan. Mr. Morrison discussed new technology improvements and organizational improvements which will aid in improving service for PERSI staff and provide a better experience for members. The keys areas Empower Retirement has identified for improvement are accuracy in administration, responsiveness to PERSI internal staff, more timely communication with staff, and better process analysis and controls.

Trustee Gould asked Mr. Morrison what Empower Retirement was doing to improve the accuracy of communications and additionally inquired about security of member information. Trustee Gould noted that she was aware that Empower Retirement sent mailings to all Choice Plan participants that had the wrong member listed on the mailing envelope. Trustee Sullivan added that many PERSI members personally contacted him about this error. Mr. Morrison stated that there was no security breach or sensitive data in the mailing, but there was a quality control and a processing error made. Mr. Morrison apologized for the error and said that as part of the action plan, additional controls have been put in place to assure similar errors are not made in the future.

Chairman Olson asked Mr. Morrison about a separate error which was a file error affecting two PERSI employers and their employees. The result of this error was some member's accounts were incorrectly credited with funds not belonging to them. Mr. Morrison stated that the error was identified and quickly remedied but did state that communication between Empower and PERSI would be improved and that part of the action plan is implementing additional controls in these processes.

Executive Director Status Update: Executive Director Don Drum updated the Board regarding:

- Summer Education Opportunities
  - Director Drum will focus on an effective approach to educate a number of legislators who may have PERSI legislation before them next session or in future sessions.
  - Director Drum and Deputy Director Hampton will continue the legislative letter effort and take time to travel and meet with any and all legislators who wish to meet.
  - The GASB changes and market volatility have created transparency and the potential for anxiety at the leadership level for some employers. Director Drum will concentrate on meeting with employer leadership, and specifically boards, commissions, and councils that have more turnover.
- H 145 (a)
  - This legislation passed and was signed by the Governor. Director Drum stated that this legislation provided clarification regarding employer qualifications to enter PERSI. PERSI is proposing rules and reworking the new employer application and will ask those employers which the Board had previously asked staff to hold to reapply with the new application.
- Sick Leave
  - Director Drum anticipates an ongoing discussion regarding the Sick Leave fund due to the legislative changes made in the past affecting state retiree insurance coverage.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on the progress each of the five departments had made over the prior month. Mr. Hampton also provided a summary of staff hired or promoted into new positions and specifically welcomed Jenny Flint as the new Public Information Officer.

Disability Rules and Process Overview: Deputy Director Michael Hampton made a presentation to the Board to educate about the specifics of the PERSI disability benefit process. Mr. Hampton went through the statutes and rules associated with eligibility, the process for application, and the standard of review. He also provided a statistical overview of the quantity of disability benefits awarded historically.

Holladay Disability Appeal: Deputy Director Hampton stated that this is an appeal of a final decision denying Mr. Holladay's application for disability retirement benefits. As Mr. Holladay has worked less than five years for a PERSI employer, the issue of causation of health issues was identified as being pertinent in determining his eligibility for disability. A contested case hearing was held before the Hearing Officer on December 8, 2016. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order ("Recommended Order") on February 15, 2017. The hearing officer concluded that PERSI's denial of Mr. Holladay's application was not based on substantial and competent evidence in the record because it was based on an imprecise, undefined and inconsistent eligibility standard. Mr. Holladay was unable to prove and PERSI was unable to evaluate Petitioner's injury without specific legal definitions for the terms "occupational cause" or "occupational hazard" as those terms are used in the Idaho Code Section 59-1352(2) a Board Rule 101 (IDAPA 59.01.04.100), respectively. The Hearing Officer also notes confusion in evaluating Mr. Holladay's application in that there are two issues, 1) whether the injury was occupationally caused and 2) whether there is a disability. The Hearing Officer states that MMRO collapsed its analysis of these issues rather than addressing them as separate and distinct issues. The Hearing Officer also stated that if PERSI were to apply the OSHA causation standard, then the aggravation in the workplace of a preexisting condition is considered to be an injury from occupational cause. An independent medical exam did not take place.

The Hearing Officer recommends that the Board provide MMRO and Mr. Holladay guidance regarding eligibility standard and provide a definition of the relevant term "occupational cause" as used in subsection (2) of Section 59-1352 or "occupational hazard" as used in Disability Rule 101. It was also recommended that a determination be made as to whether Mr. Holladay is "disabled" under Section 59-1302(12).

Both Mr. Holladay and PERSI filed exceptions to the recommended order. PERSI staff disagrees with the recommendation that Mr. Holladay's application for disability retirement benefits be referred back to MMRO with additional guidance for the terms "occupational cause" and "occupational hazard". PERSI staff recommends the Board remand the matter to PERSI to require a disability evaluation of Petitioner's alleged disabling injuries or conditions is appropriate and shall include an independent medical examination to ensure proper identification of the underlying cause(s) for Petitioner's disabling injuries or conditions.

Deputy Director Hampton stated that this matter is before the Board for a final decision. The board may:

- schedule oral argument by the parties before the Board before issuing a final order; or
- remand the matter for further evidentiary hearings with additional guidance as to the terms "occupational cause" and "occupational hazard" if it determines further factual development is needed or further guidance regarding the identified terms is needed before issuing a final order; or
- remand the matter to PERSI for further disability evaluations; or
- issue a final order - the final order may accept, reject or modify the hearing Officer's

Having reviewed the relevant documents, Trustee Cilek made a motion that the Board remands the matter to PERSI to require a disability evaluation of Mr. Holladay's alleged disabling injuries or conditions is appropriate which shall include an independent medical examination to ensure proper identification of the underlying cause(s) for Mr. Holladay's disabling injuries or conditions and a

determination as to whether Mr. Holladay is disabled under PERSI disability standards. Trustee Gould seconded the motion, which passed unanimously.

## LEGAL

2017 Law Change Update: Deputy Attorney General Cheryl George provided an update on law changes stemming from the 2017 legislative session which impact PERSI administration. Ms. George summarized 1) HB113, which allows retired school teachers or administrators who retired at age 60 (previously age 62) to return to teaching with a school district and continue to receive retirement benefits, and 2) HB 145a which will restrict all new employers seeking to participate in PERSI to those employers who are in compliance with internal revenue service regulation.

Rules re: Definition of Employer: Deputy Attorney General Cheryl George stated that currently PERSI rules do not have a definition of "Employer" and it is suggested that a definition that meets the requirement of the law be proposed to IDAPA 59.01.02.005.05. The Board reviewed a proposed Administrative Rules Request Form (ARF) to be submitted to DFM, a Draft Notice of Proposed Rulemaking, and the draft rule language. Board action was required on this matter. Staff recommended that:

1. The ARF be submitted to the Division of Financial Management.
2. The rule amendments be adopted and published as proposed.
3. 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 accept the Board recommendation. Trustee Cilek seconded the motion, which passed unanimously.

## FISCAL UPDATE

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

Adjournment: There being no further business to come before the Board, the meeting adjourned at 11:25 a.m.

Donald D. Drum  
Executive Director

Jody B. Olson  
Chairman