



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., February 14, 2017. The following members were present:

Jody Olson
Jeff Cilek
Joy Fisher
Celia Gould

Trustee Sullivan was absent and excused. 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	Jay Doherty	State Street
Sue Wigdorski	IEA	Andrea Patterson	Courts
Brent Nye	Boise Schools	Laura Lantz	IAHD
Penni Cyr	IEA	Nick Veldhouse	IAHD
Connie Bunch	Retired Educators	Suzanne Budge	SBS
Jeff Bradley	Milliman	Brenda Cronin	PERSI
Mark Olleman	Milliman	Adel Stacy	PERSI
Doug Bates	Clearwater	Kelly Rowlands	PERSI
Chris Brechbuhler	Clearwater	Cecile McMonigle	PERSI
Bruce Reeder	MPIA	Theresa Lugo	PERSI
Matt Lindstrom	MPIA	Mike Mitchell	PERSI
Chelsie Wasden	MPIA	Carmen Brooks	PERSI
Larry Johnson	EFIB	Diane Kaiser	PERSI
Michelle ZWatts	EFIB	Kelsey White	PERSI
Bruce Singkhaophet	Empower	Maria Quitugua	PERSI
Anne Cappel	Empower	Lena Rupp	PERSI
Dennis Fitzpatrick	DB Fitzpatrick	Rose Marie Sawicki	PERSI
Casey Macomb	DB Fitzpatrick	Kelly Cross	PERSI
Jackie McCleve	SCO	Larry Sweat	PERSI
Lourdes Matsumoto	SCO		

AMENDED AGENDA

At 8:30 a.m., Chairman Olson opened the meeting by stating that the Board intended to amend the meeting agenda. The reason for amending the agenda after the start of the meeting was due to

administrative error; the "Private Equity Update – Hamilton Lane" item was unintentionally included in the agenda. Although Paul Yett from Hamilton Lane would be presenting later in the meeting for the Silver Lake presentation, there was no general update on the PE portfolio beyond what Mr. Yett presented in December. Trustee Cilek made a motion to amend the agenda to remove this item. Trustee Fisher seconded the motion, which passed unanimously.

SPECIAL TRIBUTE

Chairman Olson recognized the recent passing of a long-time PERSI Trustee, Marilyn Shuler. In tribute, Chairman Olson stated, in part, that for ten years (1988-1998) Marilyn Shuler served as a valued trustee of PERSI. During those years, she was the conscience of the Board. Marilyn is best known for her tireless advocacy of those in our society who are denied equal rights. Wickedly smart, she educated herself on investments of size and complexity and she understood that funding retirement benefits for every member requires adequate returns through investments in equities. Pity the fund manager who suggested investing in a company whose product was made using third-world slave labor, or had a Board which did not follow good corporate governance. Every one of our 140,000 participants drawing a PERSI retirement check, or planning on doing so in the future, owes some of what they receive to this incredible lady.

Approval of the Minutes: Trustee Fisher made a motion to approve the minutes of the December 6, 2016 meeting. Trustee Gould seconded the motion, which passed unanimously.

PORTFOLIO

Quarterly Portfolio Update – Callan: Ann O'Bradovich from Callan Associates updated the Board on the PERSI fund performance in the 4Q 2016. PERSI's Total Fund return for the quarter was +0.37%, outperforming the Policy Target return of 0.05%. The overweight to U.S. Equity and the underweight to Fixed Income and Emerging Markets added to the relative returns, while the overweight to REITs and the underweight to Private Equity and Global Equity detracted. Manager negative value-added of 5 basis points stemmed from the underperformance of US Equity, Fixed Income, and TIPs relative to their respective benchmarks. The Total Fund ranked below median (73rd percentile) for the quarter relative to Callan's Total Public Fund database. The one-year Total Fund return was 7.95%, outperforming the Policy Target return of 7.09%. Managers in aggregate outperformed by 28 basis points; the overweight to U.S. Equity and REITs and the underweight to Fixed Income and Private Equity were a positive contribution to the Total Fund returns. The Total Fund ranked above median (38th percentile) for the year relative to Callan's Total Public Fund database. Trustee Cilek asked how many funds were in the database, to which Ms. O'Bradovich stated there were around 100.

Monthly Investment Report: February is maintaining the U.S. market advance that began in November joined recently by most of the world capital markets. Fueled by positive economic surprises and a so-called "Trump effect" (expectations of increased fiscal stimulus with reduced taxation and regulation), the US equity market has gained another +2.3% to bring the fiscal year return to +13.4%. U.S. bond yields moderated their advance to bring bond returns up +0.2% for the month, and stem the fiscal year losses to -2.2%. EAFE's advanced another +1.0% this month for an +10.0% fiscal year gain. Emerging markets is having a third good month with a +2.9% gain to bring the fiscal year return to +13.6%. REITs are recording a +1.6% gain, reducing the loss to -3.0% for the fiscal year, while private real estate is up +4.7% for the fiscal year and private equity is up +5.2%.

As a result the fund as a whole is up +1.5% for this month, increasing the fiscal year to date return to +7.3% with assets at \$15.742 billion, and is sitting at all-time highs both in return and in assets. Capital market and economic prospects remain tepid, although recently there has appeared to be more life in the overseas economies and the US economic prospects firmed enough to keep the

Fed on track with its expected rate increase. Commodity prices also appear to be stabilizing (oil is now above \$50). Corporate earnings remain soft but recovering. Asia (both China and Japan) appear to have found a bottom, and the remainder of the world still battles reduced trade and debt worries with some signs of increasing strength in northern Europe.

The fund is behind the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.8%, due primarily to the inability of private markets to keep up with the surging US market since mid-November and the poor performance of REITs. Bernstein Emerging has the best absolute and relative return at +20.6%, which is +7.0% above their benchmark. With returns of +15.7% Donald Smith has the worst relative performance at -6.2% behind their U.S. small cap benchmark.

EXECUTIVE DIRECTOR

Executive Director Status Update: Executive Director Don Drum updated the Board regarding the current legislative session. Director Drum stated that he had been asked to present at:

- Senate Commerce & Human Resources Committee re: administrative rules associated with JRF
- Change in Employee Compensation Committee re: overview of the PERSI benefit and current funding levels
- Joint Finance-Appropriations Committee (JFAC) re: agency/Governor's budget request
- House Commerce & Human Resources Committee re: administrative rules associated with JRF
- House Education Committee re: teacher/administrator retire & return to work at age 60
- House Judiciary and Rules Committee re: dispatchers, juvenile probation officers to rule of 80
- House Commerce and Human Resources Committee re: roles, rules, laws, sustainability, cost, risk, and the JRF

Additionally, Director Drum stated that he and Deputy Director Hampton would be attending the National Association of State Retirement Administrators (NASRA) Winter Meeting and the National Institute on Retirement Security (NIRS) Annual Conference in Washington, D.C. beginning February 24th. Director Drum has been asked to participate in a panel to educate new system directors about establishing relationships with key stakeholders through enhanced communication. The conference provides an opportunity to meet the NASRA and NIRS staffs and the Directors of the other State systems, as well as learn about current pension issues in all states, and also hear from the I.R.S.

Employer Eligibility: Executive Director Don Drum stated that at the December 6th meeting the Board considered a staff recommendation to approve the admittance of a new employer, but ultimately, after a discussion about the parameters for entry into PERSI as a new employer, the Board put-over the item to the next meeting. The request the Board made at that time was for staff to put together more background information so that the Board could have a better understanding of the statutory language defining an employer. Director Drum stated that between meetings and in the board materials that staff had provided further information to the Board.

In Idaho statute 59-1302(15) "Employer" means "the state of Idaho, or any political subdivision or governmental entity, provided such subdivision or entity has elected to come into the system. Governmental entity means any organization composed of units of government of Idaho or organizations funded only by government or employee contributions or organizations who discharge governmental responsibilities or proprietary responsibilities that would otherwise be performed by government. All governmental entities are deemed to be political subdivisions for the purpose of this chapter."

Director Drum stated that the I.R.S. has been working to define what constitutes an “employer” for governmental plans. Director Drum said that PERSI might benefit from clarification of “governmental entity” and added that there is a proposed change to Idaho Code working its way through the House that may provide more clarity, and which would grandfather existing employers.

Benjamin Simpson – Request to Proceed w/ Contested Case Hearing: Executive Director Don Drum stated that this is an appeal that involves the decision that Judge Benjamin Simpson could not begin to collect his PERSI retirement while still employed by the State of Idaho as a district court judge. Judge Simpson previously sought to collect his retirement effective January 2010 and was advised that he was not eligible. Subsequently, Judge Simpson did leave the district court bench and retired from PERSI effective May 1, 2015. PERSI received a letter from Judge Simpson dated July 22, 2015, making a formal demand for a retroactive lump sum payment back to January 1, 2010. On August 18, 2015 the Board voted to affirm the Director’s decision. On November 5, 2016, PERSI received a Petition from Judge Simpson for review of the decision and request for a contested case hearing. On December 1, 2015, the Board authorized the Director to appoint a hearing officer to hold a contested case hearing and issue a recommended decision to the Board. On December 18, 2015, PERSI and Judge Simpson agreed to delay the appointment of a hearing officer until the Final Order in the Elgee contested case. On January 5, 2017, DAG Cheryl George received a call Judge Simpson’s attorney informing PERSI that Judge Simpson wanted to proceed with his appeal. DAG George met with the attorney on January 13, 2017 and informed him that the request would be presented to the Board at the next board meeting in February.

Director Drum stated that the Board had three options to proceed with Judge Simpson’s request.

- 1) Appoint a hearing officer and proceed with the contested case.
- 2) Bypass a hearing officer and the Board would hear the contested case.
- 3) The parties may stipulate as to the facts, reserving the right to appeal to a court of competent jurisdiction on issues of law. I.C. § 67-5241(d).

Director Drum stated that because the issue in this case is significantly similar to the issue in Judge Elgee’s case, and it being unlikely that the Board would change its position on this issue, that the staff recommendation was option 3, for the parties to stipulate to the facts, reserving the right to appeal to a court of competent jurisdiction on the issues of law.

Trustee Gould made a motion that the Board accepts the staff recommendation subject to the Chairman speaking with PERSI’s litigator. Trustee Fisher seconded the motion, which passed unanimously.

Mark Choquette – Disability Retirement Denial Contested Case, Recommended Order w/ Exceptions: Executive Director Don Drum stated that this is an appeal of a final decision denying Mr. Choquette’s application for disability retirement benefits. Mr. Choquette’s application was denied after initial review by URS. A reconsideration was timely requested and conducted by MMRO and involved an Independent Medical Exam involving a review of Mr. Choquette’s medical records and a physical examination. A contested case hearing was held before Hearing Officer, John C. Lynn on December 29, 2015. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order (“Recommended Order”) on March 7, 2016. The Recommended Order recommends that the matter be remanded for purposes of further assessment entailing a vocational assessment and a psychiatric examination.

The parties entered into a Stipulation signed on April 1, 2016 where PERSI agreed, through its agent MMRO, to perform a psychiatric examination and a vocational assessment on Mr. Choquette. These were completed in May and July, 2016. On November 14, 2016, the Hearing Officer submitted Supplemental Findings of Fact, Conclusions of Law and Recommended Order

(Recommended Order 2) which recommends denial by the Board of Mr. Choquette's application for disability retirement benefits.

PERSI staff does not object to the recommendation that Mr. Choquette's application for disability retirement benefits be denied. However, the Recommended Order 2 contains a statement in the Conclusions of Law that a claimant must be able to work at least twenty hours per week to be deemed non-disabled and that this conforms to the definition of "employee" for active service purposes under PERSI Code (Idaho Code § 59-1302(14)(A)). Director Drum stated that PERSI took exception to this conclusion because it expanded PERSI's historical precedence on the disability.

The staff recommendation was to issue a Final Order adopting the Recommended Order of the hearing officer with the exception specifically noted therein, to say:

Taking PERSI's position to an extreme, if a claimant were able to work one hour a week, he/she would be disqualified from the benefit. The Hearing Officer does not agree, fully, with this contention, as it would ultimately render this earned benefit illusory in the sense that any minimal work ability would render the claimant disqualified from the benefit. Therefore, the Hearing Officer concludes that a claimant must be able to work at least twenty hours per week to be deemed non-disabled. This would conform to the definition of "employee" for active service purposes under the PERSI Code (Idaho Code §59-1302(14)(A)).

Trustee Cilek made a motion that the Board accepts the staff recommendation. Trustee Fisher seconded the motion, which passed unanimously.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on the Program department staffing, the IRIS project, Member Services department job duties, and the progress on the 4th floor of the office building.

Choice Plan Q4 Review – Empower Retirement: Anne Cappel of Empower Retirement presented the fourth 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 \$750.83 million as of December 31, 2016, which was a 1.7% increase from October 1, 2016. Contributions totaled \$17.49 million from October 1, 2016 to December 31, 2016. As of December 31, the plan had 39,583 participants.

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.

EXECUTIVE SESSION

At 10:35 a.m. Chairman Olson stated the Board intended to move to Executive Session in accordance with Idaho Code 74-206(1) (a) & (b), to evaluate and consider the performance of an individual agent(s). Trustee Fisher 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 Cilek made a motion to return to regular session. Trustee Fisher seconded the motion, which passed unanimously.

REGULAR SESSION

The Board returned to regular session at 11:05 a.m. and members of the public were invited into the boardroom. Chairman Olson stated that during the executive session the Board was updated on the investment manager evaluation process. The Board did not take any action or make any decisions.

PORTFOLIO

Consideration of Silver Lake: Chief Investment Officer Bob Maynard stated that PERSI's Investment Policy states that the first investment with an alternative manager must be formally approved either directly by the Board or by a subcommittee appointed by the Board. With a quorum present, Mr. Maynard summarized the action item which was to consider an investment of \$50 million with Silver Lake Partners V, an investment which has been recommended by PERSI's private equity advisor, Hamilton Lane. Mr. Maynard indicated that the board packet included presentations from Hamilton Lane and Silver Lake in support of the proposed investment. Mr. Maynard stated that staff supports the recommendation and added that this would be the first investment with this organization. Paul Yett from Hamilton Lane stated that Silver Lake pursues a variety of transactions across investment type, sub-sector, geography and ownership percentage within the technology and tech-enabled space. Mr. Yett added that Hamilton Lane recommends Silver Lake to become one of PERSI's core private equity relationships going forward.

At the conclusion of the presentations, Trustee Cilek made a motion to approve the investment with Silver Lake Partners V in the amount of \$50 million. Trustee Fisher seconded the motion, which passed unanimously.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 11:55 a.m.



Donald D. Drum
Executive Director



Celia R. Gould
Acting Chairman