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., March 21, 2017. The following members were present:

Kirk Sullivan
Jeff Cilek
Joy Fisher
Celia Gould

Trustee Olson was absent and excused. Executive Director Don Drum, Chief Investment Officer Bob Maynard, 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:

Connie Bunch Retired Educators John Keady BNY Mellon
James Coleman Retired Educators John Masdea T. Rowe Price
Jeff Bradley Milliman Robin Amrour BLS
Tim Dunn Clearwater Anders Gund BLS
Chris Brechbuhler Clearwater Brent Nye Boise Schools
Bruce Reeder MPIA Peggy Dougherty Courts
Matt Lindstrom MPIA Brenda Cronin PERSI
Bill Palumbo MPIA Adel Stacy PERSI
Chris Halverson EFIG Kelly Rowlands PERSI
Michelle Watts EFIG Cecile McMonigle PERSI
Dennis Fitzpatrick DB Fitzpatrick Mike Mitchell PERSI
Brandon Macomb DB Fitzpatrick Carmen Brooks PERSI
Peter Schmoh Standard Life Inv. Diane Kaiser PERSI
Jane Henderson Walter Scott Rose Marie Sawicki PERSI
Roy Cecile Walter Scott Kelly Cross PERSI

AMENDED AGENDA
At 8:30 a.m., Acting Chairman Gould 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 to remove the “Callan Data Aggregator Proposal” item because staff was further evaluating the scope and details needed to develop an appropriate RFI. Trustee Cilek made a motion to amend the agenda. Trustee Fisher seconded the motion, which passed unanimously.
Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the February 14, 2017 meeting. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: The capital market advance that began in November has continued. There are still positive economic surprise along with mild Fed rate increases accompanied by (for the Fed) optimistic rhetoric about the strength of the economy and the state of the labor market. The US equity market has gained another 0.7% to bring the fiscal year return to +15.7%. U.S. bond yields have risen to drop bond returns down -0.7% for the month, and increases the fiscal year losses to -2.4%. EAFE advanced another +2.8% this month for a +13.6% fiscal year gain. Emerging markets are having a fourth good month with a +3.2% gain to bring the fiscal year return to +17.5%. REITs resumed their slide by -3.5% increasing the fiscal year loss to -4.7%, while private real estate is up +6.8% for the fiscal year and private equity is up +5.8%.

As a result the fund as a whole is up 0.7% for the month, increasing the fiscal year to date return to +8.8% with assets at $15.940 billion, representing all-time highs both in return and in assets.

Capital market and economic prospects are moderate (up from tepid). Recently there has been more life in the overseas economies and the US economic prospects have firmed noticeably, with the Fed on track for its expected three rate increases (including one this month). Commodity prices have stabilized (oil is hovering around $50). Corporate earnings remain soft but are recovering. Asia (both China and Japan) have found a bottom, and the remainder of the world still battles trade, debt, and political worries but with signs of increasing strength in both Europe and Asia.

The fund is behind the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -1.0%, due primarily 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 and relative return at +22.4%, which is +5.8% above their benchmark. The Mellon REIT index fund has the worst absolute performance at -4.9%. With returns of +14.1% Donald Smith has the worst relative performance at -7.9% behind their U.S. small cap benchmark.

Act on Recommendations for Manager Changes: Investment Officer Richelle Sugiyama stated that beginning formally in the summer of 2016 the Investments Department and its advisors evaluated the entire PERSI investment manager lineup. The Investment Committee of the PERSI Board met a number of times in that period, including the prior day, to review candidates. Ms. Sugiyama presented the Investment Committee and Staff recommendation that the Board approve the hiring of the following investment managers/mandates:

- Income Research & Management (IR+M) - Gov/Credit Fixed Income
- BLS Capital - Global Equity
- Fiera Capital - Global Equity
- Walter Scott - Global Equity

Additionally, Ms. Sugiyama presented the Investment Committee and Staff recommendation that the Board approve the termination of the following investment managers/mandates:

- Barings Asset Management - Global Equity
- Barings Asset Management - Global Fixed Income
- Capital Guardian Trust Company (Capital Group) - Global Equity
- Tukman Capital Management - Domestic Equity
- Western Asset Management - TIPs

Trustee Cilek, the Chairman of the Investment Committee, commended Ms. Sugiyama and staff for their diligence in the top-to-bottom review process. Trustee Cilek made a motion that the Board approve and adopt the Investment Committee and Staff recommendations on the hiring and
termination of managers (as outlined above). Trustee Fisher seconded the motion, which passed unanimously.

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

- PERSI Budget
  - The personnel and operating budgets processed through JFAC without many issues. The Board is aware that the Governor did not recommend the requested increase in the portfolio personnel budget (we had requested $100,000). JFAC approved moving $45,000 from PERSI administrative operating budget to the portfolio personnel budget.

- NASRA Winter Meeting and NIRS Annual Conference
  - Director Drum and Deputy Director Hampton traveled to Washington, D.C. to attend the conference. Upon request from the NASRA executive team, Director Drum made a presentation to newer pension system directors regarding establishing relationships with key stakeholders through enhanced communication.

- Empower Retirement
  - Empower Retirement, PERSI’s Choice 401(k) record-keeper, experienced a couple of service setbacks in February. PERSI management discussed these recent issues, as well as ongoing service issues, and those concerns were elevated to Empower executives.
  - Empower Vice President, Sr. Vice President of Governmental Markets, and Executive Vice President of Operations, along with the account managers assigned to PERSI, met with PERSI in Boise on March 8th. Empower is reviewing the operations and personnel supporting PERSI and will provide PERSI with a written action plan.
  - Trustee Sullivan stated that he was very upset with the service issues which have resulted in a huge number of calls to him personally. Trustee Fisher said that this issue, along with a number of other issues in the contract period has been very embarrassing for PERSI.

- H 145
  - As discussed at the prior meeting, H 145 was an attempt by Representative Harris to clarify requirements for employers to participate in PERSI. The Idaho House passed H 145 69-0.
  - On March 13th the bill was discussed in the Senate Commerce and Human Resource Committee. Senator Lakey and other members of the committee supported the idea but had concerns with the wording and asked that it be further clarified. At the time of the meeting, the bill was at the amending order.

Dawdy Disability Appeal: Executive Director Don Drum stated that this is an appeal of a final decision denying Ms. Dawdy’s application for disability retirement benefits. A contested case hearing was held before the Hearing Officer on December 20, 2016. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order (“Recommended Order”) on January 23, 2017. The Recommended Order recommends Ms. Dawdy’s application for disability retirement is denied. Ms. Dawdy did not request reconsideration nor file written exceptions. PERSI staff agrees with the recommendation that Ms. Dawdy’s application for disability retirement benefits be denied, and therefore the staff recommendation is issuance of a Final Order adopting the Recommended Order of the hearing officer. Having reviewed the relevant documents, Trustee Sullivan made a motion that the Board accepts the staff recommendation. Trustee Cilek seconded the motion, which passed unanimously.

Jones Disability Appeal: Executive Director Don Drum stated that this is an appeal of a final decision denying Ms. Jones’s application for disability retirement benefits. A contested case
hearing was held before the Hearing Officer on November 2, 2016. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order ("Recommended Order") on January 4, 2017. The Recommended Order recommends Ms. Jones’s application for disability retirement is granted.

On behalf of PERSI, Deputy Attorney General Andrew Snook filed Respondent’s Exceptions to Hearing Officer’s Recommended Order. The exceptions raised three issues with the Recommended Order.

1. The Dr. clearly opine that Ms. Jones is unable to work
2. The Dr. attributes Petitioner’s inability to work, if any, to general medical conditions rather than specific symptoms.
3. Recommended Order implies Petitioner’s burden of proof is by a preponderance of the evidence. (Appropriate threshold is “reasonable medical certainty” when the applicable PERSI disability statues and rules are considered together.

PERSI staff does not object to the recommendation that Ms. Jones’ application for disability retirement benefits are granted. However, the Recommended Order contains statements as provided in the Exceptions to the Recommended Order filed by DAG Andrew Snook. This matter is before the Board for a final decision.

The Staff recommendation is the issuance of a Final Order adopting the Recommended Order of the hearing officer with three exceptions specifically noted therein:

• any finding implying the Dr. made any determination in her Physician’s Report that Petitioner was unable to work.
• any finding that the Dr. attributes Petitioner’s inability to work, if any, to general medical conditions rather than specific symptoms.
• the burden of proof standard set forth in the Recommended Order to the extent it implies Petitioner’s burden of proof is by a preponderance of the evidence. To the extent further qualification of the burden of proof is needed, the appropriate threshold is “reasonable medical certainty” when the applicable PERSI disability statutes and rules are considered together.

Having reviewed the relevant documents, Trustee Cilek made a motion that the Board accepts the staff recommendation. Trustee Sullivan seconded the motion, which passed unanimously.

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. With regard to the Member Services department, Mr. Hampton stated that call volume has increased year over year to 15,663 which is an average of 333.25 per day. In the Fiscal Department, PERSI is drafting/updating the retiree payroll policy and ownership. Additionally, Mr. Hampton and staff were working on an updated purchasing policy in accordance with Idaho Code Title 67, Chapter 92 and IDAPA 38.05.01.

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.

EXECUTIVE SESSION
At 10:20 a.m. Acting Chairman Gould 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. Trustee Cilek made a motion to move into executive session. The motion was seconded by Trustee Sullivan, 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 10:50 a.m. and members of the public were invited into the boardroom. Acting Chairman Gould stated that during the executive session the Board discussed the District Court case of PERSI v Elgee. The Board did not take any action or make any decisions.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 10:55 a.m.

Donald D. Drum  Jody Olson
Executive Director  Chairman