



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 20, 2018. The following members were present:

Jeff Cilek
Kirk Sullivan
Joy Fisher
Celia Gould
Park Price

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 Lena Rupp were also in attendance. Other persons attending all or portions of the meeting were:

Ann O'Bradovich	Callan	Andrea Patterson	Supreme Court
Jim Van Heut	Callan	Brent Nye	Retiree
Jim Coleman	REAL	Brad Berls	Eide Bailly
Robert Schmidt	Milliman	Kelly Rowlands	PERSI
Jeff Bradley	Milliman	Diane Kaiser	PERSI
Mark Olleman	Milliman	Rose Marie Sawicki	PERSI
Phil Bartlett	Clearwater	Kelly Cross	PERSI
Chris Brechbuhler	Clearwater	Larry Sweat	PERSI
Bruce Reeder	MPIA	Casey Hartwig	PERSI
Matt Lindstrom	MPIA	Adel Stacy	PERSI
Chelsie Wasden	MPIA	Kris Colt	PERSI
Bill Palumbo	MPIA		
T. Kunz	Garnet Mgmt. Co		
Brandon Fitzpatrick	DB Fitzpatrick		
Dennis Fitzpatrick	DB Fitzpatrick		

AGENDA UPDATE

At 8:35 a.m., Chairman Cilek opened the meeting by stating that the items on the agenda would be addressed in a new order due to scheduling conflicts. The Economic Assumptions presentation scheduled for the end of the meeting would be moved up to be the first item addressed by Executive Director Drum following Portfolio.

Approval of the Minutes: Trustee Fisher made a motion to approve the minutes of the January 16, 2018 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 2017. PERSI’s Total Fund return for the quarter was 4.07%, besting the Policy Target return of 3.95% by 12 basis points. During the quarter, the underweight to TIPS and Fixed Income added to the relative returns, while the overweight to Developed Markets and the underweight to Global Equity detracted. The fourth-quarter GDP, which was tempered by the depletion of inventories and a rise in imports, still grew at a solid pace of 2.6%. Third-quarter real GDP growth was revised up to 3.2% (annualized). We have to go back three years, to the third quarter of 2014, to find a higher rate of growth. The economies of developed markets outside the U.S. continued to gain traction. During the past quarter, public equity markets once again recorded healthy returns, resulting in double-digit returns for 2017 for most equity markets. The S&P 500 Index gained 6.6% in the fourth quarter and is up 21.8% for the year. Non-US markets underperformed the U.S. during the fourth quarter. They outperformed during the calendar year. The U.S. yield curve continued its flattening trend in the fourth quarter. The 2-year U.S. Treasury yield climbed 42 bps to close at 1.89%, up 69 bps from the end of 2016. The NCREIF Property Index advanced 1.8% during the fourth quarter (1.2% from income and 0.6% from appreciation). This marked the 36th consecutive quarter of positive returns for the private RE index. For the past year, the Fund returned 17.07%, outperforming the Policy Target of 16.10%.

Ms. O’Bradovich mentioned Callan College coming up in April and invited those who have not already registered to sign up.

Monthly Investment Report: Investment Officer Richelle Sugiyama gave the investment update; With stronger than expected labor markets and wage increases, expected real interest rates rose around 50 basis points and, led by exploding volatility products, the markets “corrected” and reset values for stocks based on the new “higher and sooner” interest rate (and perhaps inflation) expectations.

As a result, February has seen the fund drop -2.1% in the first two weeks, and dropped -\$384 million to \$17.591 billion, for a fiscal year to date return of +8.6%. The estimated funding ratio is 92.8%. US equities dropped -2.9% for a +13.6% FYTD return, developed international equities dropped -3.5% for a +11.5% fiscal year return, and emerging markets lost -4.2% for a +20.5% fiscal year return. Bonds also dropped -1.0% for a -0.9% fiscal return, TIPS lost -1.2% for a +0.0% fiscal year return, and REITs tumbled -4.8% for a fiscal year to date loss of -6.4%. Private equity is up +7.8% for the fiscal year, while private real estate increased to +10.3%.

The US economy is healthy, labor markets are strong, inflation remains benign, interest rates are still low with only moderate increases expected, financial conditions are accommodative, corporate profits are high and, with the tax cuts, are expected to be even higher. World growth is synchronized, the dollar is retreating but healthy, commodities are reasonable, risk measures overall remain low, and no bubbles are apparent (outside of cryptocurrencies). Stretched valuations remain high, but markedly less so than the peak reached on January 26th. Although too soon to tell, current expectations are that this “reset” is a healthy longer term development, and that whatever levels are reached will allow for gradual market increases for a number of months.

BLS has the best absolute and relative performance with a return of +20.2% being +7.2% above their World benchmark. The Mellon REIT index has the worst performance at -6.7%, while

Bernstein Emerging has the poorest relative performance at +17.1%, which is -3.3% behind their benchmark. The fund as a whole is behind the 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.2% due primarily to the lagging performance of REITs and private equity compared to the US public equity market.

Investment Manager Comments:

The investment managers who were present shared their opinions and predictions relative to the general market conditions.

EXECUTIVE DIRECTOR

Assumption Overview:

Executive Director Drum gave a presentation on liability assumptions and the impact of making liability assumption changes. Director Drum focused mainly on liabilities and not assets. Changes to economic assumptions impact projected liabilities and only impact assets if the economic assumptions do not support the investment strategy. Inflation was also briefly discussed by Director Drum. Inflation can decrease or increase the funded status and amortization period depending on what if any other assumption changes are made. If asset values drop or increase or assumptions are changed which results in the amortization or funding status hitting or exceeding a trigger point, the Board must make a contribution rate adjustment or gain sharing decision.

Director Drum referenced a chart included in a recent brief released by the National Association of State Retirement Administrators (NASRA) regarding public pension plan investment return assumptions. PERSI is within range of the national averages for assumed nominal rate of return (at 7%), assumed real rate of return (at 3.75%) and assumed inflation rate (at 3.25%).

Economic Assumptions Overview:

Jeff Bradley from Milliman presented to the Board information on assumptions. All liability calculations rely on assumptions. A periodic review is conducted on actual experience to make any needed adjustments to assumptions. Mr. Bradley also addressed historical, current and forecasted regarding price inflation, real wage growth, and general wage growth. Jim Van Heuit from Callan Associates addressed expected returns based on 2018-2027 capital market expectations. Mr. Van Heuit also presented information to the Board on PERSI's range of expected and cumulative returns. Robert Schmidt from Milliman addressed the real return expectation and investment return considerations for the Board. The illustrations referenced during the group presentation were included in the materials provided to the Board. Mr. Van Heuit stated Milliman did the calculations provided and Callan is in agreement with the information.

Director Drum stated that the assumption discussion will continue through subsequent Board meetings and should be completed by June.

LEGAL

Disability Cases before the Board:

Kelly Olaveson – PERSI final decision denying Petitioner's application for disability retirement benefits: Deputy Attorney General Cheryl George stated that this matter is before the Board for a final decision and order following a contested case hearing related to the denial of Petitioner's disability retirement application. A contested case hearing was held on September 26, 2017. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order on December 18, 2017, recommending that Mr. Olaveson's application for disability retirement be denied.

Trustee Fisher made a motion that the Board accepts the hearing officer's recommendation that this application be denied. Trustee Gould seconded the motion, which passed unanimously.

Nermina Sinanovic – PERSI final decision denying Petitioner's application for disability retirement benefits: Deputy Attorney General Cheryl George stated that this matter is before the Board for a final decision and order following a contested case hearing related to the denial of Petitioner's disability retirement application. A contested case hearing was held on November 14, 2017. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order on January 3, 2018, recommending that Ms. Sinanovic's application for disability retirement be denied.

Trustee Gould made a motion that the Board accepts the hearing officer's recommendation that this application be denied. Trustee Fisher seconded the motion, which passed unanimously.

Contested Case Memos to the Board:

Deputy Attorney General Cheryl George provided the format for contested case memos to the Board to ask for approval or requested changes. The Board stated no changes were requested at this time.

EXECUTIVE SESSION

At 10:40 a.m. Chairman Cilek 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 Price 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 Price made a motion to return to regular session. Trustee Sullivan 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 Cilek stated that during the executive session the Board did not take any action or make any decisions. Trustee Gould and Trustee Fisher were excused from the remainder of the meeting.

EXECUTIVE DIRECTOR

New Employer – Middleton Rural Fire District:

Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of the Middleton Rural Fire District with an entry date of March 1, 2018.

Trustee Price made a motion to approve the addition of this new employer. Trustee Sullivan seconded the motion, which passed unanimously.

Executive Director Status Update: Executive Director Don Drum updated the Board regarding the current legislative session. Director Drum addressed the following items:

- Joint Finance-Appropriations Committee (JFAC) presentation was on January 19th
- Attended hearing at House Commerce and Human Resources Committee on HB 400, 401, 402; All bills have moved through the House.
- HB 399 is a bill to allow certain DJC staff to have police officer status for PERSI purposes.
- SB 1263 is to change the value of sick leave that will be credited to an employee's sick leave account when the employee retires.
- HB 569 is a new bill stating that the State of Idaho is to do business only with those businesses which do not boycott the country of Israel or its entities.
- HB 427 is in regard to adding new employees to PERSI.

Chairman Cilek requested that the Board be kept up to date on the status of these bills. 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 23rd.

FISCAL

Fiscal Update / Expense Reports / Quarterly 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.

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


Don Drum, Executive Director Date

 3/20/18
Celia R. Gould, Acting Chairman Date