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., August 16, 2016. The following members were present:

Jody Olson  
Kirk Sullivan  
Jeff Cilek  
Joy Fisher  
Celia Gould

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

- Judy Shock  
- EFIB  
- KPunta  
- Andy Snook  
- AGO
- Douglas Dorn  
- Mike Mitchell  
- PERSI
- Jim Coleman  
- Retired Educators  
- Carmen Brooks  
- PERSI
- Jeff Bradley  
- Milliman  
- Diane Kaiser  
- PERSI
- Robert Schmidt  
- Milliman  
- Rose Marie Sawicki  
- PERSI
- Dennis Fitzpatrick  
- DB Fitzpatrick  
- Mika Milette  
- PERSI
- Brandon Fitzpatrick  
- DB Fitzpatrick  
- Tanya Martin  
- PERSI
- Bill Palumbo  
- MPIA  
- Kelly Cross  
- PERSI
- Bruce Reeder  
- MPIA  
- Larry Sweat  
- PERSI
- Mike Boren  
- Clearwater  
- Brandon Rigby  
- PERSI
- Rhet Hulbert  
- Clearwater  
- Cecile McMonigle  
- PERSI
- Anne Cappel  
- Empower  
- Theresa Lugo  
- PERSI
- Ali Belden  
- Empower

Approval of the Minutes: Trustee Cilek made a motion to approve the minutes of the July 19, 2016 meeting. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Callan 2Q 2016 & Year-End Update: PERSI’s Total Fund return for the 2nd quarter of 2016 was +1.69%, outperforming the Policy Target return of +1.52%. Manager negative value-added of 10 basis points stemmed from the underperformance of Global Equity and REITs relative to their respective benchmarks. The overweight to U.S. Equity and REITs and the underweight to Private Equity managers added to the relative returns, while the underweight to Fixed Income detracted.
The Total Fund ranked above median (45th percentile) for the quarter relative to Callan’s Total Public Fund database.

The fiscal year 2016 Total Fund return was 1.85%, outperforming both the Policy Target and the Long-Term Target. Managers in aggregate outperformed by 40 basis points; the overweight to REITs and underweight to Global and Emerging Markets were a positive contribution to Total Fund returns. The Total Fund ranked in the top quartile (19th percentile) for the fiscal year relative to Callan’s Total Public Fund database.

Over the five-year period, the Fund ranked in the 52nd percentile of Callan’s Total Public Fund database and topped the Policy Target return by 24 basis points. All managers added value relative to their benchmarks, with the sole exception of the Private Real Estate managers. The overweight to U.S. Equity and the underweight to Emerging Markets and U.S. Fixed Income also boosted returns.

Over the last 10 years, the Fund ranked in the 29th percentile of its Public Fund peers, and slightly underperformed the Policy Target (5.96% versus 6.07%). The negative allocation impacts outweighed the positive value-added from manager performance. Over the last 20 years, the Total Fund ranked in the 26th percentile of its Public Fund peers and outperformed the Long-Term Target by 33 basis points (7.45% versus 7.12%).

Monthly Investment Report: The fiscal year continues to produce record highs – in both PERSI and US equity markets. The markets continue to recover from the unexpected Brexit vote as the political chaos in the UK calmed, UK and European central banks lent support, and the reelection of Abe in Japan renewed promises of aggressive stimulus. Economic news also supported the market, with the US, in particular, continuing to show steady but low growth and the rest of the world continues to muddle along.

U.S. equities are up +0.5% for the month and are +4.6% for the new fiscal year, developed markets were up +1.5% and are +6.6% for the fiscal year, emerging markets are the best performing asset with month to date returns of +4.3% and +9.6% for the fiscal year, bonds are down -0.1% for the month but are up +0.5% for the fiscal year, and TIPS are down -0.4% but remain up +0.4% for the fiscal year to date. REITs are down -2.3% for the month are up +2.0% for the fiscal year, ahead of private real estate which has not been revaluated this early in the new fiscal year. Private equity is up +0.7%. As a result the fund as a whole not only has recovered all losses but has hit new all-time return highs with a month to date return of +0.7%, a fiscal year to date return of +3.4%, and a calendar year to date return of +7.6% with assets above $15 billion at $15.350 billion (approaching the alltime asset high of $15.420 billion set in April of last year).

Capital market and economic prospects remain tepid. Commodity prices have firmed (oil continues in the mid $40s), US economic news continues to come in better than expected with slow growth and a strong labor market, the Fed appears to be on hold for the time being, 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, 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.

With few revaluations of private assets, the fund started out the first weeks of the new fiscal year behind the (US dominated) 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.2%. Mellon Emerging has the best return at +9.5% while Peregrine has the best relative performance at +8.1%, which is +2.7% above their large cap growth benchmark. With returns of
+3.0% Mountain Pacific has the worst relative performance, starting out - 2.5% behind their mid cap benchmark.

EXECUTIVE DIRECTOR
Executive Director Status Update: Executive Director Don Drum updated the Board on the National Association of State Retirement Administrators (NASRA) Annual Conference, the employer meetings conducted in central and northern Idaho, and on the Interim Legislative Committee on State Employee Group Insurance/Benefits.

New Employer – Kimama Highway District #6: Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of Kimama Highway District #6 (Paul, Idaho) with an entry date of September 1, 2016. Trustee Gould made a motion to accept the staff recommendation. Trustee Sullivan seconded the motion, which passed unanimously.

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on the IRIS project and on personnel hiring. Mr. Hampton reported that the “Black Out” period would begin August 27 and IRIS would go online for staff on September 6. To that point, Trustee Sullivan commented that compared to the old computer administration system GALENA, the implementation of IRIS has been a tremendously smooth effort. Chairman Olson on behalf of the Board thanked the staff for their hard work on the project.

Choice Plan 2Q Update – Empower Retirement: Anne Cappel of Empower Retirement presented the second 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 $710.54 million as of June 30, 2016, which was a 2.5% increase from April 1, 2016. Contributions totaled $14.85 million from April 1, 2016 to June 30, 2016. As of June 30, 2016, the plan had 39,332 participants.

FISCAL UPDATE
FY 2018 Budget Request: Financial Executive Officer Alex Simpson presented the proposed request (staff recommendation) for the FY 2018 administrative and portfolio budgets. Mr. Simpson stated that the State was projecting a 10.0% increase in health insurance costs. The budget includes a request for one (1) new full time position (FTP) -- a Training Specialist which has a total cost of approximately $74,000. Additionally, there is a request for additional salary funding in the Portfolio budget.

Trustee Cilek made a motion to accept the staff recommended FY 2018 budget request which would allow for minor changes as final calculations are completed before submission on September 1. Trustee Fisher seconded the motion, which passed unanimously.

Fiscal Year 2016 Financial Statements: Financial Executive Officer Alex Simpson stated that the FY 2016 year-end unaudited financial statements were enclosed for Board review and said the final audited financial statements along with additional detail and note disclosures will be provided at the October meeting.

Fiscal Update / Expense Reports: Financial Executive Officer Alex Simpson updated the Board on PERSI’s year-to-date expense reports. Mr. Simpson commented that the IRIS go live and final milestone and hold back amounts will be paid after the system is live.

EXECUTIVE SESSION
At 10:00 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 Gould 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 Gould 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 11:25 a.m. and members of the public were invited into the boardroom. Chairman Olson stated that during the executive session the Board discussed the legal matter before the Board -- Case 01-15 Robert J. Elgee vs. PERSI.

Trustee Cilek made a motion that based on the pleadings before the Board (Judge Elgee’s motion), the Board deny Judge Elgee’s Motion for Production of Opinions for the following reasons:

- Since the filing of Judge Elgee’s Motion for Production of Opinions, DAG Guilfoy appears to have produced all responsive documents, with the exception of those she considers exempt from disclosure based on attorney-client privilege;

- DAG Guilfoy has produced a Privilege Log for those documents she believes are exempt from disclosure based on attorney-client privilege, and such documents appear to be within the attorney-client privilege; and

- There is no legal authority before the Board demonstrating that any Idaho courts recognize a fiduciary exception to the attorney-client privilege.

Trustee Gould seconded the motion, which passed unanimously.

Trustee Cilek made a second motion, that with respect to a Scheduling Order, and as provided by the Board’s counsel, the Board issue a Scheduling Order as follows:

- Disclosure of Proposed Witnesses (including Expert Witnesses) by no later than August 26, 2016

- Lists of Proposed Exhibits disclosed by no later than August 26, 2016

- Copies of Proposed Exhibits disclosed by no later than September 15, 2016

- Disclosure of Expert Witnesses Details by no later than September 8, 2016, which shall include the following information:
  - a complete statement of all opinions to be expressed and the basis and reasons for the opinion;
  - the data or other information considered by the witness in forming the opinions;
  - any exhibits to be used as a summary of or support for the opinions;
• a current resume of the witness evidencing the qualifications of the witness; and

• the compensation to be paid for the testimony.

• Position briefs filed with the Board by no later than September 7, 2016, which should set forth any arguments the parties may wish to offer concerning those specific issues identified in the Board’s Order for Additional Hearings and Briefing issued on May 27, 2016.

Trustee Gould seconded the motion, which passed unanimously.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 11:30 a.m.

Donald D. Drum  Jody Olson
Executive Director  Chairman