



Public Employee Retirement System of Idaho

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., August 21, 2018. The following members were present:

Jeff Cilek
Kirk Sullivan
Joy Fisher
Celia Gould
Park Price

Executive Director Don Drum, Deputy Director Michael Hampton, Chief Investment Officer Bob Maynard, 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:

Dennis Fitzpatrick	DB Fitzpatrick	Brent Nye	Retired Educators
Brandon Fitzpatrick	DB Fitzpatrick	Connie Bunch	Retired Educators
Eric Guth	DB Fitzpatrick	James Coleman	Retired Educators
Jim Coleman	Retired Educators	Barbara Blasch	Retired Educators
Jeff Bradley	Milliman	Suzanne Guinard	Judicial
Robert Schmidt	Milliman	Jenny Flint	PERSI
Bill Palumbo	MPIA	Diane Kaiser	PERSI
Bruce Reeder	MPIA	Rose Marie Sawicki	PERSI
Matt Lindstrom	MPIA	Adel Stacy	PERSI
Chris Brechbuhler	Clearwater	Lisa Conn	PERSI
Dan Bates	Clearwater	Kelly Cross	PERSI
Angie Holland	Empower	Larry Sweat	PERSI
John Borne	Prudential	Casey Hartwig	PERSI
Robert Schmidt	Milliman	Cecile McMonigle	PERSI
Jeff Bradley	Milliman	Ed Humphreys	Retired

At 8:35 a.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting. Chairman Cilek stated that Trustee Fisher was delayed but would join the meeting soon.

Approval of the Minutes: Trustee Gould made a motion to approve the minutes of the July 17, 2018 and the August 13, 2018 meetings. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Quarterly Update – Callan: Ann O'Bradovich from Callan Associates gave the Board an overall market review and summary for national and global markets. Ms. O'Bradovich also provided an update on the PERSI fund performance of the defined benefit, defined contribution and sick leave funds for Q2 of FY2018.

The DB fund ended its Fiscal Year with \$17.45B, an increase of \$1.1B since 2017 fiscal year end. The DB fund also earned a return of +8.7% during the fiscal year, topping the Policy Target return by 47 bps. The five-year DB return was +8.6%, topping the Policy Target return of +7.7%. Over the last 20 years, the DB fund has provided an average annual return of +6.7%, outpacing the Long-Term Target return of +6.2%.

The DC fund total assets were \$935M as of June 30, 2018. The Total Return Fund (+\$5.5M) had the largest inflow, followed by Mellon Broad Market (+0.6M) and Mellon Large Cap (+0.5M). The largest outflow was from Emerging Markets. The Sick Leave Plan is passively managed relative to the Long-Term Target of 55% US Equity, 15% Non-US Equity and 30% Fixed Income. The Sick Leave fund outperformed the Target by 1 bp for the quarter. Among Public Funds, the performance of the sick leave plan ranked within the top quartile for all time periods, ranging from 6th for the last 10 years to 21st for the fiscal year ending June 30, 2018.

Monthly Investment Report: Chief Investment Officer Bob Maynard gave the investment update; The US markets are the only market showing gains for the month. International and emerging markets have hit headwinds as rising US interest rates, a flattening yield curve, a stronger dollar, European tensions (led by Italy and Brexit), a slowing China, a collapse in Turkey, and trade fears dominate the financial news. US corporate earnings growth remains healthy.

This month the fund is down -0.4%, lowering the fiscal year return to +1.5% at \$17.694 billion. The sick leave fund is +2.7% at \$533 million. [The estimated funding ratio is 91.9%]

For this month US equities have risen +1.4% for a fiscal year to date return of +4.8%. International developed markets have lost -3.7% for a -1.3% fiscal year return. Global equities are off -0.5% for a +2.6% fiscal year and bonds are up +0.5% this month for a +0.5% fiscal year return. Emerging markets have lost -5.8% this month, for a -3.7% fiscal year to date return. REITS managed +2.9% for a +3.5% fiscal year to date return. TIPS have gained +0.4% to reduce their fiscal year to date loss to -0.1%. Private real estate has risen +1.2% this fiscal year while private equity is up +2.1%.

The fund as a whole starts behind the 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -1.1%, due primarily to lagging performance of REITs, private real estate, and global equities compared to the Russell 3000.

EXECUTIVE DIRECTOR

Executive Director Status Update: Executive Director Don Drum updated the Board on the National Association of State Retirement Administrators (NASRA) Annual Conference and his employer meetings conducted in central and northern Idaho. The NASRA conference focused on cybersecurity, risk assessment, investment trends and expectations. Many systems reported they are continuing to lower their investment return assumptions. In fiscal year 2018 many systems lowered their return assumptions into the 7% range.

Director Drum has completed 16 employer meetings which have been well attended and provided good input and feedback. Small rural employers are struggling with revenue while larger employers have seen their revenues increase but are still below the 2007 level. All employers are facing challenges of recruiting employees and say that the PERSI benefit is a key component of their employee compensation packages. Employers are very concerned about the possibility of any changes that could potentially reduce the benefit. Employers are also interested in finding legislative modifications which would allow PERSI retirees to continue to work. While rate increases are challenging, attendees stated that PERSI must maintain the benefit.

DEPUTY DIRECTOR

Deputy Director Status Update: Deputy Director Michael Hampton updated the Board on the Fiscal Year 2020 administrative and investment budget requests. Deputy Hampton also presented to the Board a rule change recommendation which clarifies rule 59.01.06.576 through 59.01.06.579 of Idaho Statute 59-1365 Voluntary Unused Sick Leave Pool. The recommended rule change would no longer allow employers to enter and withdraw from the sick leave plan at their leisure.

Trustee Fisher made a motion to approve the staff recommendation which clarifies rule 59.01.06.576 through 59.01.06.579 of Idaho Statute 59-1365 Voluntary Unused Sick Leave Pool. Trustee Gould seconded the motion, which passed unanimously.

FISCAL UPDATE

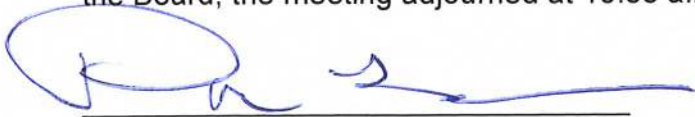
FY 2020 Budget Request: Financial Executive Officer Alex Simpson presented the proposed request (staff recommendation) for the FY 2020 administrative and investment budgets. The budget includes a request for two positions (one internal actuary & one investment officer), an upgrade to the Oracle Enterprise database, construction of an onsite training center, an operation budget increase and the 2020 PERSI expo.

Fiscal Year 2018 Financial Statements: Financial Executive Officer Alex Simpson stated that the FY 2018 year-end unaudited financial statements were enclosed in the packets for Board review. 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.

Trustee Gould made a motion to accept the staff recommended FY 2020 budget request. Trustee Fisher seconded the motion. Trustee Sullivan opposed the motion. The motion passed by majority vote.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 10:55 a.m.



Donald D. Drum
Executive Director



Jeff Cilek
Chairman