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., December 4, 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, 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:

Dennis Fitzpatrick  DB Fitzpatrick  Charlene Ripke  Citizen  
Brandon Fitzpatrick  DB Fitzpatrick  Tom Ripke  Citizen  
Garrett Walls  Angelo Gordon  Andrea Patterson  Judicial  
Robert Schmidt  Milliman  Travis Crump  Student  
Jeff Bradley  Milliman  Ed Humphreys  Student  
Bill Palumbo  Mountain Pacific  Chris Wester  PERSI  
Chelsie Wasden  Mountain Pacific  Jenny Flint  PERSI  
Matt Lindstrom  Mountain Pacific  Diane Kaiser  PERSI  
Chris Brechbuhler  Clearwater  Kelly Rowlands  PERSI  
Ann Mahrdt  Empower  Lisa Conn  PERSI  
Ann O’Bradovich  Callan  Kelly Cross  PERSI  
Greg Allen  Callan  Casey Hartwig  PERSI  
James Coleman  Retired Educators  Jon Wald  PERSI  
Brent Nye  Retired Educators  Rose Marie Sawicki  PERSI  
Dana Cummings  Member  Adel Stacy  PERSI

At 8:35 a.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting. Chairman Cilek stated that the order of the agenda items were being updated to hold executive session following break instead of after the COLA presentation. All other items to remain the same.
Approval of the Minutes: Trustee Fisher made a motion to approve the minutes of the October 16, 2018 meeting. Trustee Sullivan seconded the motion, which passed unanimously.

Chairman Cilek recognized the recent announcement of Richelle Sugiyama being named in the top 30 investors by Trusted Insight and Bob Maynard being named in the Power 100 list by CIO (Chief Investment Officer).

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 Q3 of FY2018.

The defined benefit fund ended Q3 with $17.9B (an increase of .42B during the quarter). The five-year fund return was +8.2%, surpassing the target return of +7.3%. Over the last 20 years, the fund has provided an average annual return of +7.3%, outpacing the long-term target return of +6.8%. The fund has ranked above the median of its public fund peers. Over the last 15 years, the fund has ranked in the first quartile (20th) and just below the first quartile over the last 20 years (27th). The fund outperformed the policy target by 18 basis points during the past quarter, by 66 basis points for the past 12 months and by 82 basis points for the past five years.

The defined contribution plan has assets totaling $969M as of September 30, 2018. The Total Return Fund had the largest inflow (+$3.3M), followed by Mellon Large Cap (+0.9M) and Mellon Small/Mid Cap (+0.4M). The largest outflow was from Mellon International Index (-$0.3M). The sick leave plan is passively managed with assets being invested in the State Street Global Advisors index funds. The fund topped the target by 12 basis points for the quarter. The fund has a return of 11.27% which is 29 bps ahead of the target return of 10.98%. The primary source of the performance variation is rebalancing to the target. Among public funds, the performance of this plan ranked within the top quartile for all time periods, ranging from 3rd for the past quarter to 12th for the last year.

Investment Policy Update: Chief Investment Officer, Bob Maynard, provided an overview of the investment policy update. A draft policy was introduced to the Board with a final adoption intended for the February Board meeting. Mr. Maynard requested that the Board let him know of any unclear or uncertain areas of the policy so it can be updated prior to February.

Investment Staff Advisors: Investment Officer, Richelle Sugiyama, presented staff advisor agreement details and information to the Board. Staff recommends that the Board approve to renew the staff advisor agreements for Alban Row (Bill Raver) and John Jenks as well as the volunteer advisor agreements for Bob Storer and Garrett Walls. Staff also requests the Board to approve a staff (or volunteer) advisor agreement with Tom Lee, a volunteer advisor agreement with Dwight Churchill and to authorize the Chief Investment Officer to execute the agreements on behalf of the Board.

Trustee Price made a motion to accept the staff recommendation and approve the staff advisor agreements as well as authorize the CIO to execute the agreements. Trustee Gould seconded the motion, which passed unanimously.

Monthly Investment Report: Chief Investment Officer, Bob Maynard, gave the investment update; after one of the worst months in the last 25 years, November has returned to the generally sideways market moves experienced since February. This month the fund is up
+2.1%, bringing the fund back to even (0.0%) for the fiscal year at $17.3 billion. [The fund is up 0.9% for the calendar year].

This month US equities gained +2.0% for a fiscal year to date return of +1.2%, international developed markets fell -0.3% for a -7.2% fiscal year return, global equities were up +1.0% for a -1.9% fiscal year so far, and bonds were up +0.6% for a -0.2% fiscal year return. Emerging markets, however, gained +4.1% this month, for a -5.9% fiscal year to date return, REITS were also up +4.8% for a +2.9% fiscal year to date return, while TIPS gained +0.5% to show a fiscal year to date loss of -1.8%. Private real estate has risen +4.1% this fiscal year while private equity is up +9.8%. Growth has lost its longstanding lead over value so far this fiscal year.

For the fiscal year, private equity has the best return at +9.8% while Mountain Pacific has the best public relative performance against benchmark with a +3.6% return being +7.8% above their benchmark. Donald Smith has the worst absolute and relative performance at -8.7%, which is -4.6% behind their benchmark. The fund as a whole is ahead of the 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by +0.4%, due primarily to outperformance of private equity and real estate compared to the Russell 3000.

Investment Manager Comments: The Investment Managers who were present shared their opinions and predictions relative to the general market conditions.

EXECUTIVE SESSION
At 9:55 AM, 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 Gould made a motion to go into executive session. Trustee Sullivan seconded the motion and the Board voted 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 was called back into regular session at 10:33 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.

EXECUTIVE DIRECTOR
Cost of Living Adjustment: Executive Director, Don Drum, addressed the Board in regard to the options pertaining to the COLA. Idaho Code 59-1305(4) requires that the Board actuary prepare an annual valuation. Idaho Code section 59-1322(4)(d) requires the amortization period be less than 25 years. Idaho Code allows the Board to consider providing retirees with a COLA above the mandatory 1% if the amortization period, of the most recent valuation, is less than 25 years. The Board can, and historically has, considered fund investment performance in the months following the valuation date.

It is estimated that as of November 23rd the amortization period rose to 22.9 years. By November 28th it had dropped back to approximately 20.2 years. The funded status dropped from 91.2% funded (with an amortization of 13.9 years) on July 1 to 87% funded as of close of business on November 23rd. On November 28th the funded status had rebounded to 88.5%. Electing to provide the 1.7% discretionary COLA for 2018 (2.7% CPI-U less the 1% mandatory) would be a cost of $170.3 million. This would result in the July 1 amortization to rise to approximately 15.8
years. The fund would need to achieve a 2.02% fiscal year-end return to avoid a future rate increase proposal.

Trustee Fisher commented that back in October she was considering offering an additional discretionary COLA but since the market has become so volatile it seems more fiscally responsible to stay conservative and avoid the possibility of having to consider additional rate increases in the near future. Chairman Cilek agreed that staying conservative is the best approach considering the current market.

The Board took no action in regard to a discretionary or retroactive COLA. The legislative mandated 1% COLA increase will go into effect on March 1, 2019.

DEPUTY DIRECTOR
Process for Public Safety Permanent Disability Benefits: Deputy Director, Michael Hampton, presented information to the Board regarding the public safety officer permanent disability benefit and the process of how these requests will be handled moving forward. Under Idaho Statute §59-1352A, a public safety officer (as defined under §59-1303, §59-1302, or §72-1403(A)) who has been ruled by the retirement system to be permanently disabled as a result of bodily injury or disease sustained in the line of duty is eligible for a one-time disability benefit in the amount of $100,000.

Staff will conduct reviews of all applications for PSOPDB utilizing all available information, such as workers comp filings, long-term disability applications, settlements, medical records, etc. The review process will be conducted by staff and/or MMRO. Upon completion of staff review, if it is determined that the public safety officer has met all of the requirements of §59-1352A, the Retirement Board will be presented with staff's findings and a recommendation that the Board approve the $100,000 permanent disability benefit. If staff determines the member has not met all of the requirements of §59-1352A, the application will be denied, which preserves the members right to appeal staff's decision to the Retirement Board. This benefit is 100% funded by additional contributions from public safety officers. Staff is developing an application for affected public safety officers to assist in communicating the benefit as well as streamlining the process.

LEGAL
Public Safety Permanent Disability Benefit Requests: Deputy Attorney General, Cheryl George, presented three applications from public safety officers for the one-time permanent disability benefit in the amount of $100,000 as provided in Idaho Code §59-1352A.

Thomas Pawek applied for disability on or around March 3, 2018. On October 30, 2018, Mr. Pawek was approved for PERSI disability. On November 5, 2018, Mr. Pawek sent a letter to PERSI requesting the one-time benefit payment of $100,000 for PSOs who are permanently disabled in the line of duty. Director Drum met with Mr. Pawek and recommends that the Board find Mr. Pawek has met the requirements of Section 59-1352A.

Dana Cummings was deemed to be totally disabled by PERSI on July 13, 2011. He entered into a settlement agreement with Idaho State Insurance Fund on May 20, 2015 for the injuries sustained at work on November 28, 2006. MMRO has reviewed Mr. Cummings file and has determined that the permanent disability arose out of the performance of his job duties.

Scott Ockerman was determined to be totally disabled by PERSI on August 30, 2018. MMRO has reviewed Mr. Ockerman's file and has determined that the permanent disability arose out of the performance of job duties.

The Board is being asked to make a decision on each application and issue a final order.
Trustee Fisher made a motion to approve the request for the public safety permanent disability benefit for Mr. Pawek, Mr. Cummings and Mr. Ockerman. Trustee Gould seconded the motion, which passed unanimously.

Contested Case Matter Before Board – Will Holladay: Deputy Attorney, Cheryl George, presented to the Board information regarding the appeal of a PERSI final decision denying Will Holladay’s (Petitioner) application for disability retirement benefits. The Hearing Officer found that Petitioner failed to establish that he was permanently and continuously prevented from engaging in any occupation or employment for profit or remuneration as a result of his physical conditions. The Recommended Order recommends Petitioner’s application for disability retirement benefits be denied.

The Board may schedule oral argument by the parties, remand for further evidentiary hearings or issue a final order accepting, rejecting or modifying the Recommended Order. The Board has reviewed the contested case and did not request any further discussion nor have any addition questions.

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.

FISCAL UPDATE
Fiscal Update / Expense Reports: Financial Executive Officer, Alex Simpson, updated the Board on PERSI’s monthly out of state travel and year-to-date expense reports.

The Board reviewed the preliminary January Board meeting agenda.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 11:15 a.m.

PORTFOLIO
Annual Luncheon: The Board reconvened at Crane Creek Country Club, 500 W. Curling Drive, Boise ID 83702, at 11:45 a.m. The following members were present:

Jeff Cilek
Joy Fisher
Celia Gould
Park Price

Bill Raver, Bob Storer, Dwight Churchill, Garrett Walls, John Jenks, Ann O'Bradovich, and Greg Allen were also in attendance. Trustee Sullivan was absent and excused.

The advisors and consultants present at the meeting held a general discussion regarding the fund and market conditions.

Adjournment: No decisions were made, and there being no further business to come before the Board, the meeting adjourned at 2:00 p.m.