



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., July 17, 2018. The following members were present:

- Jeff Cilek
- Kirk Sullivan
- Joy Fisher
- Celia Gould

Trustee Price was absent and excused. 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:

James Coleman	REAL	Jenny Flint	PERSI
Robert Schmidt	Milliman	Lisa Conn	PERSI
Jeff Bradley	Milliman	Diane Kaiser	PERSI
Rhet Hulbert	Clearwater	Kelly Cross	PERSI
Dan Bates	Clearwater	Casey Hartwig	PERSI
Bruce Reeder	MPIA	Brian Hattingh	PERSI
Matt Lindstrom	MPIA	Kelly Rowlands	PERSI
Bill Palumbo	MPIA	Cecile McMonigle	PERSI
Brandon Fitzpatrick	DB Fitzpatrick	Rose Marie Sawicki	PERSI
Casey Macomb	DB Fitzpatrick	Larry Sweat	PERSI
Brad Berls	Eide Bailly	Adel Stacy	PERSI
Ed Humphreys	Retiree		
Suzanne Guinard	Supreme Court		

At 8:40 a.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting.

Approval of the Minutes: Trustee Gould made a motion to approve the minutes of the June 19, 2018 meeting. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: Chief Investment Officer Bob Maynard gave the investment update; The fund ended FY 2018 with a gross return of +8.7%, a net return of +8.4%, at \$17.453 billion

dollars and an estimated funding ratio of 91.0%. U.S. bond markets dropped around -1% US equity market dropped around -2%. Emerging markets dropped -20% and developed markets retreated around -10%. As a result, the fund lost -3.0% from its highs, but still managed to materially outperform the net discount rate of +7.0%. The sick leave fund ended the year up +9.4% at \$518 million.

So far this month the fund is up +1.7% at \$17.774 billion. The sick leave fund is +1.99% at \$528 million. For this month U.S. equities have risen +3.1%, international developed markets are up +0.7%, global equities are up +2.2%, bonds have risen +0.4%. Emerging markets have gained +1.0%, REITS are up +0.7% and TIPS have managed a +0.4% for the fiscal year. Private real estate has no new valuations while private equity is up +3.9% for the month. Growth is still substantially outperforming value, even in these first few weeks of the new fiscal year.

Portfolio will do a complete review of the economy as part of the investment update at the August Board meeting. In September, Portfolio will be completing the private equity workshop and later in the year they will be doing a review of the investment policy for possible language changes and biases.

#### Investment Manager Comments:

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

#### EXECUTIVE SESSION

At 9:25 a.m. Chairman Cilek stated the Board intended to move to Executive Session in accordance with Idaho Code 74-206(1)(b), to convene in Executive Session to consider personnel matters. Trustee Sullivan made a motion to move into Executive Session. The motion was seconded by Trustee Gould, and approved unanimously via roll call vote.

Upon conclusion of the Executive Session, Trustee Gould 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 10:00 a.m. and members of the public were invited into the Boardroom. During the Executive Session the Board discussed the evaluation and compensation of Executive Director Don Drum. Director Drum will receive a CEC salary increase of 5%.

#### EXECUTIVE DIRECTOR

##### Executive Director Status Update:

Director Drum completed the first week of his annual employer tour. He also met one-on-one with employers who requested individual follow-up meetings from the survey sent earlier in the summer. His main focus of the tour is to discuss contribution rates and the contribution rate increase effective July 2019. During his meetings, Director Drum has received feedback that employers trust the Board unequivocally and they know that the Board will do only what is needed to protect the fund. Employers in the more rural parts of the state are impacted the most by rate increases but they understand that the Board makes changes only when absolutely necessary.

Chairman Cilek asked if the employer survey sent earlier in the year resulted in further input regarding changes. Director Drum stated that the survey only received about a 10% response rate and that his presentation covers most of what was asked in the survey. Chairman Cilek asked about doing an additional survey at the meetings and Director Drum stated that he is working on more ideas to connect with employers one of which may include another survey.

### Economic Assumptions:

Executive Director Drum opened the discussion regarding economic assumptions and asked the Board if they had anything they would like to review before making a decision. Chairman Cilek responded that the Board has had extensive conversations and review of the assumption information in the Board meetings since the beginning of the year and the Board is ready to make a decision without further deliberation. Trustee Fisher stated that after long and thoughtful review by the entire Board of the many moving pieces, she believes moving forward with Milliman's recommendation of small incremental changes is the best decision.

Trustee Fisher made a motion that the Board adopts scenario 1a-1 from the Milliman alternate assumption scenarios chart which includes a 7% investment return, 3% inflation assumption, 4% real investment return, 0.75% real wage growth and 3.75% total wage growth. Trustee Gould seconded the motion. Trustee Sullivan opposed the motion. The motion passed by majority vote.

The economic assumptions adopted by the Board apply to all plans the Board has authority over.

### DEPUTY DIRECTOR

#### Deputy Director Status Update:

Deputy Director Hampton gave a preview of the FY2020 budget submissions for Operations. A final list will need to be prepared and submitted to the Division of Financial Management by September 1<sup>st</sup>. Staff will ask for the Board's approval of the FY2020 budget submission at the August Board meeting.

At the March 20, 2018 Board meeting, the Board approved staff's request to engage The Land Group (TLG) to update a 2016 analysis TLG performed to demolish the 820 Building and install a parking lot. At the Board's request, the analysis was expanded to review the option of dividing the lots and selling the property. TLG completed their review and analysis. Considering the TLG review, as well as PERSI's current and future operational needs, staff recommends that the Board authorize the Executive Director to engage TLG to oversee the demolition of the 820 building and construction of a parking lot, which will be retained as an operating asset of the Trust.

Trustee Sullivan made a motion that the Board authorize the Executive Director to engage TLG to oversee the demolition of the 820 building and construction of a parking lot. Trustee Fisher seconded the motion, which passed unanimously.

### LEGAL

#### Contested Case before the Board:

Kenneth Geddes – PERSI final decision denying Petitioner's application for retirement classification change: 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 retirement classification as a Class 2 employee. A contested case hearing was held on March 14, 2018. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order on June 2, 2018 recommending the Petitioner's request for status as a police officer for retirement purposes be denied. The Petitioner filed a Petition for Reconsideration of the Hearing Officer's Recommended Findings of Fact and Conclusions of Law on June 12, 2018. The Hearing Officer issued an order denying the Petition for Reconsideration on June 20, 2018.

Trustee Fisher made a motion that the Board accepts the hearing officer's recommendation that this application for a classification change be denied. Trustee Sullivan seconded the motion. Trustee Gould opposed the motion. The motion passed by majority vote.

Trustee Gould requested a review of the statute in regard to the classification of resource officers. Director Drum will meet with the State Board of Education to review the statute and assist them should they decide they would like to draft legislation for the upcoming session.

FISCAL

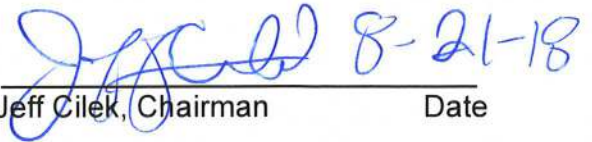
Fiscal Update / Expense Reports / Quarterly Financial Statements: Financial Executive Officer Alex Simpson updated the Board on PERSI's year-to-date expense reports for the Administrative/ Portfolio funds and on the quarterly financial statements.

Mr. Simpson reviewed the budget process and timelines. He will be working on forms and with department managers to complete a final list before the August Board meeting.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 10:40 a.m.



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Don Drum, Executive Director      Date



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Jeff Cilek, Chairman      Date