



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., June 19, 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:

Ann O'Bradovich	Callan	Brent Nye	Retiree
Robert Schmidt	Milliman	Nick Schlader	Retiree
Jeff Bradley	Milliman	Bruce Newcomb	Retiree
Mark Olleman	Milliman	Connie Bunch	Retired Educators
Michael Torres	Adelante Capital Mgt	Jim Coleman	Retired Educators
Chris Brechbuhler	Clearwater	Suzanne Guinard	Supreme Court
Bruce Reeder	MPIA	Jenny Flint	PERSI
Matt Lindstrom	MPIA	Kris Colt	PERSI
Bill Palumbo	MPIA	Diane Kaiser	PERSI
Brandon Fitzpatrick	DB Fitzpatrick	Kelly Cross	PERSI
Dennis Fitzpatrick	DB Fitzpatrick	Maria Quitugua	PERSI
Angelina Chantler	DB Fitzpatrick	Kelsey White	PERSI
Justin Packard	DB Fitzpatrick	Brian Hattingh	PERSI
Casey Macomb	DB Fitzpatrick	Kelly Rowlands	PERSI
John Borne	Prudential	Cecile McMonigle	PERSI
Ann Mahrdt	Empower	Rose Marie Sawicki	PERSI
Ted Kunz	Bell	Larry Sweat	PERSI
Greg Sweeney	Bell Bank		

At 8:30 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 May 15, 2018 meeting. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Quarterly Update – Callan: Ann O’Bradovich from Callan Associates updated the Board on the PERSI fund performance in the 1Q 2018. Ms. O’Bradovich discussed broad market performance, the U.S. and non-U.S. equity markets, and the fixed income market. PERSI’s defined benefit Total Fund ended the 1st quarter with \$17.3 billion with is a decrease of \$0.2 billion since December 31, 2017. The five-year Total Fund return was +8.2%, topping the policy target of +7.2%. Over the last 20 years, the Total Fund has outperformed the long-term target return. The fund ranks above the median of public fund peers for the past quarter. Over the last 20 years, the total fund ranks in the 30th percentile of public funds. Ms. O’Bradovich also covered the defined contribution and sick leave funds. The total assets of the defined contribution fund grew to \$914.8 million as of March 31, 2018. The Total Return Fund had the largest inflow followed by the PERSI STIP. At the end of the 4th quarter, the sick leave fund asset classes were at their target weights. Among public funds, the performance of the sick leave plan ranked within the top quartile for all longer-term periods.

Idaho Commercial Mortgage Program Review: Investment Officer Richelle Sugiyama presented summary of findings of the annual Berkadia Idaho Commercial Mortgage Program review. All aspects of the program were reviewed by Berkadia. Berkadia concluded that the program’s performance equals or exceeds current industry standards and the program received an “equaled or exceeded” performance grade with no identified weaknesses. Ms. Sugiyama recognized Brandon Fitzpatrick with D.B. Fitzpatrick for his great oversight of the program.

Brandon Fitzpatrick from D.B. Fitzpatrick presented the annual portfolio update. This included the portfolio performance, an overview of the Idaho economy, the National and Idaho specific commercial real estate market and the strategy of the Idaho Commercial Mortgage Program.

Monthly Investment Report: Chief Investment Officer Bob Maynard gave the investment update; So far this month the fund has gained +1.0% to \$17.706 billion, for a fiscal year to date return of +10.0%. The sick leave fund has returned +10.8% over the same period to \$525 million. These levels are still below the highs reached on January 26th.

The overall economic picture remains positive. This month US equities have risen +2.9% raising the fiscal year to date return to +17.4%, international developed markets are up +0.8% to +9.3%, global equities are up +2.1% to +13.9%, while bonds have dropped -0.5% for a -0.7% loss for the fiscal year to date. Emerging markets are down -0.5% to +12.7%, REITS are up +1.0% to +1.0% for the fiscal year, and TIPS are down -0.3% to +1.4% for the fiscal year. Private real estate rose to +13.1% while private equity is up +18.4% for the fiscal year so far. Growth continues to substantially outperform value both in the US and overseas.

The fund as a whole is behind of the 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.5%, primarily due to the lagging performance of REITs, private real estate, and global equities 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 DIRECTOR

Nicholas Schlader – PERSI settlement regarding reinstatement of disability benefits: Executive Director Drum stated that this matter is before the Board for a decision regarding the stipulation and consent order to reinstate the member's disability benefits. Acceptance of the order would reinstate the member's disability benefit effective July 1, 2018.

Chairman Cilek asked the minutes to reflect that he is an acquaintance of Mr. Schlader and that Mr. Schlader's doctor works for St. Luke's.

Trustee Fisher made a motion that the Board accepts the stipulation and consent agreement. Trustee Gould seconded the motion, which passed unanimously.

Executive Director Status Update:

Director Drum has finalized his employer tour schedule and will begin giving presentations throughout the state in July with an anticipated completion date at the end of September. Director Drum will be focusing on the proposed contribution rate increase set to go in to effect July 1, 2019. He also plans to meet with as many legislators as possible between now and the end of the year.

The Board has until July to make a final decision on the Assumptions. Consideration of the proposed rate increase would need to be made by the October meeting. If the Board chooses not to take any action, the rate increase will go into effect on July 1, 2019. Consideration of the discretionary COLA and any decisions regarding the COLA will need to be made by the December Board meeting.

Director Drum stated that there does seem to be some confusion regarding sick leave and insurance premiums. The Office of Group Insurance is working on expanding their services to address the state employee sick leave benefit. School districts will need to work with the State Board of Education regarding sick leave for educators. Trustee Gould requested that PERSI continue to work with OGI to provide better information to members as it becomes available.

Wage Growth Assumptions Overview:

Jeff Bradley with Milliman opened the presentation on wage growth assumptions. Mr. Bradley discussed Milliman's philosophy regarding assumptions and gave a summary on economic assumptions. Mr. Bradley also discussed total wage growth including price inflation, real wage growth and individual merit scales. Robert Schmidt with Milliman presented additional information on price inflation, real wage growth, merit salary increases and the history of wages & inflation. Mark Olleman with Milliman discussed the assumption scenarios presented during the May Board meeting including the addition of the real wage growth scenarios.

DEPUTY DIRECTOR

Deputy Director Status Update:

Deputy Hampton introduced Brain Hattingh as the newest member of the Program Department and welcomed him to PERSI. Mr. Hattingh will be working in the outreach program as a trainer for PERSI members.

Deputy Hampton has received requests from third party vendors that would like to provide services to and have access to PERSI membership. It has been PERSI staff's policy to not promote vendors, products or services to and for membership. Deputy Hampton and PERSI staff is requesting guidance from the Board on how to handle these types of requests. The Board approves vendors to offer products and services to PERSI members but will not allow any PERSI

administrative support including access to member information, no endorsements of the vendor or its services and does not allow any vendors to use the PERSI branding.

The Land Group has completed the final analysis of the 820 building. The options for the building include both demolition and the building of additional parking for PERSI or separating the lots and selling off the asset. Deputy Hampton will send the full report to the Board for further review. The Board will discuss how they would like to proceed at the July Board meeting.

PERSI staff is collecting information from employers to find out the interest and impact of adding a Roth option to the Choice 401(k) Plan. PERSI has contacted third party administrator for our internal systems and they believe adding the option would have minimal impact as they handle this type of transaction for other customers. Deputy Hampton will have more information on the employer feedback at the July Board meeting.

EXECUTIVE SESSION

At 11:05 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 Fisher 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 Gould seconded the motion, which passed unanimously.

REGULAR SESSION

The Board returned to regular session at 11:35 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.

LEGAL

Disability Cases before the Board:

Carl Southwick – 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 February 6, 2018. The parties filed closing statements on March 2, 2018. The Hearing Officer issued Findings of Fact, Conclusions of Law and Recommended Order on April 2, 2018, recommending that Mr. Southwick'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 Sullivan seconded the motion, which passed unanimously.

Hearing Officers:

Deputy Attorney General Cheryl George requested permission from the Board to begin looking for additional Hearing Officers for PERSI to contract with. PERSI currently has three Hearing Officers and would like to add two more. Ms. George also asked for direction on whether or not the Board would request that the Hearing Officers be non-PERSI members. The Board gave permission for Ms. George to begin looking for additional Hearing Officers which can be either PERSI or non-PERSI members.

EXECUTIVE DIRECTOR

New Employers:

Executive Director Don Drum announced that Gem Prep Meridian Inc., Project Impact STEM Academy, Future Public School Inc. and Peace Valley Waldorf Charter are the newest employers to join PERSI with an entry date of July 1, 2018. These are mandatory employers and vote by the Board was not required.

Executive Director Don Drum presented the staff recommendation that the Board approve the admittance of the City of Grandview with an entry date of October 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 Don Drum presented the staff recommendation that the Board approve the admittance of the City of Mud Lake with an entry date of July 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 Don Drum presented the staff recommendation that the Board approve the admittance of the Henry's Fork Groundwater District with an entry date of July 1, 2018.

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

FISCAL

Chairman Cilek recognized Financial Executive Officer Alex Simpson on his recent Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ending June 30, 2017 received from the Government Finance Officers Association. Mr. Simpson acknowledged his entire department for all of their hard work and also thanked the Board for the recognition.

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 11:50 a.m.


Don Drum, Executive Director Date


Jeff Cilek, Chairman Date
7-17-18