



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., October 16, 2018. The following members were present:

Jeff Cilek
Kirk Sullivan
Joy Fisher

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:

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| Casey Macomb | DB Fitzpatrick | Andrea Patterson | Judicial |
| Tyler Jaglowski | DB Fitzpatrick | Ed Humphreys | Student |
| Brad Berls | Eide Bailly | Chris Wester | PERSI |
| Jeff Bradley | Milliman | Jess Simonds | PERSI |
| Robert Schmidt | Milliman | Jenny Flint | PERSI |
| Bill Palumbo | Mountain Pacific | Diane Kaiser | PERSI |
| Bruce Reeder | Mountain Pacific | Kelly Rowlands | PERSI |
| Matt Lindstrom | Mountain Pacific | Lisa Conn | PERSI |
| Chris Brechbuhler | Clearwater | Kelly Cross | PERSI |
| Ann Mahrtdt | Empower | Casey Hartwig | PERSI |
| Connie Bunch | Retired Educators | Jon Wald | PERSI |
| James Coleman | Retired Educators | Rose Marie Sawicki | PERSI |
| Brent Nye | Retired Educators | 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 Trustee Gould and Trustee Price were both absent and excused from the meeting.

Approval of the Minutes: Trustee Fisher made a motion to approve the minutes of the September 18 and September 19, 2018 meetings. Trustee Sullivan seconded the motion, which passed unanimously.

PORTFOLIO

Monthly Investment Report: Chief Investment Officer Bob Maynard gave the investment update; this month the fund is down -3.9%, dropping the fiscal year return to -1.1% at \$17.193 billion. The sick leave fund is down -0.2% for the fiscal year at \$519 million.

After reaching all-time highs at the end of August and maintaining in September, October has seen significant drops across all of the capital markets. Paced by rising real interest rates, contagion fears in the emerging markets, tech fears in the US, and increasing trade worries, all elements of the securities markets showed marked drops so far this month. Wednesday, October 10th saw the steepest plunge in the US stock markets since early February. The DOW was down 831 points and the S&P dropped -3.3%. Economic conditions in the US are still robust.

US equities have dropped -5.5% for a fiscal year to date return of +1.20%. International developed markets have fallen -6.2% for a -5.1% fiscal year return. Global equities are down -5.5% for a -0.8% fiscal year so far and bonds are off -0.5% for a -0.5% fiscal year return. Emerging markets have lost another -6.5% this month, for a -7.6% fiscal year to date return. REITS are off -5.7% for a -5.0% fiscal year to date return. TIPS have lost -0.8% to show a fiscal year to date loss of -1.6%. Private real estate has risen +2.0% this fiscal year while private equity is up +6.3%.

For the fiscal year, private equity had the best return at +6.3% while Mountain Pacific had the best public relative performance against benchmark with a +0.4% return (+4.2% above their benchmark). Donald Smith had the worst absolute and relative performance at -8.7% (4.9% behind their benchmark). The fund as a whole is behind the 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by -0.8%, due primarily to lagging performance of emerging markets 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

PERSI, FRF, JRF Actuarial Valuation Adoption: Robert Schmidt of Milliman presented the final actuarial valuation for the PERSI fund, the Firefighters' Retirement Fund (FRF), and the Judges' Retirement Fund (JRF) as of July 1, 2018. The PERSI fund valuation shows that PERSI has 71,112 contributing active members (increase of 1.5% from 2017), 46,907 members and beneficiaries receiving benefits (increase of 3.2% from 2017), 13,133 vested terminated members, and 24,455 non-vested terminated members, for a total of 155,607 members. Based on the current blended contribution rate of 18.42% of pay, and the currently scheduled increase of the contribution rate to 19.42%, the UAAL is projected to be amortized over 13.9 years if future experience matches the actuarial assumptions, excluding any potential March 1, 2019 discretionary COLA. Under the Board's current investment policy, assets in excess of a 114% funded ratio are considered extraordinary gains. Since the funding ratio as of July 1, 2018 is less than 114%, no assets are available for consideration for Gain Sharing. The FRF valuation shows a funded ratio of 136.2%. The JRF valuation shows a funded ratio of 82.12% with an amortization period of 11 years. The Board did not have any questions regarding this information.

Trustee Fisher made a motion to accept the valuation reports. Trustee Sullivan seconded the motion, which passed unanimously.

Executive Director Status Update: Executive Director, Don Drum, reviewed the status of the PERSI Fund and discussed the options the Board could consider relative to COLA. Based on the 2018 CPI-U, a 1% mandatory COLA will go into effect March 1, 2019. Using the fund asset return from close of business on Friday, October 12th, the 1% COLA will bring the funded ratio to 88.4%. Director

Drum reviewed and discussed a few early warning models. He pointed out that if the year were to end with our current return, the Board would need to propose an additional rate increase on top of the current proposal in order to stay below the required 25 year amortization period. Director Drum also explained granting any discretionary COLA would simply require a potential larger increase in contribution rates.

Chairman Cilek stated that the Board will wait until the December Board meeting to make a decision on COLA. This will give some time to see what happens in the market. All five members of the Board will also be present at the meeting in December. Trustee Fisher and Trustee Sullivan both agreed with the decision to wait until December.

Director Drum asked the Board if they would like to review any of the contribution rate information. Chairman replied that further review would not be necessary. Trustee Fisher stated that she had wanted to postpone the contribution rate increase, but with current market conditions, it would be best to let the rate increase go into effect in order to protect the fund and not to have to consider another rate increase in the near future. Trustee Sullivan also stated that he believes it is in the best interest of the fund to allow the rate increase to go into effect.

The proposed contribution rate increase of 1% will go into effect July 1, 2019.

DEPUTY DIRECTOR

Deputy Director Status Update: Deputy Director, Michael Hampton, addressed the Board regarding the most current draft of the funding guidelines. Deputy Hampton requested the Board to send any input on the guidelines regarding changes or adjustments. Deputy Hampton will provide an updated draft to the Board for final review. The Board did not have any questions or comments on the funding guideline at this time.

FISCAL UPDATE

FY 18 Audited Financial Statements: Brad Berls of Eide Bailly reported that the FY 18 audit had been completed with a result of a clean and unmodified opinion from Eide Bailly. The System administers seven fiduciary funds. These consist of three defined benefit pension trust funds – the PERSI Base Plan, the Firefighters' Retirement Fund (FRF) and the Judges' Retirement Fund (JRF); two defined contribution pension trust funds – the PERSI Choice Plan 401(k) and 414(k); and two Sick Leave Insurance Reserve trust funds – State and Schools. PERSI is viewed as a well-run and conservatively managed pension plan compared to plans nationally. This reputation stems from sound decisions made by the legislature and the Board. Mr. Berls stated that PERSI was very accommodating and management was easy to work with while Eide Bailly performed and completed the audit. Mr. Berls thanked the audit committee and the fiscal department for their time and commitment throughout the audit process.

Trustee Fisher made a motion to accept the FY 18 Audit Report. Trustee Sullivan seconded the motion, which passed unanimously.

Interest Rates: Financial Executive Officer, Alex Simpson, presented the PERSI interest rates for calendar year 2019. Regular interest is the rate of interest credited monthly to member accounts. Reinstatement interest is the rate of interest applicable to all amounts owed to the fund unless otherwise provided by statute or rule (using the prime rate listed in the Wall Street Journal). For the calendar year beginning January 1, 2019 through December 31, 2019, regular interest is calculated to be 7.57%. Reinstatement interest is calculated to be 5.25%.

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 will be provided

