



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., December 3, 2019. The following members were present:

Jeff Cilek
Joy Fisher
Celia Gould
Park Price
Darin DeAngeli

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:

Brandon Fitzpatrick	DB Fitzpatrick	Ann Mahrtdt	Empower Retirement
Justin Packard	DB Fitzpatrick	Oscar Lopez	Empower Retirement
Nate Oakley	MPIA	Sidney Robinson	Empower Retirement
Bruce Reeder	MPIA	Travis Crump	
Matt Lindstrom	MPIA	James Coleman	REAI
Bill Palumbo	MPIA	Brent Nye	Retired Educators
Chelsie Wasden	MPIA	Andrea Patterson	ID Supreme Court
Rhet Hulbert	Clearwater	Larry Sweat	PERSI
Robert Schmidt	Milliman	Kelly Rowlands	PERSI
Ryan Cook	Milliman	Chris Wester	PERSI
Garrett Walls	Angelo Gordon	Adel Stacy	PERSI
Brad Berls	Eide Bailly	Jon Wald	PERSI
Bert Roberts	Sorenson Capital	Mike Anderson	PERSI
Luke Sorenson	Sorenson Capital	Diane Kaiser	PERSI
Tony Eldeen	DFM	Maria Quitugua	PERSI

At 8:35 a.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting.

Approval of the Minutes: Trustee Fisher made a motion to approve the minutes of the November 12 meeting. Trustee Gould seconded the motion, which passed unanimously.

PORTFOLIO

Value Investing - Callan: Greg Allen with Callan Associates spoke to the Board regarding growth versus value and the importance of remaining invested in value. Mr. Allen discussed cumulative historical returns relative to the Russell 3000, Russell 1000 and MSCI ACWI indexes. He also discussed Global, U.S. and Non-U.S. growth and value strategies and how they have performed over the longer term. Value is still marginally ahead of growth over the very long term. However, globally, growth has been significantly ahead of value over the last 12 ½ years. The U.S. has outperformed the rest of the global equity markets over the same period. Technology beat financials globally and growth indices are structurally overweight in technology and underweight in financials relative to value indices. These two structural differences single-handedly explain over 75% of the relative return differences between U.S. growth and value indices. They also explain close to 40% of the relative return between U.S. and non-U.S. indices. Active managers have mitigated these impacts through persistent structural sector differences (resulting in non-U.S. equity and value managers handily beating their respective indices).

Investment Advisor: Investment Officer, Richelle Sugiyama, introduced the staff investment advisors, whose agreements will be renewed by Chief Investment Officer, Bob Maynard. Under the recently adopted investment policy, the CIO has been delegated the authority to hire staff investment advisors. Consistent with prior years, the contract term is one year and can be terminated at will. Chairman Cilek commented that it is great to have the staff advisors on the PERSI team and thanked them for their contributions.

Private Equity Partnership: Paul Yett with Hamilton Lane gave a brief recap of the Sorenson Capital Partners presentation from the December 2nd Board meeting. Hamilton Lane recommended a commitment of \$50 million to the Sorenson Capital fund on behalf of PERSI. Citing conflicts, Trustee DeAngeli recused himself from voting.

Trustee Gould moved to accept the recommendation of the \$50 million commitment to Sorenson Capital Partners. Trustee Fisher seconded the motion. The motion passed by majority vote.

Monthly Investment Report: Chief Investment Officer, Bob Maynard, gave the investment update; November saw yet another advance to new highs for the fund, with the fund up +1.7% for the month and +4.6% for the fiscal year to date, breaking through \$19 billion to \$19.232 billion. The sick leave fund is up +5.4% at \$599 million.

US equities (R3000) were up +3.8% for a fiscal year to date return of +7.3%. International developed markets (MSCI EAFE) rose +1.1% for a FYTD gain of 3.7%. Global developed market equities (MSCI World) advanced +2.8% for a +6.2% fiscal year gain. Investment grade bonds (BB Aggregate) lost -0.1% to reduce the fiscal year gain to +2.5%. Emerging markets (MSCI Emerging) were off -0.1% this month for a FYTD loss of -0.2%. REITs (DJ Select REIT) dropped -1.3% to reduce the fiscal year gain to +6.5%. TIPS were up +0.2% for a gain of +1.8% for the fiscal year. Private real estate is up +3.1% and private equity is up +5.2% for the fiscal year.

For the fiscal year-to-date, Longview has the best absolute return at +9.4% and Genesis has the best relative return to benchmark at +4.1% (+4.3% above their emerging market benchmark). Mellon Emerging has the lowest return thus far at -0.4%, while BLS has the worst relative return at +2.9% (-3.2% behind their global equity 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 the relative outperformance of the Russell 3000 and MSCI EAFE compared to other assets (except REITs).

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

EXECUTIVE DIRECTOR

Cost of Living Adjustment: Executive Director Drum stated that the last update to the funding guideline was 21 years ago. Since then the fund has changed and is more susceptible to market volatility. Over the next few months, PERSI staff will work with the Board on reevaluating and updating the funding guidelines to meet best practices. Past COLA practices may not be sustainable in the future. The cost of the COLA is continually increasing along with the number of members retiring each year. A 1% COLA in 2019 has a cost of over \$100 million to the fund. It is rare that the Board has the opportunity to consider not only an additional discretionary COLA but also retroactive COLA and stay below a 15 year amortization. Because of this, Director Drum made a recommendation that the Board provide all available COLAs. Chairman Cilek stated that this is a great opportunity and that the investment return is to thank.

Trustee Price moved to accept the staff recommendation of granting the 1% mandatory COLA and 0.70% discretionary COLA to match the 2019 CPI-U. Plus 1.77% restoration of purchasing power (ROPP) from FY 2011, plus 0.69% ROPP from FY 2012, plus 0.52% ROPP from FY 2013, plus 1.70% ROPP from FY 2018 for a full authorized COLA of 6.54% Trustee DeAngeli seconded the motion which passed unanimously.

Chairman Cilek stated that how the COLA is handled moving forward is a challenge and the Board struggled with this decision for the past year. The Board will review the current funding policy as granting COLA in the future will only get harder and not easier. Trustee Fisher stated that this decision has been a long time coming and is a historical moment for PERSI.

Fireman's Retirement Fund: Robert Schmidt with Milliman presented stochastic projections for the Firefighters' Retirement Fund (FRF) over the next 50 years. In January of 2015 the Board reduced the FRF excess contribution to 5% and stated that if the funding ratio improved to 135% or better that additional reductions may be considered. The final FRF valuation adopted by the Board at the November meeting showed the funding level at 150.2%. PERSI's assumptions were used to generate 5,000 different scenarios of possible asset return and inflation results for the FRF. These scenarios assumed only the statute required COLA of 1%. One-half of all the proceeds from fire insurance premium tax (FIPT) throughout the state are automatically assigned to FRF. The remainder of the tax is available as needed to match 100% of the excess employer contribution rate. In Milliman's projections, the FIPT proceeds are assumed to be 5.5% of payroll. Therefore, an employer contribution rate of 2.75% or more results in the entire FIPT proceeds being contributed to FRF. If there are no employer contributions, then only half of the FIPT proceeds are contributed to FRF.

The three contribution rate options that were considered for the scenarios were continuing at the current contribution rate of 5%, dropping the rate to 2.75% effective July 1, 2020 or dropping the rate to 0.00% also effective July 1, 2020. The scenarios included two asset measures: Market Value of Assets (MVA) and Actuarial Value of Assets (AVA). The plan has a high probability of staying well-funded, even with no employer contribution. Specifically, if the employer contribution rate is set to 0%, the fund is projected to be more than 100% funded (on an AVA basis) at July 1, 2029, in 95% of scenarios. Furthermore, the fund is projected to have enough money to pay benefits for the next 50 years in 96% of scenarios.

Trustee Gould made a motion to lower the Firemans' Retirement Fund contribution rate to 0% effective July 1, 2020. Trustee Price seconded the motion, which passed unanimously.

DEPUTY DIRECTOR

CEM Benchmarking: Franco Wang, who is a Director at CEM Benchmarking, reviewed the CEM pension administration services including the list of global pension participants of the program. CEM Benchmarking organizes and surveys custom peer groups based on "like to like" parameters. Compared to the systems within the peer group, PERSI's cost per member is \$67 below the adjusted peer average. PERSI also is 54% above the peer average in weighted transactions per front office FTE (Full Time Equivalent) employee. Overall, PERSI's total service score was 77 which is just below the peer average of 78. The biggest factor contributing to a below average score was satisfaction surveys. PERSI does not conduct surveys in the same way as those in the peer group which resulted in a lower score in that category. The Board expressed their appreciation to all of the work the staff does considering we complete a higher percentage of work with a lower cost per member.

DC Plan: Deputy Director, Michael Hampton, presented an update on the loan/hardship withdrawal section of the Choice 401(k) Plan document. The Bipartisan Budget Act of 2018, signed into law in February 2018, made several changes to the rules governing hardship withdrawals from 401(k) plans. Questions regarding these new rules were finally resolved when the IRS issued final hardship withdrawal regulations on September 23, finalizing proposed regulations issued in November. The final regulations retain the existing hardship withdrawal definitions, plus added an additional withdrawal option relating to losses from a FEMA declared disaster. The new regulations also included no suspension of employee deferral in case of hardship withdrawals and the requirement of taking a loan prior to taking a hardship has been removed. PERSI staff took the opportunity afforded by these regulation changes to address the entire section that covered loans and hardship withdrawals. Effort was made to make the section easier to understand and remove repetitive and unneeded language. Trustee Gould stated that she would like to review the entire Choice Plan document again once the active RFP (Request for Proposal) process is complete.

Trustee Fisher made a motion to adopt the changes as presented by PERSI staff. Trustee DeAngeli seconded the motion which passed unanimously.

FISCAL UPDATE

Comprehensive Annual Financial Report: Financial Executive Officer, Alex Simpson, presented the CAFR for Fiscal Year 2019. He stated that since PERSI staff is now using new software to assist in the completion of the CAFR, this year the completion of the report went smoother than ever before. He believes the software drastically increased productivity during the CAFR preparation process. He also offered a special thank you and recognition to Jenny Flint (Public Information Officer for PERSI) and all of the fiscal staff for their work. Chairman Cilek also extended his appreciation and congratulations to PERSI staff for their work on completing this report and recognized how much work is put into this particular project. Director Drum stated that the FY 2019 CAFR was completed faster than any previous year.

Quarterly Financial Statements/Travel: Financial Executive Officer, Alex Simpson, updated the Board on PERSI's year-to-date expense reports and out of state travel.

BOARD


The Board reviewed the preliminary agenda for January. The Board also reviewed the preliminary 2020 Board meeting calendar and updated the dates for the February and March meetings. All other dates are approved at this time but have the option to be adjusted should a need arise.

The Board went into recess at 11:50 a.m.

PORTFOLIO

The Board reconvened at 12:30 p.m. at 601 W. Main Street, Boise 83702 for a luncheon with advisors and consultants. A general investment discussion was held.

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


Donald D. Drum
Executive Director

Date _____

Jeff Cilek
Chairman