



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 16, 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:

Ann Mahrtdt	Empower	Andrea Patterson	Idaho Supreme Court
Dan Morrison	Empower	Ed Humphreys	Student
Sidney Robinson	Empower	Brent Nye	REAI
Chris Brechbuhler	Clearwater	James Coleman	REAI
Dan Bates	Clearwater	Jack Boren	Epic Ventures
Bill Palumbo	Mountain Pacific	Susan Buxton	Division of Human Resources
Chelsie Wasden	Mountain Pacific	Sharon Duncan	Division of Human Resources
Bruce Reeder	Mountain Pacific	Meg Waddel	Division of Human Resources
Nate Oakley	Mountain Pacific	Adel Stacy	PERSI
Matt Lindstrom	Mountain Pacific	Kelly Rowlands	PERSI
Robert Schmidt	Milliman	Larry Sweat	PERSI
Bret Linton	Milliman	Kelsey White	PERSI
Brandon Fitzpatrick	DB Fitzpatrick	Maria Quitugua	PERSI
Justin Packard	DB Fitzpatrick	Jon Wald	PERSI
Angelina Chandler	DB Fitzpatrick	Brian Hattingh	PERSI
Casey Macomb	DB Fitzpatrick	Michael Anderson	PERSI

At 8:32 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 May 21, 2019 meeting. Trustee Gould seconded the motion, which passed unanimously.

PORTFOLIO

Idaho Commercial Mortgage Program – D.B. Fitzpatrick: Brandon Fitzpatrick introduced Casey Macomb, Justin Packard and Angelina Chandler. Mr. Fitzpatrick then provided an update on the Idaho Mortgage Program to the Board. The update included portfolio performance growth from October 1, 1989 (\$151.2M) to June 30, 2019 (\$891.5M), general information on the state of Idaho's economy, and an overview of the national commercial real estate market including Idaho.

The commercial real estate portfolio has a current value of \$827.1M with the average loan size being \$3.1M over the 264 loans that are active. The annual review of property & guarantor financials is currently underway and the annual physical review of collateral was completed in February. The strategy for moving forward is to continue to expand with a focus on east & north Idaho with a specific focus on properties in the office/industrial/multi-family/retail/hotel markets. The underwriting standards will continue to include conservative cap rates, personal recourse, strong collateral and borrower quality.

Berkadia Report Summary: Investment Officer, Richelle Sugiyama, provided background information on the PERSI relationship with Berkadia. PERSI engages with Berkadia on an annual basis and Berkadia has historically attended only one regular Board meeting per year. In the past, they used to attend a Board meeting to present their findings, relying on D.B. Fitzpatrick's review of properties, with occasional physical inspections of local properties.

Julie Gschwind, Senior Vice President of Portfolio Surveillance & Special Servicing with Berkadia, in communication with staff suggested a process whereby she attends a Board meeting in conjunction with meeting with D.B. Fitzpatrick, incorporating actual physical inspection of properties in the portfolio across the state. This enables her to meet and discuss with Board members any issues or questions they have, in advance of her final report, so that she can incorporate those findings in the final report and/or summary. This also provides Berkadia with an opportunity to review DBF's process for physical inspections and to inspect most, if not all of the properties in the portfolio, to become better acquainted with the specific properties and geographic pros/cons. Ms. Sugiyama has then historically presented the results of the Berkadia final report.

Chairman Cilek stated he would like someone from Berkadia to present the findings of their review moving forward in lieu of Ms. Sugiyama presenting on their behalf. Ms. Sugiyama stated that this request may result in an adjustment to the agreement with Berkadia. Bob Maynard, CIO, also stated that requesting Berkadia to increase travel and personal appearances at meetings may result in the relationship with Berkadia changing. Chairman Cilek requested that PERSI move forward with the request to have Berkadia present their findings at a future Board meeting.

Monthly Investment Report: Chief Investment Manager, Bob Maynard, gave a brief investment update for the fund as of the close of FY 2019. Mr. Maynard stated that FY19 was the most satisfying year he has experienced in more than 30 years and multiple multi-billion dollar funds. Mr. Maynard offered his congratulations to the managers and stated they made a significant difference in how the fund closed out for FY19.

June finished with a +4.4% return for the fund to end the fiscal year with a +8.4% gross return and a +8.1% net return at \$18.519 billion (and a calendar year to date of 12.8%). The sick leave fund returned +7.8% for the fiscal year at \$566 million. For the fiscal year, Peregrine had the best absolute return at +19.5% while Fiera had the best relative return to benchmark at +17.6% (+11.5% above their global equity benchmark). Bernstein Global suffered the worst absolute and

relative performance against benchmark at -6.1% (-12.2% behind their benchmark). The fund as a whole was ahead of the 55% US equity, 15% EAFE, and 30% US Bond reference benchmark by +0.6%, due primarily to outperformance of real estate and private equity versus US public equity as well as a collective substantial outperformance by active managers.

Trustee Fisher stated considering where the funds was when the rates were set earlier in the year, and the Board did what it had to do, it is great to see the place the fund is now.

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

EXECUTIVE DIRECTOR

Department of Corrections Update: Executive Director Drum has been working with Susan Buxton, Administrator of the Division of Human Resources (DHR), regarding questions received from the Idaho Department of Corrections (IDOC) and which of their employees qualify for police officer member status for retirement purposes for rule of 80. This question has been specifically raised by IDOC in regard to food service staff. The Plan sponsor (legislature) has been resistant to the expansion of the police officer member status. During the last two sessions, the legislature has denied the Idaho Juvenile Corrections Department request for their staff to qualify for police officer status. The concern expressed by the Plan sponsor was where to stop the expansion of this benefit once you start opening it up to more groups. Milliman and PERSI staff have been evaluating the cost distribution amongst the various classes of members. Initial findings indicate the need for possible adjustments to class contribution rates. Growth in the police officer class could be a factor in the need to raise the overall police officer contribution rates, which will directly affect all members in that class.

Director Drum introduced Susan Buxton who attended the Board meeting along with two of her staff. Ms. Buxton stated that DHR can delegate human resources authority and control job descriptions. DHR staff is working with IDOC on getting job descriptions and additional desk audits for those working in food service at correctional facilities to make sure the job descriptions match what is actually being done by these employees. It is the employer's responsibility to understand, apply the law as intended by the Plan sponsor and to report to PERSI as to which employees are receiving class 2 status. The options for IDOC to resolve the issue are to petition the Board or ask for clarification from the Plan sponsor (the legislature). At this point in time IDOC has not acted on either of these options. Historically the Board has deferred these issues to the Plan sponsor rather than assume the petitioner's claim meets the Plan sponsor's intent. Chairman Cilek stated that DHR needs to draw a hard line on who is eligible for class 2 and who is not. The Plan sponsor needs to clarify who is eligible and either DHR or PERSI should bring legislation forward to do so. Director Drum stated that PERSI staff is waiting for IDOC to review the information that has been sent to them and that the next step after that will be to reach out to the Plan sponsor.

Legislative Ideas: Director Drum presented the legislative ideas that will be sent over to the Governor's office today. Staff has been reviewing PERSI code and found that the definition of employer and/or same employer seems to be inconsistent. Since the establishment of the Base Plan, Idaho has consistently treated all participating employers as a single employer for the purposes of things such as limits and whether or not an employee and terminated employment for purposes of a distribution. References to same employer can be found in code sections 59-1302, 59-1356 and 59-1359. PERSI staff is looking at making changes to rule sections 59.01.02, 59.01.06.113, 59.01.06.602 and 59.01.06.131. An additional change to create consistency in code will also be looked at regarding 59-1352A Public Safety Officer Permanent Disability Benefit. The change would be to add wording to section (1) stating the officer must be eligible for disability retirement as provided by 59-1352 in order to also be eligible for the additional public safety officer

benefit. Trustee Gould requested that rule of 80 clarification also be added to the list of ideas to be submitted to the Governor's office.

New Employers - Mandatory: Director Drum announced that Elevate Academy, Inc., Forge International School, and Treasure Valley Classical Academy, Inc. have joined PERSI. These are mandatory employers and vote by the Board was not required.

New Employer – Oregon Trail Recreation District:

Director, Don Drum, presented the staff recommendation that the Board approve the admittance of the Oregon Trail Recreation District with an entry date of August 1, 2019. This employer as one employee and is located in Burley, Idaho.

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

DEPUTY DIRECTOR

Disability Update & Process: Due to time restrictions, Chairman Cilek requested that the disability discussion be moved to the August meeting.

FISCAL UPDATE

Chairman Cilek recognized Alex Simpson, Financial Executive Officer, for his recent certificate of achievement for excellence in financial reporting from the Government Finance Officers Association. Mr. Simpson stated that, although his name is on the award, the entire fiscal department deserves the recognition and congratulations for all of the hard work they do.

Fiscal Update / Expense Reports: Financial Executive Officer, Alex Simpson, updated the Board on PERSI's year-to-date expense reports for the Administrative and Portfolio funds, the quarterly financial statements and the upcoming & completed travel reports. Mr. Simpson also reviewed the preliminary 2020 budget. The final budget approval will be due at the August Board meeting.

Mr. Simpson recognized Cecile Mc Monigle who is retiring from PERSI after 18 years and thanked her for all of her dedication and service. Mike Anderson has been hired on as Ms. Mc Monigle's replacement and is current in the on-boarding & training process.

The Board reviewed the draft agenda for August. Trustee Gould requested that adjournment times be moved to noon to allow extra time for any extended discussion on agenda items. Management Assistant, Lena Rupp, will send updated calendar invitations to the Board to accommodate this request. The Board would also like to review the tentative schedule for next year's meetings to allow sufficient time for planning out their calendars. PERSI staff will provide this to the Board by the August meeting.

Executive Session: At 11:35 a.m. Chairman Cilek stated the Board intended to move to Executive Session in accordance with Idaho Code 74-206(1)(b) to consider personnel matters and 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.

Trustee Price made a motion to go into executive session. Trustee Fisher seconded the motion and the Board voted 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.

The Board was called back into regular session at 11:45 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.


Donald D. Drum
Executive Director

Date _____

Jeff Cilek
Chairman