



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., November 12, 2019. The following members were present:

Jeff Cilek
Joy Fisher
Celia Gould
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	James Coleman	REAL
Casey Macomb	DB Fitzpatrick	Ed Humphreys	Student
Nate Oakley	MPIA	Brent Nye	Retired Educators
Bruce Reeder	MPIA	Cecile McMonigle	Retiree
Matt Lindstrom	MPIA	Larry Sweat	PERSI
Chris Brechbuhler	Clearwater	Kelly Rowlands	PERSI
Dan Bates	Clearwater	Chris Wester	PERSI
Robert Schmidt	Milliman	Adel Stacy	PERSI
Jeff Bradley	Milliman	Jon Wald	PERSI
Ryan Cook	Milliman	Mike Anderson	PERSI
Amy McDuffee	Mosaic Governance	Kody Krigbaum	PERSI
Andrea Patterson	Supreme Court	Nate Fisher	Governor's Office
Maggie Smith	LSO	Brad Berls	Eide Bailly
Tony Eldeen	DFM		

At 8:35 a.m., Trustee Fisher called the meeting to order. She welcomed everyone and stated that Chairman Cilek would be joining the meeting soon.

Approval of the Minutes: Trustee DeAngeli made a motion to approve the minutes of the September 16 and September 17 meetings. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Quarterly Update - Callan: Ann O'Bradovich with Callan Associates joined the meeting telephonically. She gave the Board an overall market review and summary for national and global

markets. Ms. O'Bradovich also provided an update on the PERSI fund performance of the defined benefit, defined contribution and sick leave funds for Q3 of FY2019.

The defined benefit fund ended Q4 with \$18.6B (a net increase of 0.07B during the quarter). The five-year fund return was +7.3%, surpassing the target return of +6.5%. Over the last 20 years, the fund has provided an average annual return of +6.7%, outpacing the long-term target return of +6.2%. The fund underperformed the policy target by 1 basis point during the past quarter. The fund outperformed the policy target by 68 basis points for the past 12 months and by 81 basis points for the past five years.

The defined contribution plan has assets totaling \$1.058B as of September 30, 2019. The Total Return Fund had the largest inflow (+\$6.6M), followed by STIP (+0.7M). The largest outflow was from Mellon International Index (-\$0.1M). The sick leave plan is passively managed with assets being invested in index funds managed by State Street Global Advisors. The fund surpassed the target by 4 basis points for the quarter. The fund has a return of 10.44% which is 21 bps ahead of the target return of 10.23%. Among public funds, the performance of this plan ranked just below the top quartile for the past year (29th) and within the top quartile for all other time periods, ranging from 15th for the last quarter to 5th for the last ten years.

Chairman Cilek joined the meeting during Ms. O'Bradovich's presentation.

DB Plan Investment Policy Statement: Investment Officer, Richelle Sugiyama, presented a final draft of the defined benefit plan investment policy for adoption by the Board. Staff (including investment advisors), consultants (including real estate and private equity) and all Board members had an opportunity to provide feedback and/or suggested revisions. The general investment approach remains unchanged and the goal of the policy remains the same. Staff recommended the adoption of this investment policy and the repeal of the 1997 proxy voting policy to allow full delegation of proxy voting to our investment managers or custodian.

Trustee Fisher made a motion to adopt the statement of investment policy for the defined benefit plan and to repeal the proxy voting policy from 1997. Trustee Gould seconded the motion, which passed unanimously.

Monthly Investment Report: Chief Investment Officer, Bob Maynard, gave the investment update. The fund is up +0.5% for the month and +3.4% for the fiscal year to date, breaking through \$19 billion to \$19.037 billion. The sick leave fund is up +3.9% at \$590 million. US equities (R3000) are up +1.9% for a fiscal year to date return of +5.4%. International developed markets (MSCI EAFE) have risen +1.1% for a FYTD gain of 3.7%. Global developed market equities (MSCI World) have advanced +1.6% for a +4.9% fiscal year gain. Investment grade bonds (BB Aggregate) are down -1.0% to reduce the fiscal year gain to +1.5%. Emerging markets (MSCI Emerging) are up +2.2% this month for a FYTD gain of +2.2%, REITs (DJ Select REIT) have dropped -3.1% to reduce the fiscal year gain to +4.7%, while TIPS are down -0.5% to drop the gain to +1.1% for the fiscal year. Private real estate is up +2.2% and private equity is up +2.2% for the fiscal year.

For the fiscal year to date, Longview has the best absolute return at +7.6% and Donald Smith has the best relative return to benchmark at +7.3%, which is +4.5% above their benchmark. The Mellon Emerging Index Fund has the lowest equity return thus far at +2.0%, while BLS has the worst relative return at +3.0% (-2.0% 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 -0.6%, due primarily to the relative outperformance of the Russell 3000 and MSCI EAFE compared to other assets (except REITs).

Ms. Sugiyama informed the Board of the passing of Donald Smith. PERSI plans to retain this group as long as it continues to run the same. There are no indications that anything will change as a result of the passing of Mr. Smith.

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

EXECUTIVE DIRECTOR

JRF Experience Study – Milliman: Robert Schmidt with Milliman presented the Judges' Retirement Fund (JRF) experience study results. Prior to this study JRF has used the mortality assumption from the PERSI base plan (general members). The rest of the demographic assumptions are unique to JRF. This study of JRF demographic assumptions covered the member experience between July 1, 2013, and June 30, 2018. Economic assumptions were not studied as JRF's economic assumptions (interest rate, inflation and general salary growth) follow those used for the PERSI base plan. Based on the results of the rate of retirement, the mortality rate and other assumptions studied (including withdrawals, disability, and demographics) there is an increase of Actuarial Accrued Liability (AAL) of 3.1% (\$107.2M to \$110.5M) as of July 1, 2018.

Trustee Gould made a motion to approve the JRF assumptions. Trustee Fisher seconded the motion, which passed unanimously.

Sick Leave – Milliman: Robert Schmidt with Milliman presented the Sick Leave actuarial valuation results and scenarios for possible changes to contributions. Although the state and school sick leave funds are managed as a pool, the benefits are divided between the two groups. The state sick leave fund has 26,291 members. The schools sick leave fund has 39,343 members. These numbers include active PERSI, active ORP and retired members. The assumptions are based on a 7.0% investment earnings (net of all expenses), 3.75% wage growth and 3.0% price inflation. State sick leave benefits are limited by the years of service at retirement and are paid at 50% of the unused sick leave balance (based on the rate of pay at retirement). School sick leave benefits are not limited by service. Sick leave contributions are paid by the employer at a rate of 0.65% for the state and 1.16/1.26% for schools (members do not pay contributions to the sick leave fund). The funded ratio is currently at 163% (227% state & 138% schools). The scenarios presented included no changes to contribution rates, lowering contribution rates, a two year contribution holiday and a two standard deviation loss. Milliman will continue to study the sick leave fund and will have more information for the Board to consider at a future meeting.

Although the sick leave fund is currently well funded, Director Drum pointed out that it was not too long ago that the fund was underfunded. Director Drum also stated that the Office of Group Insurance (OGI) is looking into adding options for addition use of sick leave funds at retirement for state employees. The Board would like to take action now to temporarily address the overfunding issue but will want additional information for future considerations of changes or adjustments.

After lengthy discussion by the Board, Trustee Fisher made a motion for an 18 month rate holiday beginning January 1, 2020. At the end of the rate holiday, the sick leave rate will go to normal cost rate. Trustee DeAngeli seconded the motion which passed unanimously.

Actuarial Adoption – Milliman: Robert Schmidt of Milliman stated that the preliminary valuation information for the PERSI fund, the Firefighters' Retirement Fund (FRF), and the Judges' Retirement Fund (JRF) was presented at the Board meeting in September. The final valuation reports show no changes to the numbers from that meeting. The PERSI fund valuation shows 72,502 contributing active members (increase of 2.0% from 2018), 48,120 members and

beneficiaries receiving benefits (increase of 2.6% from 2018), 13,536 vested terminated members and 22,331 non-vested terminated members, for a total of 160,489 members (increase of 3.1% since 2018). Based on the current blended contribution rate of 19.42% of pay, the UAAL is projected to be amortized over 10.6 years if future experience matches the actuarial assumptions, excluding any potential March 1, 2020 Discretionary COLA. The 2019 actuarial valuation indicates that an actuarial experience gain of \$178.9 million occurred during the fiscal year that just ended. This gain is based on the expected UAAL as of July 1, 2019 of \$1,570.1 million versus the actual UAAL of \$1,391.2 million. The gain was primarily due to investment gains, as reflected in the 8.02% investment yield (net of all expenses) for the past year. The AAL is \$18.630.7 million and the funded ratio is 92.5% (without any discretionary COLA). Under the Board's current investment policy, assets in excess of a 114% funded ratio are considered extraordinary gains. Therefore, no assets are available for gain sharing as of July 1, 2019. The FRF valuation shows a funded ratio of 150.2%. The JRF valuation shows a funded ratio of 82.17% with an amortization period of 11 years. The Board did not have any questions regarding this information.

Trustee Gould made a motion to adopt the valuation reports. Trustee Fisher seconded the motion, which passed unanimously.

COLA: Executive Director, Don Drum, presented an update on the cost of living adjustment decision before the Board. A final COLA decision must be made no later than the conclusion of the December 3rd board meeting. Fiscal Year 2019 ended with a 92.5 % funded status and a 10.6 year amortization period. The Board has the option to provide all available COLAs and stay under the 25 year amortization requirement. In this scenario, our amortization period rises to 14.2 years and funded status drops to 90.7%. The expectation would be that if we have a net 7% return in FY 2020 amortization would drop to 13.2 years. The Board may consider current year results and future projections & analysis in the decision process. If a COLA is granted and the market turns (and at year end the amortization period is 25 years or greater) the soonest a rate change would go into effect would be January of 2022 and the Board could (and has in the past) use grace periods to allow the market to correct (i.e. future returns bring the amortization back below 25 years).

Chairman Cilek stated that the Board will make a COLA decision at the December Board meeting when all members will be present. In the meantime, Trustees who would like information on different scenarios are instructed to send those requests to Director Drum.

New Employers: Director Drum presented the staff recommendation that the Board approve the admittance of the Boise Basin Library District (3 employees), the Gooding Public Library District (7 employees) and the Boise River Flood Control District #10 (3 employees) all with an entry date of December 1, 2019.

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

DEPUTY DIRECTOR

Contested Case before the Board – Michael White: Deputy Director Hampton presented the Board their options for this case including the following: schedule oral arguments by the parties before the Board prior to issuing final order, remand the matter for further evidentiary hearings or vocational assessment if further factual development is needed, or issue a final order accepting, rejecting or modifying the Recommended Order from the Hearing Officer.

Trustee DeAngeli made a motion that the Board accepts the Recommended Order from the Hearing Officer and that the disability be denied. Trustee Gould seconded the motion, which passed unanimously.

FISCAL UPDATE

Financial Audit Results – Eide Bailly: Brad Berls of Eide Bailly gave a brief history of Eide Bailly and a recap of the results of the audit. Mr. Berls reported that the FY19 audit was successful and that the audit opinion is unmodified. This audit is for issuing the financial section of the CAFR. The audit resulted in no journal entries and no passed adjustments. There are no new accounting standards and no significant comments for Information Technology (IT). Areas of audit emphasis include net pension liability and alternative investments. Trustee Fisher thanked the Alex Simpson and his staff for their time and commitment throughout the audit process. Chairman Cilek also thanked Mr. Simpson for his leadership.

Trustee Fisher made a motion to accept the FY19 Audit Report. Trustee Gould seconded the motion, which passed unanimously.

Fiscal Update/Travel/Expense Reports: Financial Executive Officer Alex Simpson updated the Board on PERSI's year-to-date expense reports and out of state travel.

Interest Rates: Financial Executive Officer, Alex Simpson, presented the PERSI interest rates for calendar year 2020. 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, 2020 through December 31, 2020, regular interest is calculated to be 7.22%. Reinstatement interest is calculated to be 5.92%.

BOARD

The Board reviewed the preliminary agenda for December. The Board also reviewed the preliminary 2020 Board meeting calendar. Chairman Cilek stated he may need to change the dates of the January meeting. The Board will continue to review this calendar and the 2020 meeting dates will be confirmed at a future 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)(f) to communicate with legal counsel to discuss legal ramifications of and legal options for pending litigations or controversies.

Trustee Fisher made a motion to go into executive session. Trustee Gould seconded the motion and the Board voted unanimously via roll call vote.

Upon conclusion of the Executive Session, Trustee DeAngeli made a motion to return to regular session. Trustee Fisher seconded the motion, which passed unanimously.

REGULAR SESSION

Chairman Cilek stated during Executive Session no decisions were made. The Board went into recess at 11:35.

The Board reconvened at 12:20 in the 3rd floor conference room for the governance portion of the agenda. Ann O'Bradovich joined the meeting telephonically. Chairman Cilek welcomed everyone to the meeting and turned the time over to Amy McDuffee of Mosaic Governance Advisors. Ms. McDuffee did an overview of the meeting agenda. The Board thoroughly discussed the elements of

statutory independence that they would like to address first including directors & officers insurance, the legislative appropriations process and staffing matters.

Trustee Park Price joined the meeting telephonically at 1:30.


There is an ongoing legislative effort to move a portion of the sick leave funds to the general fund. A recent memo sent to PERSI advises the Board to oppose such a move based on grounds of violating fiduciary duty. Legislation would be required to authorize the plan sponsor to withdraw funds from the sick leave fund. The sick leave investment policy statement will be updated once this situation is more settled.

An updated funding guideline was last adopted by the Board in 1998. Executive Director Drum and Deputy Hampton will produce an updated draft of the funding guideline based on their understanding of current Board sentiment and present working draft to the Board at the December governance session on December 2nd. The funding guideline will also be added as a decision item on the December 3rd agenda should the Board choose to take action on it at that time.

Ms. McDuffee provided a sample table of contents for inclusion in the Board policy manual book. This includes a list of current state and internal PERSI policies as well as new policies that have not yet been adopted by the Board. The table of contents was divided into three groups for items that should be addressed first, second and third. Director Drum will work with Ms. McDuffee on those items listed in group one and prepare them for discussion at the December governance meeting.

Director Drum provided an overview of meetings that he has conducted around the state regarding rule of 80 legislation that PERSI will be bringing forward this legislative session. Director Drum has also met individually with PERSI employers & stakeholders throughout the state. He has received valuable feedback and input from various agencies and groups. He will provide the Board with any updates as the legislation process progresses.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 3:40 p.m.


Donald D. Drum
Executive Director

12-3-19
Date


Jeff Cilek
Chairman

12-3-19
Date