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 via Zoom at 9:30 a.m., August 18, 2020. 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.

Along with members of the general public, other persons attending all or portions of the meeting were:

Robert Schmidt Milliman Ann O'Bradovich Callan

At 9:35 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 July 20 meeting and to approve the July 21 minutes as revised in the August 17 meeting. Trustee Price seconded the motion, which passed unanimously.

PORTFOLIO
Callan Quarterly Report: Ann O'Bradovich with Callan Associates gave the Board an overall market review and summary for national as well as global markets. In the Defined Benefit Plan, the Total Fund ended Fiscal Year 2020 with $18.52 B which was a net increase of $0.20 B. The fund also earned a return of 3.1%, lagging the Policy Target return of 4.4%. The five-year Total Fund return was 6.9%, surpassing the Policy Target return of 6.5%. Over the last 20 years, the Total Fund has provided an average annual return of 6.1%, outpacing the Long-Term Target return of 5.8%. It ranked below the median of its Public Fund Peers for Fiscal Year 2020 but ranked in the top quartile for the last 3, 5, and 7 years, and above the median for the last 10 and 20 years. The fund underperformed the Policy Target by 20 basis points during the past quarter and by 134 basis points during the past 12 months. However, the fund outperformed the Policy Target by 35 basis points for the past 5 years and by 15 basis points for the past 10 years. The Defined Contribution plan total assets as of June 30, 2020 totaled $1,109.9 M. Of the assets in the DC plan, 78% is invested in the Total Return Fund. The Total Return Fund had the largest inflow (+$8.6 M), followed by Vanguard G&I (+0.7 M), TIPS (+0.6 M), and STIP (+0.6 M). Two funds had minor outflows which were Mellon Large Cap Equity (-$0.02 M) and T. Rowe Price (-$0.08 M). The Sick Leave plan assets as of June 30, 2020 totaled $589 M. The Sick Leave Plan assets are invested in index funds managed by State Street Global Advisors. The Sick Leave Plan lagged the target by 82 bps for the quarter. Among Public Funds, the performance of the plan ranked in the top quartile
for the past quarter, 3, 5, 7, and 10 years, and above the median for the past year. Callan is currently working with PERSI staff on updating the Sick Leave Investment Policy Statement and looking at various strategies associated with the investments of the plan.

Ms. O'Bradovich stated that Callan staff are still working remotely and will continue to do so for the foreseeable future. The National Callan Conference has been moved from January to June which they hope to be able to hold in-person.

**Monthly Portfolio Update:** Chief Investment Officer, Bob Maynard, provided a brief overview of the monthly return of the fund starting July 1992 to current. This month has a current return of +1.5% to raise the new fiscal year to date return to +5.7% at $19.771 billion, hitting new all-time return highs in the process. The estimated funding ratio is 91.6%. The sick leave fund is up +6.0% at $626 million. This month US equities (R3000) are up +3.3 for a FYTD return of +9.2%. International developed markets (MSCI EAFE) have risen +4.5% for a fiscal year +6.9%. Global developed market equities (MSCI World) are up +3.5% for a +8.5% fiscal year to date return. Investment grade bonds (BB Aggregate) are lower by -0.8% to reduce the new fiscal year return to +0.7%. Emerging markets (MSCI Emerging) have gained +1.4% to raise the fiscal year return to +10.6%. REITs (DJ Select REIT) are flat at 0.0% for a fiscal year +3.4% while TIPS are down -0.3% to change the fiscal year return to +2.0%. Private real estate has a loss of -1.5% and private equity had minor gains of +3.9%. For the new fiscal year, Donald Smith has the best absolute and relative return at +16.4% which is +7.3% above their US equity mid/small cap benchmark. Adelante has the worst equity absolute return at +2.2%. Peregrine has the worst relative return at +5.8% which is -4.5% behind their large cap growth benchmark. The fund as a whole is behind the 55-15-30 benchmark by -0.5% due to the underperformance of real estate and private equity compared to the US equity market. Investment Officer, Richelle Sugiyama, provided general comments on market challenges, investments and the economy.

**EXECUTIVE DIRECTOR**

**New Employer - Mandatory:** Director Drum announced that Gem Prep: Meridian North has joined PERSI. They currently have one employee. This is a mandatory employer and vote by the Board was not required.

**Sick Leave:** Director Drum reviewed the Sick Leave experience study that Milliman presented at the July Board meeting. The information from the study will be used to prepare the preliminary valuation reports to be presented at the September Board meeting. The demographic assumptions in the experience study are based on review of the data associated directly with the plan and acceptance of these assumptions would be reflected in this year’s valuation. Acceptance of the demographic assumption would also result in the funded status of the Sick Leave Fund for both state and schools improving as well as a slight decrease the normal cost. Normal cost is a factor because at the expiration of the rate holiday currently in effect, the Sick Leave rates will return to this normal cost. This change would be effective July 1, 2021. The Division of Financial Management use the current assumption of the existing normal cost in calculation of the state budgeting building process.

Trustee DeAngeli made a motion to accept the demographic assumption changes of the sick leave experience study presented by Milliman at the July Board meeting. Trustee Gould seconded the motion, which passed unanimously.

At the last Board meeting Milliman made a suggestion to the Board to consider lowering the inflation assumption by up to .75% (from 3% assumed today to 2.25%). At that meeting the Board asked PERSI staff, Callan and Milliman to work together to evaluate this scenario and present findings to the Board. Callan completed an asset liability study and compared their 2020 capital
market assumptions to Milliman’s numbers (only looking at inflation). Director Drum stated if the Board is considering changing inflation in the Sick Leave Fund then they may want to consider changing inflation on all PERSI plans. The next experience study for the base plan is scheduled for the summer of 2022 which would provide more information to consider regarding changing this for all plans. Robert Schmidt with Milliman, Ann O’Bradovich with Callan, PERSI staff and the Board discussed possible scenarios for Milliman to use to produce funded ratio graphs including extending the rate holiday and adjusting the stocks/bonds ratios. The scenarios will also be applied to the state and school funds separately as the same decision does not have to be made for both funds. Milliman will summarize the results and present the information to the Board for review and discussion at the September meeting. Then the Board will have more guidance to move forward on any adjustment decisions.

DEPUTY DIRECTOR
Contested Case – Randall King: Deputy Director, Michael Hampton, presented the Board their options for case 01-20 which are schedule oral arguments by the parties before the Board prior to issuing final order, remand the matter for further evidentiary hearings or vocational assessment, or issue a final order accepting, rejecting or modifying the Recommended Order from the Hearing Officer.

Trustee DeAngeli made a motion to adopt the Hearing Officer’s Recommended Order that the application for disability retirement be denied. Trustee Fisher seconded the motion, which passed unanimously.

FISCAL
FY2022 Budget Request: Financial Executive Officer, Alex Simpson, stated that the signed budget packet is due to the Division of Financial Management and the Legislative Services Office by end of August. All final changes or adjustments must be made by October. Administration side has no changes. Portfolio side has line items added for adjustments of the salaries for the current Investment Officer as well as the Investment Officer position that is currently being hired. PERSI staff is working through how to post the open actuary position to avoid any issues with the position budgeting.

Trustee Gould made a motion to approve the FY2022 budget request. Trustee Price seconded the motion, which passed unanimously.

Quarterly Financial Statements/Expense Reports/Travel: Financial Executive Officer, Alex Simpson, updated the Board on the quarterly financial statements and expense reports. There is currently no out of state travel being conducted. The official financial audit results will be presented by Eide Bailly at the October meeting.

BOARD
The Board did not hold the posted executive session as the full required discussion was held at the Monday meeting. The Board reviewed the draft agenda for the September Board meeting with no requested changes.

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 11:55 a.m.