



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street, Boise, Idaho 83702

MINUTES OF MEETING OF THE PERSI 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., May 19, 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, Financial Executive Officer Alex Simpson, Deputy Attorney General Cheryl George, and Management Assistant Lena Rupp were also in attendance via Webex or in-person.

Other persons attending all or portions of the meeting via Webex were:

Brad Berls	Eide Bailly	Robert Schmidt	Milliman
Anders Erickson	Eide Bailly	Ryan Cook	Milliman
Ann O'Bradovich	Callan		

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 April 17 and April 18 meetings. Trustee Gould seconded the motion, which passed unanimously.

PORTFOLIO

Callan Quarterly Report: Ann O'Bradovich with Callan Associates provided an update on fund performance for the first quarter of 2020. With the presence of the COVID-19 virus, financial markets faced unprecedented disruption in quarter one. Portfolios are positioned for the long term and intermediate term and we should continue to focus on the long term. Within the equity markets, Russell 1000 gross has been positive relative to every other category in the one-year returns. The Defined Benefit Fund is overweight to US Public Equity, Fixed Income and Private Real Estate and underweight to Emerging Markets, Global Equity and Private Equity but still on target as of the end of March. The DB Fund ended quarter one with \$16.95 billion (a net decrease of \$2.65 billion) and was down a total of -13% which is lagging the Policy Target return by -11.8%. Over the last 20 years, the DB Fund has provided an average annual return of 5.4%, outpacing the Long-Term Target of 5.0%. The DB Fund ranked below the median for the past quarter, in the top quartile for the last 3, 5, and 7 years, and above median for the last 10 and 20 years (March to March). The total relative return for the DB Fund as of March 31 was -1.24%. The total relative return for the last five years ending March 31, 2020 was positive at 0.40%. Over the longer term, the fund is performing as expected in this type of environment.

The Defined Contribution program total assets as of March 31 totaled \$982.7 million. Of those assets, 79% are invested in the Total Return Fund. For the long-term period (3-10 years), Brandes' value oriented style has underperformed the Broad Index over the past 10 years. Calvert also fell short for all longer-term periods. The Total Return Fund posted positive value-added for the 3-year period but fell short for the longer periods relative to the long-term 55/15/30 benchmark. However, there are no immediate issues for the DC Program given the current environment. Callan Associates has been working closely with plan sponsors and record keepers in regard to the CARES Act and any other challenges that they are facing. The Sick Leave Plan was down -15.6% relative to the target of -14.40%, lagging the target by 96 basis points for the quarter. Equities were sold at the end of March resulting in the fund being underweight in equities which caused the total fund's return to underperform the long term target due to some market rebound the last eight days of March. Subsequently, in April, the fund was rebalanced to the long term target allocations. Since inception of the current policy (December 2011), the fund has a return of 8.43% which is 4 basis points ahead of the 8.39% target. Manager's outperformance contributed 7 basis points to the performance variation while the rebalancing deducted two basis points.

Trustee Gould asked if a virtual check in with managers could be organized since the investment manager conference is postponed until 2021. Mr. Maynard said he would like to wait and see where everything is at in the fall and assess the possibility of a check in at that time.

Monthly Portfolio Update: Chief Investment Officer, Bob Maynard, provided the investment update. The fund is up +0.1% for a fiscal year to date return of -1.0% at \$18.061 billion. The fiscal and portfolio groups continue to do their nightly checks and are closely monitoring the fund. The sick leave fund is down -0.8% for the fiscal year to date at \$562 million. This month US equities (R3000) are up +1.8% for a fiscal year to date return of +0.6%, international developed markets (MSCI EAFE) are off -0.7% for a FYTD loss of -12.4%, global developed market equities (MSCI World) have dropped gained +1.0% for a -3.1% fiscal year return, and investment grade bonds (BB Aggregate) have retreated -0.4% to lower the fiscal year gain to +7.1%. Emerging markets (MSCI Emerging) have fallen -1.3% to increase the FYTD loss to -11.3%, REITs (DJ Select REIT) have tumbled -11.6% for a fiscal year return of -28.1%, while TIPS are down -0.1% for a gain of +6.7% for the fiscal year. Private real estate is up +8.0% and private equity is up +1.1% for the fiscal year. For the fiscal year to date, Peregrine has the best absolute and relative return at +26.2% which is +16.2% above their US equity benchmark. Donald Smith has the worst absolute return at -23.6%, while Brandes has the worst relative return at -16.6% (-13.6% behind their World benchmark). The fund as a whole is behind the 55-15-30 reference benchmark by -1.9% due to the underperformance of global equity and REITs compared to the R3000. The portfolio is robust, has kept transparency, managers are doing just what they should be doing and it is performing well given the environment. In April, the fund had its best ever quarter (up almost 7%). Mr. Maynard stated that the fund is not yet positive but, with all things considered, ending the year in a slightly negative stance would be considered a win.

EXECUTIVE DIRECTOR

New Employer: Director Drum presented the staff recommendation that the Board approve the admittance of the Portneuf River Water Users. They have four employees. When a new employer requests to join PERSI, the withdrawal process and penalties are explained. The employer also signs an acknowledgement form regarding this information.

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

Internal Controls Audit Plan: Brad Berls and Anders Erickson of Eide Bailly presented information for the proposed IT security assessment and enhanced internal controls audit. The independent

evaluation would be to evaluate the risks of PERSI relying solely on the Idaho ITS (Information Technology Services) division for internet connectivity, evaluate the risks of PERSI establishing its own failover solution outside of ITS, and to identify any gaps in PERSI's ability to operate independent of ITS. Director Drum stated that he will meet with ITS Administrator Jeff Weak to further discuss ITS services as well as PERSI's desire for an independent audit. The Board would like to take a broad approach to the audit and will not incorporate additional special audit work into the process at this point in time. All of the findings and information will be incorporated into the governance process and policy creation.

Sick Leave: Executive Director Drum stated that 70% of active PERSI members are participants in the sick leave program and active ORP members make up 20% of the state portion of sick leave. There are approximately 11,000 retired members receiving a sick leave benefit. Sick leave contributions are paid by the employer while a member is working. After a member is retired they are able to access their sick leave benefits according to their individual benefit calculation. The current sick leave rate holiday will be discussed at a future Board meeting this fall once the final valuation reports are received. Robert Schmidt with Milliman, Inc. reviewed the proposed sick leave experience study project plan. Once the statement of work is approved, the study should be completed within five weeks. Director Drum stated that the proposed plan does not have to go through the appropriation process nor an RFP since Milliman is already approved to provide these types of services to PERSI. Director Drum will keep the Board updated as Milliman works through the sick leave experience study project.

DEPUTY DIRECTOR

Member Education: Deputy Director Hampton provided an update on external member education provided through the Programs department. When the outbreak started, face-to-face workshops with members were indefinitely postponed. PERSI staff devised a plan to re-start training efforts for members virtually through WebEx. Workshops were retooled to fit the web-based platform, Programs staff conducted testing and training, and have now begun offering web-based "make-up" workshops for all members who got bumped out of previously scheduled workshops. It is the training team's intention to market web-based workshop opportunities to members and employers going forward. In-person trainings will again become available when both possible and reasonable. PERSI staff is also developing a new and ongoing member surveying mechanism to help evaluate current products and information delivery. PERSI staff has had positive results in the kickoff of this process and believe it will be a valuable addition to education offerings moving forward. Per the Governor's directive, the PERSI office will be scheduling in-person retirement and educational meetings sometime after the end of June as long as the state is still pressing through the reopening plan as proposed.

Contested Case – Tye Harper: Deputy Director, Michael Hampton, presented the Board their options for case 04-19 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 if further factual development is needed, or issue a final order accepting, rejecting or modifying the Recommended Order from the Hearing Officer.

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

FISCAL

Expense Reports/Quarterly Financial Statements, NAV Reporting: Financial Executive Officer Simpson updated the Board on the year-to-date expense reports for administration and portfolio. The Board was also provided the third quarter unaudited financial statements. Moving forward,

Adjournment: No other decisions were made, and there being no further business to come before the Board, the meeting adjourned at 11:45 a.m.

Date _____

Date _____

7/22/2020