



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., October 20, 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, Chief Financial 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:

Ann O'Bradovich	Callan	Robert Schmidt	Milliman
Paul Yett	Hamilton Lane	Ryan Cook	Milliman
Paul Lamb	Hamilton Lane	Brad Berls	Eide Bailly

At 9:33 a.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting.

Approval of the Minutes: Trustee DeAngeli made a motion to approve the minutes of the September 14 and September 15 meetings. Trustee Gould seconded the motion, which passed unanimously.

#### PORTFOLIO

Private Equity Update: Paul Yett with Hamilton Lane provided the private equity portfolio update. The portfolio experienced positive performance for the last 12 months ending June 30, generating a positive net value change of \$12.1 million. The portfolio also achieved positive performance in three of the last four quarters with Q2 posting a 9.5% internal rate of return for the quarter and has outperformed the public benchmark by 15 bps since inception. The portfolio has been cash flow positive in each of the last nine full years. 2020 YTD has seen a decrease in cash flow activity, however. Mr. Yett also provided general comments regarding private market observations and expectations for the future. Mr. Yett introduced Paul Lamb who works in the reporting and monitoring of the portfolio.

Monthly Portfolio Update: Chief Investment Officer, Bob Maynard, provided the investment update. Mr. Maynard reviewed the private equity section provided in his daily report including a review of the top private equity investments including a comparison of cash flow and market value. For the full fund, this month has seen a return to increasing fund returns of +2.3% at \$20.110 billion for a fiscal year to date return of +7.9% (after hitting +8.9% at an all-time high of \$20.298 billion on

October 12th). The sick leave fund is up +8.1% at \$639 million. This month US equities (R3000) are up +4.3% for a FYTD return of +13.9%. International developed markets (MSCI EAFE) have increased +1.5% for a fiscal year gain of +6.5%. Global developed market equities (MSCI World) have risen +3.1% for a +11.4% fiscal year to date return. Investment grade bonds (BB Aggregate) are flat at 0.0% for a fiscal year return of +0.6%. Emerging markets (MSCI Emerging) are up +4.0% to increase the fiscal year return to +14.0%. REITs (DJ Select REIT) are up +2.1% for a fiscal year +3.0%, while TIPS are up +0.1% to change the fiscal year return to +3.0%. Private real estate has a loss of -0.8% and private equity has gains of +9.6% for the fiscal year to date. For the new fiscal year, Mountain Pacific has the best absolute return at +14.9%. Fiera has the highest relative return to benchmark at +14.6% which is +3.2% above their MSCI World benchmark. The Adelante REIT portfolio has the lowest equity return at +2.2%. Donald Smith has the worst relative return to benchmark at +4.0%, which is -9.9% behind their domestic equity benchmark. The fund as a whole is behind the 55-15-30 benchmark by -0.9% due to the underperformance of real estate, private equity, and global equities compared to the US equity market. Investment Officer, Richelle Sugiyama, provided general comments on market challenges, investments and the economy.

### EXECUTIVE DIRECTOR

New Employers: Director Drum presented the staff recommendation that the Board approve the admittance of the North Bannock Fire District who has two employees and the Groveland Cemetery Maintenance District who has three employees. An actuarial assessment was not required for either employer.

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

Actuarial Valuations: Robert Schmidt with Milliman presented the final actuarial valuation reports for the Firefighters (FRF), Judges (JRF), Defined Benefit and Sick Leave Plans. There were no changes to the information from what was presented in the preliminary reports at the last Board meeting. Trustee DeAngeli stated he would like to move forward with future discussion regarding a derisking strategy for the FRF.

Trustee DeAngeli made a motion to approve the actuarial valuation report for the Firefighters Retirement Fund. Trustee Gould seconded the motion, which passes unanimously.

Trustee DeAngeli stated that a minor adjustment to the Judges Retirement Fund contribution rate should be a consideration for the future to prevent overfunding of the JRF. Director Drum will reach out to Judge Wood regarding the JRF rates and will bring information back to the Board for future discussion.

Trustee DeAngeli made a motion to approve the actuarial valuation report for the Judges Retirement Fund. Trustee Gould seconded the motion, which passed unanimously.

Mr. Schmidt stated the base plan is 87.7% funded as of July 1, 2020 with a 25 year amortization period. There is also a potential discretionary of 0.3% available for consideration. Director Drum stated that as he has met with employers around the state he has been discussing adjusting COLA expectations moving forward due to the rising costs associated with the COLA. Trustee Price would like to revisit the inflation assumption, future liability assumption and return assumption due to the fund being so close to the allowed 25 year amortization. Mr. Schmidt stated that, although it is not the regularly scheduled time for an economic assumption review, the Board could consider doing this in early 2021. The time for a review of the demographic assumptions would be in 2022 as this is typically done every four years.

Trustee Price made a motion to approve the actuarial valuation report for the PERSI fund. Trustee Gould seconded the motion, which passed unanimously.

Mr. Schmidt presented the final valuation report for the Unused Sick Leave benefits. Mr. Schmidt stated that the final funded ratios for state came out at 250% and school at 152% which are slightly different than the numbers used during the sick leave presentations over the last few Board meetings. Those scenarios were created using a 7% rate of return and funding ratios of 154% for schools and 245% for state. These estimated numbers were created by using the prior year's valuation. The projections are sufficiently similar to actual valuation results that Milliman shouldn't need to redo the reports.

Trustee Gould moved to approve the actuarial valuation report for the Unused Sick Leave benefits. Trustee DeAngeli seconded the motion, which passed unanimously.

Sick Leave Plan: Director Drum stated the current contribution rate holiday for the Sick Leave fund goes through June 30, 2021. If the Board takes no action, the rates come back to the normal cost rate effective July 1, 2021. The Board may choose to take action to extend the rate holiday for both school and state or to only extend the holiday for one plan and not both. Making no changes to the investment allocation and only extending the rate holiday by one year would have very little impact on the fund overall. A rate holiday could potentially have a different impact if the investment allocation is also adjusted, especially on the school side of the plan.

Mr. Schmidt reviewed scenarios for the plan for a rate holiday extension, asset allocation changes as well as a discount rate adjustment for both school and state. Mr. Schmidt stated Milliman also compared their analysis against Callan assumptions and adjusted for the current 3% inflation. A forfeiture assumption was included in the calculated liabilities of 3.25% for state and 2% for schools. Director Drum stated that the legislature has to make any adjustments to plan regarding how member sick leave balances can be used which could potentially further reduce the forfeiture amounts.

PERSI Staff recommends splitting the plans regardless of a rate holiday or allocation decision today. Administratively it is easy to establish separate trusts for the state and sick leave plans.

Mr. Maynard, as well as Ann O'Bradovich of Callan, recommended going to a 50/50 allocation for both plans along with extending the rate holiday for both. Additional de-risking could be considered in the future after more analysis is completed. This way the overfunding is immediately addressed without too much risk.

Trustee Gould made a motion to extend the rate holiday for both the state and school plans for one year ending June 30, 2022. Trustee DeAngeli seconded the motion which passed unanimously.

Trustee DeAngeli stated he would like to move forward with a 20/80 allocation for state as the risk is low for having to adjust contribution rates 20 years into the future. Director Drum stated that from an internal operations stand point regardless of the allocation decision is easily administered internally without any problems. PERSI staff has also spoken with Ms. O'Bradovich and the recordkeeping portion is easily handled as well.

After additional discussion, Trustee Gould stated she would like to keep consistency for both funds and made a motion to adopt a 50/50 allocation for both the state and school plans including the appropriate adjustments to the discount rate and normal costs for the plans (6.1% discount; 0.71% and 0.40% normal cost). Trustee Price seconded the motion. Trustee DeAngeli opposed the

motion stating that he believes the state plan should be allocated to 20/80 rather than 50/50 for both. The motion passed by majority vote.

Mr. Maynard stated that the 50/50 will be done on the International and Russell 3000 index fund proportionately. Mr. Simpson stated that the reallocation can be done on any day of the Board's choosing.

Chairman Cilek stated he would like PERSI staff to move forward with separating the schools and state sick leave plan as soon as administratively possible once the 50/50 allocation is complete.

COLA: Due to time limitations the cost of living adjustment discussion was moved to the October 27<sup>th</sup> governance meeting.

#### DEPUTY DIRECTOR

Due to time limitations, Deputy Hampton's presentations were moved to the October 27<sup>th</sup> governance meeting.

#### FISCAL

Financial Audit: 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 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 Price was the Board representative who participated in the audit process this year. Mr. Simpson expressed thanks to his staff for all of their hard work and dedication. There is a lot of work and coordination involved and they did even better this year than last. Chairman Cilek, on behalf of the Board, expressed thanks to Mr. Simpson and his staff as well as the auditors and Trustee Price for their time and commitment throughout the audit process.

Trustee Price made a motion to adopt the Audit Report. Trustee Fisher seconded the motion, which passed unanimously.

Update/Expense Reports/Travel: Financial Executive Officer, Alex Simpson, gave the fiscal update and presented the expense reports. There is currently no out of state travel being conducted.

Interest Rate: CFO Alex Simpson presented the interest rates starting January 1, 2021. The methods of calculation are set forth in rule. Regular Interest is calculated to be 2.39% which is 90% of PERSI's return net of all expenses of 2.65% which will be credited to member accounts.

Unless otherwise provided by statute or rule, reinstatement interest shall apply to all amounts owed to the fund. Reinstatement Interest is calculated to be 5.58%. The June 30, 2020 prime rate was 3.25%. In 2018 the rate was 5.00% and 2019 the rate was 5.50%. The average rate is 4.5 8% plus 1% which equals 5.58%.

Trustee Gould requested more information on how the rate is set for the Choice Plan, specifically Choice Plan loans. Director Drum stated he believes it is set by Empower and based on the return. He will confirm on how the rate is set and provide that information to the Board.

#### BOARD

The Board reviewed the draft agenda for the December 1 meeting and requested no changes.

The Board has reviewed the proposed 2021 meeting dates for a second time. No official requested updates at this time, however, the March dates may tentatively need to be changed.

The Board will meet next week on Monday for an informal Board dinner and Tuesday for governance.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 12:50 p.m.

  
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Donald D. Drum  
Executive Director

12-1-2020  
Date

  
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Jeff Cilek  
Chairman

12-1-20  
Date