



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 in-person and via Zoom at 8:30 a.m., August 17, 2021. 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:

Ann O'Bradovich	Callan Associates	Dan Bates	Clearwater
Robert Schmidt	Milliman	Chris Brechbuhler	Clearwater

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 July 13 and July 14 meetings. Trustee Gould seconded the motion, which passed unanimously.

PORTFOLIO

Callan Quarterly Update Ann O'Bradovich of Callan reviewed the fiscal year 2021 performance evaluation report including a general market environment and performance overview. The Total Fund ended the 2nd quarter 2021 with \$23.48 billion, a net increase of \$1.34 billion. For the fiscal year 2021, PERSI Total Fund earned a return of 27.9%, surpassing the Policy Target return of 27.2%. The five-year Total Fund return was 11.9%, topping the Policy Target return of 11.3%. Over the last 20 years, the Total Fund has provided an average annual return of 7.7%, falling just short of the Policy Target return of 7.8%, but outpacing the Long-Term Target return of 7.5%. PERSI Total Fund ranked in the top quartile during fiscal year 2021, as well as in the last 3, 5, and 7 years. It ranked in the top decile during the 2nd quarter. PERSI Total Fund ranked above the median in the last 10 years, and in the top quartile in the last 15, 20, and 25 years. The Choice 401(k) Plan finished with \$1.458 billion in total assets as of June 30, 2021. Ms. O'Bradovich stated that Callan would like to review the 401(k) investment options structure with the Board sometime in the future to assess the options and do a possible refresh. The Sick Leave Funds surpassed the target by 28 basis points (bps) in the 2nd quarter of 2021. All of the Sick Leave funds are passively managed. Since September 2011 the Funds earned a return of 11.18%, which exceeded the target return of 11.01% by 17 bps. Among Public Funds, the performance of the Sick Leave Funds ranked above the median for the last quarter (31st), last 3 years (34th), and last 5 years (29th); in

the bottom quartile for the last 12 months (80th); in the top quartile for the last 7 years (23rd) and 10 years (15th); and in the top decile for the past 18.25 years (3rd).

Monthly Portfolio Update Investment Officer, Richelle Sugiyama, gave general comments on market challenges, investments and the economy. Chief Investment Officer, Bob Maynard, provided the investment update. PERSI has a gain of +1.1% so far in August for a fiscal year to date advance of +2.2% at \$23.986 billion. The Sick Leave Fund has risen +1.8% for the new fiscal year at \$717 million. This month US equities (R3000) are up +1.5% for a fiscal year +3.2%, international developed markets (MSCI EAFE) have advanced +2.6% for a fiscal year +3.4%, global developed market equities (MSCI World) are +1.9% for a fiscal year +3.8%, and investment grade bonds (BB Aggregate) are off -0.3% for a fiscal year +0.8%. Emerging markets (MSCI Emerging) have gained +0.3% this month to reduce the fiscal year loss to -6.4%, REITs (DJ Select REIT) have gained +0.1% for a fiscal year gain of +5.5%, while TIPS have lost -0.4% to change to fiscal year return to +2.2%. Private real estate has a gain of +6.5% and private equity has gains of +3.0% for the fiscal year.

EXECUTIVE DIRECTOR

Legislative Ideas Executive Director Drum reviewed the timeline of submitting legislative ideas language to the Governor's office. The ideas are due for initial submission, however, changes may still be made until December. The only change from the last Board meeting was to add language stating that employees participating in return to work must begin to pay contributions. They will not accrue additional months of service. Return to work is currently costing around \$28,000 per participant. Requiring employee contributions will not mitigate the entire \$28,000 but it will help reduce that number. Milliman is currently doing a study on return to work which should be completed around October-November for the Board to review. This will help in determining what contribution rates need to be adjusted to moving forward. The other ideas include defining early retirement and service retirement, adding Board subpoena power and adding additional language for return to work requirements. The Board held general discussion on updates to the language as presented. They will provide any additional feedback to DAG George and Deputy Hampton for incorporation.

Director Drum stated that PERSI is not proposing legislation regarding rate changes this year due to the Milliman study which will be based on any assumption changes the Board may adopt. This will ensure that PERSI has all of the appropriate information (primarily financial information) to be able to fully present legislation to the legislature. The Governor's office would need to give approval to submit any language outside of the submission timeline or it would need to be presented/carried by a legislator rather than PERSI presenting legislation as an agency bill.

Trustee DeAngeli made a motion to approve the legislative ideas language to be submitted to the Governor's office, with the changes as discussed. Trustee Fisher seconded the motion, which passed unanimously.

Experience Study: Robert Schmidt of Milliman presented an overview of the assumptions information presented at the last Board meeting. Milliman is not recommending any changes to the real payroll growth or the real asset return. They are recommending lowering the inflation assumption. Mr. Schmidt reviewed the inflation scenarios including the impact of potential discretionary COLA options on each of the scenarios. Mr. Schmidt also reviewed the probability of a contribution rate increase based on which scenario option is selected. Chairman Cilek stated that he would like to have a discussion about potentially lowering contribution rates in the future.

After lengthy discussion, Trustee Gould made a motion to lower the inflation assumption to 2.3%. Trustee Price seconded the motion, which passed unanimously.

Director Drum stated that lowering the inflation assumption to 2.3% will result in the assumed rate of return being lowered to 6.3%. Director Drum also stated that the COLA decision will need to be made by the December Board meeting but that the Board may choose to make a COLA decision any time before then.

DEPUTY DIRECTOR

New Employers Nampa Fire Protection District (formerly Nampa Fire Department) meets the definition of an employer/governmental entity and will join PERSI as of January 1, 2022. Nampa Fire Department is already an employer and there will be no impact to the fund as this is a shift in structure and no new employees being added. The Public Charter School Commission (formerly under State Board of Education but now a new state agency) is a mandatory employer and joined PERSI as of July 1, 2021. There is no impact to the fund as the impacted employees are already PERSI members.

Contested Case – Sherri Galdi 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 to adopt the Hearing Officer's Recommended Order that the application for disability retirement be denied. Trustee Fisher seconded the motion, which passed unanimously.

Kelly Cross, Program Manager, introduced Matthew Groves who is the new internal training specialist (focus on content development). The Program department also consists of three (3) external trainers (Kelsey White, Maria Quitugua and Raymond Mikus), the Choice 401(k) Plan Manager (Diane Kaiser), and Administrative Assistant (Kathy Adams). Mr. Cross thanked the entire Program department team for all of their hard work.

FISCAL

FY2023 Budget Request Financial Executive Officer, Alex Simpson, reviewed the final budget request for FY2023. The only line item being included in the budget request is for the Arrivos 2.0 upgrade. Director Drum stated that he has a meeting scheduled tomorrow to meet with Information Technology Services (ITS) and the Governor's office to discuss IT modernization.

Trustee Gould made a motion to approve the FY2023 budget request. Trustee Fisher seconded the motion, which passed unanimously.

Financial Statements Financial Executive Officer, Alex Simpson, updated the Board on the quarterly financial statements which includes the year-to-date June 30, 2021 with comparative totals for the same period prior year to date. Mr. Simpson stated there have been no issues with the audit and everything is where it should be.

Update/Expense Reports/Travel Financial Executive Officer, Alex Simpson, gave the fiscal update and presented the expense reports.

BOARD

The Board reviewed the draft agenda for the next Board meeting. Chairman Cilek requested for the COLA to be added to the agenda in case the Board is prepared to make a decision at the next meeting. Review of Callan contracts will also be added to the agenda.

Executive Session At 11:40 a.m. Chairman Cilek stated the Board intended to move to executive session in accordance with Idaho Code §74-206(1)(a), 74-206(1)(b) and section 74-206(1)(f).

Trustee Fisher made a motion to go into executive session in accordance with Idaho Code §74-206(1)(a) convene in executive session to consider hiring a public officer, employee, staff member or individual agent and 74-206(1)(b) to consider personnel matters and §74-206(1)(f) to communicate with legal counsel to discuss legal ramifications of and legal options for pending litigations or controversies. Trustee Gould seconded the motion and the Board voted unanimously via roll call vote.

Upon conclusion of the executive session, Trustee Fisher made a motion to return to regular session. Trustee Price seconded the motion, which passed unanimously.

Regular Session The Board returned to regular session at 11:53 a.m. Chairman Cilek stated that legal matters were discussed with counsel during the executive session. Trustee Price made a motion to pay interest as of the eligible date to Judges Kerrick and Hoff. Trustee Gould seconded the motion which passed by majority vote. Trustee DeAngeli recused himself from voting due to a legal conflict.

Adjournment There being no further business to come before the Board, the meeting adjourned at 11:55 a.m.



Don Drum
Executive Director

Date



Jeff Cilek
Chairman

Date