



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., December 7, 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:

Robert Schmidt	Milliman	John Jenks	PERSI
Bill Raver	PERSI	Dwight Churchill	PERSI
Tom Lee	PERSI	Garrett Walls	PERSI
Bob Storer	PERSI	Ann O'Bradovich	Callan
John Skjervem	PERSI		

At 8:35 a.m., Chairman Cilek called the meeting to order. He welcomed everyone to the meeting and gave special recognition of the staff advisors in attendance.

Approval of the Minutes Trustee DeAngeli made a motion to approve the minutes of the November 8 and November 9 meetings. Trustee Fisher seconded the motion, which passed unanimously.

PORTFOLIO

Callan Quarterly Update Ann O'Bradovich of Callan presented the 2021 quarter three performance evaluation report. The report included a general market overview and summary as well as fund performance for the Defined Benefit plan, Defined Contribution plan and the Sick Leave plan. The Defined Benefit plan ended the 3rd quarter 2021 with \$23.517 billion in assets which is a net increase of \$0.036 billion. For the third quarter 2021, PERSI Defined Benefit plan earned a return of 0.69%, surpassing the Policy Target return of 0.56%. The one-year Defined Benefit plan return was 22.1%, topping the Policy Target return of 20.8%. Over the last five years, the Defined Benefit plan gained 11.3% vis-à-vis the Policy Target's return of 10.7%. Over the last 20 years, the Defined Benefit plan has provided an average annual return of 8.3%, meeting the Policy Target return of 8.3% and surpassing the Long-Term Target return of 8.0%.

Total assets as of September 30, 2021 for the Defined Contribution plan totaled \$1.466 billion. 77% of assets invested in the Total Return Fund, 16% of asset invested in Equity Funds and 5% of assets invested in Fixed Income and Cash equivalents. Total Return Fund had the largest inflow (+\$1.9 million). For the quarter, the Total Return Fund outperformed the Long-Term Index by 73 basis points. As of September 30, 2021 the Sick Leave plan is at \$699.4 million in assets. The fund performed in line with the policy target of 50% equity and 50% fixed income. Among Public Funds, the performance of the Sick Leave funds ranked below the median for the last quarter (75th), last year (95th), and last 3 years (60th); above median for the last 5 years (36th) and 7 years (30th); in the top quartile for the last 10 years (17th); and in the top decile for the last 18.5 years (6th).

Callan will review the asset classes, investment options and structure for the Choice Plan (Defined Contribution) with the Board at an upcoming meeting.

Data Aggregator Update Bo Abesamis, Executive Vice President and head of the Trust and Custody effort with Callan, presented an update regarding the data aggregator project. Callan was hired to assist PERSI with the evaluation of third party data aggregator service providers. The scope of work for the selected data aggregator will include performing an independent check on the PERSI Daily NAVs calculated and reported by BNY Mellon; collect, aggregate, calculate supplemental analytical data and perform added reconciliation; and consolidated investment reporting on a daily basis for oversight purposes across all asset classes. The goal is for Callan to have final candidates identified by the end of March 2022.

Monthly Portfolio Update Investment Officer, Richelle Sugiyama, provided the investment update including general commentary on market challenges, investments and the economy. The fiscal year-to-date return as of the morning of the Board meeting was 3.2%. As of December 3, PERSI is at 0.0% for the month for a fiscal year-to-date return of +2.7% (\$23.925 billion). The Sick Leave fund has advanced +1.7% for the fiscal year at \$709 million. US equities (R3000) dropped -0.9% for a fiscal year of +4.1%. International developed markets (MSCI EAFE) advanced +0.5% for a fiscal year-to-date loss of -2.1%. Global developed market equities (MSCI World) dropped -0.5% for a +3.0% FYTD increase and investment grade bonds (BB Aggregate) are up +0.3% for the month for a +0.6 fiscal year-to-date. Emerging markets (MSCI Emerging) have gained +1.1% to decrease the fiscal year loss to -9.9%. REITs (DJ Select REIT) are up +0.9% to a +9.9% for the fiscal year. TIPS are up +0.1% for a +3.8% for the fiscal year. Private real estate has a gain of +14.5% and private equity has gains of +21.6% for the fiscal year.

Investment Manager Market Commentary Ms. Sugiyama introduced the staff advisors in attendance who each provided commentary including remarks on investment strategies, industry trends, and market views. PERSI staff advisors assist in overseeing the portfolio as well as provide input and advice on managers, investment strategy, and as needed on portfolio related projects. The advisors who spoke are Ash Williams, Garret Walls, John Jenks, John Skjervem, Tom Lee, Bill Raver, Bob Storer and Dwight Churchill.

Chairman Cilek extended his thanks and appreciation to all of the advisors and the support they provide to PERSI.

EXECUTIVE DIRECTOR

Cost of Living Adjustment Director Drum reviewed the COLA information with the Board and the impact of different COLA options the Board may consider. The CPI-U for August to August was 5.3%. PERSI also has retroactive COLA in the amount of 0.32% from fiscal year 2021 which gives a total of 4.62% available for discretionary and retroactive COLA. COLAs have a long-term impact on the fund and the benefit is increased indefinitely into the future. If the current inflation is

transitory, providing a full COLA potentially provides a long-term impact to a short-term issue. The impact of each 1% COLA granted is approximately 0.5% on the funded status and 1.1 to 1.2 years on the amortization. Historically when the Board is considering what COLA to recommend they look at what happened during the current year, current market conditions and expert projections as to what will happen in the future. The 5-year Cost Increase Probability estimation from Milliman for providing a COLA varies from 40% for no discretionary COLA to 45% for a full discretionary and retro COLA of 4.62%. The mandatory 1% COLA is addition to this. Director Drum briefly reviewed the Milliman scenarios of different COLA percentages.

Trustee Fisher made a motion to propose a 2.5% discretionary COLA for a total of a 3.5% COLA. She stated that her motion is based on market performance, however, she is also taking into consideration the possibility of a future market downturn. Trustee DeAngeli seconded the motion. He stated he believes this is a fair COLA considering that all of the old retroactive COLAs were only recently granted and also stays in line with the conservative historical position of the Board regarding COLA.

After lengthy discussion regarding the amortization period, potential future returns and protecting the health and longevity of the fund, the Board voted on Trustee Fisher's motion which passed unanimously. The COLA recommendation that will be sent to the legislature for approval is 2.5% discretionary on top of the 1.0% mandatory for a total of 3.5%.

School Employee Class The Board voted at the November meeting to move legislation forward to create a new class for School District employees. The legislation does not include a rate change so the rate for the new class would remain at the general member rate until the Board determines and approves a new rate. The Board cannot establish the new rate until legislation has passed approving the School District employee class. The Board establishes the rates and those do not run through the Plan sponsor (legislature). Rate adjustments historically are set after the actuarial valuations are approved (every October) and are not implemented for about 18 months. The new School District rate is necessary to address the fact that School District employee's normal cost has drifted from the normal cost of other general members. With the increase in normal cost, general members have been paying a greater contribution to the amortization of the UAAL (the difference between normal cost and the current rates) Thus, you can consider that general members have been subsidizing some of the benefit cost of educators. The majority of the drift in cost is associated with demographic differences with return to work also being a small factor.

Trustee Gould moved to adopt alternative 3 of the Milliman study upon approval and the enactment of the new class legislation as written. Trustee Price seconded the motion.

Trustee Fisher stated she would be more comfortable for the motion to state intent of the Board rather than official action to change the rate. After further discussion by the Board, the Chair restated the motion by Trustee Gould as seconded by Trustee Price. Trustee Fisher opposed the motion. The motion passed by majority vote.

Alternative 3 of the Milliman study lowers general member rates to 17.89% effective July 1, 2022. Alternative 3 increases public safety rates to 23.09% effective July 1, 2023. If the legislature approves the new school district class, the rate for that class will be 19.46% effective July 1, 2023 per alternative 3.

DEPUTY DIRECTOR

New Employers Deputy Hampton introduced two new employers active as of December 1, 2021. Shelley-Firth Ambulance District meets the definition of an employer/governmental entity. They

currently have three full time employees. Shelley-Firth Fire Protection District meets the definition of an employer/governmental entity. They currently have five full time employees. No cost study was needed for either employer.

Contested Case – Michael Tomchak 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 approved. Trustee Fisher seconded the motion, which passed unanimously.

Contested Case – Michael Humphreys Deputy Attorney General, Cheryl George, reviewed the main points of the contested case. 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 Gould seconded the motion, which passed unanimously.

Contested Case – David Wood Deputy Attorney General, Cheryl George, reviewed the main points of the contested case. 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 Fisher 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.

Contested Case – Mariann Brotnov-Brown Deputy Attorney General, Cheryl George, reviewed the main points of the contested case. 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 Price 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

Annual Comprehensive Financial Report Financial Executive Officer, Alex Simpson, presented the FY2021 Annual Comprehensive Financial Report (ACFR).

Chairman Cilek expressed his thanks to Financial Executive Officer, Alex Simpson, as well as the entire fiscal department for all of their work on the ACFR. FEO Simpson echoed the Chairman's sentiments and thanked all of his staff for their diligence and hard work on producing the report.

Quarterly Financial Statements FEO Simpson provided the unaudited financial statements for the first quarter of fiscal year 2022. There was a negative return on sick leave for the quarter, however, all other numbers are within range and as expected.

Update/Expense Reports/Travel FEO Simpson, gave the fiscal update and presented the expense reports.

BOARD

The Board reviewed the draft agenda for the January Board meeting. Trustee Price said interviews with the Board and PERSI staff with the final CIO search firm candidates will be held at the end of the regular meeting on the 19th. The tentative 2022 dates are approved less any unforeseen changes during the year.

Adjournment: There being no further business to come before the Board, the meeting adjourned at 11:30 a.m.

Don Drum
Don Drum
Executive Director
Date

Jeff Cilek 1-19-22
Jeff Cilek
Chairman
Date