



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

RETIREMENT BOARD MEETING MINUTES

The Board of the Public Employee Retirement System of Idaho met in-person at 8:30 a.m., March 19, 2024. The following Trustees were present:

Jeff Cilek
Joy Fisher
Park Price
Darin DeAngeli
Lori Wolff

Executive Director Michael Hampton, Deputy Attorney General Cheryl George, Chief Investment Officer Richelle Sugiyama, Deputy Chief Investment Officer Chris Brechbuhler, and Management Assistant Eliza Storms were also in attendance.

Presenters in attendance in-person or via Zoom were:

Todd Bailey	Mellon Cap	Ann O'Bradovich	Callan
Stephanie Hill	Mellon Cap	Troy Snyder	Plante Moran
Eric Dellet	Plante Moran	Gabrielle Wafer	Plante Moran
Robert Schimdt	Milliman	Ryan Cook	Milliman
Mike Schmitz	Milliman	Leighton Hunley	Milliman

At 8:31 a.m., Chairman Cilek called the meeting to order.

Approval of the Minutes Trustee Fisher moved to approve the minutes of the February 27th meetings. Trustee Wolff seconded the motion. The motion passed unanimously.

PORTFOLIO

Monthly Portfolio Update

Chief Investment Officer Richelle Sugiyama presented the performance reports as of March 12th and 18th, 2024. As of March 18th, the Total Fund had a FYTD return of 7.3% and a five-year return of 7.8%. Ms. Sugiyama stated the portfolio is behaving as expected, noting the Fund typically underperforms as equity markets rally. Ms. Sugiyama explained that any bias away from the Russell 3000 hurts performance.

Ms. Sugiyama provided an overview of the FYTD returns, including fund asset class returns, highlighting the REIT, private real estate, and Idaho mortgage portfolio returns. Ms. Sugiyama informed the Board of the upcoming review of the real estate portfolio scheduled for the April Board meeting.

Ms. Sugiyama introduced Todd Bailey and Stehanie Hill with Mellon Capital, one of PERSI's legacy managers, managing most of PERSI's indexed exposure.

Investment Manager Market Overview

Todd Bailey, Director with Mellon Capital, provided a quick update on BNY Mellon and status of the organization that included both the investment management side and investment services. He informed the Board how Mellon is a client focused index manager with thirty plus clients invested for over twenty years. Mr. Bailey highlighted Mellon's long-standing relations with PERSI since 1988. Mr. Bailey introduced Stephanie Hill, Managing Director.

Ms. Hill thanked the Board for the past thirty plus years of working together. She continued to provide an overview of the Mellon Index Investment Team of about thirty-two people and how they prepare as a team for the next forty years as index investment professionals. Ms. Hill gave an overview of the PERSI Russell 3000 strategy for account restructuring.

Mr. Bailey provided commentary on the combination of the S&P 500, Russell 2000, and a Mid-Cap Completer account. It was designed to have more efficient exposure to the Russell 3000. He discussed the statistics shown is what was completed on Jan 30, 2024, and explained the process of the replication of the accounts and stated it was part of the rebalancing process. Mr. Bailey highlighted that the transition was very well managed, low-cost, risk controlled, and went very well.

Ms. Hill continued to provide an overview of the trends in institutional money flows they saw in 2023 and are seeing now. She stated they are seeing traction on trading techniques that are now in place that make it easier to trade fixed income. Ms. Hill also provided an update on the trends in index benchmarks as well as emerging markets.

Trustee Price commented on the increased difficulty of active managers to outperform indices and asked if it was an information issue. Ms. Hill stated when speaking of the "Magnificent Seven," it is very difficult for an active manager in the US to compete if you do not hold those names as they were a key driver of performance.

Chairman Cilek asked Mr. Bailey if he is aware of other funds dealing with the foreign adversary or divestment legislation. Mr. Bailey wasn't aware of the specific legislation. Ms. Sugiyama added that while some funds are facing divestment legislation, such as anti-China legislation, other funds see this as an opportunity. Mr. Bailey stated that is correct, he is aware of other states currently dealing with legislation discussions regarding China exposure. There could be forced selling in that area.

Chairman Cilek and the Board thanked Mellon Capital for their loyalty and long-term relationship.

GOVERNANCE

Investment Policy Statement Adoption

Director Hampton stated, as defined in the Governance Policy Manual, that the manual serves as a guide and resource for the governance and oversight of all aspects of PERSI. As such, governance policy review will be a joint effort between the Board, the Executive Director, and the Chief Investment Officer.

CIO Sugiyama presented the revised Investment Policy Statement (IPS) for the defined benefit plan, reflecting the addition of investment manager termination language, the outsourcing of

class action claims processing from the custodian, and updated language to address the broad array of collective trust vehicles available to governmental, tax-exempt funds. She provided a quick summary of each change and asked that the Board approve and adopt the Investment Policy Statement for the defined benefit plan, as revised. She stated that the Sick Leave policy will be addressed next.

Trustee DeAngeli noted that in the collective vehicle section, there is a reference to "CIT", which should be revised accordingly. CIO Sugiyama thanked Trustee DeAngeli and noted that it will be corrected.

Trustee Price made a motion to adopt the revised Investment Policy Statement for the defined benefit plan as presented, including the revision noted by Trustee DeAngeli. Trustee DeAngeli seconded the motion, which passed unanimously.

Governance Review Process

Director Hampton provided an explanation of the current process for reviewing the Board Governance Policy manual and proposed a change to an annual review and adoption process of the entire manual that would engage both staff and the Board.

Trustee DeAngeli stated an annual review of the entire governance manual would be beneficial and allow for a better understanding and comprehension of the policies that need to be reviewed.

Trustee Fisher agreed that an annual review would be a better process but would like to still be assured any items that need to be revised or addressed in the meantime will still be brought up in the interim. Director Hampton explained that would not be an issue.

Chairman Cilek would also like to have the governance policies reviewed on an annual basis with the possibility of doing so early in the year.

Trustee Price questioned whether an annual review is practical and manageable. Director Hampton stated the annual review will be manageable and PERSI staff can identify problematic areas as it is being worked on.

Director Hampton asked the Board to send him any concerns or questions regarding any policies they would like to look at and staff will work on an annual schedule to present to the Board.

OPERATIONS AND ADMINISTRATION

Executive Summary

Deputy Director Recruitment

Director Hampton provided an update on the search for a Deputy Director. He outlined the first round of interviews included four internal candidates and eight external candidates. A second round of interviews commences this week and next. He provided additional information on the interview committee and informed the Board he will keep them updated on the process.

2024 & 2025 Legislative Update

Director Hampton informed the Board all PERSI initiated bills have been signed by the Governor and will be effective on July 1, 2024. He provided the Board with an update on proposed legislation that impacts PERSI statute, proposed legislation that impacts governmental entities, and explained PERSI staff continues to closely monitor all the bills.

The Board and Director Hampton held a quick discussion on HB 508 (Police Officer Member Status) and its impact on PERSI. Director Hampton explained it may take years to see the impact.

Director Hampton discussed possible legislative ideas for next year. He provided the Board with a draft of an amendment of Idaho Code 59-1322 to add language that would give the Board authority to create a reserve account that would protect members' benefits in case of insolvency of an employer. Director Hampton introduced Milliman to continue the discussion from an actuarial perspective on creating a reserve account.

Robert Schmidt with Milliman provided an overview of the issues associated with an employer going bankrupt or dissolving and unable to pay the full withdrawal penalty. He further explained there is currently no mechanism in place to cover unpaid penalties so employees' benefits would need to be reduced. He explained Milliman chose a ten-year period for the study to look at the potential size of any withdrawal penalties.

Mr. Schmidt introduced Leighton Hunley, Principal and Financial Consultant, and Mike Schmitz, Consulting Actuary, both with Milliman who both specialize in credit and casualty risk.

Mr. Schmitz provided a summary of the model and explained this could be a low frequency type of risk but could be of high severity and the associated credit risk.

Mr. Hunley discussed the probabilities of bankruptcy within the next ten years based on employer classification and quantity. He explained the steps taken to obtain the results of the probabilities of an employer bankruptcy, probabilities of transitioning to different credit ratings, and determining the default and credit rating.

Ryan Cook provided a quick review of how withdrawal penalties are calculated, penalties for fiscal year 2024, future projections, and simulated unpaid withdrawal penalties.

Director Hampton explained the withdrawal penalty situations that may occur. He discussed how there are a lot of unknowns surrounding these concerns and the risk that exists.

The Board asked that Milliman include other scenarios in their model, such as partial payment of withdrawal penalty, to provide the Board additional information before any determination is made.

PERSI staff and Milliman will continue to work on the possibility of a reserve account and continue discussions with the Board.

Internal Audit Update

Troy Snyder, a partner with Plante Moran, introduced himself, manager Gabrielle Wafer and senior staff Eric Dellest. Mr. Snyder informed the Board they will be presenting the risk assessment results, proposed internal audit plans, and the project objective and results.

Mr. Dellest explained they achieved the risk assessment themes and results by surveying PERSI managers and directors and interviewing selected staff. He indicated there were areas of low risk which were excluded but all high-risk areas were addressed and included in the assessment. Mr. Dellest discussed a few of the high-risk areas including politics/legislation, staff acquisition and retention, and staff training and development.

Trustee Price moved to obtain legal counsel and that the Board grant the Executive Director the authority to engage general counsel for PERSI and enter into an agreement for such legal services deemed appropriate for the system. Trustee Fisher seconded the motion. The Board agreed to the hiring of a general counselor pursuant to Idaho Code §74-206(1)(a).

Adjournment: There being no further business to come before the Board, the meeting adjourned at 11:35 am.



Michael Hampton
Executive Director

04/30/2024
Date



Jeff Cilek
Chairman

4-30-24
Date

Ms. Wafer commented that the themes provided today were the topics that were consistently raised in the surveys and interviews. She explained these areas may not be the highest risk but were the most common. She also explained they do consider the difference between a risk and an auditable risk. For example, politics/legislation is not an auditable risk. Ms. Wafer discussed the proposed internal audit plan, time frames and areas of focus.

Ms. Wafer informed the board they will finalize the audit plan and continue to provide updates to Director Hampton and Quality Assurance Manager Casey Hartwig. She explained to the board that their goal is to provide recommendations for improvements.

Director Hampton explained the need for the adoption of the proposed audit plan.

Trustee Fisher motioned to adopt the proposed internal audit plan as presented. Trustee Price second the motion. The motion passed unanimously.

The Board thanked Plante Moran for attending.

FISCAL

Fiscal Update/Travel/Expense Report/Quarterly Financial Statements

Chief Financial Officer, Alex Simpson provided the Board with an update on expense reports and financial statements. He provided an update on appropriated budgets and classifications.

Trustee Wolff requested that fiscal provides a report showing measures based on appropriations per category rather than quarterly. CFO Simpson noted the request and informed the Board it would be available at the next Board meeting.

Budget Setting Preview

Chief Financial Officer Alex Simpson explained the upcoming budget structure changes. He stated he will be providing additional base, maintenance, and budget line items information to the Board in the upcoming months and indicated the FY26 budget is due in August.

BOARD

April Agenda: The Board reviewed the April agenda; no additions or changes were made at this time.

Executive Session: At 11:03 a.m. Chairman Cilek stated the Board intended to move to executive session in accordance with Idaho Code §74-206(1)(a) and (b).

Trustee Fisher moved to enter executive session in accordance with Idaho Code §74-206(1)(a) to consider hiring a public officer, employee, staff member or individual agent and Idaho Code §74-206(1)(b) to consider the evaluation, dismissal or disciplining of, or to hear complaints or charges brought against, a public officer, employee, staff member or individual agent. Trustee Wolff seconded the motion and the Board voted unanimously via roll call vote.

Upon conclusion of the executive session, Trustee Fisher moved to return to regular session. Trustee Wolff seconded the motion, which passed unanimously.

Regular Session: The Board returned to regular session at 11:05 a.m.