PERSI

Public Employee Retirement System of Idaho

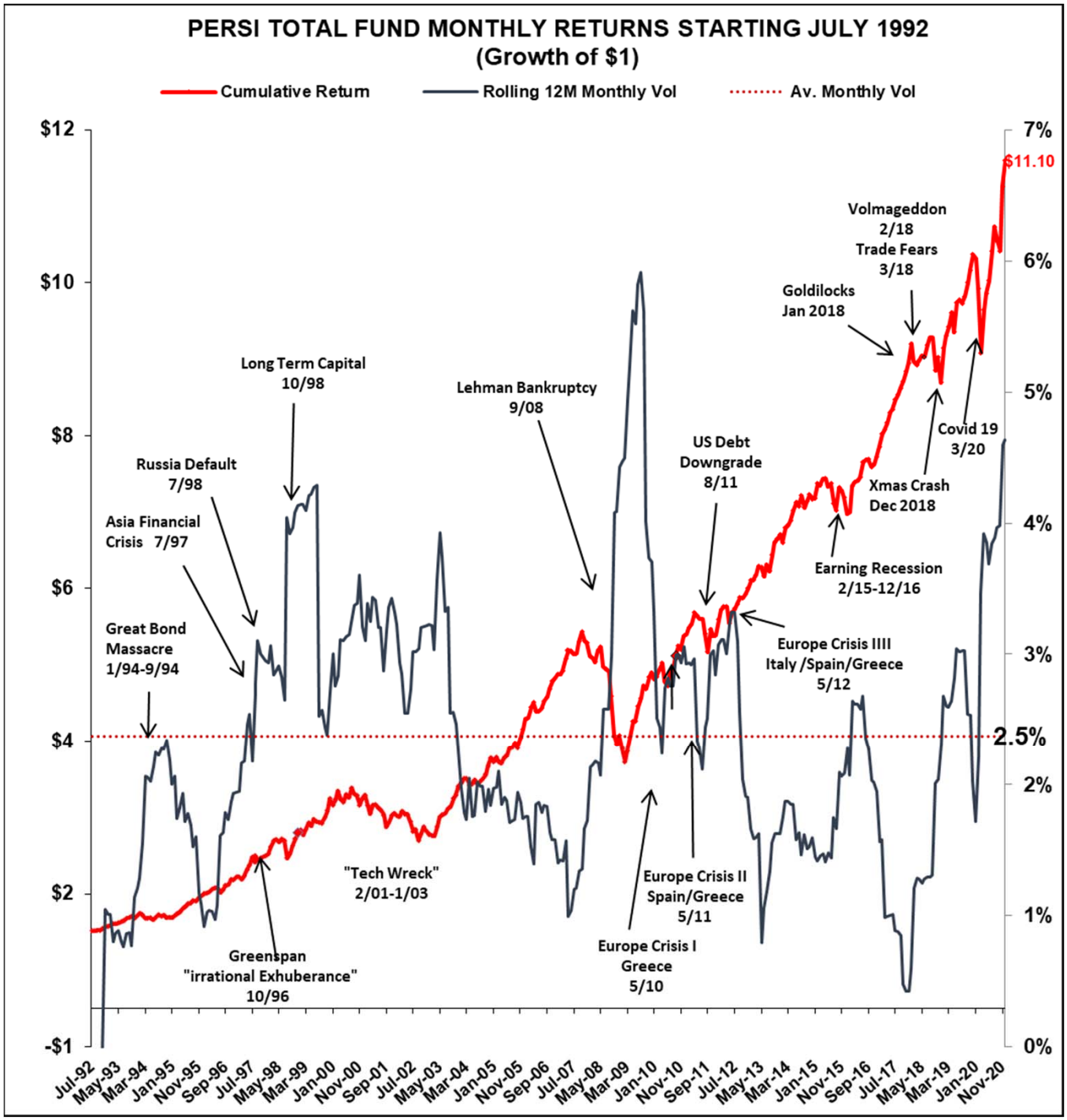
Presentation to Economic Outlook and Revenue Assessment Committee

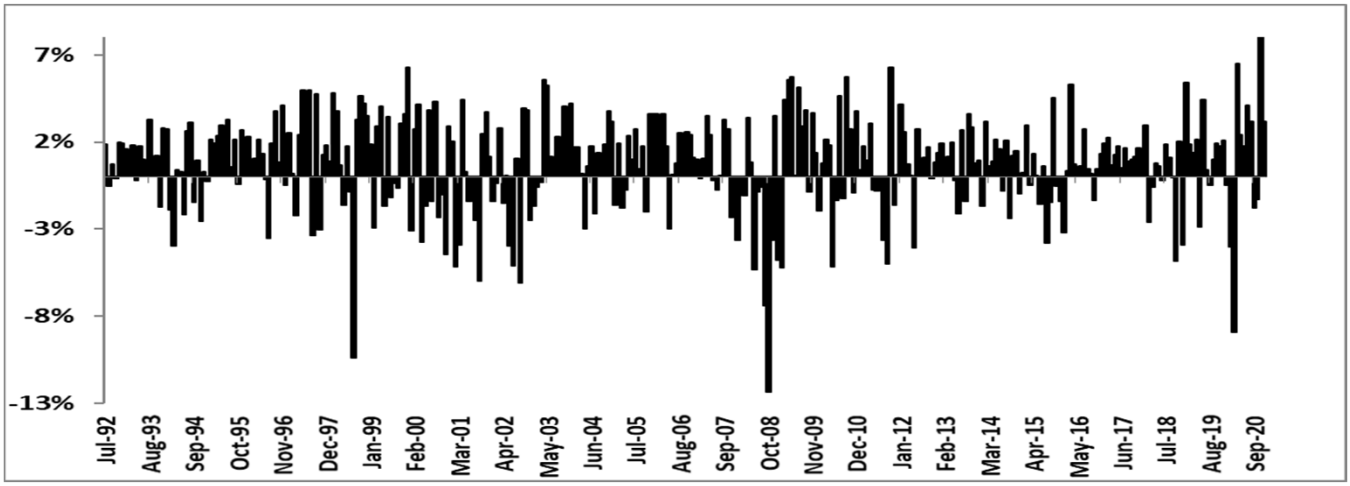
CAPITAL MARKET OUTLOOK

Robert Maynard
Chief Investment Officer

January 8, 2021

WILL THE GOOD TIMES CONTINUE?





CAPITAL MARKET EXPECTATIONS
2021-2022

ECONOMY

VERY GOOD TO GREAT
Starting Late Spring to Summer

POST WAR-LIKE ENVIRONMENT
Roaring '20s and 1950s without destruction

CAPITAL MARKETS

ADEQUATE TO POOR
Great economy already fully discounted?

STOCKS : ROTATION
- **Growth to Value**
- **Large cap to Small Cap**
- **US to International and Emerging**

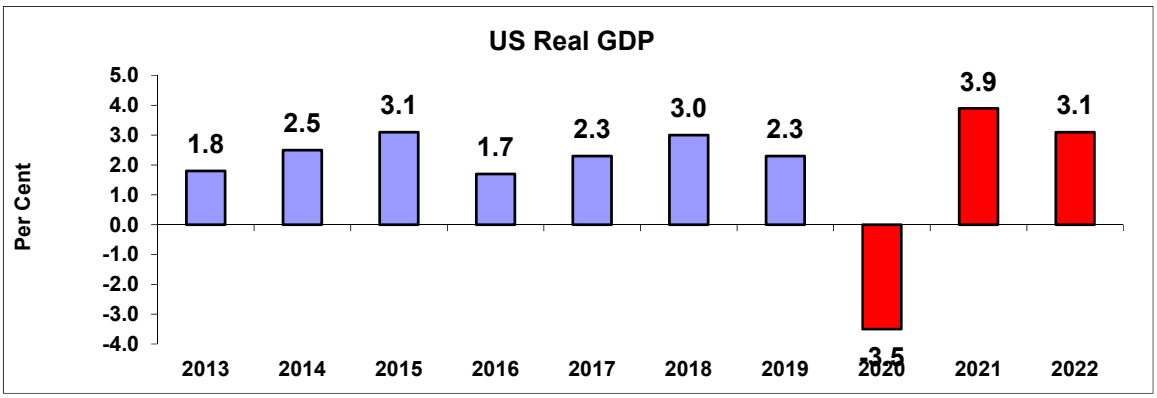
TECH MAY BE IN A BUBBLE

BONDS : DEAD MONEY

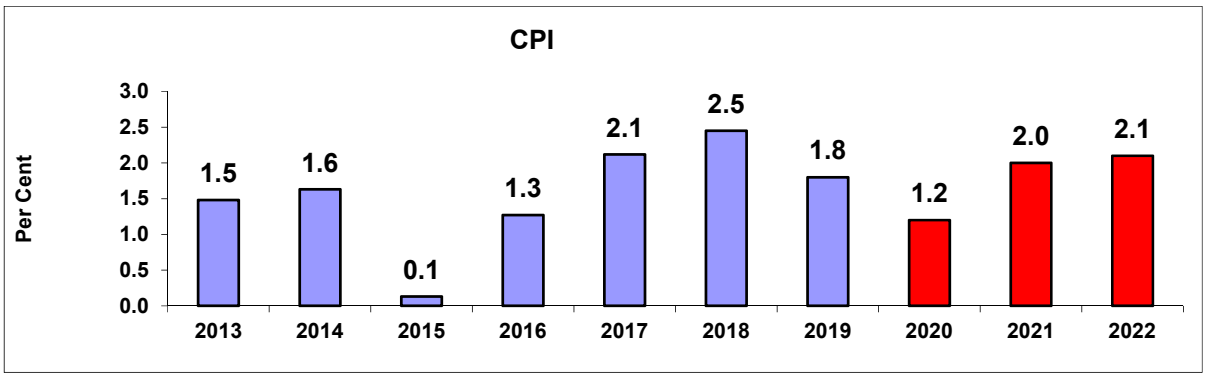
REAL ESTATE : SCHIZOPHRENIC
- **GOOD**
  - **INDUSTRIAL**
  - **HOUSING**
- **POOR AND PROBLEMATIC**
  - **RETAIL**
  - **OFFICE**
- **IDAHO COMMERCIAL**
  - **RESILIENT**

GOOD TO GREAT ECONOMIC ENVIRONMENT EXPECTED (Bloomberg Consensus Estimates)

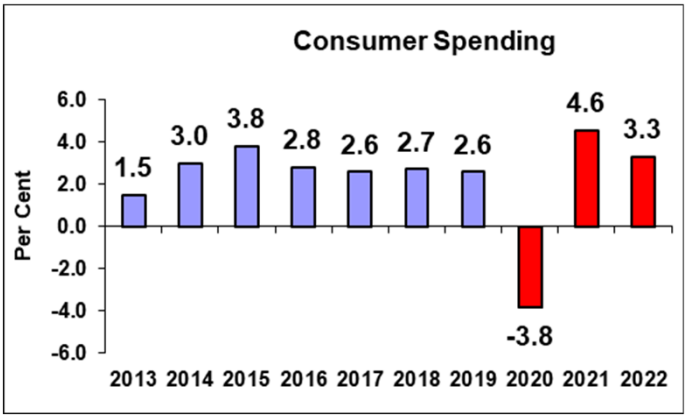
ROBUST GROWTH

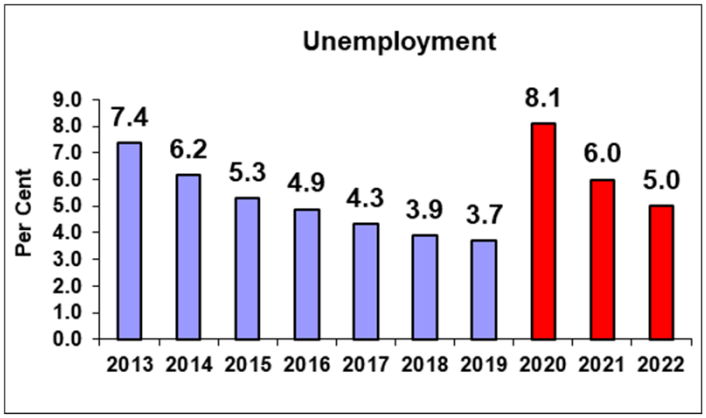


LOW AND CONSISTENT INFLATION



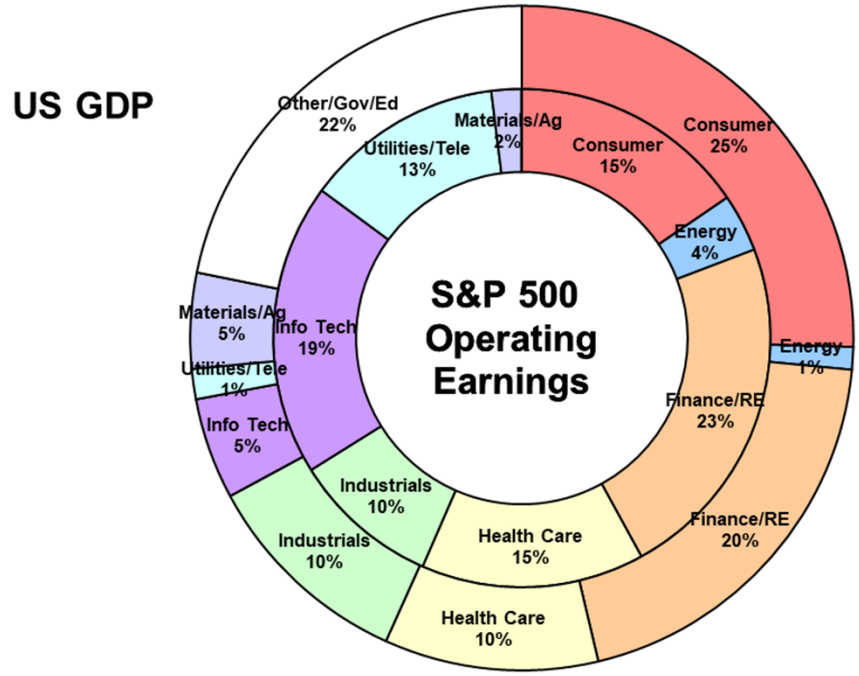
REBOUNDING EMPLOYMENT & SPENDING



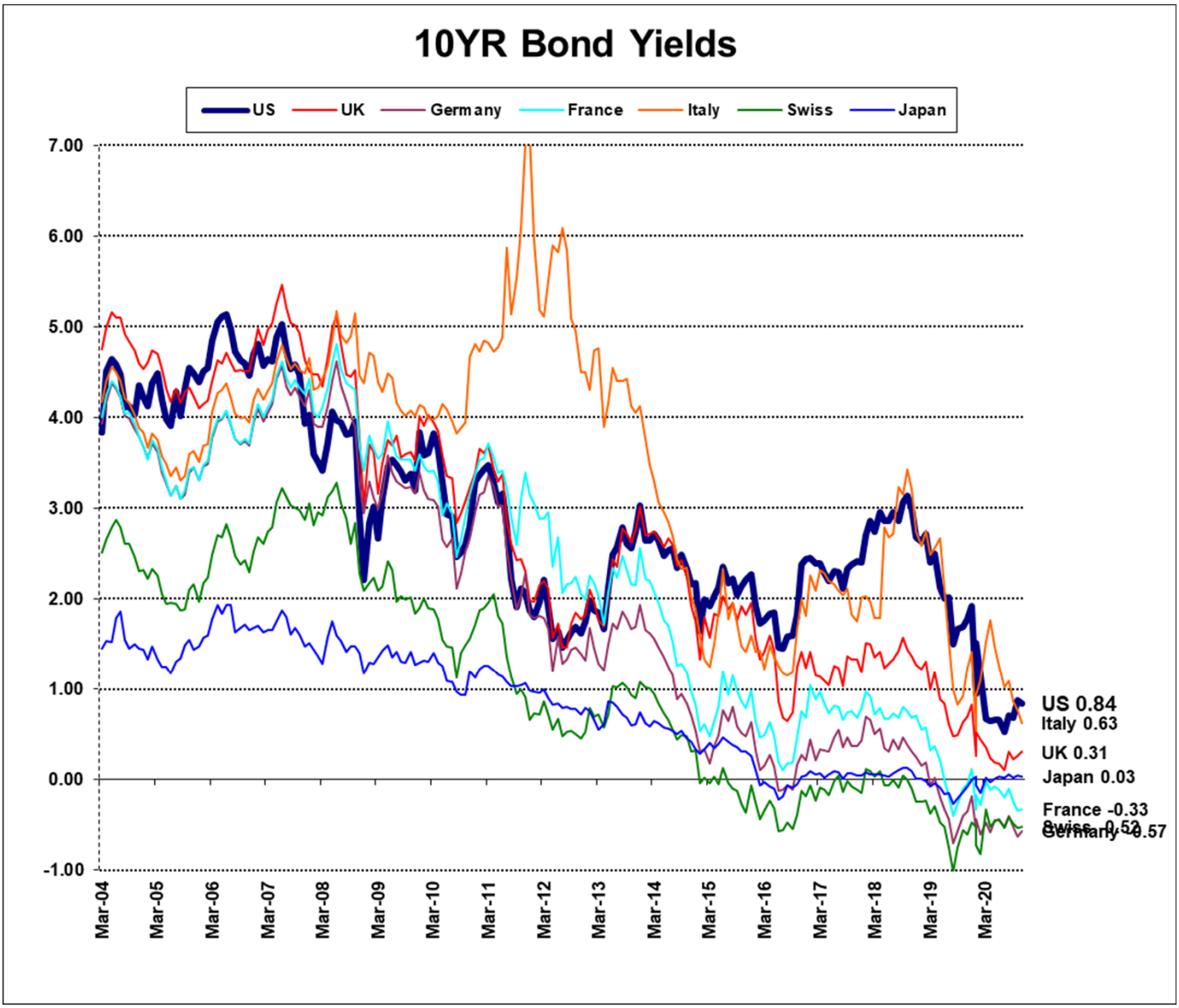


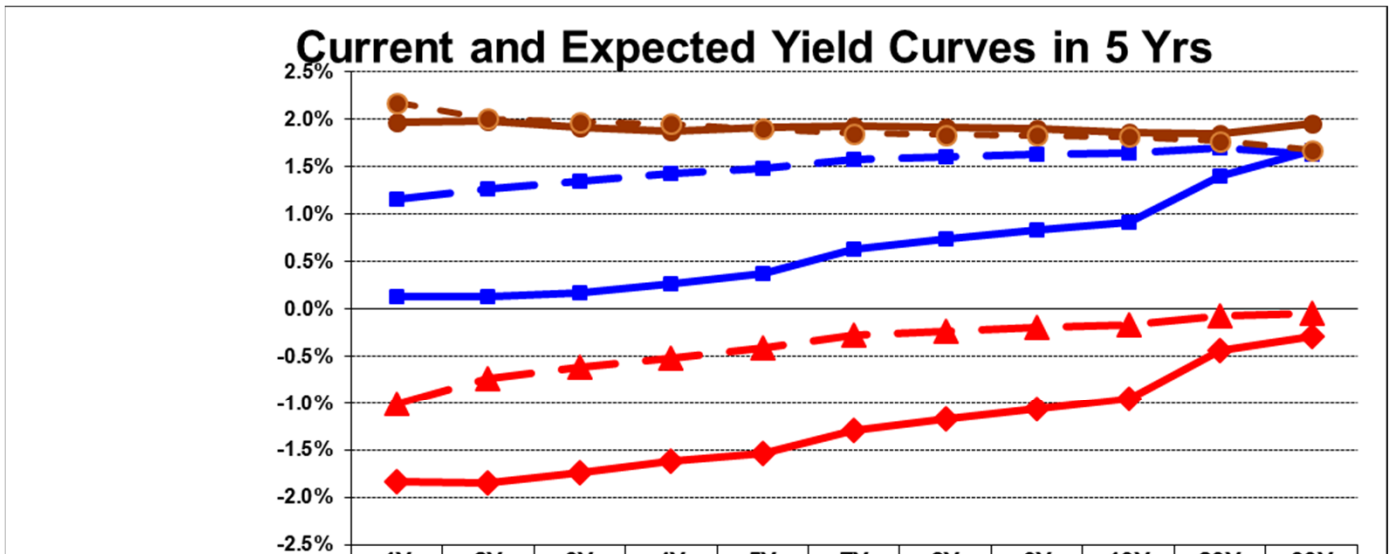
BASIC CAPITAL MARKET CONCEPTS

- **EXPECTATIONS**
  - Not Current Conditions
  - Example: Predictions of Current Bond Yields (Yield Curve), Relative P/E ratios
- **RELATIVE VALUE**
  - Not absolute value in itself
  - What are people willing to pay compared to other investment opportunities (comparing risk and returns)
  - Examples: Bond yield vs Earnings Yield (P/E), US Bond Yields vs International Yields
- **PROFITS OR EARNINGS**
  - Not general economy
  - Example: S&P 500 vs GDP, Source of Revenues



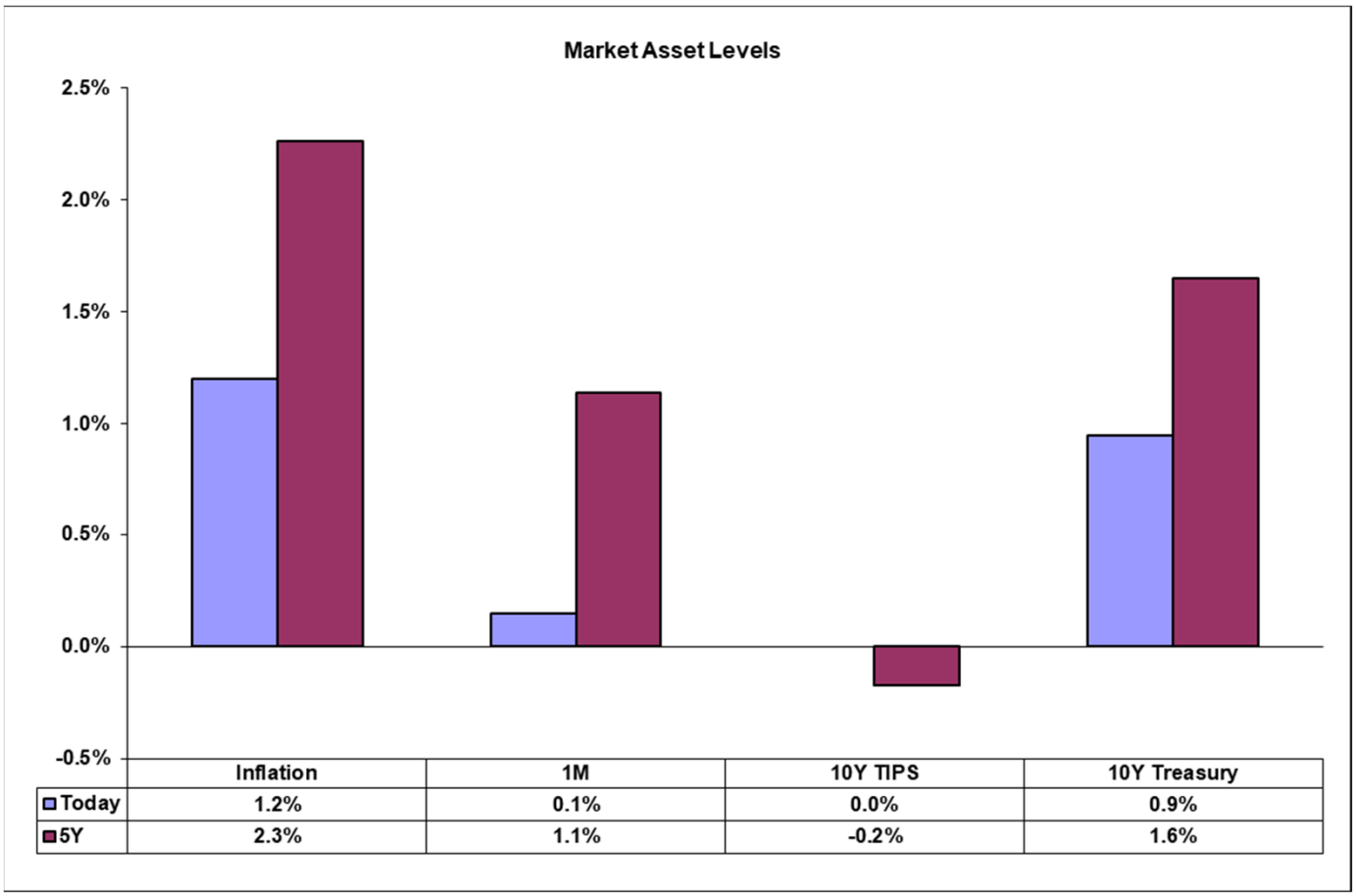
KEY ISSUE :HISTORICALLY LOW INTEREST RATES



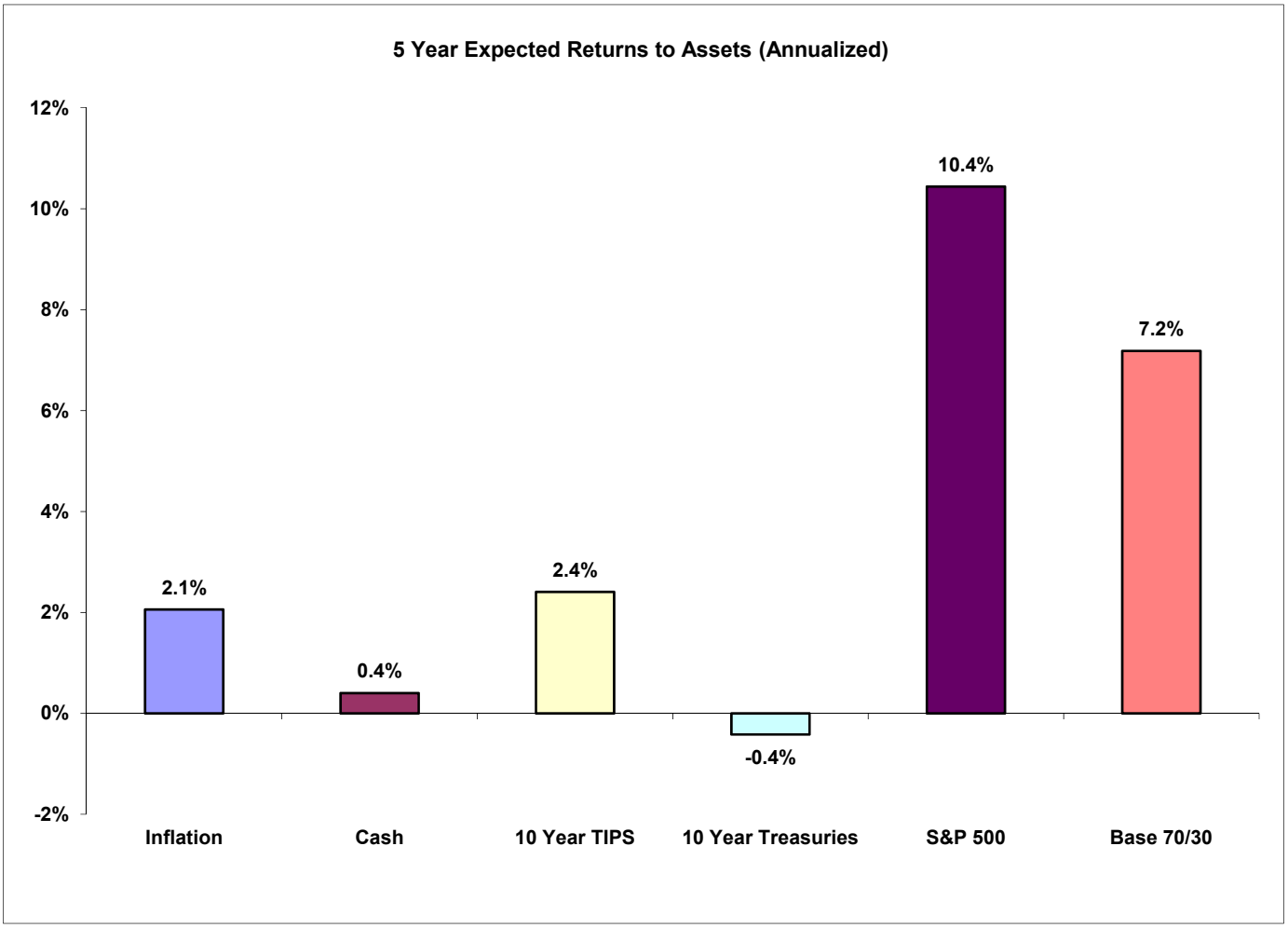


	1Y	2Y	3Y	4Y	5Y	7Y	8Y	9Y	10Y	20Y	30Y
Current TIPS	-1.8%	-1.9%	-1.7%	-1.6%	-1.5%	-1.3%	-1.2%	-1.1%	-1.0%	-0.4%	-0.3%
Current Treasury	0.1%	0.1%	0.2%	0.3%	0.4%	0.6%	0.7%	0.8%	0.9%	1.4%	1.7%
TIPS in 5	-1.0%	-0.7%	-0.6%	-0.5%	-0.4%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%	-0.1%
Treasury in 5	1.2%	1.3%	1.4%	1.4%	1.5%	1.6%	1.6%	1.6%	1.6%	1.7%	1.6%
Current Breakever	2.0%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.8%	2.0%
Breakeven in 5	2.2%	2.0%	2.0%	2.0%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.7%

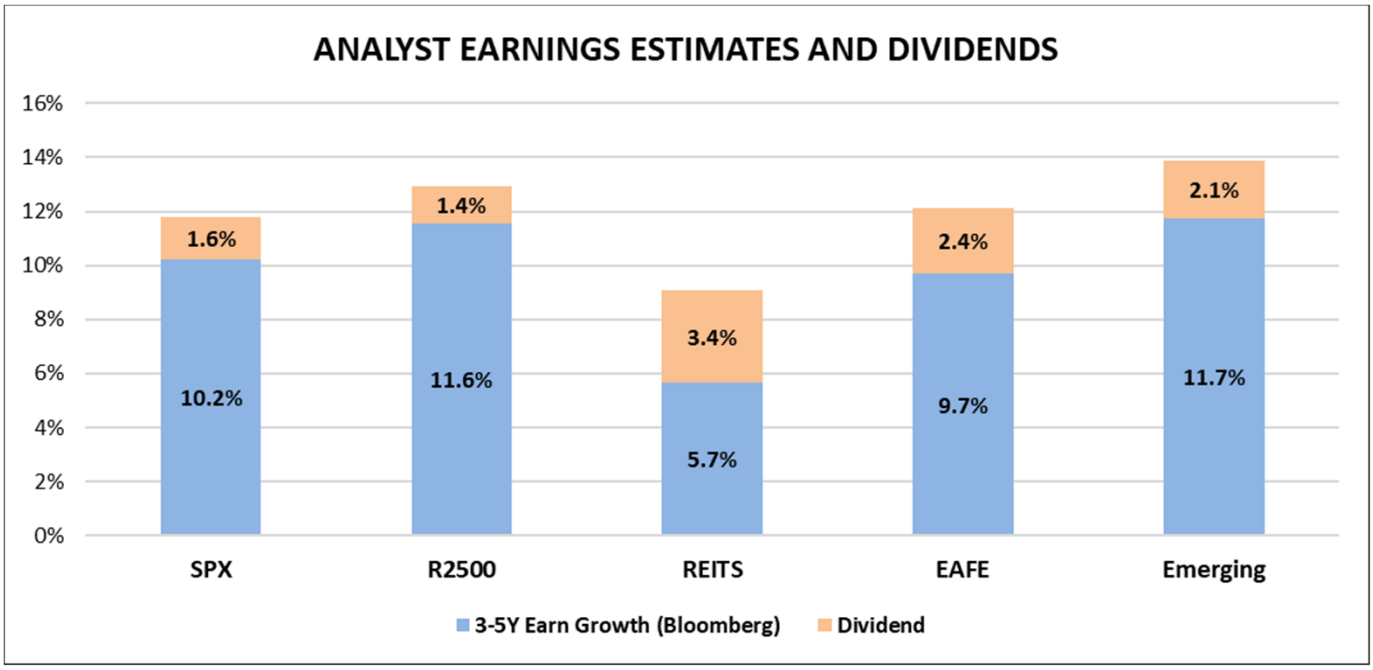
BONDS 0-1% STOCKS 10%

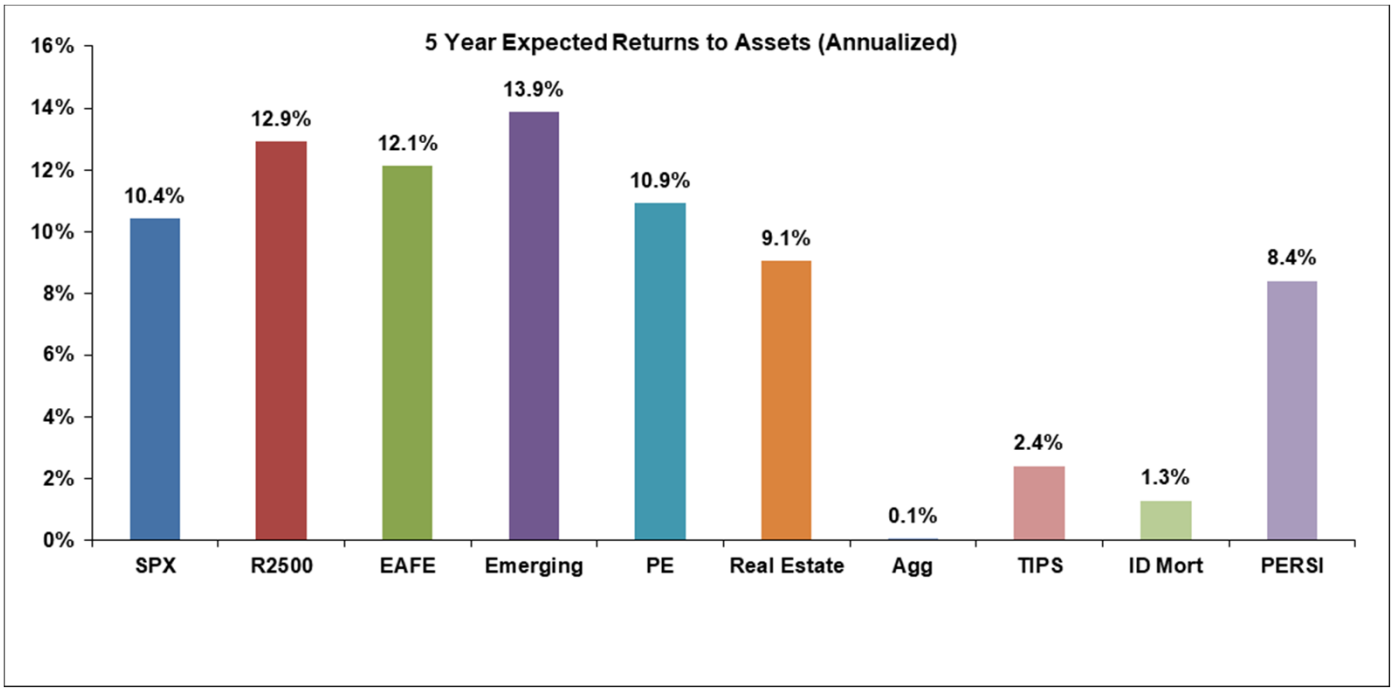


	Inflation	1M	10Y TIPS	10Y Treasury
Today	1.2%	0.1%	0.0%	0.9%
5Y	2.3%	1.1%	-0.2%	1.6%

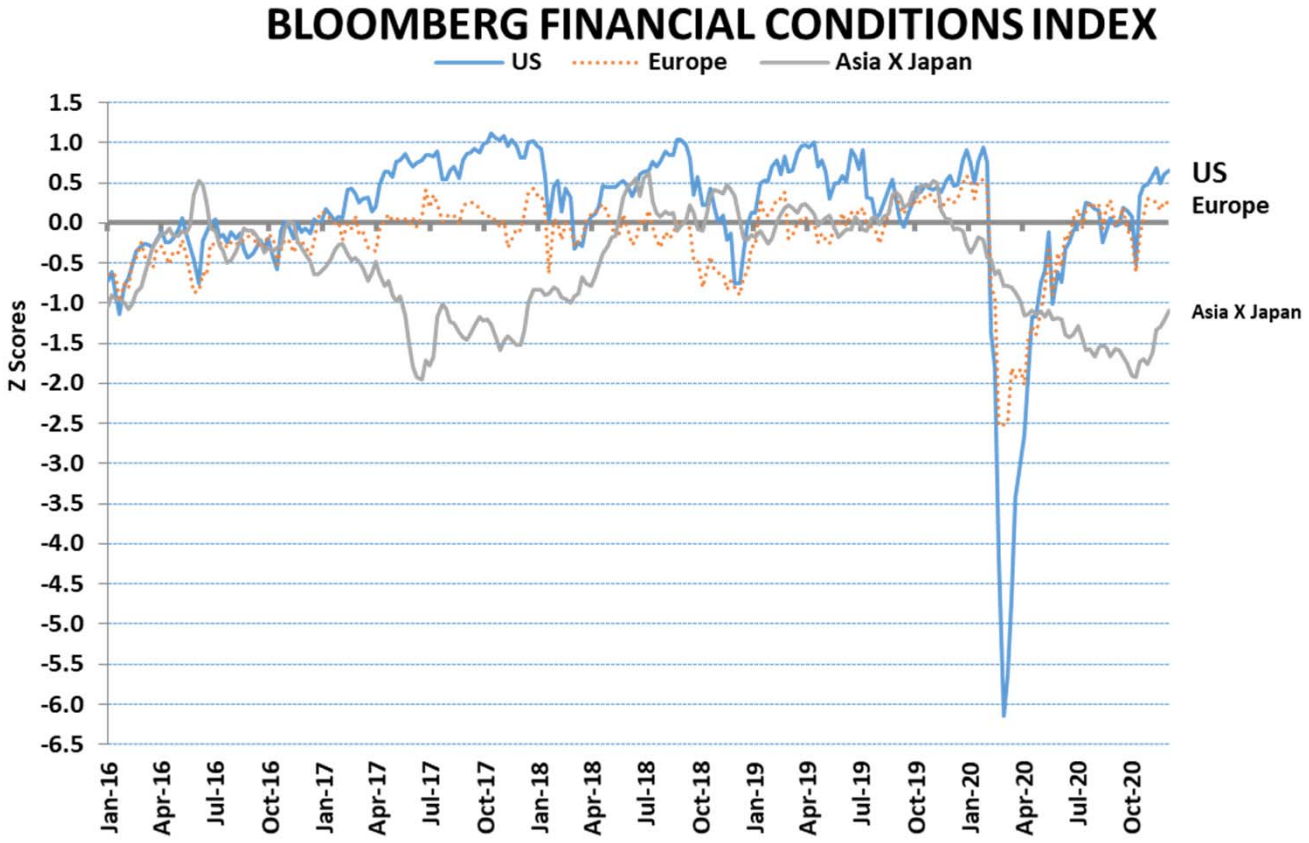


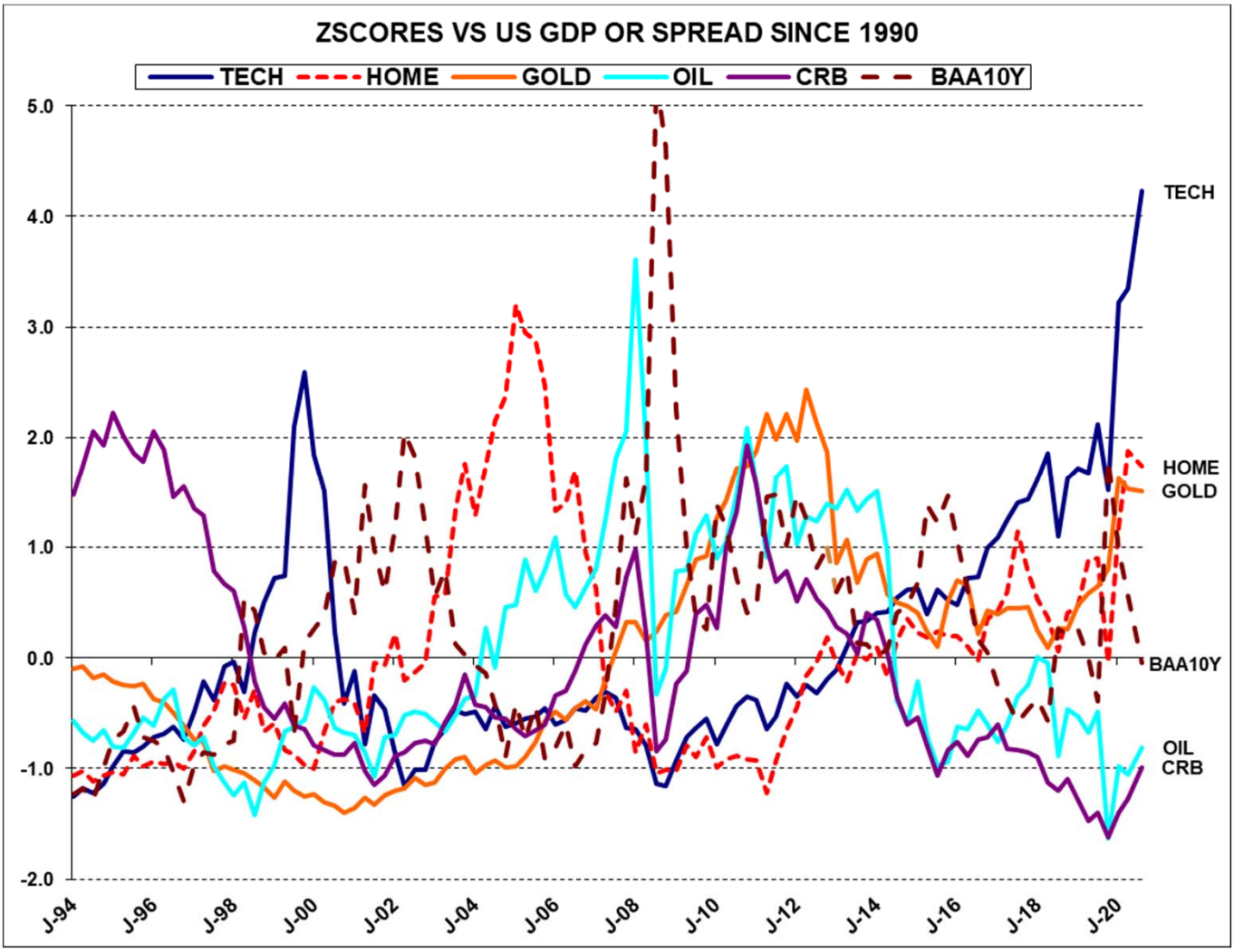
SMALL CAP AND INTERNATIONAL EXPECTED TO OUTPERFORM S&P 500 (US LARGE CAP)





FINANCIAL CONDITIONS GOOD BUT TECH MAY BE IN A BUBBLE





Idaho Commercial Real Estate

- Idaho commercial real estate market remains resilient, in spite of COVID-19 impact
- Most CRE investors went into the crisis last March with healthy balance sheets
- Low interest rates a big boost for CRE, nationally and locally
- Idaho continues to be viewed as a good investment
  - In-migration expected to continue
  - Relative value: property prices in Idaho have risen in recent years, but less so than in very hot West Coast markets.
- Health crisis has mainly impacted hotels and retail
  - First half of 2021 will see continued challenges for these sectors, but vaccines should lead to improvement later in the year
  - Office properties may face long-term headwind from new work habits
  - Local industrial and multifamily properties doing very well today

- Idaho Commercial Mortgage Program
  - Delinquency rate today: 0.0%
  - No loans are currently on deferred payments
  - Outlook for 2021 positive, with no significant problems visible
  - Hotels and retail expected to further stabilize in second half of the year