



Final Minutes  
Endowment Fund Investment Board Meeting  
February 13, 2007

The regular meeting of the Endowment Fund Investment Board (EFIB) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on February 13, 2007. Chairman M. Dean Buffington called the meeting to order at 10:30 a.m. and recognized that a quorum was present. The agenda was approved as presented. Chairman Buffington welcomed new board member, Representative Max Black, and explained that Mr. Taylor would miss the meeting because his flight into Boise was cancelled.

**Member's Present:**

Dean Buffington, Chairman  
Gavin Gee (left at 2pm, returned at 2:40pm)  
Vaughn Heinrich  
Tom Kealey  
Susan Simmons  
Richelle Sugiyama  
Senator Brad Little (arrived at 11:00 am)  
Rep. Max Black

**Staff Present:**

Larry Johnson  
Chris Halvorson  
Andy Potter

**Legal Counsel:**

Julie Weaver (arrived at 12:00 pm)

**Member's Absent:**

John Taylor

**Guests:**

John Pickett, RBC Dain  
Corrie Keller (10:30-10:58 a.m.)  
Justice Roger Burdick (10:30-10:58 a.m.)  
Bill Reese (10:30-10:58 a.m.)  
Kent Nelson, Univ. of Idaho (12:00 p.m. -12:35 p.m.)

Hard copies of board materials were mailed and delivered five days prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning January 31, 2007.

**Board Meeting Minutes: Approved**

Mr. Kealey made a motion that the minutes of the November 14, 2006 regular meeting be approved as submitted. The motion was seconded by Mr. Gee and approved unanimously.

**Fund Performance and Evaluation – John Pickett RBC Dain**

**Judges Retirement Fund** – Mr. Pickett noted the plan conforms to policy and there are no recommended changes to managers or policy. He noted the funded status does not allow for an increase of annuity amounts for beneficiaries. Performance for the quarter was comparable to the median. For the year, the fund was up 12.7% vs. 13.7% for the benchmark and 13.3% for the median manager. Managers are performing as expected.

Ms. Sugiyama asked Mr. Pickett about the Asset Liability study. Mr. Pickett said they were awaiting cash flow data. Mr. Reese asked about the underperformance of Chicago Equity. Mr. Pickett noted that their short term underperformance is not indicative of their long-term results.

Mr. Kealey asked if the JRF have heard from the IRS regarding the determination letter. Chairman Buffington said it may take a year or more.

Justice Burdick discussed the progress of their discussions with PERSI.

Justice Burdick noted that he will speak with the other justices about payment of EFIB fees. In response to a question from Sue Simmons, Corrie Keller said the fund had negative net cash flow of \$1.5 million during the last year.

*Justice Burdick, Mr. Keller and Mr. Reese left at 10:58am.  
Sen. Little arrived at 11:00am*

Endowment Fund – Mr. Pickett stated the fund is doing fine. All managers are above their three year benchmark except for Marvin & Palmer. Mastrapasqua & Marvin & Palmer remain on the watch list. All areas are in compliance. Total fund performance for the calendar year 2006 is 59th percentile in the peer group and 220 basis points behind benchmark.

Mr. Pickett presented analysis which implied the underperformance may be due in large part to managers having a smaller cap bias than their benchmark. Mr. Pickett and EFIB staff will review this. Ms. Sugiyama asked Mr. Pickett to investigate if the quantitative managers may be causing a portfolio bias.

There was discussion regarding the contribution of the TIPS portfolio to the underperformance in response to a question from Mr. Kealey.

Senator Little asked about the standard deviation of the portfolio and noted we need stability due to our beneficiaries.

In response to a question from Ms. Sugiyama, Mr. Johnson stated the staff is comfortable with the current manager line up, especially in the areas of people and process.

Mr. Pickett reviewed the individual managers. Concerns include Mastrapasqua, due to recent personnel changes, and Marvin & Palmer, due to underperformance. Marvin & Palmer had a good quarter, but annual performance has been under benchmark five of the last six years. However, there have been no personnel changes and only minor changes in process. RBC has reviewed potential replacement managers due to concerns that the earnings momentum style may not work any longer. Ms. Simmons suggested we examine Marvin & Palmer's role in the portfolio at the time of hire and determine if retention is justified. Board members suggested we also consider their strategy without currency hedging or more index funds. Mr. Heinrich suggested that in order to move forward on making changes, we must carefully specify how our portfolio matches up with our goals and objectives.

State Insurance Fund – Mr. Pickett said that he reviewed the portfolio with Mr. Alcorn and there were no concerns with the portfolio.

#### Priorities

In response to an earlier request from the staff for direction on priorities, Chairman Buffington suggested the staff should focus time in the near term on understanding performance and on a thorough review of investment managers.

#### **Agricultural College Legislation – Kent Nelson, Univ. of Idaho**

*Ms. Weaver and Mr. Nelson arrived at 12:01 p.m.*

Mr. Nelson reported that the Land Board endorsed a proposed course of action to amend the federal Morrill Act that would remove language restricting asset mix and payment of expenses for agricultural college endowments and allow endowment funds to be used to construct buildings.

Currently, there is a proposal to sell the existing University of Idaho agricultural research center near Caldwell and use the proceeds, along with other funding sources, to build an expanded research facility, including a working dairy, near Twin Falls.

*Mr. Nelson left at 12:35 p.m.*

### **Legislative Update – Larry Johnson**

The board reviewed a handout summarizing the status of legislation of interest to the board and reviewed proposed legislation that would clarify the board's authority to manage other funds and endowments. In discussing the proposed legislation, it was the consensus of the board to have the subject funds and endowments develop their individual spending policies rather than have the EFIB develop those spending policies. After the spending policies are developed, the EFIB would manage to the policy.

House Bill 99 would authorize the Petroleum Storage Trust Fund Board to retain the EFIB as investment manager. The EFIB asked that the legislation be modified to give the EFIB a choice whether or not to accept the management responsibility for the funds.

In discussing legislation related to the school bond guarantee provided by the endowment fund, Mr. Johnson and Senator Little said further work to clarify the language of that statute may be needed in a future legislative session.

### **Executive Session**

At 1:10 p.m., Senator Little made a motion that the board enter Executive Session pursuant to *Idaho Code §67-2345* for the purpose of personnel/agent matters *§67-2345 (1)(b)* and consideration of records exempt from public disclosure *§67-2345 (1 (d))*. The motion was seconded by Mr. Gee and approved unanimously. The board went into Executive Session at 1:15 p.m.

The roll call vote was as follows:

Chairman Dean Buffington – Aye

Tom Kealey – Aye

Richelle Sugiyama – Aye

Gavin Gee – Aye

Susan Simmons – Aye

Vaughn Heinrich – Aye

Senator Little – Aye

Rep. Black - Aye

Guests present during Executive Session:

Larry Johnson, Julie Weaver

*Mr. Gee left at 2:00pm*

At 2:40 p.m., a motion to return to regular session was made by Mr. Heinrich, seconded by Ms. Simmons and approved unanimously.

*Senator Little, Mr. Kealey and Mr. Heinrich left at 2:40 PM. Mr. Gee returned.*

### **EFIB Staff Reports**

The board reviewed the reports in the board packet, pages 161-179. In response to Ms. Sugiyama's question, Mr. Johnson clarified that Northern Trust is our only securities lending agent.

### **Update on Policies**

Mr. Johnson explained the background for the changes to the EFIB Audit Policy requiring that there be an independent meeting of the EFIB's fiscal officer and audit committee.

Mr. Gee made a motion to approve the changes to Audit Policy. The motion was seconded by Ms. Simmons. Motion passed unanimously.

Mr. Johnson reviewed the Workplace Violence Policy.

Ms. Sugiyama suggested that the Derivative Investment section of the Investment Policy for the endowments should state that any derivative investments be relatively conservative and readily marketable.

**Adjournment**

There being no further business to come before the Board, Mr. Gee made a motion to adjourn, seconded by Ms. Sugiyama, and passed unanimously. The meeting adjourned at 2:48 p.m.