



**Final Minutes
Endowment Fund Investment Board (EFIB) Regular Meeting
February 15, 2005**

The regular meeting of the Endowment Fund Investment Board was held on Tuesday, February 15, 2005. Chairman Dean Buffington called the meeting to order at 12:05 p.m. and recognized that a quorum was present.

Members Present:

M. Dean Buffington
Representative William W. Deal
Gavin M. Gee
Thomas F. Kealey
Senator Brad J. Little
William D. Mitchell
R. John Taylor
Parker G. Woodall

Staff Present:

Matthew J. Haertzen
Connie M. Eshelman
Andrew M. Potter
Angela R. Zirschky

Members Absent:

None

Guest Presenters:

Brian Kane, Idaho Attorney General's Office
Brian Hayes, RBC Dain Rauscher
Doug Bates, Clearwater Investment Advisors
Dave Boren, Clearwater Investment Advisors
Kathy Opp, Idaho Department of Lands

1. Manager Presentations: Presentations on the pros and cons of investing in hedge funds and collateralized debt were presented by the following firms:

- Collateralized Debt
 - Pro-argument: Highland Capital – Ronald T. Ernst and Todd Travers, CFA
 - Counterargument: Northern Trust Global Investments, Lori Runquist
 - Counterargument: Met West Capital Management, Steve Borowski
- Hedge Funds:
 - Pro-argument: Northern Trust Global Investments, Lori Runquist
 - Pro-argument: Credit Suisse First Boston, Robert Kulperger
 - Counterargument: Met West Capital Management, Steve Borowski

2. Minutes of the December 14, 2004 Regular Meeting: Approved

A motion was made by Parker Woodall, second by Representative William Deal to approve the December 14, 2004 meeting minutes. The motion carried unanimously.

Minutes of the January 05, 2005 Special Meeting: Approved

A motion was made by Representative William Deal, second by Gavin Gee to approve the January 05, 2005 special meeting minutes. The motion carried unanimously.

3. Conflict of Interest Discussion: *Presented by Brian Kane, Attorney General's Office*

Mr. Kane outlined the following Idaho Codes for public positions:

1. Idaho Code § 59-702, Trusteeship of Public Office;
2. Idaho Code § 59-703, Conflict of Interest Defined;
3. Idaho Code §§ 57-105 and 18-5703, Definition of Public Funds;
4. Idaho Code §18-5701, Misuse of Public Money, and
5. Idaho Code §§ 18-1351 and 18-1362, Bribery and Corrupt Influences Act.

Mr. Kane informed the EFIB that its present disclosure statement sufficiently covers the EFIB from a legal standpoint. He also noted that even without a disclosure statement, the governing statutes would be legally sufficient.

4. EFIB Policies and Procedures: Approved

Mr. Haertzen reported that the EFIB staff conducted the annual review of the Endowment Fund Investment Board policies and procedures. The Board requested that the Endowment Fund staff create a check-off sheet of the annual internal audit requirements that can be given to the audit committee for review. The Endowment fund staff will ensure this is in place for the next audit.

A motion was made by John Taylor, second by William Mitchell to approve the EFIB policies and procedures as presented.

5. State Insurance Fund: *Presented by Matthew Haertzen, Investment Manager, EFIB and Brian Hayes, RBC Dain Rauscher*

Mr. Hayes reported that Mr. Haertzen and he met earlier that morning with representatives from the State Insurance Fund to give them an update on the Fund's performance.

Compliance objectives, guidelines, and performance were all met during the 4th quarter. Mr. Hayes noted that the Fund's policy weight is 12% equity, 85% fixed income, and 3% cash. Treasury Inflation Protected Securities (TIPS) have recently been included in the portfolio and have added value. Return results in both equities and fixed income were in-line with expectations bringing the total Fund value as of December 31, 2004 to \$385.9 million.

6. Judges' Retirement Fund: *Presented by Matthew Haertzen, Investment Manager, EFIB and Brian Hayes, RBC Dain Rauscher*

Mr. Hayes reported that Mr. Haertzen and he met earlier that morning with representatives from the Judges' Retirement Fund to give them an update on the Fund.

Compliance objectives, guidelines, and performance were met during the fourth quarter of 2004 with the exception of being overweight in large cap at 45.06% versus the target of 39%. The overweight is intentional as a mid-cap growth manager has not yet been found. A search is underway however, and it is expected that a recommendation will be made at the May board meeting. Mr. Hayes noted that the fixed income portion of the portfolio was very short in nature and little value was added by Rainer.

The equity portion of the portfolio showed adequate returns from the managers except Oppenheimer who trailed slightly at the 50th percentile. The total equity portfolio was slightly above median at the 48th percentile for the year. Mr. Hayes pointed out that two corrections needed to be made on the second page of their report titled Net Performance. Those changes were 1) Rainer's current fees should be 0.25%, and 2) Total fund should be reported at the 46th percentile. The total return for the 4th quarter was 7.99% and 10.15% for the year. The total fund value as of December 31 was \$54 million.

7. Endowment Fund Performance and Update:

A. Dain Rauscher Reports: *Presented by Matthew Haertzen, Investment Manager, EFIB and Brian Hayes, RBC Dain Rauscher*

Mr. Hayes reported that compliance objectives, guidelines, and performance were met for the 4th quarter. Managers are in-line with asset allocations versus policy weights. NWQ showed good returns for the 4th quarter and added a good deal of value to the fund. The TIPS portion of the portfolio also performed well during the period. Mr. Hayes noted that the cash position, reported at 0.2%, is fully equitized through the futures overlay program. The total fund quarterly return was 9.02% and 12.19% for the year. Total market value of the fund as of December 31, 2004 was \$837.5 million.

Manager performances were in-line for the quarter. Mr. Hayes highlighted that although Artisan Partner's recent performance was solid, there is growing concern regarding their ability to add value with the size and number of their holdings. Additionally, Artisan significantly overlaps holdings with other active managers. Artisan has now doubled their assets since the EFIB hired them a little over two years ago. Mr. Hayes feels that their assets are getting too big which diminishes their ability to provide increased returns. In addition, Artisan has only one person building the portfolio and Mr. Hayes is uncomfortable with their team dynamics. Because of these concerns, RBC Dain Rauscher recommended that the EFIB consider terminating its relationship with Artisan.

Mr. Haertzen advised that because Artisan has recent solid performance, there is time for the EFIB staff to carefully interview and select a good manager. Mr. Haertzen also recommended that the EFIB not terminate its relationship with Artisan immediately and move to an index fund because of the transaction costs that would be incurred in the interim. The EFIB staff will conduct interviews before the May board meeting and meet with the executive committee to discuss potential candidates and options.

B. EFIB Staff Reports: *Presented by Matthew J. Haertzen, Investment Manager, EFIB*

Mr. Haertzen reported that the EFIB budget is 44.42% spent for the first-half of fiscal year 2005. The commission recapture program has been in place for approximately six months and has recaptured \$129,979.

C. Futures Overlay: *Presented by Doug Bates and Dave Boren, Clearwater Investment Advisors*

Mr. Boren reported that Clearwater Investments was hired by the EFIB approximately one year ago to manage the futures overlay program and minimize the cash drag in the portfolio. Clearwater Investments looks at the daily position of the EFIB portfolio and compares it to the model portfolio, buying futures as needed at a very low cost to keep the Fund's asset allocation in line with targets at any given time. This program ensures that both the residual and operational manager cash flows are fully equitized to minimize the impact of cash drag on the portfolio. Mr. Boren reported that the overlay has added a net of \$457,876 in value since its inception.

D. Timber Projections: *Presented by Kathy Opp, Idaho Department of Lands*

Ms. Opp reported on the projected net revenues from Land's Department activities for fiscal year 2005 through fiscal year 2009. Net projected revenue for fiscal year 2005 is reported at \$46 million growing to \$57 million for fiscal year 2009.

E. Executive Session: *Idaho Code § 67-2345* authorizes the board to enter into Executive Session for the purpose of discussing possible legal actions § 67-2345(1)(f) or personnel issues § 67-2345(1)(b). Any resulting action will take place when the board resolves back into regular session.

The motion was made by Parker Woodall, second by Gavin Gee to enter into Executive Session at 4:45 p.m. The roll call vote was as follows:

Chairman Dean Buffington- Aye
Thomas Kealey – Aye
Senator Brad Little – Aye
Gavin Gee – Aye
Representative William Deal – Aye
Parker Woodall – Aye
John Taylor – Aye
William Mitchell – Aye

The motion carried unanimously.

The motion was made by Parker Woodall, second by Bill Mitchell to enter into regular session at 5:21 p.m. The motion carried unanimously.

F. Non Agenda Items: *Presented by Matthew Haertzen, Investment Manager, EFIB*

- Mr. Haertzen reported that work will begin on investigating legislative changes to combine the land portion of the pooled endowments.
- On Thursday, February 17, 2005, the EFIB's bill exempting the agency from the Department of Purchasing will be introduced in the Senate State Affairs.
- Mr. Haertzen announced that with the EFIB's approval, he will begin teaching an evening class for George Fox University. Mr. Haertzen assured the board that this commitment would not interfere with his work at the Endowment Fund. The Board expressed unanimous consensus for approving Mr. Haertzen's employment with George Fox.
- Mr. Haertzen asked the EFIB about their comfort level in hedge funds and collateralized debt investing and if the EFIB staff could begin looking for managers that fit well within the portfolio. It was the consensus of the EFIB to proceed with these investment strategies beginning with a \$5 million allocation for each and to begin the search for their respective managers.
- Mr. Haertzen reported that the EFIB staff met with Stoneridge Resort in Blanchard, Idaho to discuss hosting an off-site board meeting in August. Mr. Haertzen reported a favorable visit with the resort, and the EFIB consented to have the annual off-site held at the resort on Thursday and Friday, August 18 and 19, 2005.

There being no further business to come before the Board, the meeting adjourned at 5:32 p.m.