



Final Minutes
Endowment Fund Investment Regular Board Meeting
February 18, 2009

A regular meeting of the Endowment Fund Investment Board (Board) was held in the Board Conference Room at 816 W. Bannock Street, Ste. 301, Boise Idaho on February 18, 2009. Chairman M. Dean Buffington called the meeting to order at 9:03 a.m. and acknowledged that a quorum was present.

Member's Present:

Dean Buffington
Gavin Gee
Representative Max Black
Vaughn Heinrich
Tom Kealey
Richelle Sugiyama
John Taylor
Susan Simmons (*arrived 9:10 am*)

Staff Present:

Larry Johnson
Chris Halvorson
Judy Shock
Andy Potter

Legal Counsel:

Julie Weaver

Member's Absent:

Others (who attended portions of the meeting)

Lt. Governor Brad Little
Janet Becker-Wold, Callan Associates
Bill Reese, Judges' Retirement Fund
Bob Maynard, PERSI
Attorney General Lawrence Wasden
Sherm Furey, Chief Deputy, AG's office

Hard copies of board materials were mailed and delivered six days prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning February 5, 2009.

Chairman Buffington and Mr. Johnson presented (former Senator) Brad Little a plaque and letter for distinguished service as a board member for the Endowment Fund. Congratulations were given by the Board on his new appointment as Lt. Governor.

Board Meeting Minutes: November 18, 2008

Mr. Johnson pointed out the revisions of the November 18, 2008 board minutes.

Mr. Taylor made a motion that the minutes of the November 18, 2008 regular meeting be approved as submitted. The misspelling of a name was also corrected. The motion was seconded by Ms. Sugiyama and approved unanimously.

Mercer Acquisition of Callan Associates

Ms. Becker-Wold discussed the integration of Callan Associates with Mercer Consulting. Ms. Becker-Wold announced that she and her co-workers have been offered positions with Mercer and

are expected to accept them. She added that there will be no significant changes in the next three months.

Ms. Becker-Wold asked that the current contract with the EFIB be assigned to Mercer Consulting. She added that even after assigning the current contract to Mercer, the EFIB retains the right to terminate the contract at any time.

Ms. Sugiyama made a motion to assign the current contract to Mercer Consulting. The motion was seconded by Mr. Kealey and approved unanimously.

Fund Performance and Evaluation

Endowment Fund: The endowment portfolio posted a -14.15% return for the quarter ended December 2008, 77 basis points above its benchmark, and -26.61% for the last 12 months, 104 basis points above its benchmark. Relative to peers, the fund ranked in the 75th percentile for the quarter and 64th percentile for the year relative to public funds (61st percentile for the quarter and 58th percentile for the year relative to endowments and foundations).

Judges' Retirement Fund: The JRF portfolio posted a -13.17% return for the quarter ended December 2008, 142 basis points above its benchmark, and -24.29% for the last 12 months, 291 basis points above its benchmark. Relative to public fund peers, the fund ranked in the 55th percentile for the quarter and 37th percentile for the year.

State Insurance Fund: The SIF portfolio posted a 0.78% return for the quarter ended December 2008, 88 basis points above its benchmark, and -0.59% for the last 12 months, 137 basis points above of its benchmark.

Fund Rebalancing – Clearwater Overlay

Mr. Halvorson presented a summary of Clearwater Advisors' rebalancing program. The EFIB discussed potential risks of the overlay program and asked that Clearwater make a presentation during the regular board agenda at the May meeting.

Distribution Policy – Superintendent Of Public Instruction's Proposal

Mr. Johnson described the Land Board's discussion of the proposal by Supt. of Public Instruction Tom Luna to increase Public School distributions in FY2010. He stated that Supt. Luna agreed to withdraw his proposal from the agenda of the February 17, 2009 Land Board. However, Mr. Luna also mentioned that the issue could be brought back to the Land Board should future cuts be proposed. The Secretary of State suggested that any future changes to distributions be first reviewed by the EFIB before coming to the Land Board.

Mr. Johnson indicated that EFIB staff will contact Superintendent Luna to discuss the distribution policy and the full implications and impact if adjustments are made. As part of its normal work cycle, the EFIB will review the Land Board's Distribution Policy at its May meeting and make a recommendation on FY2011 distributions in August.

Chairman Buffington requested a 10 minute break at 10:40 a.m.

The board reconvened at 10:48 a.m.

Investment Strategy – April 15 meeting

Mr. Johnson recommended the cancellation of the scheduled special meeting on April 15, 2009. Staff believes they need more time to research alternatives to develop more specific recommendations on which alternatives, if any, would improve the endowment fund's portfolio structure. Ms. Sugiyama suggested that EFIB staff to meet individually with board members to discuss portfolio adjustments ahead of any meeting on the subject.

Ms. Sugiyama made a motion to cancel the scheduled special meeting on April 15, 2009. The motion was seconded by Mr. Taylor and approved unanimously.

Securities Lending Update

Mr. Johnson made a brief presentation on “the status of the securities lending collateral pools. The securities held in the pools continue to have investment grade ratings and there has been a modest improvement in pricing of the most discounted, longer-dated issues. Because the pool supporting the index funds has sufficient cash, Northern has been allowing measured redemptions of index funds without requiring payment of any unrealized loss. As a result, the endowment fund has been able to liquidate about 15% of the related index funds and has used the cash to rebalance and build a small cash cushion to be used to fund the new active managers being hired.

Mr. Johnson also confirmed that it is staff's intent to withdraw from securities lending whenever that can be accomplished without realizing losses.

JFAC Budget Presentation

Chairman Buffington and Mr. Johnson mentioned that the EFIB budget, an overview of endowment governance, and a summary of the Distribution Policy was presented to the Idaho Legislature's Joint Finance and Appropriations Committee earlier this month. Both felt the presentation was well received.

Impact of Exchange Rates on Endowment Portfolio

Mr. Johnson briefly reviewed a paper in the board materials on the impact of changes in foreign exchange rates on the portfolio. He indicated that increasing the Endowment's exposure to international equities from 20% of equities to 30% over the next few years will result in a commensurate increase in currency gains and losses, but that there were additional economic factors that make the total impact of currency hard to measure. The EFIB discussed the implications of this risk.

Chairman Buffington left at 11:20 a.m. - Vice Chairman Gee proceeded as Chairman

Update on Manager Searches

Mr. Johnson indicated that staff and Ms Sugiyama, with support from Ms. Becker-Wold, have narrowed the field of candidates to four managers, two in each category: Midcap Growth and Emerging Markets. He stated that on February 20, 2009, staff, Ms. Becker-Wold, and the EFIB Executive committee will interview the following managers: Midcap Growth: Times Square and Rainier and Emerging Markets: Grantham Mayo and Capital Guardian. The Executive Committee will then select the managers to be hired. For the purpose of this selection process, Ms. Simmons will replace Chairman Buffington on the Committee.

Implementation of the Trail of Coeur d'Alene's Portfolio

Mr. Johnson stated that staff is waiting on information from Parks & Recreation in regard to the desired asset mix for the \$2 million Trail of Coeur d'Alene's endowment. The EFIB's role is to advise Parks & Recreation on the investment of this portfolio. He recommended that when Parks & Recreation comes to an agreement on the asset mix, that staff be authorized to hire a custodian and investment managers.

Ms. Sugiyama asked Mr. Johnson about his confidence in Northern Trust. Mr. Johnson replied that confidence in the custodian arm of Northern remains very high, but that there have been some recent concerns with the investment management function. While these concerns are not significant enough to warrant immediate action, staff plans to examine alternatives to Northern's investment management function to determine if there is an overall better alternative.

Mr. Taylor made a motion to hire Northern Trust as the custodian of the Trail of the Coeur d'Alene's portfolio using non-lending funds and exchange traded funds. The motion was seconded by Ms. Sugiyama. The motion was approved unanimously.

Annual Review of Policies

Mr. Johnson described potential changes to management policies and procedures. The following policies were revised:

- Salary & Leave Policy
- Records Management Policy
- Public Information, News and Media Policy
- Travel, Training and Employee Expense Policy
- Reconciliation Procedures
- Annual Administrative Duties Procedure
- Overtime and Hours of Work Policy

The EFIB asked Ms. Weaver her opinion about the policy that omits emails from the annual backup of computer files. They also asked that a proposed change to the "Bonuses" section of the Salary & Leave Policy be omitted, that the Compensation Policy clarify that employees with a Satisfactory

rating be eligible for merit increases and that the annual procedures clarify that investment policies are to be reviewed annually.

Ms. Sugiyama made a motion to approve the proposed revisions for the above policies, as modified by the EFIB. The motion was seconded by Mr. Heinrich and approved unanimously.

The board dismissed for lunch at 12:07 p.m.

The board reconvened at 12:30 p.m.

Investment Policies

Mr. Johnson pointed out the following changes:

Endowment Policy: Revisions to the Asset Allocation guidelines and performance benchmarks.

State Insurance Fund Policy: Changes to the names of benchmarks

Judges' Retirement Fund: Adjustments to benchmarks.

Ritter Island Endowment Fund Policy: Changes to the names of benchmarks

Mr. Taylor made a motion to approve the revisions of all four investment policies. The motion was seconded by Mr. Heinrich and approved unanimously.

The EFIB asked staff to further explain, at the next meeting, how the +-5% rebalancing point should be implemented for asset classes whose allowable range is greater than +-5%.

Other Policy Issues

Workplace Violence and Harassment Prevention Policy: Mr. Johnson discussed this EFIB policy in some detail as part of the annual requirement for staff and board training on personnel issues.

Conflict of Interest Statement: Board members were asked to sign the statement on independence.

Representative Black departed at 12:15 p.m.

Chairman Buffington returned 12:37 p.m.

Representative Black returned 12:55 p.m.

Legislative Update

School Bond Guaranty Legislation – Mr. Johnson discussed the revisions that the Treasurer's office and EFIB has proposed. The revisions will clarify the difference between the sales tax guaranty and the endowment guaranty. The EFIB suggested tracking how much this would save taxpayers every year, for awareness purposes.

EFIB Compensation – Mr. Johnson reported that the legislation (House Bill 20) allowing board members to be paid for official duties outside of board meetings passed both houses and is waiting for the Governor's signature.

EFIB Staff Reports

Ritter Island Endowment Fund – Mr. Halvorson reported that the fund lost 18.2% fiscal year-to-date thru December and has lost 14.3% since inception.

Market Value Report, Expense Report, Coverage Ratio, YTD Revenues – Mr. Potter reported that the EFIB is expected to finish 8% under budget, consistent with the 6% holdback imposed on General Fund agencies this fiscal year. Mr. Johnson and he also reviewed the highlights of new spending restrictions in a memo from the Governor, including preapproval by the Governor's Division of Financial Management of all outside travel and review of monthly spending by DFM.

Mr. Johnson stated that JFAC is proposing a 5% reduction in all state agencies' personnel budgets for FY 2010.

Stumpage Price – Mr. Johnson reported that stumpage prices for timber have dropped. Mr. Kealey asked staff to develop conservative cash flow forecasts to see if any adjustment to asset mix is prudent in order to maintain sufficient liquidity to continue distributions thru a likely downturn in land revenues and resulting negative cash flows.

Gift Log – There were no comments or questions on the Gift Log.

Idaho Attorney General Lawrence Wasden and Chief Deputy Sherm Furey arrived 1:25 p.m.

Upcoming Issues – Mr. Johnson previewed agenda items for the upcoming meeting in May.

Chairman Buffington recognized Attorney General Wasden. Mr. Wasden thanked the EFIB and its staff for their efforts toward, and commitment to, fulfilling the responsibilities of this agency. He stated that he takes his fiduciary responsibilities as a Land Board member very seriously and relies heavily on the EFIB to assist him in that.

Mr. Johnson commented that he is very pleased with the representation the EFIB receives from the Attorney General's office: not only with Ms. Julie Weaver but also with the colleagues who support her.

Adjournment

There being no further business to come before the Board, Mr. Kealey made a motion to adjourn, seconded by Ms. Sugiyama, and passed unanimously. The meeting adjourned at 1:37 p.m.