



Final Minutes  
Endowment Fund Investment Regular Board Meeting  
May 15, 2008

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 May 15, 2008, 20. Chairman M. Dean Buffington called the meeting to order at 9:30 a.m. and recognized that a quorum was present.

**Member's Present:**

M. Dean Buffington  
Gavin Gee (*departed 1:40 p.m.*)  
Rep. Max Black  
Senator Brad Little  
John Taylor  
Susan Simmons  
Vaughn Heinrich (*departed 2:09 p.m.*)  
Richelle Sugiyama  
Tom Kealey

**Member's Absent:**

**Staff Present:**

Larry Johnson  
Chris Halvorson  
Andy Potter  
Judy Shock

**Legal Counsel:**

Julie Weaver

**Guests:**

Michael O'Leary  
Jay Kloepfer (*9:30-12:05 p.m.*)  
Janet Becker-Wold (*by telephone: 9:30-12:05 p.m.*)  
Doug Bates (*9:30-11:00 a.m.*)  
Dave Richardson (*9:30-11:00 a.m.*)  
Rhet Hulbert (*9:30-11:00 a.m.*)  
Corrie Keller (*10:05-10:20 a.m.*)  
Bill Reese (*10:05-10:50 a.m.*)  
Bob Maynard (*10:45-11:45 a.m.*)  
Jason Hancock (*11:20-12:05 p.m.*)

Hard copies of board materials were mailed or delivered seven days prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning May 8, 2008.

**Board Meeting Minutes: Approved**

Mr. Gee made a motion that the minutes of the February 14, 2008 regular meeting be approved as submitted. The motion was seconded by Ms. Sugiyama and approved unanimously.

**Fund Performance and Evaluation – Michael O'Leary – Callan Associates**

**Endowment Fund:** The endowment portfolio posted a -6.2% return for the quarter ended March, 30 basis points below its benchmark, and 2.0% for the last 12 months, 340 basis points ahead of its benchmark. Relative to peers, the fund ranked in the 77<sup>th</sup> percentile for the quarter and 18<sup>th</sup> percentile for the year relative to public funds (54<sup>th</sup> percentile for the quarter and 26<sup>th</sup> percentile for the year relative to endowments and foundations).

**Judges' Retirement Fund:** The JRF portfolio posted a -4.8% return for the quarter ended March, 120 basis points above its benchmark, and -0.4% for the last 12 months, 100 basis points ahead of its benchmark.

Relative to peers, the fund ranked in the 35<sup>th</sup> percentile for the quarter and 71<sup>st</sup> percentile for the year relative to public funds.

State Insurance Fund: The SIF portfolio posted a 1.6% return for the quarter ended March, 30 basis points above its benchmark, and 7.8% for the last 12 months, 30 basis points ahead of its benchmark.

Janet Becker-Wold said she had reviewed fund performance with representatives of the Supreme Court and the Manager of the State Insurance Fund.

### **Chicago Equity Review**

Mr. Johnson reported that both Callan and staff have evaluated Chicago Equity in light of recent underperformance vs. benchmark in their Mid-cap Core mandate. The evaluation did not uncover any concerns related to people or process. Mr. Johnson and Mr. O’Leary recommended that Chicago Equity be retained.

### **Equity Structure Study**

Mr. Johnson explained that staff had reviewed Callan’s equity structure study and generally agrees with it. He laid out first steps that could be taken to implement Callan’s recommendations and the aspects of Callan’s recommendations that staff would like to consider further.

Mr. Kloepfer presented Callan’s Structure Study, which included the following observations and recommendations:

- The domestic portfolio has an overweight to small cap stocks and Callan recommends that be reduced to a neutral weighting
- The equity portfolio, based on dollar-weighting of manager styles, has an overweight to value given the lack of a mid-cap growth manager. Callan recommends that an active mid-cap growth mandate be reintroduced
- On a holdings basis, the portfolio has a slight overweight to growth
- The small holdings of large cap value and growth index funds serve no real value and could be eliminated
- The S&P 400 Index would be a better benchmark for mid cap managers than the Russell Mid-cap Index.
- MSCI All-Country World Index (ex-US) would be a better benchmark for the overall international portfolio than MSCI EAFE.
- The fund’s target of 20% international (14% of the total fund) is underweight vs. peers who have 28-30% and the market cap weight of 58%. Callan recommends the target of the endowment portfolio be moved up to 30% thru the addition of a dedicated active emerging markets manager and a global equity manager

The board discussed Callan’s findings and staff’s recommendations and asked to see, at the next meeting, how these recommendations would affect the expected return and the standard deviation of the overall portfolio. Board members expressed general comfort with a small cap bias and with increasing the commitment to emerging markets and considering a move to global managers. The Board asked staff and Callan to present more detailed options on implementing the emerging market mandate through either hiring a new manager or by giving existing managers more latitude to invest in emerging markets. They also asked to see the impact of an increased international commitment on the cap weighting of the portfolio, for a clearer explanation of the final objective, including global managers, fixed income, and the potential role of alternatives; and for the estimated implementation cost of the changes. This will ensure that the recommended next steps move the fund toward the overall goal in a cost-effective manner. Staff and Callan were also asked to address the impact of changing oil prices and the value of the dollar on the proposed portfolio vs. the current portfolio.

## **Asset Management Plan**

Mr. Johnson recognized Mr. Hancock from the Superintendent of Public Instruction's office.

The board discussed the proposed endowment section of the Land Board's Asset Management Plan and asked for a couple of changes.

Mr. Heinrich made a motion that the proposed endowment fund section and cover memo, as edited, be submitted to the Land Board for its consideration. The motion was seconded by Mr. Kealey and approved unanimously.

## **Strategic Plan**

Mr. Johnson reviewed the proposed updates to the EFIB's Strategic Plan. The board requested that the distribution policy of the Capitol Permanent Fund be included in the Strategic Plan along with other minor edits.

Mr. Taylor made a motion to approve the updated Strategic Plan, as edited. The motion was seconded by Mr. Gee and approved unanimously.

At 12:17 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). The motion was seconded by Ms. Sugiyama and approved unanimously. The board went into Executive Session at 12:17 p.m.

The roll call vote was as follows:  
Chairman Dean Buffington – Aye  
Gavin Gee – Aye  
Representative Black – Aye  
Vaughn Heinrich – Aye  
Tom Kealey – Aye  
Senator Little – Aye  
Susan Simmons - Aye  
Richelle Sugiyama – Aye

Guests present during Executive Session:  
Larry Johnson (first 15 minutes)  
Julie Weaver

At 1:36 p.m., Mr. Gee made a motion to return to regular session, seconded by Ms. Sugiyama and approved unanimously.

## **Merit Pay for EFIB Employees**

Personnel Committee – Ms. Simmons indicated that she and Mr. Heinrich spoke with Mr. Johnson regarding staff performance, salary reviews, state performance and salary guidelines, and available agency budget. Mr. Johnson provided his recommended merit increases to the Committee. Ms. Simmons expressed the board's appreciation for the work staff has done.

Ms. Simmons made a motion to approve salary matrix Option 2, for staff merit increases, and approve a salary increase for Mr. Johnson of 4%. The motion was seconded by Mr. Heinrich and approved unanimously.

*Mr. Gee departed at 1:40 p.m.*

### **Purchasing Policy**

Mr. Johnson reviewed the edits and changes to the Purchasing Policy with the Board to clarify where board approval is required in the retention of consultants, advisors and temporary help. The board asked that all board members be notified of the proposed retention of a consultant or advisor.

Mr. Little made a motion to approve the recommended changes to the Purchasing Policy, as edited. The motion was seconded by Mr. Heinrich and approved unanimously.

### **Land Board Distribution Policy**

Mr. Johnson handed out a presentation on "Proposed FY 2010 Endowment Distributions" as an example of the work staff plans for the August board meeting. If the fiscal year had ended on March 31, the 5% spending formula would have resulted in a 7.7% average increase in FY2010 distributions compared to FY2009 and there would have been \$16 million of excess reserves that could have been transferred to the Permanent Funds. The board agreed the analysis would be appropriate for the August meeting, but also asked that options be given for lower transfers to the Permanent Fund and that a cash flow forecast be developed based on an updated revenue outlook from the Department of Lands.

*Mr. Heinrich departed 2:09 p.m.*

Ms. Sugiyama made a motion to approve the recommended Policy on Maintaining the Land Board Distribution Policy. The motion was seconded by Mr. Kealey and approved unanimously.

### **EFIB Staff Reports**

Mr. Halvorson reported that the Ritter Island Endowment Fund, since inception approximately 8 months ago, is up 1.2% thru the end of April.

Mr. Potter reported on the Market Value, Expenses vs. Budget, and Coverage Ratio.

Mr. Johnson reported on Land Revenues vs. Forecast, Stumpage Auction Prices, and the Gift Log.

### **August Board Meeting Date**

The Board agreed to schedule a brief teleconference board meeting August 11, 2008 at 2:00 p.m. to develop a recommendation on FY2010 endowment distributions for the Land Board. The next regular scheduled board meeting will be August 19, 2008 and the November 18, 2008 board meeting will also be a joint Land Board meeting.

### **Upcoming Issues**

Mr. Johnson reviewed the list of Upcoming Issues.

### **Adjournment**

There being no further business to come before the Board, Mr. Little made a motion to adjourn. The motion was seconded by Ms. Sugiyama and passed unanimously. The meeting adjourned at 2:26 p.m.