



Final Minutes
Endowment Fund Investment Regular Board Meeting
August 9, 2007

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 August 9, 2007. Chairman M. Dean Buffington called the meeting to order at 9:03 a.m. and recognized that a quorum was present.

Member's Present:

Dean Buffington
Richelle Sugiyama
Senator Brad Little
Susan Simmons
Vaughn Heinrich
Gavin Gee
Tom Kealey
Rep. Max Black

Staff Present:

Larry Johnson
Chris Halvorson
Andy Potter
Judy Shock

Legal Counsel:

Julie Weaver

Guests:

Justice Roger Burdick (*departed at 9:38 a.m.*)
Corrie Keller (*departed at 9:38 a.m.*)
Bill Reese (*departed at 11:00 a.m.*)
Janet Becker-Wold, Callan
Bill Howard, Callan
Dave Richardson, Clearwater (*departed at 11:15 a.m.*)
Brian Hill, Clearwater (*departed at 11:15 a.m.*)
Adam Benton, Clearwater (*departed at 11:15 a.m.*)

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 August 2, 2007.

Board Meeting Minutes: *Approved*

The board reviewed the minutes of the May 8, 2007 regular meeting.

The board directed staff to:

- Confirm that the Capitol Commission understands the impact of aggressive timber harvesting on their future distributions
- Develop a recommendation regarding the Earnings Reserve buffer and a policy on making transfers to the permanent fund
- Examine the value bias in the international equity section of the Judges' and SIF portfolios

- Develop a policy or guideline on when to terminate a manager
- Develop a policy regarding what would be noted in the minutes regarding the termination of a manager.

Mr. Little made a motion that the minutes of the May 8, 2007 regular meeting be approved as submitted. The motion was seconded by Mr. Gee and approved unanimously.

Fund Performance & Evaluation – Callan Associates

Janet Becker-Wold and Bill Howard presented a report on the performance of the endowment funds, the judges' retirement fund and the state insurance fund investments. The discussion included an in-depth review of underperforming managers.

Staff and Callan Associates recommended the termination of Nicholas Applegate. The Board discussed factors affecting the timing of such a termination.

The board directed the staff to implement a procedure allowing managers to be terminated immediately if it appears delaying termination pending approval of the full board would have a negative effect on investment performance. Staff was also directed to identify backup managers in the event immediate termination is necessary.

Mr. Heinrich made a motion to accept Callan's recommendation to terminate Nicholas Applegate and authorize the Executive Committee to take whatever action needed to accomplish this expeditiously. The motion was seconded by Mr. Gee and approved unanimously.

Chairman Buffington left at 10:50 a.m. Vice Chairman Gee assumed Chair position.

Clearwater Performance Evaluation

Chris Halvorson introduced Brian Hill, Dave Richardson and Adam Benton from Clearwater and described the benefits and performance of their passive rebalancing mandate. Mr. Hill, Mr. Richardson and Mr. Benton answered Board questions concerning their services.

Beneficiary Distribution – FY 2009 – Endowment Funds

Mr. Johnson presented the current and projected balances of the endowment funds other than the Capitol Endowment and the basis for his recommendation that Fiscal Year 2009 distributions to endowment fund beneficiaries be set at the same rate as Fiscal Year 2008 distributions. The Board discussed the implication of the statutory change in the definition of income and other possible recommendations.

Mr. Kealey made a motion to recommend to the Land Board that FY 2009 beneficiary distributions be based on the Spending Policy used last year: 5% of the last three years' average balance of the Permanent Fund, except for the Penitentiary and School of Science, which are at a 4.1% rate. The motion was seconded by Mr. Heinrich and approved unanimously.

Mr. Johnson recommended that the Board approve a distribution to the Capitol Commission from the Capitol Permanent Fund based on the spending policy approved at the May 2007 Board meeting. The Board discussed the impact of anticipated reductions in land revenue.

Mr. Heinrich made a motion to approve the distribution of \$572,203 to the Capitol Commission from the Capitol Permanent Fund on July 1, 2008 for fiscal year 2009. The motion was seconded by Mr. Kealey and approved unanimously.

Asset Mix/Spending Policy Study

The Board discussed the timeline and deliverables for a study of asset mix and spending policy to be done with support from Callan Associates.

Board members discussed the need for an in-depth discussion of asset allocation and spending policy. The board directed staff to schedule a full board meeting dedicated to this topic in early January.

The board recessed for lunch at 12:04 p.m.

Chairman Buffington returned at 12:05 p.m.

The board reconvened at 12:15 p.m.

Ritter Island Endowment Fund

The Board discussed the management of the Ritter Island Endowment Fund. The discussion included the terms of the management agreement with the Department of Parks and Recreation, the proposed investment policy, the use of Northern Trust as the Custodian, and the Board's management expenses. Ms. Weaver answered Board questions concerning the risks associated with management of the endowment.

Mr. Kealey made a motion to approve the Investment Management Agreement and Investment Policy for the Ritter Island Endowment Fund, and approve the retention of Northern Trust as the custodian and investment manager. The motion was seconded by Mr. Gee and approved unanimously.

Agricultural College Endowment

Mr. Johnson updated the Board on federal legislation concerning the investment and management of the Agricultural College Endowment. The Board discussed the impact of this legislation on its investment practices. Ms. Weaver answered the Board's questions concerning the loss make-up provision of the Morrill Act.

Senator Little made a motion to reinstate the 70/30 investment policy as expeditiously as possible when the legislation becomes law. The motion was seconded by Mr. Kealey and approved unanimously.

Senator Little made a motion that Mr. Johnson and Ms. Weaver draft a letter to notify the Land Board, the Department of Lands, the Regents and the University of Idaho of our intent to reinstate the previous investment policy. The motion was seconded by Mr. Heinrich and approved unanimously.

Mr. Kealey departed at 1:15 p.m.

Agency Budget for FY 2009

Mr. Johnson indicated that the FY 2009 budget has been slightly revised from the version originally distributed in the board packet to reflect increased benefit costs. The Board discussed the proposed budget.

Senator Little made a motion to approve the proposed agency budget for FY 2009. The motion was seconded by Mr. Gee and approved unanimously.

EFIB Strategic Plan

Mr. Johnson presented an updated version of the Strategic Plan for approval. The Board discussed the school bond guarantee process.

Mr. Heinrich made a motion to ratify the Strategic Plan. The motion was seconded by Mr. Gee and approved unanimously.

Unbudgeted Expenditure

Mr. Johnson asked the board to approve up to \$10,000 in legal fees to determine the best way to pool the land and financial assets of the endowments. The total cost (up to \$50,000) would be shared with the Department of Lands. The Board discussed the issues to be undertaken in the legal review.

Ms. Sugiyama made a motion to authorize sharing the cost of the legal study, related to pooling endowment assets. The motion was seconded by Ms. Simmons and approved unanimously.

Miscellaneous.

Mr. Johnson provided information concerning board training opportunities. The board directed staff to:

- Schedule manager breakfast presentations the day of the board meeting
- Continue with ad hoc manager presentation meetings
- Include a short training session by Callan and others in the board meetings, as appropriate

The Board discussed the November 2007 meeting date and directed Mr. Johnson to retain the previously selected meeting date of November 13th.

Mr. Johnson reviewed the Six Month Stumpage Price chart, which shows above average prices in recent months.

Mr. Potter reviewed the Market Value, New Money Received in the Earnings Reserve funds, Summary Expense Report and the Gift Log.

Mr. Potter provided an update on the annual audit. Mr. Potter added that the footnote for Agricultural College will need to be revised because of the new legislation that has just passed. The board asked that the footnote be reviewed by our attorney.

Mr. Maynard arrived 2:00 p.m.

Adjournment – Chairman Buffington asked if there is a reason for an Executive Session, and none was offered.

There being no further business to come before the Board, Senator Little made a motion to adjourn, seconded by Mr. Gee, and passed unanimously. The meeting adjourned at 2:07 p.m.