Final Minutes
Endowment Fund Investment Regular Board Meeting
August 19, 2008

Note: The only significant change to the minutes versus the draft circulated to the board earlier is highlighted on the 4th page.

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 19, 2008. Vice-Chairman Gavin Gee called the meeting to order at 10:00 a.m. and recognized that a quorum was present.

Member's Present:
M. Dean Buffington *(arrived: 10:41 a.m.)*
Rep Max Black
Vaughn Heinrich
Tom Kealey
Susan Simmons
Gavin Gee
Richelle Sugiyama
Senator Brad Little *(arrived: 10:21 a.m.)*
John Taylor

Member's Absent:
None

Staff Present:
Larry Johnson *(arrived: 10:41 a.m.)*
Chris Halvorson
Andy Potter
Judy Shock

Legal Counsel:
None

Guests:
Janet Becker-Wold, Callan
Jay Kloepfer, Callan
Bill Reese
Bob Maynard *(arrived 10:19 am – 11:55 am)*
Rhet Hulbert (*arrived 1:30 pm)*

Hard copies of board materials were mailed and delivered seven days prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning August 6, 2008.

Fund Performance

Ms. Becker-Wold discussed second quarter performance for EFIB clients.

Endowment Fund: The endowment portfolio posted a 0.4% return for the quarter ended June, 200 basis points above its benchmark, and -2.2% for the last 12 months, 450 basis points ahead of its benchmark. Relative to peers, the fund ranked in the 2nd percentile for the quarter and 11th percentile for the year relative to public funds (6th percentile for the quarter and 21st percentile for the year relative to endowments and foundations).

Judges' Retirement Fund: The JRF portfolio posted a -5.6% return for the quarter ended June, 100 basis points above its benchmark, and -5.2% for the last 12 months, 150 basis points ahead of its benchmark. Relative to public fund peers, the fund ranked in the 18th percentile for the quarter and 60th percentile for the year.

State Insurance Fund: The SIF portfolio posted a -1.0% return for the quarter ended June, 20 basis points above its benchmark, and 5.8% for the last 12 months, 40 basis points ahead of its benchmark.

Ms. Becker-Wold covered the specific performance of LSV and Chicago Equity.

Ms. Becker-Wold asked for feedback on the written performance report. It was the consensus of the board that they preferred the shorter, more concise report, plus the compliance report pages.

Board Meeting Minutes: *Approved*

Mr. Kealey made a motion that the minutes of the May 15, 2008 regular meeting be approved as submitted. The motion was seconded by Ms. Sugiyama and approved unanimously.

Board Meeting Minutes: *Approved*

Senator Little made a motion that the minutes of the special board meeting on August 11, 2008 be approved as submitted. The motion was seconded by Representative Black. Ms. Sugiyama requested that the minutes be amended to clarify the board's discussion of distribution policy. The board approved the minutes of the special board meeting, as amended, unanimously.

RFP for Independent Auditor

Mr. Potter discussed the draft of the Request for Proposal for an independent auditor. On page 69, two duplicate sentences will be eliminated and extra item at section II-D, will read as follows:

> 5. With advance notice to staff, provide recommended/suggested process changes, outside the compliance area, that could make the management of the endowment funds more efficient and cost-effective.

Mr. Taylor made a motion to issue the RFP for Independent Auditor as proposed by Mr. Potter. The motion was seconded by Mr. Kealey and approved unanimously.

EFIB Staff Reports

Ritter Island Endowment Fund - Mr. Halvorson reported the performance of the Ritter Island Endowment Fund. From inception through the end of June the fund is down 1.7%.

(Mr. Johnson and Mr. Buffington arrived at 10:41 am from the Land Board meeting)

Market Value, Expenses vs. Budget, Coverage Ratio and Land Revenues vs. Forecast reports - Mr. Potter discussed these reports from the board packet.

Stumpage auction prices and Gift Log - Mr. Johnson covered these reports in the board packet.

Update on International Transition for SIF and JRF - Mr. Halvorson reported on the transition of the international equity portfolios of the Judges' Fund and the SIF from Tradewinds to Vanguard all-country (excluding the US) index funds. The transition was managed by CAPIS and completed in one day. The final result was well within our expectations.

Land Board meeting

Chairman Buffington shared with the EFIB the discussion on endowment distributions at the Land Board meeting. The Land Board accepted all the EFIB's recommendations (spending @ 5% of the permanent funds, transfer of excess Earnings Reserves for four endowments to their Permanent Funds), with the exception that the transfer for the University endowment was scaled back from $2.5 million to $1.9 million. This gives the Land Board more flexibility to provide additional distributions to cover higher rental cost for the University of Idaho's forestry camp at McCall.

Bill Reese departed 11:35 a.m.

Portfolio Structure Study

Mr. Kloepfer and Ms. Becker-Wold presented and discussed their work on the structure of the portfolio. A supplemental handout, “Fixed Income Portfolio Structure Study” was provided for the board members’ reference.

Callan’s recommendations for US Equity:

- Reduce or eliminate the small cap bias
- Replace passive S&P 400 index with an active mid cap growth manager to offset mid cap value
- Reduce the small cap bias by funding new mandates primarily from small cap (or, accept and document the rationale for the small cap bias and fund new mandates pro rata)
- Eliminate Russell 1000 Growth and Value index funds within large cap

Recommendations for Non-US Equity:

- Change the MSCI EAFE international benchmark for the portfolio to the MSCI ACWI (All Country World Index) ex-US
- Increase targeted international equity allocation from 20% to 30% of total equity
- Add a stand-alone emerging markets manager
- Add global equity managers

Senator Little discussed his concerns in regards to the international exposure. Mr. Maynard was asked to comment on PERSI’s implementation and structure with regard to global equities and emerging markets.

Mr. Kloepfer discussed the Fixed Income structure analysis. Assuming that the role of fixed income is to provide low risk diversification for equities and not be a primary source of additional return, then Callan’s analysis shows that the Lehman Aggregate is an appropriate benchmark, both with regard to sector diversification (government, credit and mortgages) and duration (intermediate). Also, TIPS appear to be superior diversifiers to equity, but the 3% commitment in the endowment portfolio may be too small to have a meaningful impact.

Mr. Johnson recommended the following implementation steps as shown in the board packet:

- Change the International benchmark for the endowment portfolio to MSCI ACWI x-US
- Change the Mid-cap benchmark for the two managers to the S&P 400
- Decide whether to fund new manager mandates in a way which maintains the Mid-cap bias or moves it to neutral
- Eliminate the large cap value and growth index funds.
- Initiate a search for an Emerging Markets Manager with a mandate of $25 million.

Mr. Johnson said staff supports moving to a 30% international target by adding global, but said he is not asking for authority at this meeting to move forward on the global search, pending further staff work on what type of global manager structure to implement. Staff also supports hiring an active manager for Mid-cap Growth, but feels the more urgent issue with regard to improving diversification is to reduce the large overweight to U.S. equity. With regard to the TIPS allocation, Mr. Johnson suggested the board wait to address this, pending more normal debt markets and discussion in 2009 of other potential real return assets.

The board had a long discussion of the points raised by the structure study and staff’s recommendations, including Callan’s calculation of the estimated impact of each option on the fund’s overall risk/return. Ms. Sugiyama expressed a preference for maintaining the EAFE benchmark as one that is simpler to communicate, a desire for more thorough recommendations from staff and Callan, and for a better understanding of what time horizon staff and Callan was using in making their asset mix decisions. She also suggested that the adjustment of the Mid-cap benchmark be left to staff’s discretion. Senator Little and Mr. Buffington expressed support for changing to a broader international benchmark. Ms. Sugiyama, Ms. Simmons, Senator Little and Mr. Kealey expressed support for maintaining the Mid-cap bias in the domestic equity portfolio. Mr. Kealey said he was concerned about the timing of increasing international, given his view that the US dollar might strengthen. He suggested implementation over five years would be his preference.

Mr. Kealey made a motion to change the Equity Asset Allocation per Alternative 6(a) which was recommended by Staff and the outside consultant. The equity allocation would maintain the domestic Mid-cap bias, increase international equity from 20% to 30% of total equity, add a strategic allocation to emerging markets, and maintain EAFE as the portfolio's international benchmark. Also, Staff should develop a plan for the November meeting that includes a timeline for implementation of such a change in the equity allocation over the next three to five years. Ms. Simmons seconded the motion. After discussion, Mr. Kealey subsequently amended the motion, with Ms. Simmons' consent, to change the international benchmark to MSCI ACWI xUS. The motion was approved 8 votes to 1, with Ms. Sugiyama voting nay.

At 12:59 p.m., Mr. Heinrich made a motion that the board enter Executive Session pursuant to *Idaho Code §67-2345* for the purpose of personnel matters related to the Manager of Investments' compensation. The motion was seconded by Ms. Sugiyama and approved unanimously. The board went into Executive Session at 1:00 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
John Taylor – Aye

Mr. Kloepfer departed at 1:00pm

At 1:22 p.m., a motion to return to regular session was made by Mr. Heinrich, seconded by Ms. Sugiyama and approved unanimously.
Ms. Simmons made a motion to give Mr. Johnson a 3% pay increase and a 1% Bonus. The motion was seconded by Mr. Heinrich and approved unanimously.

Mr. Gee and Mr. Kealey departed at 1:25 p.m.

School Bond Guarantee Legislation
Mr. Johnson explained progress toward the EFIB's strategic objective of clarifying the school bond guarantee process. The board discussed the guarantee process, including whether the EFIB should continue to accept all applications for bond guarantees without performing credit evaluations. The EFIB asked staff to confer with legal counsel whether a court would find the existing interest rate specified in statute appropriate. Staff agreed, by the November meeting, to develop draft legislation that would clarify the interest rate language and ensure the EFIB has the right, by administrative rule, to charge fees for providing the guarantee.

Unexpected Manager Transitions
Mr. Halvorson presented the information on staff's contingency plans in the event there is a need to quickly move assets away from a manager.

He added a policy will be submitted for the board's approval, at the November meeting, with regards to roles and responsibilities for terminating managers in unusual circumstances.

Annual Performance Review – Rebalancing Overlay & Securities Lending Program
Rebalancing Overlay – Mr. Halvorson introduced Mr. Hulbert, Clearwater Advisors, and described the performance of the rebalancing overlay. Over the last three years, the overlay has added 1.2% of excess return over cash annually, compared to annual fees of 0.15%. In addition, he showed how the overlay has reduced overall risk vs. the benchmark by keeping the asset allocation closer to the 70%/30% target.

Securities Lending – Mr. Halvorson reported that securities lending revenue more than doubled in FY 2008, with margins rising 78% and volume increasing 12%.

FY 2010 Agency Budget
Mr. Potter reviewed the FY 2010 Budget. There are no material changes from the FY2009 budget. A major uncertainty is the audit fee, since the EFIB will be entering into a new contract beginning in FY2010.

Rep. Black made a motion to approve FY 2010 budget, as shown in the board materials. The motion was seconded by Ms. Sugiyama and approved unanimously.

2009 Board Meeting Schedule
Mr. Johnson handed out the 2009 meeting calendar and mentioned that a special board meeting, to discuss alternative investments, is tentatively scheduled for April.

Upcoming Issues
Mr. Johnson handed out a draft of the FY 2008 financial statements for board members to review over the next week. An audit committee meeting to approve the statements is scheduled for September 4, 2008 at 9:00 a.m.

Mr. Johnson announced that Chicago Equity will be here August 28, 2008 and will host a breakfast presentation.

Adjournment

There being no further business to come before the Board, Senator Little made a motion to adjourn, seconded by Ms. Sugiyama, and passed unanimously. The meeting adjourned at 2:50 p.m.