



Final Minutes

Endowment Fund Investment Board
Regular Board Meeting
February 11, 2021

A regular meeting of the Endowment Fund Investment Board (“Board”) was held via Zoom teleconference starting at 9:02 am. The Chairman recognized that a quorum was present.

Member’s Present:

Tom Wilford
Jerry Aldape
Warren Bakes
Irv Littman
Richelle Sugiyama
Senator Charles Winder

Member’s Absent:

Representative Steven Harris
Gary Mahn

Staff Present:

Chris Anton
Chris Halvorson
Kathy Van Vactor
Liz Wieneke

Legal Counsel:

Julie Weaver, Deputy Attorney General

Guests:

Janet Becker-Wold, Callan
Adam Lozinski, Callan
Josh Tewalt, Dept. of Corrections
Nate Fisher, Governor’s Office
Sam Eaton, Governor’s Office
Bill Haagenson, IDL
Matt Orem, DEQ
Dan Bates, Clearwater Advisors
Rhet Hulbert, Clearwater Advisors
Jim Nelson, Lazard
Henry Atencio, Idaho CAAP
Justin Slaughter, Fin-News
Maja Ben, Fundmap
Ben Sherry, MandateWire
Niko Lostra
Bob Maynard, PERSI

Six days prior to the meeting, board materials were distributed, and a meeting notice was posted on EFIB’s website and on the office door.

Appoint New Chairman of the Board:

Mr. Aldape moved to appoint Mr. Wilford as the new chairman of the EFIB. The motion was seconded by Ms. Sugiyama and approved unanimously.

Board Meeting Minutes:

Mr. Aldape moved that the minutes of the Regular Meeting held on November 17, 2020, be approved as amended. The motion was seconded by Mr. Bakes and approved unanimously.

Investment Performance Review (Janet Becker-Wold, Callan)

The Endowment Fund had investment gains of 11.9% and 16.3% for the quarter and twelve months ended December 31, 2020, respectively, which are 0.6% and 2.2% better than their respective benchmarks. The fund's performance ranked in the top 9th and 6th percentile of the Callan Public Fund Sponsor Database for the quarter and twelve months ended December 31, 2020.

Idaho State Insurance Fund ("SIF") Performance (Janet Becker-Wold, Callan)

The State Insurance Fund ("SIF") had investment gains of 2.5% and 8.1% for the quarter and twelve months ended December 31, 2020, respectively, which are 0.05% above and 0.3% below benchmark.

Annual Capital Market Assumptions and Asset Allocation Review (Janet Becker-Wold and Adam Lozinski, Callan)

Mr. Adam Lozinski reviewed Callan's 2021 Capital Markets Assumptions. Given the extremely low interest rate environment, Callan reduced the average annual return expectations over the next ten year from core fixed income from 2.75% to 1.75%. This implies a negative real yield given their expectation of an average annual rate of inflation rate of 2.0% over the same period. Callan also reduced the average annual return it expects from public equity over the next ten years by 0.35-0.55% to 6.6%-6.9% with slightly higher return expectations for emerging market, international and small cap equities. When Callan's 2021 Capital Markets Assumptions are applied to EFIB's portfolio, the average annual return expectation over the next ten years is reduced from 6.4% to 5.8% with a slight increase in the expected risk (standard deviation of returns) from 12.8% to 12.9%.

Mr. Lozinski reviewed EFIB's asset allocation with consideration given to their new Capital Markets Assumptions. Callan recommended that EFIB increase its allocation to real assets (real estate and infrastructure) from 8% to 12% and reduce its equity allocation from 66% to 64% and its fixed income allocation from 26% to 24%. Stable cash flows and higher yields in real assets are attractive in a low-yielding fixed income environment. Real assets tend to provide more stable and predictable cash flows, inflation protection and portfolio diversification. Callan indicated that they would work with staff and provide the Board with an implementation plan when it meets in May.

The Board expressed reservation about increasing the allocation to real assets at this time. They asked Callan and staff to develop a tracking report so they could monitor real asset performance.

SIF Real Asset Allocation

In April of 2020, the SIF Board approved a new asset allocation which included a 6% allocation to real assets. At the time we were early in the early stages of the COVID-19 pandemic and both the SIF and EFIB Boards elected to delay the real asset implementation until there was better visibility to the impact of COVID-19 on real assets. Callan and staff plan to revisit the timing of this implementation with the SIF Board when they meet in April of 2021.

Financing for New Prison (Josh Tewalt, Department of Corrections and Nate Fisher, Governor's Office)

Mr. Nate Fisher indicated that the Governor and Attorney General are exploring the possibility of expanding prison capacity in Boise to eliminate the need to house prisoners out of state. As part of

the planning process for the prison expansion, they wanted to explore the feasibility and appropriateness of using funds currently held in the Land Bank.

Mr. Josh Tewalt highlighted the rationale for a new prison and reviewed the conceptual designs. He indicated that three different funding mechanisms were being explored: conventional bonding through the Idaho State Building Authority, working the Idaho Department of Lands and working with EFIB. Discussion followed.

It was determined that the most competitive form of financing could take place through the Idaho State Building Authority rather than through the Idaho Department of Lands or EFIB.

Recognition of Dean Buffington

Mr. Wilford and Mr. Anton discussed different ways of honoring Mr. Buffington. Board member discussion followed.

EFIB Staff Reports

Ms. Van Vactor presented the financial performance.

Mr. Anton presented the budget update.

Mr. Anton presented the rule update.

Mr. Anton presented the annual independence statements.

Mr. Anton presented upcoming meetings.

Adjournment

Mr. Aldape moved to adjourn the meeting at 11:38 a.m. The motion was seconded by Ms. Sugiyama and approved unanimously.