



Final Minutes
Endowment Fund Investment Regular Board Meeting
February 10, 2016

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 Wednesday, February 10, 2016. Chairman M. Dean Buffington called the meeting to order at 9:00 a.m. and recognized that a quorum was present.

Member's Present:

Dean Buffington
Gavin Gee
Representative Neil Anderson
Warren Bakes
Tom Kealey (* 9:00-9:05/9:50-10:00 a.m.)
Gary Mahn
Sue Simmons
Richelle Sugiyama
Senator Chuck Winder

*Attended by Teleconference

Staff Present:

Larry Johnson (*arrived at 9:20 a.m.*)
Chris Halvorson (*arrived at 9:32 a.m.*)
Michelle Watts
Judy Shock

Legal Counsel:

None present

Guests:

Janet Becker-Wold, Callan (*9:00 a.m.-1:30 p.m.*)
Gene Podkaminer, Callan (*9:00-11:00 a.m.*)
Edelene Ohman, Treasurer's Office (*9:00 a.m.-2:00 p.m.*)
Tom Schultz, Dept. of Lands (*10:09- a.m.*)
Bill Haagenson, Dept. of Lands (*arrived at 9:32 a.m.*)
Rhet Hulbert, Clearwater (*11:36 a.m.-12:45 p.m.*)
Don Streett, Clearwater (*11:36 a.m.-12:45 p.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 February 2, 2016.

Mr. Buffington recognized Ms. Watts as the new fiscal officer. She gave a brief background of her experience, education and family.

Board Meeting Minutes: November 17, 2015 and December 15, 2015

Mr. Bakes made a motion that the minutes of the November 11, 2015 regular meeting be approved as submitted. The motion was seconded by Ms. Simmons and approved unanimously.

Representative Anderson made a motion that the minutes of the December 15, 2015 special meeting be approved. The board asked for format changes and a revision to the member's present section. The motion was seconded by Mr. Gee and approved unanimously.

Mr. Johnson arrived at 9:20 a.m. (after attending a legislative hearing)

Fund Performance – 4th quarter (Janet Becker-Wold, Callan)

Endowment Fund: The endowment portfolio posted a 3.7% return for the quarter ended December 31, 2015, 5 basis points above its benchmark. Relative to public fund peers, the fund ranked 9th percentile for the quarter, 86th for the year ended December 31, 2015 (58th percentile for the year relative to endowments and foundations) and 5th (public funds) for the last 10 years.

Mr. Halvorson arrived at 9:32 a.m. (after attending a House hearing)

State Insurance Fund: The SIF portfolio posted a 0.14% return for the quarter ended December 31, 2015, 0.43% for the year and 3.73% for the last five years. (The fund outperformed its target for the quarter, the year, and the last five years).

Mr. Haagensen arrived at 9:50 a.m. and Mr. Kealey phoned in at 9:50 a.m.

Ms. Becker-Wold also reviewed the performance of individual managers.

Representative Anderson departed at 10:01 a.m.

Equity Portfolio Structure Study – (Gene Podkaminer, Callan)

Ms. Becker-Wold introduced Mr. Podkaminer of Callan. Mr. Podkaminer presented an analysis on Non-U.S. and Global Equity manager structure. He stated that the last review was completed in May 2008. At that time, the total international equity portfolio was benchmarked against the ACWI ex-US. The two managers, Marvin & Palmer (growth manager) and Tradewinds (value manager) have since been replaced by WCM and Allianz NFJ. The new managers use an ACWI ex-US benchmark and typically have a higher allocation to emerging markets. Therefore, when combined with the dedicated emerging allocations of Capital Guardian and GMO, the international portfolio is now structurally overweight emerging markets. Mr. Podkaminer presented three proposed mix scenarios: 1) Consolidate both emerging markets into a single mandate; 2) Build on the previous mix, but add dedicated International Small Cap exposure; and 3) Further simplify by eliminating the dedicated emerging markets mandate.

Mr. Schultz arrived at 10:10 a.m.

The Board discussed these options, including Staff's recommendation to approve option 3. The consensus was to defer a decision until the review of the U.S. equity portfolio is presented at the meeting in May so that the impact of the changes on the total equity portfolio would be more evident. The Board also asked that the impact of moving 8% of the fund to Real Estate be considered in the analysis.

Senator Winder departed at 10:48 a.m.

Break – 10:55 a.m.

Mr. Podkaminer departed at 11:00 a.m.

Recent Endowment Fund Results

Mr. Halvorson reported the Endowment Fund's performance was down 4.4% for the month of January 31, 2016, 0.6% below the benchmark. On a fiscal year to date basis, the Endowment fund is down 7.1%, 1.0% above the benchmark. He also reviewed results on performance for February 9, 2016, month-to-date for all clients.

Capital Market Assumptions

Mr. Johnson presented information on Capital Market assumptions from various sources. Staff concludes that the likelihood of stocks outperforming bonds remains high and that an expected return for the fund of 6.6% annually, based on Callan's latest assumptions, is reasonable for planning purposes.

Endowment Fund Performance – Last 5 Years

Mr. Halvorson presented an overview of the portfolio and 5-year performance evaluation with charts showing portfolio characteristics vs. peers and risk-adjusted performance.

Mr. Hulbert and Mr. Streett arrived at 11:36 a.m.

Parks & Recreation Endowments' Asset Mix

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Mr. Johnson shared that staff will be meeting with the Parks & Recreation board on February 11, 2016 to report on the Ritter Island and Trail of Coeur d'Alene Endowments. He asked for the board's feedback on a recommendation that Parks & Recreation consider increasing the equity component from 50% to 60% or 70% to increase confidence that 3.5% distributions can be achieved long-term.

Ms. Sugiyama asked staff to explore options to obtain outside consulting review of non-land grant endowment clients.

No board action taken.

Mr. Schultz departed at 11:50 a.m.

Update on Passive Rebalancing/Equitization Overlay – (Rhet Hulbert & Don Streett)

Mr. Hulbert presented an overview of the daily equitization and rebalancing process that Clearwater Advisors manage for the endowment fund. Using futures contracts, the process turns excess cash on a daily basis, into the economic equivalent of stocks and bonds through the use of futures. It continues to contribute a modest return while reducing overall portfolio risks as the process keeps the fund close to its target allocation.

Representative Anderson returned at 12:00 p.m.

Lunch break – 12:15-12:25

Mr. Johnson introduced Ms. Edelene Ohman, Investment Manager for the State Treasurer's Office.

Senator Winder returned – 12:30 p.m.

Update on Real Estate Investment

Mr. Johnson stated that the EFIB's legal counsel of Cox, Castle & Nicholson has reviewed the contractual documents for Real Estate investments and uncovered no issues of concern. Capital calls are expected to start April 1 for RREEF II and October 1 for the Trumbull Income Fund. He indicated that a firm brokering a secondary position in the Trumbull Fund has contacted Staff, with a potential of closing March 31, 2016. Mr. Johnson estimated the risk/reward benefit of an earlier investment was very modest and reported that Callan's real estate experts saw no compelling reason to invest ahead of the capital call. The consensus of the board was to wait for the normal investment window to open.

Senator Winder reported that both Chairman Buffington and Representative Anderson were, that morning, confirmed by the Senate for a 4-year term.

Ms. Becker-Wold departed at 1:05 p.m.

Update on Legislation

Mr. Johnson reported on the status of four pieces of legislation of interest to the EFIB:

- Expand the capacity of the Credit Enhancement Program for school bonds
- Permit the EFIB to manage the Opportunity Scholarship Fund on behalf of the State Board of Education
- Permit the EFIB to manage assets of the Environmental Protection Trust Fund on behalf the Department of Environmental Quality
- Clarify that the Treasurer has the authority, at his/her discretion, to manage endowment funds (and other EFIB-related trust funds, such as the State Insurance Fund), at the request of the EFIB

Annual Administrative Policies Review

Mr. Johnson stated there are two new policies to review and approve: Board Member Compensation Policy and Land Board Audit Committee Policy and Procedure.

Mr. Johnson reviewed the changes to the existing policies. Board members suggested some minor changes.

Senator Winder made a motion to approve the changes proposed by staff and board members to the existing administrative policies. The motion was seconded by Ms. Sugiyama and approved unanimously.

Mr. Johnson added that the Land Board Audit Committee will probably meet in March or April to approve the Land Board Audit Committee Policy and Procedure, but that he was sure the Committee would appreciate the EFIB's input.

Mr. Mahn made a motion to recommend the new Land Board Audit Committee Policy and Procedure as submitted. The Board discussed a minor revision on the Accountability paragraph. The motion was seconded by Mr. Gee and approved unanimously.

Mr. Johnson stated that the purpose of proposed Board Member Compensation Policy was to document past practices and provide transparency and consistency in administration. While no other agency appears to have a written policy, the proposed policy appears to be middle-of-the-road with regard to the agencies that staff surveyed. He presented some additional revisions made after consultation with the State Controller's Office, the Legislative Auditor, and the Attorney General's Office.

Ms. Sugiyama made a motion to approve the revised version of the Board Member Compensation Policy. The motion was seconded by Ms. Simmons and approved unanimously.

Mr. Johnson mentioned that changes were being considered for the conflict-of-interest policy to clarify that staff members could accept the meals and entertainment offered at investment manager client conferences. Chairman Buffington offered to work with staff to evaluate the need for changes. Board members asked that the impact on board members, especially legislators, also be considered.

Annual Investment Policies Review

Mr. Halvorson discussed the proposed changes to the investment policies, all of which are routine, with most related to the board's decision to add Real Estate to the endowment asset mix.

Mr. Bakes made a motion to approve the Investment Policies for the EFIB and other clients as submitted. The motion was seconded by Mr. Mahn and approved unanimously.

Staff Compensation Review Process

Mr. Johnson discussed the staff compensation review process and the challenges posed by making compensation decisions at the May board meeting.

Ms. Sugiyama made a motion that the EFIB Compensation Committee be delegated authority to review staff and approve compensation changes. The motion was seconded by Mr. Mahn and approved unanimously.

Chairman Buffington asked that the Compensation Committee begin their evaluation of the Manager of Investments.

Representative Anderson departed at 1:50 p.m.

Workplace Harassment Review

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Mr. Johnson stated that statute requires state boards and commissions to undergo annual training on either workplace harassment or workplace violence. He reviewed the EFIB's Harassment Policy in detail. Chairman Buffington indicated that any employee is welcome to contact either him or the Attorney General's office if they are uncomfortable reporting a problem to the Manager of Investments or a board member.

EFIB Staff Reports

Mr. Halvorson reviewed the performance reports of the Parks and Recreation endowments. Fiscal year-to-date through January 31, 2016, both Trail of Coeur d'Alene's and Ritter Island Endowments are down 4.1%. For the month of December 31, 2015, the Bunker Hill Water Treatment, Fish & Game Trust and Stewardship endowments are down 1.4%.

Ms. Shock reported on the Expenses vs. Budget, Quarterly Financial Statements, Coverage Ratio and the YTD Land Revenues.

Mr. Johnson reported on Housing Starts, Inland Lumber Price, Stumpage Price, and the Gift Log.

Mr. Johnson reviewed the quarterly report on the School Bond Guaranty program. Emmett School District was the only school district which was issued a guaranty during the fourth quarter 2015. The total under guaranty stands at \$468.4 million.

Mr. Johnson discussed Upcoming Issues for the May 17, 2016 board meeting.

Executive Session

There was no Executive Session.

Adjournment

There being no further business to come before the Board, Mr. Mahn made a motion to adjourn, which was seconded by Mr. Gee and approved unanimously.

The meeting adjourned at 2:10 p.m.