



Final Minutes
Endowment Fund Investment Regular Board Meeting
May 21, 2014

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 21, 2014. Chairman M. Dean Buffington called the meeting to order at 9:01 a.m. and recognized that a quorum was present.

Member's Present:

Dean Buffington, Chairman
Gavin Gee
Representative Neil Anderson
Warren Bakes
Tom Kealey
Gary Mahn
Susan Simmons
Richelle Sugiyama
Senator Chuck Winder

Staff Present:

Larry Johnson
Chris Halvorson
Laurel Fritz
Judy Shock

Legal Counsel:

Julie Weaver (*arrived: 9:25am-1:45pm*)

Member's Absent:

Guests:

Janet Becker-Wold, Callan
Jody Olson, PERSI (*9:00-9:45am*)
Joanna Guilfooy, PERSI (*9:00-9:45am*)
Mark McNair, Kaplan (*9:00-9:45am*)
Larry King, Kaplan (*9:00-9:45am*)
Tom Schultz, Lands (*9:00am-1:45pm*)
David Groeschl, Lands (*9:00am-1:45pm*)
Patrick Hodges, Lands (*9:00am-1:45pm*)
Bob Braemer, Lands (*9:00am-1:45pm*)
Donna Caldwell, Lands (*9:00am-1:45pm*)
Scott Klitsch, CLA (*1:50-2:10pm*)
John Fisher, CLA (*1:50-2:10pm*)

Hard copies of board materials were mailed and delivered eight days prior to the scheduled board meeting and a meeting notice was posted on the door of the EFIB office beginning May 15, 2014.

Board Meeting Minutes: February 12, 2014 (Approved)

Ms. Sugiyama made a motion that the minutes of the February 12, 2014 regular meeting be approved as submitted. The motion was seconded by Mr. Kealey and approved unanimously.

Board Meeting Minutes: March 4, 2014 (Approved)

Mr. Mahn made a motion that the minutes of the March 4, 2014 special meeting be approved as submitted. The motion was seconded by Ms. Simmons and approved unanimously.

Board Meeting Minutes: May 5, 2014 (Approved)

Ms. Sugiyama made a motion that the minutes of the May 5, 2014 special meeting be approved as submitted. The motion was seconded by Senator Winder and approved unanimously.

Securities Class Action Litigation Monitoring

Mr. Johnson introduced representatives of the Public Employees Retirement System of Idaho (PERSI) Jody Olson, PERSI's Board Chair and Joanna Guilfooy, Deputy Attorney General. Mr. Olson introduced Mark McNair and Larry King, attorneys from Kaplan Fox & Kilsheimer.

Mr. McNair summarized the benefits of retaining law firms to perform securities litigation monitoring. The law firms monitor corporate behavior, looking for violations of securities laws; then offer advice whether the investor would benefit from pursuing the case aggressively, rather than passively. The monitoring is done free of charge. Mr. Olson and Ms. Guilfooy explained PERSI's history in utilizing monitoring.

Mr. Johnson commented that a monitoring program would create indirect costs for staff, and possibly the board, to review the advice. The review time would yield zero benefit, unless worthy cases were found and were prosecuted successfully.

Mr. Olson, Ms. Guilfooy, Mr. McNair and Mr. King departed at 9:45 a.m.

The board discussed the monitoring program and reviewed Kaplan's design and requested that staff gather more information regarding the potential costs and benefits of this program for the endowment fund.

Status of Judges' Retirement Fund transfer to PERSI

Mr. Halvorson indicated that the plan to transfer of assets to PERSI has been finalized and that all managers and vendors who are contracted with the JRF have been notified that their relationship with the plan is terminating on June 30, 2014.

Land Board Distribution Policy – Estimate of FY 2016 Distributions

Mr. Johnson presented the reserve levels on the endowments and an estimated endowment distribution for FY 2016. He stated that three scenarios were developed by staff and Callan. 1) Keep all endowments at five years of reserves; 2) Shift four endowments to six years; and 3) Shift four endowments to the six, seven and nine years of reserves indicated by the modeling work done earlier. He added that staff will work with Callan to rerun the forecasting models in July using new land revenue forecasts and final year-end fund results. Normally, the EFIB recommends any change to the Distribution Policy (e.g. changes in reserves) at its May meeting, but given the unusual factors this year, staff recommends deferring consideration of changes to the policy to the August meeting. Mr. Johnson also covered additional material on the undistributed gains that would likely exist in the Permanent Fund at June 30 for four endowments.

The board discussed the estimates and recommendations and requested that staff assume normal application of the statute and distribution policy in presenting the forecast of FY 2016 distributions to the Land Board.

Mr. Gee departed at 10:40 a.m.

Break 11:10-11:15 a.m.

Fund Performance – 1st Quarter 2014 (Janet Becker-Wold, Callan)

Endowment Fund: The endowment portfolio posted a 1.7% return for the quarter ended March 31, 2014, 3 basis points above its benchmark. Relative to public fund peers, the fund ranked in the 33rd percentile for the quarter and 20th percentile for the last 12 months (13th percentile for the year relative to endowments and foundations) and 6th percentile for the last 5 years.

Judges' Retirement Fund: The JRF portfolio posted a 1.4% return for the quarter ended March 31, 2014. For the quarter, the JRF portfolio underperformed the target by 27 basis points, ranking 68th percentile. For the last year, the portfolio outperformed the target by 9 basis points, ranking 33rd percentile (12th percentile for the last 5 years).

State Insurance Fund: The SIF portfolio posted a 1.4% return for the quarter and 1.8% for the year ended March 31, 2014, 2 basis points above the benchmark for the quarter and 1 basis point above for the year.

Lunch Break 12:00-12:15 p.m.

Capitol Permanent Endowment Distribution

Ms. Fritz gave the annual presentation regarding the distribution from the Capitol Permanent Fund. She stated that policy is to distribute earnings from the Capitol Permanent Endowment to the Capitol Maintenance Reserve Fund at an annual rate of 5% of the three-year average value of the Permanent Fund. She indicated that two scenarios were developed assuming future annual fund returns of 6.8% and 0.0%, and that under both scenarios the policy distribution rate is sustainable.

Representative Anderson made a motion that a July 1, 2014 distribution to the Capitol Maintenance Reserve Fund of \$1,168,000, per the current 5% policy, be approved as submitted. The motion was seconded by Ms. Sugiyama and approved unanimously.

Dept. of Environmental Quality-Water Treatment Endowment – Potential New Client

Mr. Johnson stated that the Dept. of Environmental Quality has asked the Investment Board to manage a \$50 million endowment designed to support perpetual operation of a water treatment plant and related collection systems. The plant is part of the Bunker Hill Superfund site and is designed to remove heavy metals from the groundwater. Staff recommended that, pending further study, the water treatment endowment eventually be comingled with the land grant endowment fund. However, to avoid the risk of equity market timing, staff recommends that the allocation to equity be ramped up in four stages over the next 18 months.

Mr. Bakes made a motion to authorize EFIB staff to invest the Bunker Hill Water Treatment endowment 18% in equity and 82% in fixed income, with asset class guidelines and investment restrictions identical to those of the land grant Endowment Fund. The motion was seconded by Ms. Simmons.

The board asked about DEQ and EPA's comfort with the volatility of equity investments and whether EPA would agree to fund consulting fees from the waste treatment endowment. Mr. Johnson stated that the draft court decree, agreed to by EPA, gives the EFIB full flexibility to invest the funds per the Prudent Investor Rule and allows reasonable consulting fees. He also clarified that the purpose of a consultant would be to set the asset mix for the Bunker Hill endowment and this consultant would not influence the asset mix of the current land grant endowment funds. While staff believes the asset mix of the two endowments could be the same, having a consultant examine the specific situation of Bunker Hill would be helpful. Mr. Buffington pointed out that the State Insurance Fund has a different mix, so that would

not be a hindrance to the EFIB overseeing the Bunker Hill endowment if it were to have a different asset mix.

Mr. Winder suggested that staff confirm that DEQ has statutory authority to direct the investment of an endowment fund.

After discussion, the previous motion and second was withdrawn.

Ms. Sugiyama made a motion to approve the concept of this investment management agreement and delegate authority to staff and counsel to execute it, subject to confirmation that both DEQ and EPA agree to use an independent investment consultant. The motion was seconded by Senator Winder.

The board discussed this motion. This motion and second was withdrawn.

Mr. Kealey made a motion to authorize EFIB staff, legal counsel, and Senator Winder to work with DEQ regarding the Bunker Hill Water Treatment endowment for an acceptable agreement, with an initial asset mix of 18% in equity and 82% in fixed income, with asset class guidelines and investment restrictions identical to those of the land grant Endowment Fund. The motion was seconded by Mr. Mahn and approved unanimously.

New Client Acceptance Policy

Ms. Sugiyama made a motion to approve the policy as submitted. The motion was seconded by Mr. Mahn and approved unanimously.

Land Board Consulting RFP – Callan Proposal (Janet Becker-Wold, Callan)

Mr. Johnson stated that the RFP seeking a consultant to support the Land Board's the Comprehensive Strategy Review was circulated widely. One firm, Callan Associates, responded, at a price of \$125,000. He added that several firms indicated an interest, but with the complexity of the project and their learning curve on Idaho operations, they feared their costs might far exceed the \$100,000 fee target established in the RFP. Due to the fact that Callan has done other consulting for Idaho entities, their learning curve is shorter relative to other firms.

Ms. Becker-Wold presented Callan's qualifications to perform the asset allocation study and governance review.

Mr. Kealey made a motion to recommend to the Land Board that they retain Callan for their consulting mandate. The motion was seconded by Representative Anderson and approved unanimously.

Mr. Schultz, Mr. Groeschl, Mr. Hodges, Mr. Braemer and Ms. Hoover departed at 1:45 p.m.

Small Cap Investment Managers

Ms. Becker-Wold reviewed the EFIB's small-cap investment managers, Eagle Asset Management (growth manager) and Barrow Hanley (value manager). She stated that Callan and staff are pleased with the small cap structure and there are no concerns with either manager. Neither staff nor Callan recommends any changes.

Scott Klitsch and John Fisher arrived at 1:50 p.m.

EFIB Staff Reports

S:\ADMINISTRATION\Board Meetings\Board Minutes\2011-2020\2014\05 21 14 Minutes.docx05 21 14 Draft Minutes.docx

Mr. Halvorson reviewed the performance reports of the Parks and Recreation endowments. Fiscal Year-to-Date, both Trail of Coeur d'Alenes and Ritter Island are up 11.0%.

Ms. Shock reported on the Expenses vs. Budget, Quarterly Financial Statements, Coverage Ratio and YTD Land Revenues. She reported that receipts from endowment lands, as of May 15, 2014, are \$81.3 million, which is 107% of last year's total for the full year and \$5.4 million higher in absolute dollars.

Mr. Johnson reported on Housing Starts, Inland Lumber Price, and Stumpage Prices, all of which point to continued strength in timber revenues. He also presented the Gift Log, which had been reviewed by Deputy Attorney General Weaver.

Ms. Fritz reviewed the quarterly report on the School Bond Guaranty program. There were two guaranties issued during the first quarter. She added that five more applications have been submitted and are being processed. She also reviewed a report from the Superintendent of Public Instruction's office on school district solvency related to their school bonds, concluding that there is no indication that any district will have difficulty making their obligated payments.

Mr. Johnson discussed Upcoming Issues for the August 14, 2014 board meeting.

Executive Session

There was no Executive Session.

Adjournment

There being no further business to come before the Board, Mr. Kealey made a motion to adjourn, which was seconded by Mr. Bakes and passed unanimously.

The meeting adjourned at 2:10 p.m.