

MINUTES
SENATE STATE AFFAIRS COMMITTEE

DATE: Monday, January 22, 2018

TIME: 8:00 A.M.

PLACE: Room WW55

MEMBERS PRESENT: Chairman Siddoway, Vice Chairman Hagedorn, Senators Hill, Winder, Lodge, Vick, Anthon, Stennett, and Buckner-Webb

ABSENT/ EXCUSED: None

NOTE: The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Siddoway** called the Senate State Affairs Committee (Committee) to order at 8:00 a.m. with a quorum present.

VOTE ON GUBERNATORIAL APPOINTMENT: **The appointment of Brigadier General Michael J. Garshak as Adjutant General of the Idaho Military Division.**

MOTION: **Senator Winder** moved to send the Gubernatorial appointment of Brigadier General Michael J. Garshak as Adjutant General of the Idaho Military Division to the Senate floor with the recommendation that he be confirmed by the Senate. **Senator Hill** seconded the motion. The motion carried by **voice vote**. Senator Winder will be the floor sponsor.

VOTE ON GUBERNATORIAL APPOINTMENT: **The reappointment of Jeffrey Anderson as the Director of the Idaho State Liquor Division.**

MOTION: **Vice Chairman Hagedorn** moved to send the Gubernatorial reappointment of Jeffrey Anderson as the Director of the Idaho State Liquor Division to the Senate floor with the recommendation that he be confirmed by the Senate. **Senator Stennett** seconded the motion. The motion carried by **voice vote**. Vice Chairman Hagedorn will be the floor sponsor.

VOTE ON GUBERNATORIAL APPOINTMENT: **The reappointment of Randolph Hill to the Idaho Energy Resources Authority.**

MOTION: **Senator Stennett** moved to send the Gubernatorial reappointment of Randolph Hill to the Idaho Energy Resources Authority to the Senate floor with the recommendation that he be confirmed by the Senate. **Senator Buckner-Webb** seconded the motion. The motion carried by **voice vote**. Vice Chairman Hagedorn will be the floor sponsor.

VOTE ON GUBERNATORIAL APPOINTMENT: **The appointment of Katie Brodie to the Idaho Commission on Human Rights.**

MOTION: **Senator Vick** moved to send the Gubernatorial appointment of Katie Brodie to the Idaho Commission on Human Rights to the Senate floor with the recommendation that she be confirmed by the Senate. **Senator Buckner-Webb** seconded the motion. The motion carried by **voice vote**. Senator Vick will be the floor sponsor.

GUBERNATORIAL APPOINTMENTS: The reappointment of Richelle Sugiyama to the Idaho Endowment Fund Investment Board (EFIB).

Chairman Siddoway asked for a description of Ms. Sugiyama's responsibilities and experiences while serving on the EFIB.

Richelle Sugiyama introduced herself as an Investment Officer for the Public Employee Retirement System of Idaho (PERSI) seeking reappointment to the EFIB. She had a long time affiliation with this board prior to 2006, when she became a member of the EFIB. She served as the Manager of Investments for an interim period. She stated that it was an honor and privilege to serve with members of the EFIB in assisting with its development and advancement and what it does for the State of Idaho. She served as Vice Chairman during the last year due to the absence of one of the members. **Ms. Sugiyama** stated she would like to continue serving on the EFIB.

Senator Stennett thanked Ms. Sugiyama for her service and asked her what she thought was the greatest challenge when working with the fund. **Ms. Sugiyama** said the most challenging objective is to stay the course. When things are progressing well and there is a lot of money, it is difficult to curb the tendency to overspend or relax. It is hard to do nothing at times, even when it is the best thing to do. The most difficult task is reviewing the distribution and spending policies. Those policies keep the fund in check.

Chairman Siddoway asked Ms. Sugiyama to provide a synopsis of the types of investments involved. **Ms. Sugiyama** answered that the EFIB has a rough allocation of 70 percent equity and 30 percent fixed income. There is also a rough allocation of 55 percent domestic equity, 15 percent international or non-U.S. equity, and 30 percent fixed income. Also, there is a mix of managers for these investments. There is a real estate fund, which is not to be confused with the real estate holdings that the Idaho Department of Lands oversees. The EFIB real estate fund is a commingled fund that invests broadly in commercial real estate across the nation. There are no private equity or hedge funds, so the bulk of the portfolio is extremely liquid. The return on investment is just under 12 percent year-to-date.

Chairman Siddoway asked if the EFIB perceives that the market is going to slow down; if so, are investments being shifted toward a safer market. **Ms. Sugiyama** responded that they do not make such changes; that would be market timing. The objective is to ensure payouts are consistent and sustainable. When a market downturn occurs, they want to ensure they can continue making payouts to the State of Idaho. The EFIB discusses these issues frequently. Asset allocation means watching the long-term and minimizing the shifts that can impact long-term returns.

Vice Chairman Hagedorn commented that up to 12 percent return on investment was good. He inquired as to the biggest loss during the downturn? **Ms. Sugiyama** answered that the biggest hits came from the non-U.S. portfolios. There were some performance issues with a couple of the managers and the EFIB was exposed to the emerging market. However, there was a rally during that time. It wasn't a general downturn, it was manager-specific. That is one of the reasons for diversification across the portfolios. **Vice Chairman Hagedorn** asked by what percent the total fund decreased during the downturn. **Ms. Sugiyama** stated they did have lower returns but couldn't provide the exact percentage point.

Chairman Siddoway thanked Ms. Sugiyama and introduced Gavin Gee.

The appointment of Gavin Gee to the Idaho Endowment Fund Investment Board.

Gavin Gee stated he has served on the EFIB since 1998. As the Director of the Idaho Department of Finance, he was a statutory member of the EFIB until the Idaho State Constitution was changed in 2000 to allow the fund to invest in equities. He was reappointed at that time. **Mr. Gee** gave a short history of the EFIB. Presently the market is good but there will be times when the market will be down and returns will not be as good as the nearly 12 percent seen today. Overall, the fund is doing better than it did when the only option was investing in fixed income.

Mr. Gee stated his appreciation for the strong members of the EFIB who understand the market, the way they should be investing; they understand the importance of not overreacting or trying to time the market. They attempt to make wise and prudent investments and have an investment policy that will serve the EFIB and take advantage of all markets. They have not participated in exotic securities or markets; they are relatively conservative. The EFIB has studied the issues and made the decision to avoid higher risk areas of investment. **Mr. Gee** said that they are on a good course, are mindful of the industry, and have determined the best way to position the fund for the best returns possible.

Senator Stennett welcomed Mr. Gee. She inquired about the most significant operations of the EFIB. **Mr. Gee** responded that they meet quarterly; more often if needed, and sometimes there are special meetings or conference calls for emergencies. There is always good attendance at the regular meetings. **Mr. Gee** expanded on urgent meetings. Usually the manager for investments who is a full-time employee, will call or email the EFIB to review the issue. **Mr. Gee** said he is on a number of boards within the State and nationally and observed that not all boards function as well as the EFIB. The EFIB has great staff that keeps members apprised of current issues. They have professional managers who are very good about keeping the board members informed.

Senator Hill asked about the differentiation between the EFIB and the Treasurer's Investment Advisory Board (Land Board). He asked if the investment manager hires the fund manager or does he/she make recommendations to the EFIB.

Senator Hill also asked if he/she has a vote or does the EFIB make final decisions. **Mr. Gee** explained that the EFIB hires and has authority over the full-time investment manager with input from the Land Board. The Land Board oversees the EFIB. The investment manager does not have authority to terminate a fund manager. Termination requires approval from the EFIB and the Land Board. Any major decisions are presented to the Land Board. The investment manager is under the authority of the EFIB and he/she is expected to monitor all of the investments. The fund managers have their own managers, boards, and processes. The EFIB does not deal directly with their boards or staff, they assign a representative (fund manager) to the EFIB. Fund managers are very closely monitored.

When the investment manager discovers irregularities which may affect the termination of a manager, it is brought before the EFIB. Such investigations focus on whether the investment manager is operating as they said they would. There are other key points the investment manager looks for when observing the practices of the fund managers. The investment manager observes the fund managers closely and reports any major changes at the firm so the EFIB can be proactive in managing potential changes or losses.

Senator Hagedorn stated his appreciation for Mr. Gee's activities throughout the State. He said he has been aware of Mr. Gee's involvement in the State's banking and investment industries over a long period of time, but is unaware of Mr. Gee speaking publicly about any particular equities or the volatility in the gas and oil

industry until recently when he discussed the volatility of cryptocurrency with the media. He wondered what led Mr. Gee to talk publicly about cryptocurrency and what was his expertise in this area? **Mr. Gee** answered that, as a general rule, the EFIB doesn't make comments about individual stocks or investments. Speeches of this type are sometimes made to banks and financial institutions and sometimes to a broader audience through a press release. The EFIB has monitored cryptocurrency for some time.

Mr. Gee briefly explained this complex subject. Bitcoin is the best known cryptocurrency, but there are many others. Cryptocurrency is an unregulated currency. Although governments take positions on the legality of cryptocurrency, they do not sponsor or invest in those currencies. In addition, there is not an underlying government support mechanism for cryptocurrencies; neither is there a clear market. Most countries have rules regarding permitted currency. Regulators are concerned that with no government backing and very little government oversight, there is no mechanism to stop a potential crisis.

As to EFIB's role in cryptocurrency, any person who is a broker of Bitcoin must obtain a license with the EFIB as a money transmitter, because they are transmitting the equivalent of money. It is not like a bank, credit union, or investment broker; those are heavily regulated. There is minimal regulation, but they do conduct examinations of those entities. Cryptocurrency is not regulated to the extent that federally printed currency is regulated. Regulators are also concerned about the difficulty in determining who is using Bitcoin. There is no ability to trace wrongdoing or criminal activity.

Volatility of the value of Bitcoin or other similar currencies is another concern. Unsophisticated investors buy with the hope of making a lot of money; that doesn't happen very often. The U.S. heavily regulates financial markets, securities, and instruments so it would be a surprise if the cryptocurrency market continues to be unregulated.

The appointment of Gavin Gee to the State Treasury Investment Advisory Board.

Gavin Gee stated he is the Director of the Idaho Department of Finance, which is his primary role with the State, but he also serves on a number of boards and committees, one of those organizations is the State Treasury Investment Advisory Board (Board). **Mr. Gee** emphasized the word "Advisory" because they have no authority to order the Treasurer to make or sell certain investments. The Board can only make recommendations to the Treasurer. By statute, they meet quarterly at the call of the Treasurer; he also serves as the chairman of the Board.

A recent recommendation that the Board thought to be important concerned an annual audit. Currently, the Treasurer's investments are not audited by an outside auditing firm by law. The Board recommended: 1.) to have an annual public audit, and 2.) that the Treasurer seek reimbursement for the cost of the audit as part of the budget. This practice is now in place.

Chairman Siddoway thanked Mr. Gee for his service on these boards.

**MINUTES
APPROVAL:**

Senator Winder moved to approve the minutes of January 15, 2018. **Senator Stennett** seconded the motion. The motion carried by **voice vote**.

ADJOURNED:

There being no further business, Chairman Siddoway adjourned the meeting at 8:50 a.m.

Senator Siddoway, Chair

Twyla Melton, Secretary